SouthGobi Resources

SouthGobi Resources Ltd.
南戈壁资源有限公司

HKEX: 1878
TSX-V: SGQ

2024 Annual Report

FSC
www.fsc.org
MIX
Paper | Supporting responsible forestry
FSC® C176382

www.southgobi.com

SouthGobi Resources Ltd.
Annual Report 2024

CONTENTS

4 Message from the CEO

10 Board of Directors and Senior Management

15 Directors' Report

34 Corporate Governance Report

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

128 Environmental, Social and Governance Report

174 Consolidated Financial Statements

246 Corporate Information

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

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


Ulaanbaatar
南戈壁沙洲公司*
Southgobi Sands LLC
Choibalsan
Tsetserleg
Ondorkhaan
Mongolia
Bayankhongor
Arvaikheer
Sainshand
Soumber Mine
Nariin Sukhait
Mining Area
Ovoot Tolgoi
Mine
Biluut Mine
Dalanzadgad
Tavan Tolgoi
Erenhot
Zag Suuj
Mine
Shiveekhuren Port Station
Jargalant
Mine
46KM
Ceke
Shiveekhuren-Ceke
Cross-border Railway
(still under construction)
approximately
12KM
Swan Lake
West-Ceke Line
63.3KM
56.39KM
Swan Lake
West-Ceke Highway
Ejinaqi
approximately
70KM
160KM
257KM
Mandula
Swan Lake West
Ulzii Port
Ganqimaodu
内蒙古南戈壁能源有限公司
Inner Mongolia SouthGobi Energy Co. Ltd.*
Linhe-Ceke Line (702KM)
内蒙古南戈壁贸易有限公司
Inner Mongolia SouthGobi Trading Co., Ltd*
Jiuquan-Ejinaqi Line (242KM)
Miaoliang
Station
Hohhot
50KM
Jinquannan
84KM
55KM
Tsining
Salaqidong
Xixiaozhao
Linhe
Baotou
Guchengwan
144KM
Datong
Wuhai
乌海南戈壁矿业资源有限公司
Wuhai SouthGobi Mining Resources Co., Ltd*
China

MESSAGE FROM THE CEO

In 2024, the coal market was underscored by overall insufficient demand despite China's economic recovery amid volatility, leading to fluctuations in coal prices throughout the year. In the second half of the year, in particular, coal prices fell sharply which had a significant impact on the Company's operations. In 2024, the average selling price of the Company's coals was US$70.4 per tonne, representing a year-on-year decrease of 24.3% against US$93.0 per tonne in 2023; at the same time, the Company's product mix has undergone major changes, with its main coal type, premium semi-soft coking coal, accounting for 13% of the product mix during the year, down from 58% in 2023.

Against such downward trend in China's coal market and unfavorable changes in the proportion of product mix, the management team adhered to the development strategy of "optimise coal production, streamline sales process, improve product quality, expand sales market" to overcome challenges and unite each effort. During the year, the Company delivered multiple operating indicators which are the best record in the history. Among them, the raw coal production reached 10.2 million tonnes, representing a year-on-year increase of 151.9%; the coal sales reached 7.02 million tonnes, representing a year-on-year increase of 95.5%. The revenue amounted to US$493 million during the year, representing a year-on-year increase of 48.8%, and net profit attributable to equity holders of the Company was US$92.5 million. Such excellent result was achieved under joint efforts of the management and SouthGobi employees.

From coal production perspective, the Company expanded mining operations in 2024. There are more than 600 front-line production employees in the Ovoot Tolgoi Mine, where coal mining is carried out as supported by excavators. Two modes of coal mining are adopted: mining with self-owned equipment and third-party contract mining. The third-party contract mining is conducive to rapid expansion of our coal production capacity. In order to provide constant, stable and high-quality diesel guarantees for production in the mine, the Company expanded and renovated its self-provided oil depot thereon during the year, which can accommodate an increased capacity of 3,000 tonnes from the original 1,000 tonnes after expanded. Concurrently, the oil depot laboratory was newly equipped with advanced instruments such as distillation range determinator. During the year, the mine's production centre fully repaired more than 20 sets of large-scale mechanical equipment of various types, including 9250, 975, MT4400 and TR100, which had been out of service for a long time due to failure. The repaired equipment was immediately put into production, continually generating cashflow for the Company.

From coal processing perspective, coal processing facilities in the mine were thoroughly constructed and renovated during the year, so that the total coal processing capacity reached approximately 9 million tonnes per year. Specifically, the coal washing plant underwent comprehensive technical transformation and digital upgrade, which the input capacity increased to 1.7 million tonnes per year, with 90% of the water used in the washing process recycled to realise environmental coal washing and preparation. In the second half of 2024, the Company cooperated with Tangshan Shenzhou Manufacturing Group Co., Ltd. under Build-Operate-Transfer (BOT) mode to build phase II of dry coal processing plant with input capacity of 6 million tonnes per year, the commissioning and operation of which was launched at the end of the year. Such enhanced processing capacity can improve quality of the mine's inventory and newly mined WF coal and process them into semi-soft coking washed B coal or high calorific value thermal coal, thereby expanding product variety, reducing inventory, and continuously recovering cash.

MESSAGE FROM THE CEO

From logistics and clearance perspective, the total coal export volume at the Ceke Port in 2024 was approximately 24.52 million tonnes, marking the highest export volume in history since the operation of Ceke Port, including 7.59 million tonnes of coal from SouthGobi, accounting for approximately 31% of that of the Ceke Port. SouthGobi currently has approximately 1,500 vehicles registered for cross-border transportation at the Ceke Customs, accounting for around 30% of the vehicles registered at Ceke Port. The Company actively adopts new clearance methods such as container terminal transshipment and AGV unmanned driving to enhance its ability of multi-modal customs clearance. In the second half of 2024, the Mongolian section of Shiveekhuren-Ceke Chinese-Mongolian cross-border railway, in which the Company has invested, was basically completed. It is expected that after official operation of the railway, the Shiveekhuren-Ceke Port will be able to increase railway shipment capacity by 10-13 million tonnes each year.

From coal sales perspective, the Company has leveraged the influence and channel resources of its largest shareholder, JD Zhixing Fund L.P. ("JDZF"), in the Chinese coal industry to establish sales stations or offices in Ceke Port, Wuhai, Baotou Salaqi Station, Guchengwan Station, Caofeidian Port and Jingtang Port. The Company carried out in-depth strategic cooperation with Huhhot Railway Bureau and Inner Mongolia Transportation Investment Group to have built a complete, efficient and economical logistics channel with combined road and railway transportation available for transporting Mongolian coal to the south and east. We have established multiple sales channels such as direct sales at Ceke Port, road and railway transport to ports (Caofeidian Port and Jingtang Port), Mongolian coal to Wuhai, and Mongolian coal to Gansu (Jiuquan and Jiayuguan). The Company's strategy of "expand sales market" for coal has been continuously implemented, achieving the goal of SouthGobi's coal selling to northern ports and reaching Mainland China customers. Under its sales model, the Company will continue to prioritise its cashflow strategically by speeding up inventory and cash turnover, and strengthening its prepayment sales strategy continuously.

In view of the above, the Company has formed a closed-loop industrial chain for coal production, transportation and sales, which includes: coal mining and processing in upstream mining area, efficient cross-border clearance and combined road and railway transportation in the midstream, and local sales combined with port sales in the downstream. The exploration of this industrial chain is of great significance to the Company's further expansion of production capacity in future and stimulation of mining production by customer demand.

