SouthGobi Resources Ltd.

Management's Discussion and Analysis of Financial Condition and Results of Operations

June 30, 2023
(Expressed in U.S. dollars)

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 condensed consolidated interim financial statements and the impact thereof;

- the Company's expectations of sufficient liquidity and capital resources to meet its ongoing obligations and future contractual commitments, including the Company's ability to settle its trade payables, to secure additional funding and to meet its obligations under each of the JD Zhixing Fund L.P. ("JDZF") convertible debenture (the "Convertible Debenture"), the 2020 November Deferral Agreement (as defined below), the Amended and Restated Cooperation Agreement (as defined below), the 2021 July Deferral Agreement (as defined below), the 2022 May Deferral Agreement (as defined below), the 2022 November Deferral Agreement (as defined below), the 2023 March Deferral Agreement (as defined below) and the Credit Facility (as defined below) as the same become due, and the Company's ability to settle or appeal the tax penalty of $75.0 million imposed by the Mongolian Tax Authority ("MTA");

- 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 6 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;

- the agreement with Ejin Jinda and the payments thereunder (as described under Section 6 of this MD&A under the heading entitled "Regulatory Issues and Contingencies – Toll Wash Plant Agreement with Ejin Jinda");

- the ability of the Company to enhance the operational efficiency and output throughput of the washing facilities at Ovoot Tolgoi;

Forward-Looking Statements continued

- 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 Section 11 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 ability of the Company to settle or appeal the tax penalty of $75.0 million imposed by the MTA; the future coal market conditions in China and the related impact on the Company's margins and liquidity; the anticipated demand for the Company's coal products; future coal prices, and the level of worldwide coal production. While the Company considers these assumptions to be reasonable based on the information currently available to it, they may prove to be incorrect. Forward-looking statements are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These risks and uncertainties include, among other things: the uncertain nature of mining activities, actual capital and operating costs exceeding management's estimates; variations in mineral resource and mineral reserve estimates; failure of plant, equipment or processes to operate as anticipated; the possible impacts of changes in mine life, useful life or depreciation rates on depreciation expenses; risks associated with, or changes to regulatory requirements (including environmental regulations) and the ability to obtain all necessary regulatory approvals; the potential expansion of the list of licenses published by the Government of Mongolia covering areas in which exploration and mining are purportedly prohibited on certain of the Company's mining licenses; the Government of Mongolia designating any one or more of the Company's mineral projects in Mongolia as a Mineral Deposit of Strategic Importance; the risk that the Company is unable to successfully settle or appeal the tax penalty of $75.0 million imposed by the MTA (as described under Section 1 of this MD&A under the heading entitled "Significant Events and Highlights – Provision of Tax Penalty Imposed by MTA"); the risk that the import coal quality standards established by Chinese authorities will negatively impact the Company's operations; the risk that Mongolia's southern borders with China will be subject for further closure; the risk that the Company's existing coal inventories are unable to sufficiently satisfy expected sales demand; the possible impact of changes to the inputs to the valuation model used to value the embedded derivatives in the Convertible Debenture; the risk of the Company or its subsidiaries default under its existing debt obligations, including the Convertible Debenture, the deferral agreement signed on November 19, 2020 (the "2020 November Deferral Agreement"), the amended and restated mutual cooperation agreement signed on April 23, 2019 (the "Amended and Restated Cooperation Agreement"), the deferral agreement signed on July 30, 2021 (the "2021 July Deferral Agreement"), the deferral agreement signed on May 13, 2022 (the "2022 May Deferral Agreement"), the deferral agreement signed on November 11, 2022 (the "2022 November Deferral Agreement"), the deferral agreement signed on March 24, 2023 (the "2023 March Deferral Agreement") 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 6 of this MD&A under the heading entitled "Regulatory Issues and Contingencies – Class Action Lawsuit") and any damages payable by the Company as a result; the risk that the calculated sales price determined by the Company for the purposes of determining the amount of royalties payable to the Mongolian government is deemed as being "non-market" under Mongolian tax law; customer credit risk; cash flow and liquidity risks; risks relating to the Company's decision to suspend activities relating to the development of the Ceke Logistics Park project, including the risk that its investment partner may initiate legal action against the Company for failing to comply with the underlying agreements governing project development; risks relating to the ability of the Company to enhance the operational efficiency and the output throughput of the washing facilities at Ovoot Tolgoi; the risk that the Company is unable to successfully negotiate an extension of the agreement with the third party contractor relating to the operation of the wash plant at the Ovoot Tolgoi mine site and risks relating to the Company's ability to raise additional financing and to continue as a going concern. Please refer to Section 10 of this MD&A under the heading entitled "Risk Factors" for a discussion of these and other risks and uncertainties relating to the Company and its operations. This list is not exhaustive of the factors that may affect any of the Company's forward-looking statements.

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

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 August 14, 2023 and should be read in conjunction with the condensed consolidated interim financial statements of the Company and the notes thereto for the three and six months ended June 30, 2023. The Company's condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 - "Interim Financial Reporting" using accounting policies in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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

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

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

Introduction continued

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

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

Disclosure of a scientific or technical nature relating to the Ovoot Tolgoi Mine contained in this MD&A is derived from a technical report (the "Ovoot Tolgoi Technical Report") prepared in accordance with NI 43-101 on the Ovoot Tolgoi Mine dated May 15, 2017, prepared by Dr. Weiliang Wang, Mr. Vincent Li and Mr. Larry Li of Dragon Mining Consulting Limited ("DMCL"). A copy of the Ovoot Tolgoi Technical Report is available under the Company's profile on SEDAR at www.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 501 employees as at June 30, 2023. The Company's common shares ("Common Shares") are listed for trading on the Hong Kong Stock Exchange ("HKEX") under the stock code symbol 1878 and on the TSX Venture Exchange ("TSX-V") under the symbol SGQ.

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

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

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

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

1. Overview continued

Significant Events and Highlights

The Company's significant events and highlights for the three months ended June 30, 2023 and the subsequent period to August 14, 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 experienced an increase in the average selling price of coal from $66.6 per tonne in the second quarter of 2022 to $95.3 per tonne in the second quarter of 2023 as a result of improved market conditions in China, expansion of its sales network and diversification of its customer base.

- ***Financial Results*** – The Company recorded a $40.5 million loss from operations in the second quarter of 2023 compared to a $2.7 million profit from operations in the second quarter of 2022. While the Company experienced increased sales volume and improvement in its average realised selling price during the first half of 2023, the Company's financial results were negatively offset by the provision of a tax penalty of $75.0 million imposed by the MTA, which the Company received notice of in July 2023 (see "Provision of tax penalty imposed by MTA" below).

- ***Convertible Debenture*** – 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 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 Toronto Stock Exchange ("TSX") and the disinterested shareholders of the Company in accordance with the requirements of Section 501(c) of the TSX Company Manual and the Rule Governing the Listing of Securities on the HKEX (the "Listing Rules").

1. Overview continued

Significant Events and Highlights 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 (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 will convene a special meeting of shareholders on August 23, 2023 Vancouver time (August 24, 2023, Hong Kong time), to seek disinterested shareholder approval of the 2023 March Deferral Agreement.

1. Overview continued

Significant Events and Highlights continued

- ***New Listing on the TSX-V 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 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.

  During the period ended June 30, 2023, the Company did not draw down any principal under the Credit Facility and the Credit Facility expired on June 1, 2023.

1. Overview continued

Significant Events and Highlights continued

- ***Provision of Tax Penalty Imposed by MTA***

  On July 18, 2023, SGS received an official notice (the "Notice") issued by MTA stating that MTA has recently completed a periodic tax audit (the "Audit") on the financial information of SGS between 2017 and 2020, including transfer pricing, royalty, air-pollution fee and unpaid tax payables. As a result of the Audit, the MTA has notified SGS that they are imposing a tax penalty against SGS in the amount of approximately $75.0 million. Under Mongolian law, the Company has a period of 30-days from the date of receipt of the Notice to file an appeal in relation to the Audit.

  The Company's management is currently reviewing the Notice and actively exploring various options to resolve the issue, including, but not limited to, negotiating with the MTA and filing an appeal for the tax penalty amount. As at June 30, 2023, the Company recorded a provision for a tax penalty in the amount of $75.0 million. If any subsequent event occurs that may impact the amount of the provision for tax penalty, an adjustment would be recognised in profit or loss and the carrying amount of the provision should be adjusted.

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

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

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

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

Refer to Section 5 of this MD&A under the heading entitled "Liquidity and Capital Resources" and Section 10 of this MD&A under the heading entitled "Risk Factors" for details.

2. Overview of Operational Data and Financial Results

Summary of Operational Data

	Three months ended June 30,		Six months ended June 30,	
	2023	**2022**	**2023**	**2022**
Sales Volumes, Prices and Costs				
Premium semi-soft coking coal				
Coal sales *(millions of tonnes)*	**0.57**	0.04	**0.90**	0.04
Average realised selling price *(per tonne)*	**$ 103.33**	$ 92.87	**$ 111.19**	$ 92.87
Standard semi-soft coking coal/ premium thermal coal				
Coal sales *(millions of tonnes)*	**0.05**	0.04	**0.06**	0.04
Average realised selling price *(per tonne)*	**$ 67.09**	$ 30.41	**$ 67.77**	$ 30.41
Processed coal				
Coal sales *(millions of tonnes)*	**0.26**	0.01	**0.52**	0.01
Average realised selling price *(per tonne)*	**$ 82.99**	$ 79.02	**$ 90.28**	$ 79.02
Total				
Coal sales *(millions of tonnes)*	**0.88**	0.09	**1.48**	0.09
Average realised selling price *(per tonne)*	**$ 95.34**	$ 66.55	**$ 98.88**	$ 66.55
Raw coal production *(millions of tonnes)*	**0.97**	–	**1.53**	–
Cost of sales of product sold *(per tonne)*	**$ 47.76**	$ 56.32	**$ 49.31**	$ 67.49
Direct cash costs of product sold *(per tonne)* (i)	**$ 33.79**	$ 33.10	**$ 31.83**	$ 38.54
Mine administration cash costs of product sold *(per tonne)* (i)	**$ 1.60**	$ 1.20	**$ 1.55**	$ 1.30
Total cash costs of product sold *(per tonne)* (i)	**$ 35.39**	$ 34.30	**$ 33.38**	$ 39.84
Other Operational Data				
Production waste material moved *(millions of bank cubic meters)*	**7.73**	–	**10.56**	–
Strip ratio *(bank cubic meters of waste material per tonne of coal produced)*	**7.93**	–	**6.89**	–
Lost time injury frequency rate (ii)	**0.23**	0.00	**0.12**	0.00

(i) A non-IFRS financial measure, see section 3. 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 Operational Data

For the three months ended June 30, 2023

The Company experienced an increase in the average selling price of coal from $66.6 per tonne in the second quarter of 2022 to $95.3 per tonne in the second quarter of 2023, as a result of improved market conditions in China, expansion of its sales network and diversification of its customer base. The product mix for the second quarter of 2023 consisted of approximately 65% premium semi-soft coking coal, 5% standard semi-soft coking coal/premium thermal coal and 30% of processed coal compared to approximately 52% premium semi-soft coking coal, 40% standard semi-soft coking coal/premium thermal coal and 8% processed coal in the second quarter of 2022.