MESSAGE FROM THE CEO

During the year, the Company's management continued to actively respond to the appeal against the large tax penalty imposed on Southgobi Sands LLC ("SGS"), a wholly-owned subsidiary of the Company, by the Mongolian Tax Authority. The independent tax advisor in Mongolia, as appointed by the management, provided tax advice and support to the Company in connection with the notice on tax penalty of SGS from 2017 to 2020 issued by the Mongolian Tax Authority on July 18, 2023, and submitted an appeal letter on August 17, 2023 regarding the tax penalty above to the Mongolian Tax Authority in accordance with the Mongolian laws. On January 10, 2025, SGS received a resolution issued by the Mongolian Tax Dispute Resolution Council ("TDRC"), pursuant to which the TDRC has determined to reduce the re-assessed amount of the tax penalty against SGS from approximately US$80.0 million to US$26.5 million. After careful consideration by the management and consultation with the Company's independent tax advisor in Mongolia, the Company decided not to pursue a further appeal with the Administrative Court in Ulaanbaatar, Mongolia.

Up to the end of 2024, SouthGobi had 768 employees, representing an increase of 214 as compared to 2023, including 661 Mongolian employees, accounting for 86% of all employees of the Company. For decades, the Company has created, directly and indirectly, thousands of stable employment opportunities for Mongolia and the South Gobi Province. In 2024, SGS was awarded the honor of 11th place in the Top 100 Mongolian Enterprises by the Mongolian Government and the Mongolian National Chamber of Commerce and Industry.

As a responsible coal mining company, we always regard safety as our top priority. In 2024, the Company was proud to disclose that there was no work-related fatality or injury incident, and recorded zero work-related fatality incident for the third consecutive year. In addition, the Company had no injury incident or lost work days due to work-related injuries during the year. At the same time, the Company provided 8,687 hours of training on occupational health and safety, leadership and specific professional skills for 598 employees. The Company believes that providing employees with career development and training opportunities will not only propel long-term development of the Company's business, but also enable employees to grow in their respective career paths. We are committed to creating a safe, inclusive and supportive working environment for all employees; through strict implementation of standardised safety guidelines and measures, we will ultimately achieve the safety goal of zero work-related fatality and injury.

MESSAGE FROM THE CEO

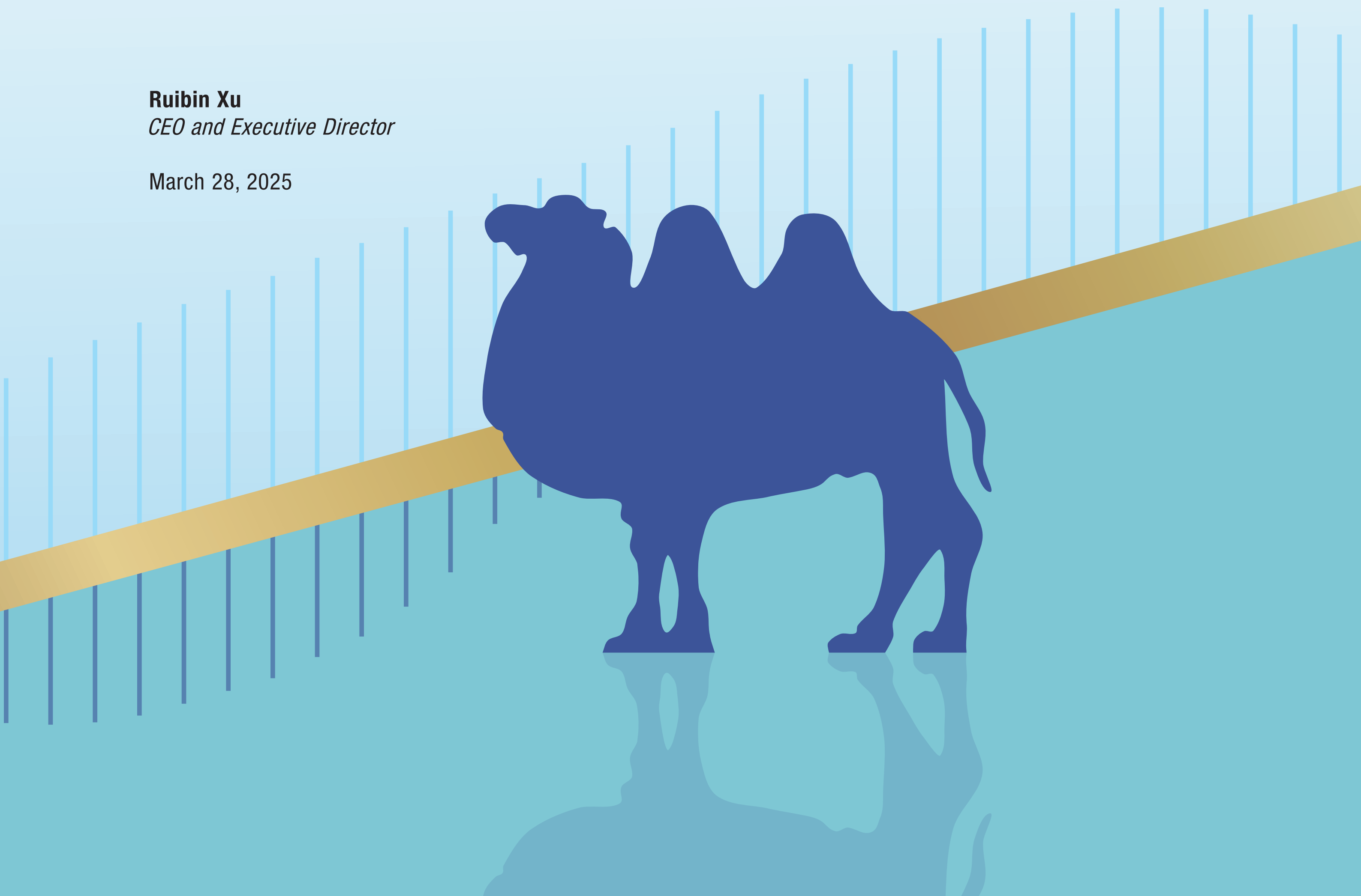
SouthGobi is devoted to achieve sustainable development and build environmentally friendly mines. The Company actively responds to the "One Billion Trees" planting plan advocated by the President of Mongolia, and has planted 55,000 trees in South Gobi Province, Ulaanbaatar and other places in 2024. In terms of environmental management, we strive to reduce the impact of our operations on the environment. We conduct environmental monitoring every year according to the environmental monitoring plan, and monitor and comprehensively evaluate air quality (including dust and emissions), groundwater and surface water levels and quality, soil quality, vegetation, biodiversity, as well as the progress of restoration and repair work. The Company actively introduces low-carbon technology applications and implements energy saving and emission reduction, waste recycling and reduction treatment, aiming to promote environmental protection and ecological balance in the mine. Meanwhile, it actively sponsors educational projects in Mongolia, carries out greening transformation in the locality, donates winter coal and forage fodder to local herders, and sponsors the local Naadam Fair. We are aware of our wider social responsibility and therefore devote ourselves to make a meaningful contribution to the development of local community.

Looking ahead, while adhering to concepts of environmental protection and sustainable development in Mongolia, SouthGobi will continue to expand mining scale, and capitalise on the economies of scale through capacity expansion to seek cost optimisation and profit maximisation under its development strategy of "optimise coal production, streamline sales process, improve product quality, expand sales market". In furtherance, we will enhance our coal processing capabilities in mining areas and ports, reduce costs and improve efficiency with new technologies, supply more types of coal, and seek continual capacity expansion and performance growth; concurrently, we will contribute more to tax income of Mongolia and create more employment opportunities for local government.

Management of the Company will strive to establish SouthGobi as a world-renowned and responsible leading energy and mining enterprise.

Ruibin Xu
CEO and Executive Director

March 28, 2025



BRIDGE BETWEEN CHINA AND MONGOLIA

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

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Ruibin Xu

Executive Director and Chief Executive Officer

Mr. Ruibin Xu, 53, was appointed as the Company's Chief Executive Officer on May 15, 2023 and he joined the Board as an Executive Director on June 20, 2023. Mr. Xu is also a director of several of the Company's subsidiaries.

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

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

Chonglin Zhu

Executive Director and Chief Financial Officer

Ms. Chonglin Zhu, 38, was appointed as an Executive Director on September 8, 2022 and the Company's Chief Financial Officer on February 2, 2024. She was the Company's Senior Vice President of Finance from September 8, 2022 to February 2, 2024. Ms. Zhu is also a supervisor of several of the Company's subsidiaries. Ms. Zhu's spouse is the head of the Company's transportation department and a member of the Company's management team.

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

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

As at the date of this report, Ms. Zhu holds 92.8% of the shares of JD Dingxing Limited, which is the general partner of JD Zhixing Fund L.P., which is interested in approximately 28.89% of the issued and outstanding Shares.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Chen Shen

Executive Director and Vice President of Legal

Mr. Chen Shen, 36, joined the Board of Directors on December 6, 2022 as a Non-Executive Director. On February 17, 2023, he became the Head of the Company's legal department and an Executive Director. He was appointed as the Company's Vice President of Legal on May 25, 2023.

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

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

Zhu Gao

Non-Executive Director

Mr. Zhu Gao, 67, joined the Board of Directors on December 6, 2022 as a Non-Executive Director.

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

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

As at the date of this report, Mr. Gao is the indirect controlling shareholder of Land Grand International Holding Limited, which is interested in approximately 15.62% of the issued and outstanding Shares.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Zaixiang Wen

Non-Executive Director

Mr. Zaixiang Wen, 49, joined the Board of Directors on May 17, 2023 as a Non-Executive Director.

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

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

Yingbin Ian He

Independent Non-Executive Director and Lead Director

Mr. Yingbin Ian He, 63, joined the Board of Directors on May 16, 2017 as an Independent Non-Executive Director and was appointed as Lead Director on June 27, 2024.

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

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

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Jin Lan Quan

Independent Non-Executive Director

Ms. Jin Lan Quan, 62, joined the Board of Directors on August 6, 2015 as an Independent Non-Executive Director.

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

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

Fan Keung Vic Choi

Independent Non-Executive Director

Mr. Fan Keung Vic Choi, 60, joined the Board of Directors on June 27, 2024, as an Independent Non-Executive Director.

Mr. Choi is a solicitor of the High Court of Hong Kong. Since September 2018, Mr. Choi has provided consulting services for Howse Williams, an independent Hong Kong law firm, primarily focused on advising and representing banks and financial industry participants in defending investigations and prosecutions brought by regulators and law enforcement agencies. He is an Independent Non-Executive Director of Shoucheng Holding Limited (HKEX), an investment holding company mainly engaged in the management of private funds and management and operations of car parking assets.

Mr. Choi's career has spanned over 40 years, with a focus on regulatory compliance, compliance management, prevention and control of commercial crime and investigation and has extensive experience in legal practice and, crime investigation and prosecution. In addition to his practice at Howse Williams, Mr. Choi was General Counsel at Atlantis Investment Management Limited (September 2020 to July 2022) and Group General Counsel at Imperial Pacific International Holdings Limited (January 2016 to May 2017). He was employed by HSBC Bank (China) Co., Ltd. (December 2006 to December 2014), and served as deputy head of compliance, area compliance office in China and head of compliance where he managed over 160 compliance officers and was responsible for regulatory compliance and prevention and control of financial crime in over 60 cities in China.

Mr. Choi obtained a Bachelor Degree, Post graduate certificate and a Master's degree in Laws from the University of Hong Kong. He is a member of the Law Society of Hong Kong, a member of the Association of Certified Fraud Examiners and a director on the Board of its Hong Kong Chapter. He is a member of the Canadian Institute of Corporate Directors.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Allison Snetsinger
Corporate Secretary

Ms. Allison Snetsinger, 56, was re-appointed as the Company's Corporate Secretary in November 2014 and was the Company's Corporate Secretary from May 2012 to March 2014. Prior to her appointment as Corporate Secretary, Ms. Snetsinger was the Company's Assistant Corporate Secretary from the time of its Canadian initial public offering in December 2003. Ms. Snetsinger is also a director of several of the Company's subsidiaries.

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

DIRECTORS' REPORT

The board of directors (the "Directors" and the "Board", respectively) of SouthGobi Resources Ltd. ("SGQ") is pleased to present its report along with the audited consolidated financial statements (the "Financial Statements") of SGQ together with its subsidiaries (collectively the "Company") for the financial year ended December 31, 2024 (the "Financial Year").

Principal activities, business review and geographical analysis of operations

The Company is focused on integrated coal mining, development and trading. The Company's significant subsidiaries are set out in Note 33 to the Financial Statements and the activities of all major subsidiaries of the Company as at December 31, 2024 are set out in the table below:

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

* English names are for identification purpose only

\# Registered as wholly-foreign-owned enterprises under the PRC law

^ Registered as sino-foreign equity joint venture under the PRC law

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

A review of the business of the Company during the Financial Year and a further discussion and analysis of these activities, including a description of the principal risks and uncertainties the Company may be facing and an indication of likely future development in the Company's business, can be found in Management's Discussion and Analysis set out on pages 66 to 125 of this Annual Report. The discussion forms part of this directors' report.

Results

The results of the Company for the Financial Year are set out in the Consolidated Statement of Comprehensive Income on page 180 of this Annual Report.

Dividends

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

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

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

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

The Board did not recommend the payment of any final dividend for the Financial Year (2023: Nil). No interim dividend was declared or paid during the Financial Year (2023: Nil).

Property, plant and equipment

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

Share capital

The Company has authorised an unlimited number of common and preferred shares with no par value. As at December 31, 2024, the Company had 296,704,666 common shares outstanding. Details of the movements in the share capital of the Company during the Financial Year are set out in Note 28 to the Financial Statements and in the Consolidated Statement of Changes in Equity on page 182 of this Annual Report.

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

Purchase, sale or redemption of listed securities

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities (including sale of treasury shares within the meaning of the Rules Governing the Listing of Securities on The Hong Kong Stock Exchange (the "Listing Rules")) during the Financial Year. The Company did not hold any treasury shares as at December 31, 2024.

Treasury Policy

The Company has adopted a prudent financial management approach towards its treasury policy. Such treasury policy requires the Company to manage its cashflow to ensure that the Company has sufficient cash to fund its daily operations and investment needs.

The Company currently does not have any hedging arrangements to control its foreign currency risk on its sales or purchases in currencies other than the U.S. dollar, as it manages such risks by matching receipts and payments in the same currency. The Company will continue to monitor its foreign currency exposure closely and may consider adopting appropriate foreign currency hedging policy in the future, depending on, among others, the size and nature of the exposure and the prevailing market circumstances.

Reserves

Details of the reserves available for distribution to the shareholders of the Company (the "Shareholders") as at December 31, 2024 are set out in the Consolidated Statement of Changes in Equity on page 182 of this Annual Report.

Directors

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

BOARD COMPOSITION

DIRECTORS

EXECUTIVE DIRECTORS:

Mr. Ruibin Xu
Ms. Chonglin Zhu
Mr. Chen Shen

NON-EXECUTIVE DIRECTORS:

Mr. Zhu Gao
Mr. Zaixiang Wen

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Mr. Yingbin Ian He *(Independent Lead Director)*
Ms. Jin Lan Quan
Mr. Fan Keung Vic Choi (1)

FORMER DIRECTORS

INDEPENDENT NON-EXECUTIVE DIRECTOR:

Mr. Mao Sun (2)

Notes:

1) Mr. Fan Keung Vic Choi was elected to the Board as an INED at the 2024 AGM; and

2) Mr. Mao Sun did not stand for re-election at the 2024 AGM, and he ceased to be the Independent Lead Director, Chair of the Audit Committee, member of the Nominating and Corporate Governance Committee, and member of the Compensation Committee on June 27, 2024. Mr. Mao Sun confirmed that he has no disagreement with the Board and that there were no matters that needed to be brought to the attention of the Shareholders.