The Company's unit cost of sales of product sold decreased from $56.3 per tonne in the second quarter of 2022 to $47.8 per tonne in the second quarter of 2023. The decrease was mainly driven by the economies of scale due to increased sales.

2. Overview of Operational Data and Financial Results continued

Overview of Operational Data continued

For the six months ended June 30, 2023

The Company sold 1.5 million tonnes for the first six months of 2023 as compared to 0.1 million tonnes for the first six months of 2022. The average selling price increased from $66.6 per tonne for the first six months of 2022 to $98.9 per tonne for the first six months of 2023, due to improved market conditions in China, expansion of its sales network and diversification of its customer base.

The Company's production in the first six months of 2023 was higher than the first six months of 2022 due to the Company resuming its major mining operations, including coal mining in late 2022, and the volume of coal production has gradually increased since then. The Company also resumed coal washing operations in April 2023.

The Company's unit cost of sales of product sold decreased from $67.5 per tonne for the first six months of 2022 to $49.3 per tonne in the first six months of 2023. The decrease was mainly driven by the economies of scale due to increased sales.

Summary of Financial Results

	Three months ended June 30,		Six months ended June 30,	
$ in thousands, except per share information	**2023**	**2022**	**2023**	**2022**
Revenue [(i)]	**$ 83,243**	$ 5,790	**$ 145,023**	$ 5,790
Cost of sales [(i)]	**(42,027)**	(5,069)	**(72,981)**	(6,074)
Gross profit excluding idled mine asset costs [(ii)]	**41,227**	940	**72,088**	379
Gross profit/(loss)	**41,216**	721	**72,042**	(284)
Other operating income/(expenses), net	**(4,001)**	3,778	**(4,765)**	5,836
Administration expenses	**(2,656)**	(1,772)	**(4,712)**	(2,978)
Evaluation and exploration expenses	**(28)**	(66)	**(92)**	(90)
Provision of tax penalty	**(74,990)**	–	**(74,990)**	–
Profit/(loss) from operations	**(40,459)**	2,661	**(12,517)**	2,484
Finance costs	**(11,558)**	(10,247)	**(23,466)**	(20,283)
Finance income	**44**	1,160	**123**	1,173
Share of earnings/(loss) of joint ventures	**428**	(109)	**930**	(261)
Current income tax expenses	**(9,087)**	(518)	**(17,847)**	(938)
Net loss attributable to equity holders of the Company	**(60,632)**	(7,053)	**(52,777)**	(17,825)
Basic and diluted loss per share	**$ (0.21)**	$ (0.03)	**$ (0.18)**	$ (0.07)

(i) Revenue and cost of sales related to the Company's Ovoot Tolgoi Mine within the Coal Division operating segment. Refer to note 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.

2. Overview of Operational Data and Financial Results continued

Overview of Financial Results

For the three months ended June 30, 2023

The Company recorded a $40.5 million loss from operations in the second quarter of 2023 compared to a $2.7 million profit from operations in the second quarter of 2022. The financial results for the second quarter of 2023 were impacted by (i) increased sales volume and improvement in the Company's average realised selling price; and (ii) the Company recording a provision for a tax penalty of $75.0 million imposed by MTA.

Revenue was $83.2 million in the second quarter of 2023 compared to $5.8 million in the second quarter of 2022. The increase was due to (i) during the second quarter of 2022, the Ceke Port of Entry was re-opened for coal export on a trial basis which limited the volume of coal exports, while the coal export resumed normal in the second quarter of 2023; and (ii) the Company experienced an increase in the average selling price of coal from $66.6 per tonne in the second quarter of 2022 to $95.3 per tonne in the second quarter of 2023 as a result of an improved market conditions in China, expansion of its sales network and diversification of its customer base.

Cost of sales was $42.0 million in the second quarter of 2023 compared to $5.1 million in the second 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, 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 3 of this MD&A for further analysis) during the quarter.

	Three months ended June 30,	
$ in thousands	**2023**	**2022**
Operating expenses	**$ 31,139**	$ 3,087
Share-based compensation expense	**4**	10
Depreciation and depletion	**1,191**	222
Royalties	**9,682**	1,531
Cost of sales from mine operations	**42,016**	4,850
Cost of sales related to idled mine assets	**11**	219
Cost of sales	**$ 42,027**	$ 5,069

Operating expenses in cost of sales were $31.1 million in the second quarter of 2023 compared to $3.1 million in the second quarter of 2022. Cost of sales related to idled mine assets in the second quarter of 2023 included $0.1 million related to depreciation expenses for idled equipment (second quarter of 2022: $0.2 million).

Other operating expenses was $4.0 million in the second quarter of 2023 (second quarter of 2022: $3.8 million of other operating income). Foreign exchange loss of $2.9 million and management fee of $1.1 million were recorded in the second quarter of 2023. (second quarter of 2022: the Company incurred a foreign exchange gain of $1.4 million and written off of other payables of $1.6 million).

	Three months ended June 30,	
$ in thousands	**2023**	**2022**
Management fee	**$ 1,124**	$ 131
Provision/(reversal of provision) for doubtful trade and other receivables	**97**	(249)
Foreign exchange loss/(gain), net	**2,890**	(1,415)
Reversal of impairment on materials and supplies inventories	**(96)**	(10)
Rental income from short term leases	**(14)**	(12)
Written off of other payables	**–**	(1,556)
Gain on contract offsetting arrangement	**–**	(667)
Other operating expenses/(income), net	**$ 4,001**	$ (3,778)

2. Overview of Operational Data and Financial Results continued

Overview of Financial Results continued

For the three months ended June 30, 2023 continued

Administration expenses were $2.7 million in the second quarter of 2023 compared to $1.8 million in the second quarter of 2022, the increase was mainly due to the increase in corporate administration expenses and salaries and benefits as a result of expansion of operation during the second quarter of 2023.

	Three months ended June 30,	
$ in thousands	**2023**	**2022**
Corporate administration	**$ 820**	$ 240
Legal and professional fees	**622**	718
Salaries and benefits	**1,063**	673
Share-based compensation expense	**10**	34
Depreciation	**141**	107
Administration expenses	**$ 2,656**	$ 1,772

The Company continued to minimise evaluation and exploration expenditures in the second quarter of 2023 in order to preserve the Company's financial resources. Evaluation and exploration activities and expenditures in the second 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 $11.6 million and $10.2 million in the second quarter of 2023 and 2022 respectively, which primarily consisted of interest expense on the $250.0 million Convertible Debenture.

For the six months ended June 30, 2023

The Company recorded a $12.5 million loss from operations in the first six months of 2023 compared to a $2.5 million profit from operations in the first six months of 2022. The financial results for the first six months of 2023 were impacted by (i) increased sales volume and improvement in the Company's average realised selling price; and (ii) the Company recording a provision for a tax penalty of $75.0 million imposed by MTA.

Revenue was $145.0 million in the first six months of 2023 compared to $5.8 million in the first six months of 2022. The increase was due to (i) during the second quarter of 2022, the Ceke Port of Entry was re-opened for coal export on a trial basis which limited the volume of coal exports, while the coal export resumed normal in the second quarter of 2023; and (ii) the Company experienced an increase in the average selling price of coal from $66.6 per tonne in the second quarter of 2022 to $95.3 per tonne in the second quarter of 2023 as a result of improved market conditions in China, expansion of its sales network and diversification of its customer base.

Cost of sales were $73.0 million in the first six months of 2023 compared to $6.1 million in the first six months of 2022, as follows:

	Six months ended June 30,	
$ in thousands	**2023**	**2022**
Operating expenses	**$ 49,396**	$ 3,586
Share-based compensation expense	**3**	21
Depreciation and depletion	**2,368**	273
Royalties	**21,168**	1,531
Cost of sales from mine operations	**72,935**	5,411
Cost of sales related to idled mine assets	**46**	663
Cost of sales	**$ 72,981**	$ 6,074

2. Overview of Operational Data and Financial Results continued

Overview of Financial Results continued

For the six months ended June 30, 2023 continued

Operating expenses in cost of sales were $49.4 million in the first six months of 2023 compared to $3.6 million in the first six months of 2022. The overall increase in cost of sales was primarily due to the increased sales.

Cost of sales related to idled mine assets in the first six months of 2023 included $0.1 million related to depreciation expenses for idled equipment (first six months of 2022: $0.7 million).

Other operating expenses was $4.8 million in the first six months of 2023 (first six months of 2022: $5.8 million of other operating income). Foreign exchange loss of $2.5 million and management fee of $1.9 million were recorded in the first six months of 2023. (first six months of 2022: foreign exchange gain of $1.9 million and written off of other payables of $2.8 million were recorded).

	Six months ended June 30,	
$ in thousands	**2023**	**2022**
Management fee	**$ 1,896**	$ 155
Provision/(reversal of provision) for doubtful trade and other receivables	**180**	(554)
Foreign exchange loss/(gain), net	**2,457**	(1,896)
Gain on disposal of items of property, plant and equipment, net	**–**	(33)
Reversal of impairment on materials and supplies inventories	**(181)**	(10)
Rental income from short term leases	**(41)**	(26)
Written off of other payables	**–**	(2,805)
Penalty on late settlement of trade payables	**454**	–
Gain on contract offsetting arrangement	**–**	(667)
Other operating expenses/(income), net	**$ 4,765**	$ (5,836)

Administration expenses were $4.7 million in the first six months of 2023 compared to $3.0 million in the first six months of 2022, the increase was mainly due to the increase in corporate administration expenses and salaries and benefits as a result of expansion of operation during the second quarter of 2023.

	Six months ended June 30,	
$ in thousands	**2023**	**2022**
Corporate administration	**$ 1,277**	$ 410
Legal and professional fees	**1,011**	979
Salaries and benefits	**2,152**	1,300
Share-based compensation expense	**8**	71
Depreciation	**264**	218
Administration expenses	**$ 4,712**	$ 2,978

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

Finance costs were $23.5 million and $20.3 million in the first six months of 2023 and 2022 respectively, which primarily consisted of interest expense on the $250.0 million Convertible Debenture.