Except where such Director has already resigned from the Board, the term of office for each of the Directors will end at the conclusion of the Company's forthcoming annual general meeting (the "2025 AGM"). In accordance with article 14.1 of the articles of continuation of the Company (the "Articles of Continuation"), all of the Directors, including the Independent Non-Executive Directors ("INEDs") and the Non-Executive Directors ("NEDs"), would retire and, being eligible, may offer themselves for re-election at the 2025 AGM.

Director Independence

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

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

Biographies of the Directors and Senior Management

The biographical details of the Directors and senior management are set out in the Director's and senior management's profiles on page 10 of this Annual Report.

Directors' service contracts

None of the Directors proposed for re-election at the 2025 AGM have a service contract with the Company, which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

Directors' interests in significant transactions, arrangements or contracts

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

Directors' interests in competing businesses

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

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

As at December 31, 2024, or in the case of a departed Director as at his resignation/retirement date, the interests of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)) were as follows:

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

	Number of Shares and underlying Shares, held, capacity and nature of interest [1]						
	Number of Shares interested				Number of underlying Shares interested		
Name of Directors	Directly beneficially owned	Through spouse or minor children	Through controlled company	Beneficiary of a trust	Directly beneficially owned	Total [2]	Approximate percentage of SGQ's issued Shares [3]
Current Directors							
Chonglin Zhu [4]	–	–	85,714,194[5]	–	–	85,714,194	28.89%
Zhu Gao [6]	–	–	46,358,978	–	–	46,358,978	15.62%
Yingbin Ian He	177,000	–	–	–	150,000	327,000	0.11%
Jin Lan Quan	–	–	–	–	150,000	150,000	0.05%
Former Directors							
Mao Sun	333,957	–	–	–	–	333,957	0.11%
Officers							
Allison Snetsinger	3,666	2,200	–	–	100,000	105,866	0.04%
Munkhbat Chuluun	–	–	–	–	250,000	250,000	0.08%

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 December 31, 2024 (i.e. 296,704,666 Shares).

4. JD Dingxing Limited and Inner Mongolia Tianyu Trading Limited are the general partner and limited partner of JD Zhixing Fund L.P., respectively. Ms. Chonglin Zhu holds 90% of the shares of JD Dingxing Limited as at December 31, 2024.

5. As at December 31, 2024, JDZF is the beneficial owner of 85,714,194 Shares, and 196,812,801 underlying shares pursuant to the US$250 million convertible debenture issued by the Company. For more details, please refer to the heading "Related party transactions, connected transactions and continuing connected transactions" in this report.

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

7. These interests represented the underlying Shares comprised in the share options granted by the Company.

Other than the shareholdings disclosed in the preceding table, to the best of the Company's knowledge, none of the Directors of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at December 31, 2024.

Equity Incentive Plan

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

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

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

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

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

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

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

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

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

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

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

Share Option Plan

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

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

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

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

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

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

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

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

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

DIRECTORS' REPORT

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

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

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

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

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

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

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

	Number of share options									
Name	At January 1, 2024	Granted during the period	Exercised during the period	Forfeited during the period	Expired during the period	At December 31, 2024	Date of grant of share options	Exercise period of share options	Exercise price per share	Weighted Average closing price day prior to exercise
Directors										
Jin Lan Quan	150,000	–	–	–	(150,000)	–	Sept. 11, 2019	Sept. 11, 2020 – Sept. 11, 2024	CAD$0.11	–
	150,000	–	–	–	–	150,000	June 29, 2021	June 29, 2022 – June 29, 2026	HK$1.41	–
	300,000	**–**	**–**	**–**	**(150,000)**	**150,000**				
Yingbin Ian He	150,000	–	(150,000)	–	–	–	Sept. 11, 2019	Sept. 11, 2020 – Sept. 11, 2024	CAD$0.11	CAD$0.78
	150,000		–	–	–	150,000	June 29, 2021	June 29, 2022 – June 29, 2026	HK$1.41	–
	300,000	**–**	**(150,000)**	**–**	**–**	**150,000**				
Fan Keung Vic Choi	**–**	**–**	**–**	**–**	**–**	**–**				–
Ruibin Xu	**–**	**–**	**–**	**–**	**–**	**–**				–
Chonglin Zhu	**–**	**–**	**–**	**–**	**–**	**–**				–
Chen Shen	**–**	**–**	**–**	**–**	**–**	**–**				–
Zhu Gao	**–**	**–**	**–**	**–**	**–**	**–**				–
Zaixiang Wen	**–**	**–**	**–**	**–**	**–**	**–**				–
Former Directors										
Mao Sun	200,000	–	(200,000)	–	–	–	Sept. 11, 2019	Sept. 11, 2020 – Sept. 11, 2024	CAD$0.11	CAD$0.78
	200,000	–	(200,000)	–	–	–	June 29, 2021	June 29, 2022 – June 29, 2026	HK$1.41	CA$0.75
	400,000	**–**	**(400,000)**	**–**	**–**	**–**				
Total for Directors	**1,000,000**	**–**	**(550,000)**	**–**	**(150,000)**	**300,000**				
Other share option holders	675,500	–	(350,500)	–	(325,000)	–	Nov. 15, 2019	Nov. 15, 2020 – Nov. 15, 2024	CAD$0.13	
	1,537,500	–	(630,500)	–	–	907,000	June 29, 2021	June 29, 2022 – June 29, 2026	HK$1.41	
Total for other share option holders	**2,213,000**	**–**	**(981,000)**	**–**	**(325,000)**	**907,000**				
Total	**3,213,000**	**–**	**(1,531,000)**	**–**	**(475,000)**	**1,207,000**				
Number of Options available for grant	**24,212,442**					**26,218,442**				

Notes:

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

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

3. The 1,062,887 shares issued as a result of the exercise of options are listed on the TSX-V.

The Black-Scholes option pricing model is a generally accepted method of valuing options. The significant assumptions used in the calculation of the values of the share options were expected life of the options, risk-free interest rate, expected volatility and expected dividend yield of the shares of the Company. The measurement dates used in the valuation calculations were the dates on which the options were granted.

The value of the share options calculated using the Black-Scholes option pricing model are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of assumptions of the expected future performance input to the model, and certain inherent limitations of the model itself. The value of an option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an option.

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

Share Purchase Plan

Upon the conversion to primary listing on the HKEX in April 2023, the Company has undertaken not to issue any further shares under the Share Purchase Plan.

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

As at the date of the 2024 Annual Report, the total number of shares available for issue under the Share Purchase Plan remained the same as at December 31, 2024 (2,297), representing approximately 0.0017% of the issued shares of the Company at that time.

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

DIRECTORS' REPORT

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

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

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

No Shares were issued, granted, awarded, vested, lapsed or cancelled under the Share Purchase Plan in the Financial Year. The total number of Shares available for grant under the Share Purchase Plan at the beginning and end of the Financial Year is 2,297 Shares.

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

Number and remuneration of employees

As at December 31, 2024, the Company had 768 employees working in various locations. During the Financial Year, staff cost (including Directors' remuneration in the form of salaries and other benefits) was approximately US$9.6 million as compared to staff costs of US$9.6 million in 2023.