2. Overview of Operational Data and Financial Results continued

Summary of Quarterly Operational Data

	2023		2022				2021	
Quarter Ended	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep
Sales Volumes, Prices and Costs								
Premium semi-soft coking coal								
Coal sales *(millions of tonnes)*	**0.57**	0.33	0.06	0.17	0.04	–	0.01	0.11
Average realised selling price *(per tonne)*	**$ 103.33**	$ 124.72	$ 65.82	$ 71.01	$ 92.87	$ –	$ 69.73	$ 64.25
Standard semi-soft coking coal/premium thermal coal								
Coal sales *(millions of tonnes)*	**0.05**	0.01	0.01	0.03	0.04	–	0.01	0.06
Average realised selling price *(per tonne)*	**$ 67.09**	$ 73.52	$ 64.69	$ 43.34	$ 30.41	$ –	$ 34.84	$ 33.56
Processed coal								
Coal sales *(millions of tonnes)*	**0.26**	0.26	0.40	0.35	0.01	–	–	–
Average realised selling price *(per tonne)*	**$ 82.99**	$ 78.19	$ 65.94	$ 64.57	$ 79.02	$ –	$ –	$ –
Total								
Coal sales *(millions of tonnes)*	**0.88**	0.60	0.47	0.55	0.09	–	0.02	0.17
Average realised selling price *(per tonne)*	**$ 95.34**	$ 104.11	$ 65.90	$ 65.37	$ 66.55	$ –	$ 55.44	$ 53.52
Raw coal production *(millions of tonnes)*	**0.97**	0.56	0.57	0.12	–	–	0.06	0.26
Cost of sales of product sold *(per tonne)*	**$ 47.76**	$ 51.59	$ 41.81	$ 58.25	$ 56.32		$ 76.95	$ 40.39
Direct cash costs of product sold *(per tonne)* (i)	**$ 33.79**	$ 28.95	$ 25.65	$ 41.44	$ 33.10	*(iii)*	$ 17.47	$ 17.50
Mine administration cash costs of product sold *(per tonne)* (i)	**$ 1.60**	$ 1.48	$ 1.86	$ 1.47	$ 1.20		$ 1.23	$ 1.62
Total cash costs of product sold *(per tonne)* (i)	**$ 35.39**	$ 30.43	$ 27.51	$ 42.91	$ 34.30		$ 18.70	$ 19.12
Other Operational Data								
Production waste material moved *(millions of bank cubic meters)*	**7.73**	2.83	2.68	0.91	–	–	0.31	0.59
Strip ratio *(bank cubic meters of waste material per tonne of coal produced)*	**7.93**	5.07	4.67	7.33	–	–	5.61	2.23
Lost time injury frequency rate (ii)	**0.23**	0.00	0.00	0.00	0.00	0.00	0.00	0.00

(i) A non-IFRS financial measure, refer to section 3. 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.

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

2. Overview of Operational Data and Financial Results continued

Summary of Quarterly Financial Results

The Company's condensed consolidated interim financial statements are reported under IFRS issued by the IASB. 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	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep
Financial Results								
Revenue [i]	**$ 83,243**	$ 61,780	$ 30,487	$ 36,807	$ 5,790	$ –	$ 848	$ 9,295
Cost of sales [i]	**(42,027)**	(30,954)	(19,652)	(32,036)	(5,069)	(1,005)	(1,539)	(6,866)
Gross profit/(loss) excluding idled mine asset costs [ii]	**41,227**	30,861	10,891	4,982	940	(561)	(51)	3,269
Gross profit/(loss) including idled mine asset costs	**41,216**	30,826	10,835	4,771	721	(1,005)	(691)	2,429
Other operating income/(expenses), net	**(4,001)**	(764)	(1,066)	546	3,778	2,058	(1,078)	100
Administration expenses	**(2,656)**	(2,056)	(2,111)	(1,830)	(1,772)	(1,206)	(1,336)	(1,467)
Evaluation and exploration expenses	**(28)**	(64)	(26)	(31)	(66)	(24)	(75)	(36)
Provision of tax penalty	**(74,990)**	–	–	–	–	–	–	–
Profit/(loss) from operations	**(40,459)**	27,942	7,632	3,456	2,661	(177)	(3,180)	1,026
Finance costs	**(11,558)**	(11,914)	(11,190)	(10,800)	(10,247)	(10,036)	(9,702)	(11,457)
Finance income	**44**	85	1,589	69	1,160	13	3,178	2,040
Share of earnings/(loss) of joint ventures	**428**	502	143	237	(109)	(152)	(137)	(261)
Current income tax expenses	**(9,087)**	(8,760)	(2,751)	(979)	(518)	(420)	(1,579)	(78)
Net profit/(loss)	**(60,632)**	7,855	(4,577)	(8,017)	(7,053)	(10,772)	(11,420)	(8,730)
Basic earnings/(loss) per share	**$ (0.21)**	$ 0.03	$ (0.02)	$ (0.03)	$ (0.03)	$ (0.04)	$ (0.04)	$ (0.03)
Diluted earnings/(loss) per share	**$ (0.21)**	$ 0.03	$ (0.02)	$ (0.03)	$ (0.03)	$ (0.04)	$ (0.04)	$ (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.

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

3. 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 condensed consolidated interim 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.

3. NON-IFRS Financial Measures continued

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.

The following table provides a reconciliation of the cash costs of product sold disclosed for the three and six months ended June 30, 2023 and June 30, 2022. The cash costs of product sold presented below may differ from cash costs of product produced depending on the timing of coal stockpile inventory turnover and impairment of coal stockpile inventories from prior periods.

	Three months ended June 30,		Six months ended June 30,	
$ in thousands, except per tonne information	**2023**	**2022**	**2023**	**2022**
Cash costs				
Cost of sales determined in accordance with IFRS	**$ 42,027**	$ 5,069	**$ 72,981**	$ 6,074
Less royalties	**(9,682)**	(1,531)	**(21,168)**	(1,531)
Less non-cash expenses	**(1,195)**	(232)	**(2,371)**	(294)
Less non-cash idled mine asset costs	**(11)**	(219)	**(46)**	(663)
Total cash costs	**31,139**	3,087	**49,396**	3,586
Less idled mine asset cash costs	**–**	–	**–**	–
Total cash costs excluding idled mine asset cash costs	**31,139**	3,087	**49,396**	3,586
Coal sales *(millions of tonnes)*	**0.88**	0.09	**1.48**	0.09
Total cash costs of product sold *(per tonne)*	**$ 35.39**	$ 34.30	**$ 33.38**	$ 39.84

	Three months ended June 30,		Six months ended June 30,	
$ in thousands, except per tonne information	**2023**	**2022**	**2023**	**2022**
Cash costs				
Direct cash costs of product sold *(per tonne)*	**$ 33.79**	$ 33.10	**$ 31.83**	$ 38.54
Mine administration cash costs of product sold *(per tonne)*	**1.60**	1.20	**1.55**	1.30
Total cash costs of product sold *(per tonne)*	**$ 35.39**	$ 34.30	**$ 33.38**	$ 39.84

The cash cost of product sold per tonne was $35.4 for the second quarter of 2023, which was similar to $34.3 per tonne recorded in the second quarter of 2022.

3. 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 disclosed for the three and six months ended June 30, 2023 and June 30, 2022.

	Three months ended June 30,		Six months ended June 30,	
$ in thousands, except per tonne information	2023	2022	2023	2022
Idled mine asset costs				
Gross profit excluding idled mine asset costs	**$ 41,227**	$ 940	**$ 72,088**	$ 379
Less non-cash idled mine asset costs	**(11)**	(219)	**(46)**	(663)
Gross profit including idled mine asset costs	**$ 41,216**	$ 721	**$ 72,042**	$ (284)

4. 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.

4. 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 June 30, 2023, SGS employed 413 employees in Mongolia. Of the 413 employees, 37 are employed in the Ulaanbaatar office and 376 at the Ovoot Tolgoi Mine site. Of the 413 employees based in Mongolia, 412 (99%) are Mongolian nationals, and of those, 163 (39%) are residents of the local Gurvantes, Dalanzadgad, Sevrei and Noyon Soums.

5. Liquidity and Capital Resources

Liquidity and Capital Management

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

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

Prior to the completion of a private placement with Novel Sunrise Investments Limited ("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.

As at June 30, 2023, the amount of reimbursable costs and fees claimed by Turquoise Hill amounted to $6.3 million (such amount is included in the trade and other payables).

5. Liquidity and Capital Resources continued

Liquidity and Capital Management continued

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 last day of the Interest-Free Period 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.

During the period ended June 30, 2023, the Company did not draw down any principal under the Credit Facility and the Credit Facility expired on June 1, 2023.

Provision of Tax Penalty Imposed by MTA

On July 18, 2023, SGS received the Notice issued by MTA stating that MTA has recently completed the Audit on the financial information of SGS between 2017 and 2020, including transfer pricing, royalty, air-pollution fee and unpaid tax payables. As a result of their Audit, the MTA has notified SGS that they are imposing a tax penalty against SGS in the amount of approximately $75.0 million. Under Mongolian law, the Company has a period of 30-days from the date of receipt of the Notice to file an appeal in relation to the Audit.

The Company's management is currently reviewing the Notice and actively exploring various options to resolve the issue, including, but not limited to, negotiating with the MTA and filing an appeal for the tax penalty amount. As at June 30, 2023, the Company recorded a provision of tax penalty of $75.0 million. If any subsequent event occurs that may impact the amount of the provision for tax penalty, an adjustment would be recognised in profit or loss and the carrying amount of the provision should be adjusted.

5. Liquidity and Capital Resources continued

Liquidity and Capital Management continued

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 June 30, 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 condensed consolidated interim financial statements. The Company incurred a loss attributable to equity holders of the Company of $52.8 million for the first six months of 2023 (2022: $17.8 million), and as of that date, had a deficiency in assets of $195.4 million as at June 30, 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 $257.4 million as at June 30,2023 compared to a working capital deficiency of $184.7 million as at December 31, 2022.

Included in the working capital deficiency as at June 30, 2023 are significant obligations, represented by trade and other payables of $59.1 million, which includes $19.2 million in unpaid taxes that are repayable on demand to the MTA and the Company recording a provision for a tax penalty of $75.0 million.

The Company may not be able to settle all trade and other payables on a timely basis, and as a result any continuing postponement in settling of certain trade and other payables owed to suppliers and creditors may impact the ability of the Company to resume its mining operations and may result in potential lawsuits and/or bankruptcy proceedings being filed against the Company. Furthermore, there is no guarantee that the Company will be successful in its negotiations with the MTA, or any appeal, in relation the Audit. Except as disclosed elsewhere in this MD&A, no such lawsuits or proceedings were pending as at August 14, 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 condensed consolidated interim 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 condensed consolidated interim 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.

5. 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 June 30, 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) 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 will convene a special meeting of shareholders on August 23, 2023 Vancouver time (August 24, 2023, Hong Kong time), 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 June 30, 2023 and therefore are satisfied that it is appropriate to prepare the condensed consolidated interim 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 June 30, 2023 and December 31, 2022, the Company was not subject to any externally imposed capital requirements.

5. Liquidity and Capital Resources continued

Liquidity and Capital Management continued

Convertible Debenture

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

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

Deferral Agreements

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

5. Liquidity and Capital Resources continued

Liquidity and Capital Management continued

Deferral Agreements continued

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.

5. Liquidity and Capital Resources continued

Liquidity and Capital Management continued

Deferral Agreements continued

The effectiveness of the 2023 March Deferral Agreement and the respective covenants, agreements and obligations of each party under the 2023 March Deferral Agreement 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 will convene a special meeting of shareholders on August 23, 2023 Vancouver time (August 24, 2023, Hong Kong time), to seek disinterested shareholder approval of the 2023 March Deferral Agreement.