Arrangement to purchase shares and debentures

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

Substantial shareholders

The register of interests and short positions in Shares required to be kept by the Company (the "Register of Interests") showed that as at December 31, 2024, the Company has been notified of the following interests in the Shares and underlying Shares (other than those of a Director or the chief executive of the Company) representing 5% or more of the Company's issued Shares:

Name of Substantial Shareholder	Capacity/Nature of interests	Number of Shares/underlying Shares held (1) (2)	Percentage of shareholding (%) (3)
JD Zhixing Fund L.P. ("JDZF") (4)	Beneficial owner	85,714,194(5)	28.89%
JD Dingxing Limited (4)	Interest in a controlled corporation	85,714,194(5)	28.89%
Chonglin Zhu (4)	Interest in a controlled corporation	85,714,194(5)	28.89%
Inner Mongolia Tianyu Trading Limited** (内蒙古天宇创新商贸有限公司) ("IMTT") (4)	Interest in a controlled corporation	85,714,194	28.89%
Inner Mongolia Yuxinsheng Technology Co., Ltd.** (内蒙古宇鑫盛科技有限公司) ("IMYTC") (4)	Interest in a controlled corporation	85,714,194	28.89%
Inner Mongolia Tianyu Innovation Investment Group Limited** (内蒙古天宇创新投资集团有限公司) ("IMTIIG") (4)	Interest in a controlled corporation	85,714,194	28.89%
Yong An (4)	Interest in a controlled corporation	85,714,194	28.89%
Land Grand (6)	Beneficial owner	46,358,978	15.62%
Mengfa Energy Holding Group Co., Ltd. ("Mengfa Group") (6)	Interest in a controlled corporation	46,358,978	15.62%
Zhu Gao (6)	Interest in a controlled corporation	46,358,978	15.62%
Voyage Wisdom Limited (7)	Beneficial owner	25,768,162	8.68%
Aminbuhe (7)	Interest in a controlled corporation	25,768,162	8.68%
Ningqiao Li (7)	Interest in a controlled corporation	25,768,162	8.68%

** English names are for identification purpose only

Notes:

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

(2) All interests stated above are long positions.

(3) The percentage represents the total number of the Shares and the underlying Shares interested divided by the number of issued Shares as at December 31, 2024 (i.e., 296,704,666 Shares).

(4) JD Dingxing Limited and IMTT are the general partner and limited partner of JDZF. IMTT is a wholly-owned subsidiary of IMYTC, which is owned as to 92.8% of its issued share capital by IMTIIG. Mr. Yong An owns 75.00% of the issued share capital of IMTIIG.

(5) As at December 31, 2024, JDZF is the beneficial owner of 85,714,194 Shares, and 196,812,801 underlying shares under the US$250 million convertible debenture issued by the Company. For more details of the US$250 million convertible debenture, please refer to the heading "Related party transactions, connected transactions and continuing connected transactions" in this report.

(6) Mengfa Group owns 100% of the issued share capital of Land Grand and Mr. Zhu Gao owns 90.00% of the issued share capital of Mengfa Group.

(7) 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 8.68% of the Company's issued and outstanding common shares as at December 31, 2024. Each of Messrs. Aminbuhe and Ningqiao Li each own 45% of the issued share capital of Voyage Wisdom Limited, respectively.

Save as disclosed above, according to the Register of Interests, the Company had not been notified of any other relevant interests or short positions in the issued share capital of the Company as at December 31, 2024.

Management contracts

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

Emolument policy

The emolument policy for the executives of the Company is administered by the Compensation and Benefits Committee on the basis of merit, qualifications and competence and approved by the Board. Although remuneration is generally tied to performance goals, the Compensation and Benefits Committee and the Board maintain a degree of flexibility in making recommendations and compensation decisions.

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

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

The emolument policy for the INEDs is administered by the Compensation and Benefits Committee and approved by the Board, having regard to comparable market statistics. Details on the emolument policy for the INEDs are set out in the Remuneration of Directors section on page 56 of the Corporate Governance Report.

Retirement Benefits Plan

Save as required by the local statutory requirements as set out below, the Company does not have any pension, retirement or deferred compensation plans, including defined contribution plans.

The Company is in compliance with the statutory requirement in relation to retirement and employment insurance contributions for its Directors, senior management and employees in each of the jurisdictions in which the Company operates.

For the Directors residing in Canada, the Company contributes to the Canada Pension Plan (CPP). The CPP is a contributory, earnings-related social insurance program mandated by the Canadian government. The CPP contribution rate for 2024 was 5.95% of the gross Directors Fees paid per quarter with an annual maximum contribution cap, for 2024 the maximum contribution per Director was C$3,867.50. The Employer and Employee will each pay 50% of the required CPP contributions, the contributions are remitted quarterly with the Directors Fees payment. The Company does not contribute to the employment insurance (EI) program for the Directors unless the Directors are also an employee of the Company.

For the Directors residing in China, the Company makes mandatory contributes to the Basic Pension Insurance Program, the Social Insurance Program and the Housing Provident Fund in accordance with the Chinese regulations.

The China's pension system provides retirement benefits and is structured into three tiers, with the basic pension being compulsory for all urban employees. The employers contribute 16% of the basic salary to the social pooling account and the Directors contribute 8% of their basic salary to the individual accounts. There is a cap on the maximum contribution for urban workers which is typically 300% of the average salary.

The Social Insurance Program covers the medical insurance, unemployment insurance, work-related insurance, and maternity insurance. The contribution rates vary by different regions, and also typically cap at 300% of the average salary.

The Housing Provident Fund is a savings program which provides subsidized housing loans and savings benefits, and the contribution rates for both Employer and Employee range from 5% to 12% of the basic salary, and also typically cap at 300% of the average salary.

The Group contributes 5% of relevant payroll costs to the Mandatory Provident Fund Scheme (the "MPF Scheme") for employees employed under the jurisdiction of Hong Kong Employment Ordinance, a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, each of the employer and employee are required to make contributions of 5% of the employees' relevant income to the MPF Scheme, subject to a cap of monthly relevant income of HK$30,000. Contributions made to the scheme are vested immediately.

Details on the pension scheme contribution for the Directors are set out in Note 13 to the Financial Statements.

DIRECTORS' REPORT

How We Make Compensation Decisions

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

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

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

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

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

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

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

Pre-emptive rights

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

Sufficiency of public float

Pursuant to the rules and regulations of the TSX-V, a Tier 2 listed issuer, such as the Company, may be delisted if the number of freely-tradable, publicly held securities is less than 500,000 or the number of public security holders, each holding a board lot consisting of 100 common shares or more, is less than 150, the number of freely-tradable, publicly held securities represents less than 10% of the aggregate number of shares issued and outstanding in the capital of the Company, or the market capitalization of the number of freely-tradable, publicly held securities falls below CAD$100,000. Based on information that is publicly available to the Company and within the knowledge of the Directors, the public float of the Company is approximately 46.74% as at the date of this report.

Major customers and suppliers

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

Purchases

The largest supplier accounted for 20% of the Company's purchases.

The five largest suppliers accounted for 50% of the Company's purchases in aggregate.

Sales

The largest customer accounted for 15% of the Company's sales.

The five largest customers accounted for 37% of the Company's sales in aggregate.

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

Charitable donations

During the Financial Year, the Company made charitable donations amounting to US$853,273 (2023: US$228,318).

Environmental Policies and Performance

Detailed information on the environment and social practices adopted by the Company is set out in the Environmental, Social and Governance Report which will be presented on pages 128 to 171 of this Report and published on the website of the Company at www.southgobi.com.

Permitted Indemnities

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

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

Related party transactions, connected transactions and continuing connected transactions

The Company's related party transactions for the Financial Year are disclosed in Note 33 to the Financial Statements, which constitute connected transactions under Chapter 14A of the Listing Rules, are subject to the shareholders' approval, annual review and disclosure requirements under Chapter 14A of the Listing Rules. Pursuant to the Hong Kong Listing Rules, JDZF is a substantial shareholder of the Company and hence a connected person of the Company.