5. Liquidity and Capital Resources continued

Cash Flow Highlights

$ in thousands	Six months ended June 30, 2023	2022
Net cash flows from operating activities	**$ 28,997**	$ 4,008
Cash used in investing activities	**(12,868)**	(48)
Cash used in financing activities	**(10,172)**	(165)
Effect of foreign exchange rate changes on cash	**631**	(2,046)
Increase in cash for the period	**6,588**	1,749
Cash balance, beginning of period	**9,255**	723
Cash balance, end of period	**$ 15,843**	$ 2,472

Net cash flows from Operating Activities

The Company's net cash flows from operating activities was an inflow of $29.0 million in the first six months of 2023 compared to an inflow of $4.0 million in the first six months of 2022. This is primarily due to the collection of prepayments from coal sales during the first six months of 2023.

Cash used in Investing Activities

The Company used $12.9 million of cash during the first six months of 2023 in investing activities compared to less than $0.1 million during the first six months of 2022. In the first six months of 2023, expenditures on property, plant and equipment totaled $13.7 million (first six months of 2022: $0.1 million).

Cash used in Financing Activities

Cash used in financing activities was $10.2 million in the first six months of 2023 (first six months of 2022: $0.2 million). The balance for the first six months of 2023 was principally attributable to the repayment of convertible debenture interest of $10.0 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 June 30, 2023, the Company's operating and capital commitments were:

	Within 1 year	2-3 years	Over 3 years	Total
As at June 30, 2023				
Capital expenditure commitments	**$ –**	**$ –**	**$ –**	**$ –**
Operating expenditure commitments	**1,200**	**39**	**201**	**1,440**
Commitments	**$ 1,200**	**$ 39**	**$ 201**	**$ 1,440**

5. 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 June 30, 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 six months ended June 30, 2023.

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 5 of this MD&A under the heading entitled "Liquidity and Capital Management".

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

$ in thousands	As at June 30, 2023	As at December 31, 2022
Financial assets		
Cash	**$ 15,843**	$ 9,255
Restricted cash	**689**	725
Trade and other receivables	**6,649**	1,199
Total financial assets	**$ 23,181**	$ 11,179

$ in thousands	As at June 30, 2023	As at December 31, 2022
Financial liabilities		
Fair value through profit or loss		
Convertible debenture – embedded derivatives	**$ 28**	$ 69
Other financial liabilities		
Trade and other payables	**59,130**	59,730
Interest-bearing borrowings	**74,990**	–
Lease liabilities	**722**	502
Convertible debenture – debt host and interest payable	**236,859**	224,584
Total financial liabilities	**$ 371,729**	$ 284,885

6. 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 June 30, 2023 is not required.

6. Regulatory Issues and Contingencies continued

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 June 30, 2023 is 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, 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.

6. Regulatory Issues and Contingencies continued

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.

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 the Company may be impacted once such unfavourable event happens. 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 June 30, 2023, management is assessing whether recognition of a provision for an uncertain tax position other than as disclosed under section 5 "Liquidity and Capital Resources" of this MD&A under the heading entitled "Provision of Tax Penalty Imposed by MTA" is necessary.

7. 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 August 14, 2023, approximately 295.3 million Common Shares were issued and outstanding. There are also incentive share options outstanding to acquire approximately 3.8 million unissued Common Shares with exercise prices ranging from CA$0.11 to CA$0.13, and HK$1.41. There are no preferred shares outstanding.

As at August 14, 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 International Holding Limited 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 holds a total of approximately 25.8 million Common Shares representing approximately 8.7% of the issued and outstanding Common Shares.

8. Disclosure Controls and Procedures and Internal Controls Over Financial Reporting

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.

9. Critical Accounting Estimates and Judgments

There have been no other new IFRSs or IFRIC interpretations that is not yet effective that would be expected to have a material impact on the Company, except those disclosed in the Company's annual consolidated financial statements for the year ended December 31, 2022.

Refer to Note 2.3 of the Company's condensed consolidated interim financial statements of the quarter ended June 30, 2023 for information regarding the accounting judgments and estimates.

10. Risk Factors

There are certain risks involved in and related to the Company's operations, some of which are beyond its control. Material risks and uncertainties affecting the Company, their potential impact on the Company's operations and the Company's principal risk management strategies are, except as updated by this MD&A, substantially unchanged from those disclosed in the Company's most recently filed Annual Information Form for the year ended December 31, 2022, which is available under the Company's profile on SEDAR at www.sedar.com.

11. 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 half 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 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.

11. Outlook continued

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.

August 14, 2023

SouthGobi Resources Ltd.

Condensed Consolidated Interim Financial Statements

June 30, 2023
(Expressed in U.S. Dollars)
(Unaudited)

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Notice of no audit review of condensed consolidated financial statements

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditor, BDO Limited, have not reviewed the unaudited condensed consolidated financial statements for the three-month and six-month periods ended June 30, 2023 as a result of time constraints related to evaluating event associated with the Company's provision of tax penalty announced on July 31, 2023 and prevented the auditor from completing their review procedures in time to meet the filing deadline. The Audit Committee of the Company has reviewed the unaudited condensed interim consolidated financial statements for three-month and six-month periods ended June 30, 2023. The Company has chosen to file its unaudited condensed interim consolidated financial statements without the benefit of the auditor completing its review, as the Audit Committee and the Board of Directors have determined that the Company's unaudited condensed interim consolidated financial statements for the three-month and six-month periods ended June 30, 2023 fairly present the Company's financial position and financial performance for that period in accordance with IFRS and the Company's accounting policies.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

(Unaudited) (Expressed in thousands of U.S. Dollars, except for share and per share amounts)

	Notes	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Revenue	4	**$ 83,243**	$ 5,790	**$ 145,023**	$ 5,790
Cost of sales	6	**(42,027)**	(5,069)	**(72,981)**	(6,074)
Gross profit/(loss)		**41,216**	721	**72,042**	(284)
Other operating income/(expenses), net	7	**(4,001)**	3,778	**(4,765)**	5,836
Administration expenses		**(2,656)**	(1,772)	**(4,712)**	(2,978)
Evaluation and exploration expenses		**(28)**	(66)	**(92)**	(90)
Provision of tax penalty	8	**(74,990)**	–	**(74,990)**	–
Profit/(loss) from operations		**(40,459)**	2,661	**(12,517)**	2,484
Finance costs	9	**(11,558)**	(10,247)	**(23,466)**	(20,283)
Finance income	9	**44**	1,160	**123**	1,173
Share of earnings/(loss) of joint ventures		**428**	(109)	**930**	(261)
Loss before tax		**(51,545)**	(6,535)	**(34,930)**	(16,887)
Current income tax expenses	10	**(9,087)**	(518)	**(17,847)**	(938)
Net loss attributable to equity holders of the Company		**(60,632)**	(7,053)	**(52,777)**	(17,825)
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods					
Exchange difference on translation of foreign operation		**2,530**	(8,262)	**(147)**	(12,994)
Net comprehensive loss attributable to equity holders of the Company		**$ (58,102)**	$ (15,315)	**$ (52,924)**	$ (30,819)
Basic and diluted loss per share	11	**$ (0.21)**	$ (0.03)	**$ (0.18)**	$ (0.07)

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

(Unaudited) (Expressed in thousands of U.S. Dollars, except for share and per share amounts)

	Notes	As at June 30, 2023	As at December 31, 2022
Assets			
Current assets			
Cash and cash equivalents		$ **15,843**	$ 9,255
Restricted cash		**689**	725
Trade and other receivables	12	**6,649**	1,199
Inventories	13	**44,701**	34,830
Prepaid expenses		**4,566**	1,486
Total current assets		**72,448**	47,495
Non-current assets			
Property, plant and equipment	14	**132,141**	119,346
Inventories	13	**204**	-
Investment in a joint venture		**14,797**	14,518
Total non-current assets		**147,142**	133,864
Total assets		$ **219,590**	$ 181,359
Equity and liabilities			
Current liabilities			
Trade and other payables	15	$ **59,130**	$ 59,730
Provision of tax penalty	8	**74,990**	-
Deferred revenue		**18,675**	30,282
Lease liabilities		**352**	298
Income tax payable		**16,284**	1,066
Current portion of convertible debenture	16	**160,463**	140,784
Total current liabilities		**329,894**	232,160
Non-current liabilities			
Lease liabilities		**370**	204
Convertible debenture	16	**76,424**	83,869
Decommissioning liability		**8,335**	7,650
Total non-current liabilities		**85,129**	91,723
Total liabilities		**415,023**	323,883
Equity			
Common shares		**1,101,769**	1,101,764
Share option reserve		**53,028**	53,018
Capital reserve		**396**	396
Exchange fluctuation reserve		**(55,359)**	(55,212)
Accumulated deficit		**(1,295,267)**	(1,242,490)
Total deficiency in assets		**(195,433)**	(142,524)
Total equity and liabilities		$ **219,590**	$ 181,359
Net current liabilities		$ **(257,446)**	$ (184,665)
Total assets less current liabilities		$ **(110,304)**	$ (50,801)

Corporate information and going concern (Note 1) and commitments for expenditure (Note 19)

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

APPROVED BY THE BOARD:

"Mao Sun" *"Ruibin Xu"*

Director *Director*

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

(Unaudited) (Expressed in thousands of U.S. Dollars and shares/units in thousands)

	Number of shares/units		Share capital		Share option reserve		Capital reserve		Exchange fluctuation reserve		Accumulated deficit		Total
Balances, January 1, 2022	274,116	$	1,098,835	$	52,858	$	396	$	(30,468)	$	(1,212,071)	$	(90,450)
Net loss for the period	–		–		–		–		–		(17,825)		(17,825)
Exchange differences on translation of foreign operations	–		–		–		–		(12,994)		–		(12,994)
Total comprehensive loss attributable to equity holders of the Company	–		–		–		–		(12,994)		(17,825)		(30,819)
Shares issued for:													
Employee share purchase plan	139		25		–		–		–		–		25
Share-based compensation charged to operations	–		–		92		–		–		–		92
Balances, June 30, 2022	274,255	$	1,098,860	$	52,950	$	396	$	(43,462)	$	(1,229,896)	$	(121,152)
Balances, January 1, 2023	**295,227**	**$**	**1,101,764**	**$**	**53,018**	**$**	**396**	**$**	**(55,212)**	**$**	**(1,242,490)**	**$**	**(142,524)**
Net loss for the period	**–**		**–**		**–**		**–**		**–**		**(52,777)**		**(52,777)**
Exchange differences on translation of foreign operations	**–**		**–**		**–**		**–**		**(147)**		**–**		**(147)**
Total comprehensive loss attributable to equity holders of the Company	**–**		**–**		**–**		**–**		**(147)**		**(52,777)**		**(52,924)**
Shares issued for:													
Exercise of stock options	**1**		**3**		**–**		**–**		**–**		**–**		**3**
Share-based compensation charged to operations	**–**		**2**		**10**		**–**		**–**		**–**		**12**
Balances, June 30, 2023	**295,228**	**$**	**1,101,769**	**$**	**53,028**	**$**	**396**	**$**	**(55,359)**	**$**	**(1,295,267)**	**$**	**(195,433)**

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

(Unaudited) (Expressed in thousands of U.S. Dollars)

		Six months ended June 30,	
	Notes	2023	2022
Operating activities			
Loss before tax		**$ (34,930)**	$ (16,887)
Adjustments for:			
Depreciation and depletion		**2,678**	1,154
Share-based compensation	5	**12**	92
Interest expense on convertible debenture	9	**22,275**	18,846
Interest expense on borrowings	9	**–**	5
Interest elements on leased assets	9	**30**	48
Accretion of decommissioning liability	9	**185**	361
Fair value loss/(gain) on embedded derivatives in convertible debenture	9	**(41)**	68
Interest income	9	**(82)**	(15)
Share of loss/(earnings) of a joint venture		**(930)**	261
Gain on disposal of items of property, plant and equipment, net	7	**–**	(33)
Provision/(reversal of provision) for doubtful trade and other receivables	12	**180**	(554)
Reversal of impairment on materials and supplies inventories	7	**(181)**	(10)
Written off of other payables	7	**–**	(2,805)
Gain on contract offsetting arrangement	7	**–**	(667)
Penalty on late settlement of trade payables	7	**454**	–
Gain on modification of convertible debenture	9	**–**	(1,158)
Provision of tax penalty	8	**74,990**	–
Operating cash flows before changes in working capital items		**64,640**	(1,294)
Net change in working capital items	18	**(32,543)**	6,188
Cash generated from operating activities		**32,097**	4,894
Interest paid		**–**	(5)
Income tax paid		**(3,100)**	(881)
Net cash flows from operating activities		**28,997**	4,008
Investing activities			
Expenditures on property, plant and equipment		**(13,652)**	(96)
Proceeds from disposal of property, plant and equipment		**–**	33
Interest received	9	**82**	15
Investments in joint ventures		**(363)**	–
Dividend from a joint venture		**1,065**	–
Net cash flows used in investing activities		**(12,868)**	(48)
Financing activities			
Interest payment of convertible debenture	16.4	**(10,000)**	–
Proceeds from exercise of share options		**3**	–
Capital elements of lease rental paid		**(145)**	(142)
Interest elements of lease rentals paid		**(30)**	(48)
Proceed from issued shares for employee share purchase plan		**–**	25
Net cash flows used in financing activities		**(10,172)**	(165)
Effect of foreign exchange rate changes, net		**631**	(2,046)
Increase in cash and cash equivalents		**6,588**	1,749
Cash and cash equivalents, beginning of period		**9,255**	723
Cash and cash equivalents, end of period		**$ 15,843**	$ 2,472

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited) Expressed in thousands of U.S. Dollars and shares/options in thousands, unless otherwise indicated)

1. CORPORATE INFORMATION AND GOING CONCERN

SouthGobi Resources Ltd. is a publicly listed company incorporated in Canada with limited liability under the legislation of the Province of British Columbia and its shares are listed for trading on the Hong Kong Stock Exchange ("HKEX") (Symbol: 1878) and TSX Venture Exchange ("TSX-V") (Symbol: SGQ). The company, together with its subsidiaries (collectively referred to as the "Company"), is an integrated coal mining, development and exploration company. Pursuant to the announcement of the Company dated April 17, 2023, the change of its secondary listing status to primary listing on the Main Board of the HKEX became effective. The Company's common shares are primary listed on the HKEX and listed on the TSX-V as of the opening of trade on April 17, 2023 in Canada. At June 30, 2023, to the Company's best knowledge, JD Zhixing Fund L.P. ("JDZF") owned approximately 29.0% of the outstanding common shares of the Company. Land Grand International Holding Limited ("Land Grand") and Voyage Wisdom Limited owned approximately 15.7% and 8.7% of the outstanding common shares of the Company, respectively.

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

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

Going concern assumption

The Company's 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 June 30, 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 condensed consolidated interim financial statements. The Company incurred a loss attributable to equity holders of the Company of $52,777 for the first six months of 2023 (compared to a loss attributable to equity holders of the Company of $17,825 for the first six months of 2022), and as of that date, had a deficiency in assets of $195,433 as at June 30, 2023 as compared to a deficiency in assets of $142,524 as at December 31, 2022 while the working capital deficiency (excess current liabilities over current assets) reached $257,446 as at June 30, 2023 compared to a working capital deficiency of $184,665 as at December 31, 2022.

Included in the working capital deficiency as at June 30, 2023 are significant obligations, represented by trade and other payables of $59,130, which includes $19,198 in unpaid taxes that are repayable on demand to the Mongolian Tax Authority ("MTA") and a provision of a tax penalty of $74,990.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited) Expressed in thousands of U.S. Dollars and shares/options in thousands, unless otherwise indicated)

1. CORPORATE INFORMATION AND GOING CONCERN continued

Going concern assumption continued

The Company may not be able to settle all trade and other payables on a timely basis, and as a result any continuing postponement in settling of certain trade and other payables owed to suppliers and creditors may impact the ability of the Company to resume its mining operations and may result in potential lawsuits and/or bankruptcy proceedings being filed against the Company. Furthermore, there is no guarantee that the Company will be successful in its negotiations with the MTA, or any appeal, in relation to the periodic tax audit. Except as disclosed elsewhere in these condensed consolidated interim financial statements, no such lawsuits or proceedings were pending as at August 14, 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 condensed consolidated interim 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 condensed consolidated interim 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 June 30, 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) semi-annual cash interest payments of $7,934 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 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 $13,460 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 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 will convene a special meeting of shareholders on August 23, 2023 Vancouver time (August 24, 2023, Hong Kong time), 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 June 30, 2023 and therefore are satisfied that it is appropriate to prepare the condensed consolidated interim financial statements on a going concern basis.

1. CORPORATE INFORMATION AND GOING CONCERN continued

Going concern assumption continued

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 June 30, 2023 and December 31, 2022, the Company was not subject to any externally imposed capital requirements.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standard ("IAS") 34 – "Interim Financial Reporting" using accounting policies in compliance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board and Interpretations of the IFRS Interpretations Committee.

The condensed consolidated interim financial statements of the Company for the six months ended June 30, 2023 were approved and authorised for issue by the Board of Directors of the Company (the "Board") on August 14, 2023.

2.2 Basis of presentation

These condensed consolidated interim financial statements have been prepared using accounting policies and methods of computation consistent with those applied in the Company's December 31, 2022 consolidated annual financial statements. These condensed consolidated interim financial statements do not include all the information and note disclosures required by IFRS for annual financial statements and therefore should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2022.

2.3 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 Company's condensed consolidated interim financial statements are included in Note 3.23 to the Company's December 31, 2022 consolidated annual financial statements. The significant accounting judgments and estimates remain substantially unchanged from December 31, 2022.

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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited) Expressed in thousands of U.S. Dollars and shares/options in thousands, unless otherwise indicated)

2. BASIS OF PREPARATION continued

2.3 Significant accounting judgments and estimates continued

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 June 30, 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 six months ended June 30, 2023.

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 $22,478 as at June 30, 2023 (December 31, 2022: $22,599).

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 amortization charges.

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.

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.

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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited) Expressed in thousands of U.S. Dollars and shares/options in thousands, unless otherwise indicated)

3. SEGMENTED INFORMATION

The Company's chief executive officer (chief operating decision maker) reviews the financial information in order to make decisions about resources to be allocated to the segment and to assess its performance. No operating segment identified by the Board has been aggregated in arriving at the reporting segments of the Company. For management's purpose, the Company has only one reportable operating segment, which is the coal division. The division is principally engaged in coal mining, development and exploration in Mongolia, and logistics and trading of coal in Mongolia and China for the six months ended June 30, 2023 and 2022.

The Company's resources are integrated and as a result, no discrete operating segment financial information is available. Since this is the only reportable and operating segment of the Company, no further analysis thereof is presented. All the revenue of the Company is generated from trading of coal for the six months ended June 30, 2023 and 2022.

3.1 Information about major customers

During the six months ended June 30, 2023, the Coal Division had fifty-eight active customers. Two customers with respective revenues contributed over 10% of the total revenue during the six months ended June 30, 2023, with the largest customer accounting for 13% of revenues and the second largest customer accounting for 11% of revenues. Three customers with respective revenues contributed over 10% of the total revenue during the six months ended June 30, 2022, with the largest customer accounting for 20% of revenues, the second largest customer accounting for 19% of revenues and the third largest customer accounting for 13% of revenues.

3.2 Geographical information

The operations of the Company are primarily located in Mongolia, Hong Kong and China.

	Mongolia	Hong Kong	China	Consolidated Total
Revenue [i]				
For the three months ended June 30, 2023	$ –	$ –	$ 82,243	$ 83,243
For the three months ended June 30, 2022	–	–	5,790	5,790
For the six months ended June 30, 2023	$ –	$ –	$ 145,023	$ 145,023
For the six months ended June 30, 2022	–	–	5,790	5,790
Non-current assets				
As at June 30, 2023	$ 146,139	$ 239	$ 764	$ 147,142
As at December 31, 2022	133,345	337	182	133,864

(i) The revenue information above is based on the locations of the customers.

4. 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited) Expressed in thousands of U.S. Dollars and shares/options in thousands, unless otherwise indicated)

5. EXPENSES BY NATURE

The Company's expenses by nature are summarised as follows:

	Three months ended June 30,		Six months ended June 30,	
	2023	**2022**	**2023**	**2022**
Depreciation	**$ 1,343**	$ 548	**$ 2,678**	$ 1,154
Auditors' remuneration	**254**	36	**324**	72
Employee benefit expense				
(including directors' remuneration)				
Wages and salaries	**$ 2,090**	$ 1,249	**$ 4,372**	$ 2,373
Equity-settled share option expense	**15**	45	**12**	92
Pension scheme contributions	**307**	130	**575**	241
	$ 2,412	$ 1,424	**$ 4,959**	$ 2,706
Lease payments under operating leases	**$ 76**	$ 87	**$ 117**	$ 108
Foreign exchange loss/(gain), net (Note 7)	**2,890**	(1,415)	**2,457**	(1,896)
Reversal of impairment on materials and				
supplies inventories (Note 7)	**(96)**	(10)	**(181)**	(10)
Royalties (Note 6)	**9,682**	1,531	**21,168**	1,531
Management fee (Note 7)	**1,124**	131	**1,896**	155
Provision/(reversal of provision) for doubtful				
trade and other receivables (Note 7)	**97**	(249)	**180**	(554)
Gain on disposal of items of property,				
plant and equipment, net (Note 7)	**–**	–	**–**	(33)
Penalty on late settlement of trade				
payables (Note 7)	**–**	–	**454**	–
Rental income from short term leases (Note 7)	**(14)**	(12)	**(41)**	(26)
Written off of other payables (Note 7)	**–**	(1,556)	**–**	(2,805)
Gain on contract offsetting arrangement (Note 7)	**–**	(667)	**–**	(667)
Provision of tax penalty (Note 8)	**74,990**	–	**74,990**	–
Mine operating costs and others	**30,944**	3,281	**48,539**	3,571
Total operating expenses	**$ 123,702**	$ 3,129	**$ 157,540**	$ 3,306

6. COST OF SALES

The Company's cost of sales consists of the following amounts:

	Three months ended June 30,		Six months ended June 30,	
	2023	**2022**	**2023**	**2022**
Operating expenses	**$ 31,139**	$ 3,087	**$ 49,396**	$ 3,586
Share-based compensation expense	**4**	10	**3**	21
Depreciation and depletion	**1,191**	222	**2,368**	273
Royalties	**9,682**	1,531	**21,168**	1,531
Cost of sales from mine operations	**42,016**	4,850	**72,935**	5,411
Cost of sales related to idled mine assets (i)	**11**	219	**46**	663
Cost of sales	**$ 42,027**	$ 5,069	**$ 72,981**	$ 6,074

(i) Cost of sales related to idled mine assets for the six months ended June 30, 2023 includes $46 of depreciation expense (June 30, 2022: $663). The depreciation expense relates to the Company's idled plant and equipment.