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

The details of the Convertible Debenture, the Amended and Restated Cooperation Agreement and the Deferral Agreements can be found in Management's Discussion and Analysis of Financial Condition and Results of Operations – Convertible Debenture set out on pages 89 to 93 of this Annual Report, and the Company's announcements dated November 11, 2022; March 26, 2023; August 30, 2023; October 13, 2023; November 17, 2023; January 19, 2024; March 19, 2024; April 30, 2024; May 13, 2024; August 29, 2024 and March 20, 2025.

The Board has considered carefully the disclosure requirements of Chapter 14A of the Listing Rules relating to connected transactions and has determined that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Equity-linked agreements

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

Tax relief

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

Independent auditor

The Financial Statements have been audited by BDO Limited, Hong Kong, Certified Public Accountants (Practising), ("BDO"). BDO will retire and, being eligible offer themselves for re-appointment at the forthcoming 2025 AGM. A resolution will be submitted at the 2025 AGM to appoint BDO as the Auditor of the Company.

On behalf of the Board

Yingbin Ian He
Independent Lead Director
March 28, 2025

STRATEGIC LOCATION

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

CORPORATE GOVERNANCE REPORT

Corporate Governance

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

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

- approved and adopted a mandate for the Board (the "Board Mandate"), which sets out its stewardship responsibilities;
- appointed an independent non-executive director ("INED"), as the independent Lead Director (the "Independent Lead Director"), with specific responsibilities of, among other things, providing overall leadership of the Board, maintaining the independence of the Board and ensuring that the Board carries out its responsibilities mandated by applicable statutory and regulatory requirements and stock exchange listing standards, and in accordance with best practices;
- established an Audit Committee, a Nominating and Corporate Governance Committee ("Nominating Committee"), a Compensation and Benefits Committee ("Compensation Committee"), and a Health Environment, Safety and Social Responsibility Committee ("HESS Committee");
- reviewed, and approved amendments as required to, the Board Mandate and the respective charters for Board committees, including the Audit Committee, Nominating Committee, Compensation Committee, and HESS Committee;
- established a Disclosure Committee for the Company, comprised of members of management and the Chair of the Nominating Committee, with the mandate to oversee the Company's disclosure practices;
- adopted and implemented a compliance program for all Directors and employees, including business integrity policies and the whistleblowing program;
- reviewed, and approved amendments, as required, to the Company's Business Integrity standards, including: the Anti-Corruption Standard and the Conflicts of Interest Standard, "*The Way We Work*", and Guidelines for the investigation into allegations of serious wrongdoing (collectively, the "Code of Conduct Standards");
- reviewed, and approved amendments, as required, to the Corporate Compliance Policy;
- reviewed, and approved amendments, as required, to the Director Conflict of Interest Policy;
- reviewed, and approved amendments, as required, to the Majority Voting Policy for Auditors;
- reviewed, and approved amendments as required to, the Company's Disclosure Controls and Procedures, and the Corporate Disclosure and Securities Trading Policy;
- reviewed, and approved amendments, as required, to the Shareholder Communication Policy;
- reviewed, and approved amendments, as required, to the Majority Voting Policy;
- reviewed, and approved amendments, as required, to the Board Diversity Policy;

- reviewed, and approved amendments, as required, to the Dividend Policy;

- reviewed, and approved amendments, as required, to the written position descriptions for the Independent Lead Director, who fulfills the duties of the Chairperson, Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO"), Vice President of Legal ("VP Legal"), Corporate Secretary and Controller, as well as the Chairs of the Audit Committee, Nominating Committee, Compensation Committee and HESS Committee for better clarity in delineation of their respective roles and responsibilities; and

- formalized a process for assessing the effectiveness of the Board as a whole, the committees of the Board and the contribution of individual Directors, on a regular basis.

Compliance with the Corporate Governance Code

The Board has considered carefully the requirements of the Corporate Governance Code set out in Appendix C1 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Hong Kong Listing Rules" and the "Corporate Governance Code" respectively) and, save as disclosed below, deemed that the Company complied with the mandatory disclosure requirements and code provisions set out in the Corporate Governance Code, throughout the year ended December 31, 2024 (the "Financial Year"):

- pursuant to Section C.2 under Part 2 of the Corporate Governance Code, the Chair of the Board should be responsible for the overall management of the Board. The Company has not had a Chairperson since November 2017. The Board has appointed an Independent Lead Director, who is fulfilling the duties of the Chairperson; and

- pursuant to code provision F.2.2 under Part 2 of the Corporate Governance Code, the Chair of the Board of Directors should attend each annual general meeting ("AGM") of the Company. Mr. Yingbin Ian He, an INED and the Independent Lead Director, attended and acted as Chairperson of the Company's annual general meeting held on June 27, 2024 (the "2024 AGM") to ensure effective communication with shareholders of the Company (the "Shareholders").

Pursuant to code provision C.2.7 under Part 2 of the Corporate Governance Code, the Chairman of the Board should at least annually hold meetings with the INEDs without the presence of other directors. During the Financial Year, one (1) meeting between the Independent Lead Director, who is fulfilling the duties of the Chairman, and INED was held. Additionally, during the Financial Year, three (3) meetings between the Independent Lead Director, and the non-executive directors (the "NEDs") were held. The opportunity for such communication channel is provided at the end of each Board meeting.

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

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

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

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

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

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

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

Board Composition

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

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

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

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

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

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

BOARD COMPOSITION

DIRECTORS

EXECUTIVE DIRECTORS:

Mr. Ruibin Xu
Ms. Chonglin Zhu
Mr. Chen Shen

NON-EXECUTIVE DIRECTORS:

Mr. Zhu Gao
Mr. Zaixiang Wen

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Mr. Yingbin Ian He *(Independent Lead Director)*
Ms. Jin Lan Quan
Mr. Fan Keung Vic Choi (1)

FORMER DIRECTORS

INDEPENDENT NON-EXECUTIVE DIRECTOR:

Mr. Mao Sun (2)

Notes:

1) Mr. Fan Keung Vic Choi was elected to the Board as an INED at the 2024 AGM; and

2) Mr. Mao Sun did not stand for re-election at the 2024 AGM, and he ceased to be the Independent Lead Director, Chair of the Audit Committee and member of the Nominating Committee and Compensation Committee on June 27, 2024. Mr. Mao Sun confirmed that he has no disagreement with the Board and that there were no matters that needed to be brought to the attention of the Shareholders.

As at March 28, 2025, to the knowledge of the Company, each of JDZF and Land Grand held approximately 28.89% and 15.62% of the Company's issued and outstanding common shares, respectively. Based on information that is publicly available to the Company and within the knowledge of the Directors as at the last practicable date, the public float of the Company is approximately 46.74%.

Biographical details of the Company's Directors are set out in the section headed "Biographical Details of Directors and Senior Management" on pages 10 to 14 of this annual report and on the Company's website.

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

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

Mr. Ruibin Xu, one of the Company's Executive Directors, has been the CEO since May 15, 2023, and is responsible for the Company's operations.

Mr. Fan Keung Vic Choi was appointed during the Financial Year and had obtained legal advice referred to in Rule 3.09D of the Hong Kong Listing Rules on June 28, 2024; and Mr. Choi confirmed that he understood his obligations as a director of a listed issuer.

CORPORATE GOVERNANCE REPORT

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

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

2. Ms. Chonglin Zhu's spouse is the Company's Head of Transportation Department.

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

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

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

Corporate Culture and Strategy

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

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

Mandate of the Board

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

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

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

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

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

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

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

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

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

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

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

Committees of the Board

The Board has established several Board committees, namely the Audit Committee, Nominating Committee, Compensation Committee, and HESS Committee, for overseeing particular aspects of the Company's affairs. On June 27, 2024, the Board of Directors approved the dissolution of the Operations Committee as it had fulfilled its mandate.