Cost of inventories recognised as expense in cost of sales for the three months ended June 30, 2023 totaled $25,287 (June 30, 2022: $2,593). Cost of inventories recognised as expense in cost of sales for the six months ended June 30, 2023 totaled $40,583 (June 30, 2022: $2,610).

(Unaudited) Expressed in thousands of U.S. Dollars and shares/options in thousands, unless otherwise indicated)

7. OTHER OPERATING EXPENSES/(INCOME), NET

The Company's other operating expenses/(income) consist of the following amounts:

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	**2023**	2022
Management fee (Note 17)	**$ 1,124**	$ 131	**$ 1,896**	$ 155
Provision/(reversal of provision) for doubtful trade and other receivables (Note 12)	**97**	(249)	**180**	(554)
Foreign exchange loss/(gain), net	**2,890**	(1,415)	**2,457**	(1,896)
Gain on disposal of items of property, plant and equipment, net (Note 14)	**–**	–	**–**	(33)
Reversal of impairment on materials and supplies inventories (Note 13)	**(96)**	(10)	**(181)**	(10)
Rental income from short term leases	**(14)**	(12)	**(41)**	(26)
Written off of other payables (i)	**–**	(1,556)	**–**	(2,805)
Penalty on late settlement of trade payables	**–**	–	**454**	–
Gain on contract offsetting arrangement	**–**	(667)	**–**	(667)
Other operating expenses/(income), net	**$ 4,001**	$ (3,778)	**$ 4,765**	$ (5,836)

(i) The Company has determined that the written off of a significant vendor payable of $nil (June 30, 2022: $2,805) which the contractual claim limitation period is expired as of the end of the reporting period pursuant to the relevant laws and regulations.

8. PROVISION OF TAX PENALTY

On July 18, 2023, SouthGobi Sands LLC ("SGS"), a wholly-owned subsidiary of the Company, received an official notice (the "Notice") issued by MTA stating that MTA has recently completed a periodic tax audit (the "Audit") on the financial information of SGS between 2017 and 2020, including transfer pricing, royalty, air-pollution fee and unpaid tax payables. As a result of the Audit, the MTA has notified SGS that they are imposing a tax penalty against SGS in the amount of approximately $74,990. Under Mongolian law, the Company has a period of 30-days from the date of receipt of the Notice to file an appeal in relation to the Audit.

The Company's management is currently reviewing the Notice and actively exploring various options to resolve the issue, including, but not limited to, negotiating with the MTA and filing an appeal for the tax penalty amount. As at June 30, 2023, the Company recorded a provision for a tax penalty in the amount of $74,990. If any subsequent event occurs that may impact the amount of the provision for tax penalty, an adjustment would be recognised in profit or loss and the carrying amount of the provision should be adjusted.

9. FINANCE COSTS AND INCOME

The Company's finance costs consist of the following amounts:

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	**2023**	2022
Interest expense on convertible debenture (Note 16.4)	**$ 10,951**	$ 9,676	**$ 22,275**	$ 18,846
Fair value loss on embedded derivatives in convertible debenture (Note 16.4)	**6**	24	**–**	68
Value added tax on interest from intercompany loan	**487**	439	**976**	955
Interest expense on borrowing	**–**	4	**–**	5
Interest elements on leased assets	**16**	23	**30**	48
Accretion of decommissioning liability	**98**	81	**185**	361
Finance costs	**$ 11,558**	$ 10,247	**$ 23,466**	$ 20,283

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited) Expressed in thousands of U.S. Dollars and shares/options in thousands, unless otherwise indicated)

9. FINANCE COSTS AND INCOME continued

The Company's finance income consists of the following amounts:

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	**2023**	2022
Fair value gain on embedded derivatives in convertible debenture (Note 16.4)	**$ –**	$ –	**$ 41**	$ –
Gain on modification of convertible debenture (Note 16.4)	**–**	1,158	**–**	1,158
Interest income	**44**	2	**82**	15
Finance income	**$ 44**	$ 1,160	**$ 123**	$ 1,173

10. TAXES

The Canadian statutory tax rate was 27% (2022: 27%). A reconciliation between the Company's tax expense and the product of the Company's loss before tax multiplied by the Company's domestic tax rate is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	**2023**	2022
Current – Canada				
Charge for the period	**$ –**	$ –	**$ –**	$ –
Current – elsewhere				
Charge for the period	**9,087**	518	**17,847**	938
Total tax charge for the period	**$ 9,087**	$ 518	**$ 17,847**	$ 938

11. LOSS PER SHARE

The calculation of basic and diluted loss per share is based on the following data:

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	**2023**	2022
Net loss	**$ (60,632)**	$ (7,053)	**$ (52,777)**	$ (17,825)
Weighted average number of shares	**295,228**	274,205	**295,228**	274,205
Basic and diluted loss per share	**$ (0.21)**	$ (0.03)	**$ (0.18)**	$ (0.07)

Potentially dilutive items not included in the calculation of diluted loss per share for the period ended June 30, 2023 include the underlying shares comprised in the convertible debenture (Note 16) and stock options that were anti-dilutive.

12. TRADE AND OTHER RECEIVABLES

The Company's trade and other receivables consist of the following amounts:

	As at	
	June 30, 2023	**December 31, 2022**
Trade receivables	**$ 3,167**	$ –
Other receivables	**3,482**	1,199
Total trade and other receivables	**$ 6,649**	$ 1,199

(Unaudited) Expressed in thousands of U.S. Dollars and shares/options in thousands, unless otherwise indicated)

12. TRADE AND OTHER RECEIVABLES continued

The aging of the Company's trade and other receivables is as follows:

	As at June 30, 2023	As at December 31, 2022
Less than 1 month	**$ 3,347**	$ 1,104
1 to 3 months	**3,244**	47
3 to 6 months	**58**	48
Over 6 months	**–**	–
Total trade and other receivables	**$ 6,649**	$ 1,199

Overdue balances are reviewed regularly by senior management. The Company does not hold any collateral or other credit enhancements over its trade and other receivable balances.

The Company has determined that the loss allowance on its trade and other receivables was $22,478 (December 31, 2022: $22,599) as at June 30, 2023, based upon an expected loss rate of 10% for trade and other receivables 90 days past due and 100% for trade and other receivables 180 days past due. The closing allowance for trade and other receivables as at June 30, 2023 reconcile to the opening loss allowance as follows:

Loss allowance for trade and other receivables	
Opening loss allowance as at January 1, 2023	**$ 22,599**
Increase in loss allowance recognised in profit or loss during the period (Note 7)	**180**
Exchange realignment	**(301)**
Loss allowance as at June 30, 2023	**$ 22,478**
Opening loss allowance as at January 1, 2022	$ 23,841
Decrease in loss allowance recognised in profit or loss during the period (Note 7)	(554)
Exchange realignment	(333)
Loss allowance as at June 30, 2022	**$ 22,954**

13. INVENTORIES

The Company's inventories consist of the following amounts:

	As at June 30, 2023	As at December 31, 2022
Current inventories		
Coal stockpiles	**$ 36,017**	$ 26,857
Materials and supplies	**8,684**	7,973
	$ 44,701	$ 34,830
Non-current inventories		
Coal stockpiles	**204**	–
Total inventories	**$ 44,905**	$ 34,830

Other operating income for the six months ended June 30, 2023 included a reversal of impairment loss of $181 (June 30, 2022: $10) related to the Company's materials and supplies inventories.

(Unaudited) Expressed in thousands of U.S. Dollars and shares/options in thousands, unless otherwise indicated)

14. PROPERTY, PLANT AND EQUIPMENT

During the six months ended June 30, 2023, the Company acquired items of plant and equipment with a cost including mineral properties of approximately $13,652 (six months ended June 30, 2022: $3,252). No items of plant and equipment were disposed during the six months ended June 30, 2023 while items of fully depreciated plant and equipment were disposed during the six months ended June 30, 2022 with sales proceeds of $33, resulting in a gain on disposal of $33 during the six months ended June 30, 2022.

14.1 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.

14.2 Pledge on items of property, plant and equipment

As at June 30, 2023, most of the Company's mobile equipment and other operating equipment with carrying value of $3,001 (December 31, 2022: $2,347) were pledged as security of convertible debenture.

14.3 Right-of-use assets

The right-of-use assets relate to the buildings as at June 30, 2023 and December 31, 2022.

14.4 Impairment charges

No impairment nor reversal of impairment was made during the six months ended June 30, 2023 (December 31, 2022: $nil).

15. 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 June 30, 2023	As at December 31, 2022
Less than 1 month	**$ 6,203**	$ 14,402
1 to 3 months	**8,500**	5,886
3 to 6 months	**1,242**	3,772
Over 6 months	**43,185**	35,670
Total trade and other payables	**$ 59,130**	$ 59,730

The trade and other payables of $59,130 (December 31, 2022: $59,730) included other tax payables totaling $19,198 (December 31, 2022: $22,542).

16. CONVERTIBLE DEBENTURE

16.1 Key commercial terms

On November 19, 2009, the Company issued a convertible debenture to China Investment Corporation (together with its wholly-owned subsidiaries and affiliates, "CIC") for $500,000. The convertible debenture bears interest at 8.0% per annum (6.4% payable semi-annually in cash and 1.6% payable annually in the Company's Common Shares) and has a maximum term of 30 years. The convertible debenture is secured by a first ranking charge over the Company's assets, including shares of its material subsidiaries. During 2010, the Company exercised a right within the debenture to call and convert $250,000 of the debenture for 21,471 common shares. Following the conversion, the outstanding principal balance was $250,000 and has remained unchanged at that balance to June 30, 2023.