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

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

Audit Committee (1)(4)	Nominating Committee (1)(4)	Compensation Committee (1)(4)	HESS Committee	Operations Committee (5)
Jin Lan Quan (Chair) (2)	Yingbin Ian He (Chair)	Fan Keung Vic Choi (Chair) (3)	Ruibin Xu (Chair)	Yingbin Ian He (Chair)
Yingbin Ian He	Jin Lan Quan	Yingbin Ian He	Yingbin Ian He	Ruibin Xu
Fan Keung Vic Choi (3)	Fan Keung Vic Choi (3)	Jin Lan Quan	Jinsheng Xu	Jinsheng Xu

Notes:

1) The Audit Committee, Nominating Committee, and Compensation Committee are comprised solely of INEDs.

2) Ms. Jin Lan Quan was appointed Chair of the Audit Committee on June 27, 2024.

3) Mr. Fan Keung Vic Choi joined the Audit Committee, Nominating Committee, and Compensation Committee on June 27, 2024 and was appointed Chair of the Compensation Committee on the same date.

4) Mr. Mao Sun did not stand for reelection at the 2024 AGM and ceased to be the Chair of the Audit Committee, and a member of the Nominating Committee, and Compensation Committee on June 27, 2024.

5) Having fulfilled its mandate, the Operations Committee was dissolved on June 27, 2024.

Audit Committee

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

The Audit Committee is comprised of three (3) INEDs, Ms. Jin Lan Quan (Chair), Mr. Yingbin Ian He and Mr. Fan Keung Vic Choi. On June 27, 2024, Ms. Jin Lan Quan was appointed Chair of the Audit Committee and Mr. Mao Sun ceased to be a member of the Audit Committee and its Chair.

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

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

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

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

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

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

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

Nominating and Corporate Governance Committee

The Board has established a Nominating Committee that operates under a charter approved by the Board. During the Financial Year, the Board reviewed the Nominating Committee charter and the Board Mandate to ensure the documents reflect current best practices.

The Nominating Committee is comprised of three (3) INEDs, Mr. Yingbin Ian He (Chair), Mr. Fan Keung Vic Choi and Ms. Jin Lan Quan. On June 27, 2024, Mr. Fan Keung Vic Choi joined the Nominating Committee and Mr. Mao Sun ceased to be a member of the Nominating Committee.

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

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

In performing its duties in accordance with the Nominating Committee's charter, the Nominating Committee has during the Financial Year:

- assessed the independence of INEDs;
- reviewed the Nominating Committee's charter to ensure that the Company has the appropriate procedures and processes in place to facilitate the nomination of Directors;
- conducted performance reviews of the Board and the Board committees;
- reviewed the structure and optimal size of the Board;

- reviewed the Board Skills Matrix to assess the composition (including diversity, skills, knowledge and experience, etc.) and qualifications of the Board;
- assessed each Director's time commitment and contribution to the Board, taking into account their professional qualifications, work experience, listed company directorships and other significant time commitments, and other factors or circumstances relevant to their character, integrity, independence and experience;
- made recommendations to the Board on the selection of individuals nominated for directorship in view of their qualifications and related expertise;
- made recommendations to the Board on the selection of individuals nominated for senior management roles;
- ensured that the Board has the necessary structures and procedures so that it can function with an appropriate degree of independence from management;
- provided a forum without management's presence to receive expressions of concern, including any concern regarding matters involving the independence of the Board from management;
- conducted induction programs for new Directors, as needed;
- reviewed the practices and procedures of the Board in light of ongoing developments in regulatory and stock exchange requirements and industry best practices in matters of corporate governance and recommended to the Board any changes the Nominating Committee considered necessary or desirable and determined the policy for the corporate governance of the Company and duties performed by the Board and the committees under code provision A.2.1;
- supported the continuous professional development of the Directors as required by the Corporate Governance Code;
- reviewed, and recommended approval of amendments, as required, to the Company's internal governance policies being the: Corporate Compliance Policy, Corporate Disclosure and Securities Trading Policy, Policy for Disclosure Controls and Procedures, Board Diversity Policy, Majority Voting Policy for Directors, Majority Voting Policy for Auditors, Director Conflict of Interest Policy, and Shareholder Communication Policy;
- reviewed, and recommended approval of amendments, as required, to the Company's Code of Conduct Standards, including: the Anti-Corruption Standard, the Conflicts of Interest Standard, "*The Way We Work*", and Guidelines for the investigation into allegations of serious wrongdoing; and
- reviewed, and recommended approval of amendments as required to, the written position descriptions for the Independent Lead Director, who fulfills the duties of the Chairperson, CEO, CFO, VP Legal, Corporate Secretary and Controller, as well as the Chairs of the Audit Committee, Nominating Committee, Compensation Committee, and HESS Committee for better clarity in delineation of their respective roles and responsibilities.

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

- developed recruitment protocols that seek to include diverse candidates in any director search. These protocols take into account that qualified candidates may be found in a broad array of organizations, including academic institutions, privately held businesses, non-profit organizations and trade associations, in addition to the traditional candidate pool of corporate directors and officers;
- utilized the current network of organizations and trade groups that may help identify diverse candidates;
- periodically reviewed Board recruitment and selection protocols to ensure that diversity remains a component of any director search; and
- in order to support the specific objective of gender diversity, the Nominating Committee considered the level of representation of women on the Board and will seek to include women in the short list of candidates being considered for future Board positions.

Compensation and Benefits Committee

The Board has established a Compensation Committee that operates under a charter approved by the Board. The Compensation Committee's charter is available on the Company's website.

The Compensation Committee is comprised of three (3) INEDs, namely: Mr. Keung Fan Vic Choi (Chair), Mr. Yingbin Ian He and Ms. Jin Lan Quan. On June 27, 2024, Mr. Keung Fan Vic Choi replaced Ms. Jin Lan Quan as Chair of the Compensation Committee and Mr. Mao Sun ceased to be a member of the Compensation Committee.

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

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

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

- reviewed and made recommendations to the Board with respect to the adequacy and forms of the Company's remuneration policy relating to the remuneration and benefits of the Executive Directors, senior officers and INEDs;
- administered and made recommendations to the Board with respect to the Company's incentive compensation plans and equity-based plans;
- reviewed and approved corporate goals and objectives for the remuneration of the CEO, CFO, and VP Legal, evaluating their performance and setting their remuneration levels;
- reviewed the compensation structure for the CEO, CFO, and VP Legal;
- recommended to the Board the performance evaluation of the CEO and CFO, taking into consideration their annual objectives and performance;
- determined the recipients as well as the nature and size of equity compensation awards and bonuses granted from time to time; and
- reviewed and/or approved matters relating to Equity Incentive Plan (including the Share Option Plan) and any share scheme that is to be adopted by the Company under Chapter 17 of the Hong Kong Listing Rules.

Health, Environment, Safety and Social Responsibility Committee

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

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

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

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

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

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

Ad Hoc/Special Committees

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

Meetings of the Board and Committees of the Board

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

The Directors attend to the affairs of the Company through their participation at the AGM, Board and Board Committee meetings, and perusal of Board papers.

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

2024 Board and Committee Meetings	
Total Number of:	
Board Meetings:	
Via conference call:	7
Audit Committee Meetings:	
Via conference call:	9
Compensation Committee Meetings:	
Via conference call:	4
Nominating Committee Meetings:	
Via conference call:	2
HESS Committee Meetings:	
Via conference call:	4

The 2024 AGM was held in Vancouver, Canada, on June 27, 2024 and was attended via teleconference by all the Directors.