Following the completion of the CIC Sale Transaction on August 30, 2022, the respective rights and obligations of CIC under (i) the Convertible Debenture and related security documents; (ii) the amended and restated mutual cooperation agreement signed on April 23, 2019 (the "Amended and Restated Cooperation Agreement") and related documents; (iii) the deferral agreements between CIC, the Company and certain of its subsidiaries in connection with the deferral of interest payments and other outstanding fees under the Convertible Debenture and the Amended and Restated Cooperation Agreement; and (iv) the security holders agreement between the Company, CIC and a former shareholder of the Company, were assigned to JDZF.

The key commercial terms of the financing include:

- Interest – 8% per annum (6.4% payable semi-annually in cash and 1.6% payable annually in the Company's common shares, where the number of shares to be issued is calculated based on the 50-day volume-weighted average price ("VWAP")).

- Term – Maximum of 30 years.

- Security – First charge over the Company's assets, including shares of its material subsidiaries.

- Conversion price – The conversion price is set as the lower of CA$11.88 or the 50-day VWAP at the date of conversion, with a floor price of CA$8.88 per share.

- Representation on the Company's Board – While the convertible debenture is outstanding, or while JDZF has a minimum 15% direct or indirect stake in the Company, JDZF has the right to nominate one director to the Board. As of the date hereof, the Company currently has eight Board members of which three (Mr. Ruibin Xu, Ms. Chonglin Zhu and Mr. Shen Chen) were nominated by JDZF.

- Voting restriction – JDZF has agreed that it will not have any voting rights in the Company beyond 29.9% if JDZF ever acquires ownership of such a shareholder stake.

- Pre-emption rights – While the convertible debenture is outstanding, or while JDZF has a 15% direct or indirect stake in the Company, JDZF has certain pre-emption rights on a pro-rata basis to subscribe for any new shares to be allotted and issued by the Company for the period which the convertible debenture is outstanding. The pre-emption rights will not apply to new shares issued pursuant to pro– rata public equity offerings made to all shareholders, exercise of stock options and shares issued to achieve a 25% public float.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited) Expressed in thousands of U.S. Dollars and shares/options in thousands, unless otherwise indicated)

16. CONVERTIBLE DEBENTURE continued

16.1 Key commercial terms continued

- 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 its shares are involuntarily delisted from the TSX-V and the HKEX have occurred.

16.2 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.

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.

(Unaudited) Expressed in thousands of U.S. Dollars and shares/options in thousands, unless otherwise indicated)

16. CONVERTIBLE DEBENTURE continued

16.3 Valuation assumptions

The specific terms and assumptions used in the Company's valuation models are as follows:

	As at	
	June 30, 2023	**December 31, 2022**
Floor conversion price	**CA$8.88**	CA$8.88
Ceiling conversion price	**CA$11.88**	CA$11.88
Common share price	**CA$0.145**	CA$0.17
Historical volatility	**29%**	29%
Risk free rate of return	**3.78%**	3.95%
Foreign exchange spot rate (CA$ to U.S. Dollar)	**0.76**	0.74
Forward foreign exchange rate curve (CA$ to U.S. Dollar)	**0.755 to 0.834**	0.738 to 0.808

16.4 Presentation

Based on the Company's valuation as at June 30, 2023, the fair value of the embedded derivatives decreased by $41 (June 30, 2022: increased by $68) compared to December 31, 2022. The decrease was recorded as finance income for the six months ended June 30, 2023.

For the six months ended June 30, 2023, the Company recorded interest expense of $22,275 related to the convertible debenture as a finance cost (June 30, 2022: $18,846). 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 22.2%.

The movements of the amounts due under the convertible debenture are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2023	**2022**	**2023**	**2022**
Balance, beginning of period	**$ 235,930**	$ 200,840	**$ 224,653**	$ 191,626
Interest expense on convertible debenture (Note 9)	**10,951**	9,676	**22,275**	18,846
Increase/(decrease) in fair value of embedded derivatives (Note 9)	**6**	24	**(41)**	68
Gain on modification of convertible debenture (Note 9)	**–**	(1,158)	**–**	(1,158)
Interest paid	**(10,000)**	–	**(10,000)**	–
Balance, end of period	**$ 236,887**	$ 209,382	**$ 236,887**	$ 209,382

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited) Expressed in thousands of U.S. Dollars and shares/options in thousands, unless otherwise indicated)

16. CONVERTIBLE DEBENTURE continued

16.4 Presentation continued

The convertible debenture balance consists of the following amounts:

	As at June 30, 2023	As at December 31, 2022
Current convertible debenture		
Interest payable	**$ 160,463**	$ 140,784
	160,463	140,784
Non-current convertible debenture		
Debt host and interest payable	**$ 76,396**	$ 83,800
Fair value of embedded derivatives	**28**	69
	76,424	83,869
Total convertible debenture	**$ 236,887**	$ 224,653

16.5 Interest deferral and settlement

On May 13, 2022, the Company and CIC entered into an agreement (the "2022 May Deferral Agreement"), pursuant to which CIC agreed to grant the Company a deferral of 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.

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.

16. CONVERTIBLE DEBENTURE continued

16.5 Interest deferral and settlement continued

On November 11, 2022, the Company and JDZF entered into an agreement (the "2022 November Deferral Agreement") pursuant to which JDZF agreed to grant the Company a deferral of: (i) semi-annual cash interest payments of $7,066 payable to JDZF on November 19, 2022; (ii) $1,100 in PIK Interest shares issuable to JDZF on November 19, 2022 under the Convertible Debenture; 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 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 disinterested shareholders of the Company in accordance with the requirements of Section 501(c) of the TSX Company Manual and the Rule Governing the Listing of Securities on the HKEX.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited) Expressed in thousands of U.S. Dollars and shares/options in thousands, unless otherwise indicated)

16. CONVERTIBLE DEBENTURE continued

16.5 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 will convene a special meeting of shareholders on August 23, 2023 Vancouver time (August 24, 2023, Hong Kong time), to seek disinterested shareholder approval of the 2023 March Deferral Agreement.

(Unaudited) Expressed in thousands of U.S. Dollars and shares/options in thousands, unless otherwise indicated)

17. RELATED PARTY TRANSACTIONS

The condensed consolidated interim 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 June 30, 2023	% equity interest as at December 31, 2022
SouthGobi Resources (Hong Kong) Limited	Hong Kong	**100%**	100%
SouthGobi Sands LLC	Mongolia	**100%**	100%
SGQ Coal Investment Pte. Ltd.	Singapore	**100%**	100%
SouthGobi Trading (Beijing) Co., Ltd. (i)	China	**100%**	100%
Inner Mongolia SouthGobi Energy Co., Ltd.	China	**100%**	100%
Inner Mongolia SouthGobi Mining Development Co., Ltd.	China	**100%**	100%
Inner Mongolia SouthGobi Trading Co., Ltd.	China	**100%**	100%
Wuhai SouthGobi Mining Resources Co., Ltd.	China	**100%**	100%

(i) SouthGobi Trading (Beijing) Co., Ltd. was registered as a wholly-foreign-owned enterprise under law of China.

In addition to the transactions detailed elsewhere in profit or loss, the Company had related party transactions with the following company related by way of directors or shareholders in common during the six months ended June 30, 2023:

- The management fee shall be calculated based on 1.5% of the revenue of the Company and to be paid to JDZF on a quarterly basis.

During the six months ended June 30, 2023, management fee of $1,896 (June 30, 2022: $155) was recorded in profit or loss, respectively.

As at June 30, 2023, $nil (December 31, 2022: $2,256) was received from an affiliate of Land Grand in the deferred revenue balance, which was related to receipt in advance for future coal sales before they became the related parties of the Company on November 28, 2022.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited) Expressed in thousands of U.S. Dollars and shares/options in thousands, unless otherwise indicated)

17. RELATED PARTY TRANSACTIONS continued

17.1 Related party expenses

The Company's related party expenses consist of the following amounts:

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	**2023**	2022
Finance costs	**$ 10,951**	$ 9,676	**$ 22,275**	$ 18,846
Management fee	**1,124**	131	**1,896**	155
Rental expenses [i]	**22**	–	**29**	–
Warehouse logistics expenses [ii]	**–**	–	**98**	–
Office supplies expenses [iii]	**14**	–	**36**	–
Related party expenses	**$ 12,111**	$ 9,807	**$ 24,334**	$ 19,001

(i) Rental expenses payment to a related company were conducted in the normal course of business and in accordance with terms of the lease agreement entered into between the Company and the related company. The lessor is a controlled entity by the Company's largest shareholder to be classified as a related company (June 30, 2022: $nil).

(ii) Warehouse logistics expenses payment to a related company were conducted in the normal course of business and in accordance with terms of the logistics agreement entered into between the Company and the related company. The logistic company is a controlled entity by the Company's second largest shareholder to be classified as a related company during the period for January 1, 2023 to May 8, 2023 (June 30, 2022: $nil).

(iii) Office supplies expenses payment to related companies were conducted in the normal course of business. The office supplies companies are controlled entities by the related party of the Company's largest shareholder to be classified as related companies (June 30, 2022: $nil).

18. SUPPLEMENTAL CASH FLOW INFORMATION

18.1 Non-cash financing and investing activities

The Company's non-cash investing and financing transactions are as follows:

	Six months ended June 30,	
	2023	2022
Depreciation and amortisation capitalised in mineral properties	**$ 1,104**	$ 1,033
Increase in decommissioning liability	**456**	608

18.2 Net change in non-cash working capital items

The net change in the Company's non-cash working capital items is as follows:

	Six months ended June 30,	
	2023	2022
Decrease/(increase) in inventories	**$ (11,478)**	$ 5,927
Decrease/(increase) in trade and other receivables	**(5,179)**	175
Decrease/(increase) in prepaid expenses	**(3,680)**	57
Decrease in trade and other payables	**(600)**	(742)
Increase/(decrease) in deferred revenue	**(11,606)**	771
Net change in working capital items	**$ (32,543)**	$ 6,188

Depreciation and depletion capitalised in inventories for the six months ended June 30, 2023 totaled $262 (June 30, 2022: $188).

(Unaudited) Expressed in thousands of U.S. Dollars and shares/options in thousands, unless otherwise indicated)

19. COMMITMENTS FOR EXPENDITURE

The Company's commitments for expenditure that have not been disclosed elsewhere in the condensed consolidated interim financial statements are as follows:

	Within 1 year	2-3 years	Over 3 years	Total
As at June 30, 2023				
Capital expenditure commitments	**$ –**	**$ –**	**$ –**	**$ –**
Operating expenditure commitments	**1,200**	**39**	**201**	**1,440**
Commitments	**$ 1,200**	**$ 39**	**$ 201**	**$ 1,440**
As at December 31, 2022				
Capital expenditure commitments	$ –	$ –	$ –	$ –
Operating expenditure commitments	2,154	39	210	2,403
Commitments	$ 2,154	$ 39	$ 210	$ 2,403

20. CONTINGENCIES

20.1 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.

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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited) Expressed in thousands of U.S. Dollars and shares/options in thousands, unless otherwise indicated)

20. CONTINGENCIES continued

20.1 Class Action Lawsuit continued

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 June 30, 2023 is not required.

20.2 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 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 June 30, 2023 is not required.

20.3 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.

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 the Company may be impacted once such unfavourable event happens. 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 June 30, 2023, management is assessing whether recognition of a provision for an uncertain tax position other than as disclosed in Note 8 of the condensed consolidated interim financial statements is necessary.

ADDITIONAL STOCK EXCHANGE INFORMATION

(Expressed in thousands of U.S. Dollars and shares/options in thousands, unless otherwise indicated)

ADDITIONAL STOCK EXCHANGE INFORMATION

Additional information required by the HKEX in the half-year interim report and not shown elsewhere in this report is as follows:

A1. FINANCIAL INSTRUMENTS

Cash

The Company's cash is denominated in the following currencies:

	As at	
	June 30, 2023	December 31, 2022
Denominated in U.S. Dollars	**$ 175**	$ 101
Denominated in Chinese Renminbi	**12,753**	8,158
Denominated in Mongolian Tugriks	**2,643**	655
Denominated in Canadian Dollars	**116**	123
Denominated in Hong Kong Dollars	**156**	218
Cash	**$ 15,843**	$ 9,255

Exposure to fluctuations in foreign exchange rates

The sensitivity of the Company's loss before tax due to changes in the carrying values of assets and liabilities denominated in foreign currencies is as follows. A positive number indicates a decrease in loss before tax, whereas a negative number indicates an increase in loss before tax.

	As at	
	June 30, 2023	December 31, 2022
Increase/decrease in foreign exchange rate against respective functional currency		
+5%	**$ 2,417**	$ 1,188
–5%	**$ (2,417)**	$ (1,188)

ADDITIONAL STOCK EXCHANGE INFORMATION

(Expressed in thousands of U.S. Dollars and shares/options in thousands, unless otherwise indicated)

A2. COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has, throughout the six months ended June 30, 2023, applied the principles and complied with the requirements of its corporate governance practices as defined by the Board and all applicable statutory, regulatory and stock exchange listings standards, which include the code provisions set out in the Corporate Governance Code (the "Corporate Governance Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the HKEX (the "Listing Rules"), except for the following:

1. Pursuant to Section C.2 under Part 2 of the Corporate Governance Code, the chairmen of the Board (the "Chairman") 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;

2. Pursuant to code provision C.2.7 of the Corporate Governance Code, the Chairman should at least annually hold meetings with the non-executive directors (including independent non-executive directors) without the executive directors present. During the period of January 1, 2023 to June 30, 2023 there were no meetings between the Independent Lead Director, who is fulfilling the duties of the Chairman, and the non-executive directors without the presence of the executive directors. The opportunity for such communication channel is offered at the end of each Board meeting;

3. 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 independent non-executive director and the Independent Lead Director, attended and acted as Chairman of the Company's AGM held on June 20, 2023 to ensure effective communication with shareholders of the Company.

A3. COMPLIANCE WITH MODEL CODE

The Company has adopted policies regarding directors' securities transactions in its Corporate Disclosure, Confidentiality and Securities Trading policy on terms that are similar in all material respects to the terms set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules.

The Board confirms that all of the directors of the Company have complied with the required policies in the Company's Corporate Disclosure, Confidentiality and Securities Trading policy throughout the six months ended June 30, 2023.

A4. PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Company did not redeem its listed securities, nor did the Company or any of its subsidiaries purchase or sell such securities during the six months ended June 30, 2023.

A5. INTERIM DIVIDEND

The Board do not recommend the payment of an interim dividend for the six months ended June 30, 2023.

ADDITIONAL STOCK EXCHANGE INFORMATION

(Expressed in thousands of U.S. Dollars and shares/options in thousands, unless otherwise indicated)

A6. 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 June 30, 2023, the Company has been notified of the following interests in the Shares and underlying Shares (other than those of a Director or the chief executive of the Company) representing 5% or more of the Company's issued Shares:

Name of substantial shareholders	Nature of interest	Number of Shares held [(a)(e)]	Approximate percentage of issued Shares [(d)]
JD Zhixing Fund L.P. [(d)]	Beneficial	85,714,194	29.03%
JD Dingxing Limited [(d)]	Interest of controlled corporation	85,714,194	29.03%
Chonglin Zhu [(d)]	Interest of controlled corporation	85,714,194	29.03%
Inner Mongolia Tianyu Trading Limited* (内蒙古天宇创新商贸有限公司) ("IMTT") [(d)]	Interest of controlled corporation	85,714,194	29.03%
Inner Mongolia Yuxinsheng Technology Co., Ltd.* (内蒙古宇鑫盛科技有限公司) ("IMYTC") [(d)]	Interest of controlled corporation	85,714,194	29.03%
Inner Mongolia Tianyu Innovation Investment Group Interest Limited* (内蒙古天宇创新投资集团有限公司) ("IMTIIG") [(d)]	Interest of controlled corporation	85,714,194	29.03%
Yong An [(d)]	Interest of controlled corporation	85,714,194	29.03%
Land Grand International Holding Limited [(e)]	Beneficial	46,358,978	15.70%
Mengfa Energy Holding Group Co., Ltd. ("Mengfa") [(e)]	Interest of controlled corporation	46,358,978	15.70%
Zhu Gao [(e)]	Interest of controlled corporation	46,358,978	15.70%
Voyage Wisdom Limited [(f)]	Beneficial	25,768,162	8.73%
Aminbuhe [(f)]	Interest of controlled corporation	25,768,162	8.73%
Ningqiao Li [(f)]	Interest of controlled corporation	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 June 30, 2023 (295,260,779 Shares).

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

(e) Mengfa owns 100% of the issued share capital of Land Grand and Mr. Zhu Gao owns 80.00% 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 June 30, 2023. Each of Messrs. Aminbuhe and Ningqiao Li each own 45% of the issued share capital of Voyage Wisdom Limited, respectively.

Other than as disclosed above, the Company has not been notified of any relevant interests or short positions in the issued share capital of the Company as at June 30, 2023.

ADDITIONAL STOCK EXCHANGE INFORMATION

(Expressed in thousands of U.S. Dollars and shares/options in thousands, unless otherwise indicated)

A7. DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at June 30, 2023, the interests of the Company's directors in the shares, underlying shares and debentures of the Company and its associated corporations were as follows:

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 (6)	Total (2)	Percentage interest in the Company (3)
Chonglin Zhu (4)	–	–	85,714,194	–	–	85,714,194	29.03%
Zhu Gao (5)	–	–	46,359,978	–	–	46,359,978	15.70%
Yingbin Ian He	27,000	–	–	–	300,000	327,000	0.11%
Jin Lan Quan	–	–	–	–	450,000	450,000	0.15%
Mao Sun	–	–	–	–	600,000	600,000	0.20%

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 Shares issued and outstanding as at June 30, 2023 (i.e. 295,260,779 Shares).

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

(5) Land Grand is the registered and beneficial owner of 46,358,978 Shares of the Company's issued and outstanding Shares. Mr. Zhu Gao is the indirect controlling shareholder of Land Grand.

(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 June 30, 2023.

(Expressed in thousands of U.S. Dollars and shares/options in thousands, unless otherwise indicated)

A8. EQUITY INCENTIVE PLAN

The Company has an equity incentive plan (the "Equity Incentive Plan") which is made up of two components: (i) the Share Option Plan, which permits the Board to grant to eligible participants incentive stock options (the "Stock Options") to acquire common shares ("Common Shares") of the Company; and (ii) the Share Purchase Plan, under which eligible participants have the opportunity to purchase Common Shares through payroll deductions which are supplemented by additional contributions by the Company.

The aggregate number of Common Shares that may be issued under the Equity Incentive Plan, may not exceed 27,425,442 Common Shares, which represents approximately ten percent (10%) of the outstanding Common Shares as of the date of approval of the Equity Incentive Plan at the annual and special general meeting of the Company held on July 21, 2022.

Under the terms of the Share Option Plan, the Stock Options are priced using the volume weighted average closing price for the five days preceding the date of grant. The Share Option Plan permits the Board to set the terms for each Stock Option grant; however, the general terms of the Stock Option granted under the Share Option Plan to eligible employees 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. The general terms of Stock Option granted under the plan to independent non-executive directors include a maximum exercise period of 5 years and a vesting period of 100% of the grant vesting on the first anniversary of the date of grant.

The Share Purchase Plan allows participants (the "SPP Participants") to contribute up to 10% of their basic annual salary to purchase Common Shares. The Company contributes 50% of each SPP Participant's contribution and at the end of each calendar quarter, Common Shares are issued by the Company on behalf of the SPP Participants.

The stock options outstanding and exercisable as at June 30, 2023 are as follows:

	Options Outstanding			Options Exercisable		
Exercise price (CA$)	Options outstanding	Weighted average exercise price (CA$)	Weighted average remaining contractual life (years)	Options outstanding and exercisable	Weighted average exercise price (CA$)	Weighted average remaining contractual life (years)
$0.11-0.13	1,968	$ 0.13	0.82	1,968	$ 0.13	0.82

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	2,240	$ 1.41	2.78	1,709	$ 1.41	2.71
Total	**4,208**		**1.86**	**3,677**		**1.70**

ADDITIONAL STOCK EXCHANGE INFORMATION

(Expressed in thousands of U.S. Dollars and shares/options in thousands, unless otherwise indicated)

A8. EQUITY INCENTIVE PLAN continued

The following table discuss movements in the Company's share options during the six months ended June 30, 2023.

Name	Number of share options						Date of grant of share options	Exercise period of share options	Exercise price per share
	At January 1, 2023	Granted during the period	Exercised during the period	Forfeited during the period	Expired during the period	At June 30, 2023			
Directors									
Mao Sun	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
	600,000	**–**	**–**	**–**	**–**	**600,000**			
Jin Lan Quan	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
	450,000	**–**	**–**	**–**	**–**	**450,000**			
Yingbin Ian He	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
	300,000	**–**	**–**	**–**	**–**	**300,000**			
Former Director									
Dalanguerban	450,000	–	–	(301,500)	–	148,500	June 29, 2021	June 29, 2022 – June 29, 2026	HK$1.41
Total for directors	**1,800,000**	**–**	**–**	**(301,500)**	**–**	**1,498,500**			
Other share option holders	459,000	–	(34,000)	–	–	425,000	August 16, 2018	August 16, 2019 – August 16, 2023	CA$0.13
	767,500	–	–	(75,000)	–	692,500	November 15, 2019	November 15, 2020 – November 15, 2024	CA$0.13
	1,966,800	–	–	(374,600)	–	1,592,200	June 29, 2021	June 29, 2022 – June 29, 2026	HK$1.41
Total for other share option holders	**3,193,300**	**-**	**(34,000)**	**(449,600)**	**-**	**2,709,700**			
Total	**4,993,300**	**-**	**(34,000)**	**(751,100)**	**-**	**4,208,200**			