A Special Meeting of Shareholders (the "2024 EGM") was held in Vancouver, Canada, on August 28, 2024 and was attended, via teleconference, by all the directors other than Ms. Chonglin Zhu and Mr. Chen Shen who were unable to attend due to scheduling conflicts.

It is anticipated that the 2025 AGM will be held in Canada on June 26, 2025. The notice of the 2025 AGM will be sent to shareholders at least 20 clear business days prior to the 2025 AGM.

Over the course of the Financial Year, seven (7) Board meetings were held and the overall attendance rate of Directors at Board meetings was 94.34%. Details of Directors' attendance at the 2024 AGM, 2024 EGM, Board and Board Committee meetings is shown below:

	2024 AGM	2024 EGM	Board	Audit	Nominating	Compensation	HESS	Operations [4]
	(Number of Attendances/Number of Meetings)							
Executive Directors								
Mr. Ruibin Xu	1/1	1/1	7/7	N/A	N/A	N/A	4/4	0/0
Ms. Chonglin Zhu	1/1	0/1	7/7	N/A	N/A	N/A	N/A	N/A
Mr. Chen Shen	1/1	0/1	7/7	N/A	N/A	N/A	N/A	N/A
Non-Executive Directors								
Mr. Zhu Gao	1/1	1/1	3/7	N/A	N/A	N/A	N/A	N/A
Mr. Zaixiang Wen	1/1	1/1	7/7	N/A	N/A	N/A	N/A	N/A
Independent Non-Executive Directors								
Mr. Yingbin Ian He	1/1	1/1	7/7	9/9	2/2	4/4	4/4	0/0
Ms. Jin Lan Quan	1/1	1/1	7/7	9/9	2/2	4/4	N/A	N/A
Mr. Fan Keung Vic Choi [1]	1/1	1/1	4/4	4/4	0/0	1/1	N/A	N/A
Former Directors								
Mr. Mao Sun [2][3]	0/0	0/0	3/3	5/5	2/2	3/3	N/A	N/A

Notes:

1) Mr. Fan Keung Vic Choi joined the Board on June 27, 2024 and there were four (4) meetings of the Board of Directors subsequent to his election.

2) Mr. Fan Keung Vic Choi joined the Audit Committee, Nominating Committee, and Compensation Committee on June 27, 2024 and there were four (4), zero (0) and one (1) meeting, respectively subsequent to him joining these Committees.

3) Mr. Mao Sun did not stand for re-election at the Company's 2024 AGM and ceased to a member of the Audit Committee, Nominating Committee and Compensation Committee on June 27, 2024.

4) The Operations Committee did not meet during the Financial Year was dissolved on June 27, 2024.

Directors' Time and Directorship Commitments

Our Directors, in particular the INEDs, have demonstrated a strong commitment to the SouthGobi's Board affairs and they are aware that they are expected to have a sufficient time commitment to the Board. The Directors have provided the necessary information relating to their other commitments for the Board's assessment.

Sufficient time and attention

The Directors, particularly the INEDs, have demonstrated their commitment to the Company through their full participation and attendance in the Company's Board and Committee meetings.

Other offices and commitments

The Directors disclose to the Company on a quarterly basis the number, identity and nature of offices held in Hong Kong or with overseas listed public companies and organizations and other significant commitments.

Other directorships

None of our Directors, individually, held directorships in more than seven (7) public companies (including the Company) as at December 31, 2024. Our Executive Directors do not hold directorship in other public companies; however, they are encouraged to participate in professional, public and community organizations.

With respect of those Directors standing for election or re-election at the 2025 AGM, all their directorships and board committee membership held in listed public companies in the past three (3) years are set out in the Management Proxy Circular. The Directors' biographies are set out in the section "Biographical Details of Directors and Senior Management" on pages 10 to 14 of this annual report and on the Company's website.

Professional Development

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

Before appointment to the Board, new Directors receive legal advice from the Company's external legal counsel as required under Rule 3.09D of the Hong Kong Listing Rules. Mr. Fan Keung Vic Choi met with the Company's external legal counsel, as required under Rule 3.09D and confirmed that he understood his obligations as a director of a listed issuer.

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

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

Management and outside advisors provide information and education sessions to the Board and its committees as necessary to keep the Directors up-to-date with the Company, its business and the environment in which it operates as well as with developments and best practices relating to the responsibilities of directors. Each month the Directors are provided with monthly updates which offer a balanced and understandable assessment of the Company's performance, financial position and prospects.

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

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

CORPORATE GOVERNANCE REPORT

According to the training records maintained by the Corporate Secretary, the Director professional development during the Financial Year is summarized as follows:

The Company hosted three (3) professional development seminars, which were attended by all Directors.

BDO Limited, conducted seminars on:

1. ESG: How its policies can bring benefits & value to companies and stakeholders.

2. Inside Information disclosure: Hazards and discussion on recent cases.

The Company's external legal counsel conducted a seminar on:

3. Public disclosure obligations, the regulatory framework, and ways that the Company can enhance its public disclosure.

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

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

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

Ms. Jin Lan Quan:

– IFRS Sustainability Disclosure Standards training hosted by the HKEX
– Becoming an Authentic Leader: Achieving Business Results by Putting Values and People First webinar hosted by ACCA
– AI and Large Language Models: A Non-technical Introduction seminar hosted by CA.ANZ
– The Future of Sustainability Reporting with ISSB Standards – Interoperability webinar hosted by ICD
– AIM for Excellence in Governance webinar hosted by ICD
– Advanced Financial Model 2024 – IFRS Sustainability Disclosure Standard webinar hosted by ACCA

Mr. Yingbin Ian He:

– IFRS Sustainability Disclosure Standards training hosted by the HKEX
– Double Materiality in Practice/Materiality Assessment webinar hosted by SocialSuite
– Mondaq's Exclusive Forced Labour Guide: Navigating Canada's Anti-Forced Labour Act webinar hosted by Bennet Jones LLP
– Workplace Investigations – Lessons learned: Navigating workplace investigations through case law perspective webinar hosted by Dentons LLP
– Optimizing Indigenous Partnerships & Project Financing webinar hosted by ICD
– Most Recent Developments in Trade Sanctions in France and in the European Union webinar hosted by International Chamber of Commerce France
– Raising the Sustainability Bar: Investor-Grade Reporting webinar hosted by SocialSuite
– Trends in Mining Equity Valuations webinar hosted by Canadian Institute of Mining, Metallurgy

- Natural Capital and Biodiversity webinar hosted by Bradshaw Research Institute for Minerals and Mining and the University of University of British Columbia
- Canadian Employment Law: Updates and Emerging Trends in Employment webinar hosted by McCarthy Tétrault LLP
- Building Legitimacy and Professionalization: The World Bank's Framework for Sustainable ASM Development webinar hosted by the Canadian Institute of Geology, Mining and Petroleum's Mineral Economic Society
- Class Actions in Canada and The Rise of The Machine webinar hosted by Tyr LLP
- Navigating The Complexities of Enforcing Foreign Judgments and Arbitral Awards webinar hosted by Stren & Blan Partners
- HKEX ESG Academy – Harnessing the Power of Corporate Governance
- Canadian Employment and Labour Matters for Mining Leaders

Mr. Fan Keung Vic Choi:
- Directors' Duties: Controlling Minds and Managing Risks
- Virtual Assets – Regulatory and Enforcement Trends
- RME Elective – Commercial Drafting: Merger and Acquisition
- Harmonizing Business and Commercial Laws in the GBA: Approaches, Methods and Future Options
- A Preview of Important Issues in the Amendments to the Arbitration of China
- An Update on the Law and Practise in relation to Adverse Possession in Hong Kong
- The EU Geo-Blocking Regulation: A Commentary
- Mid the Gap: Navigating the Pitfalls when Exercising Shareholder Rights
- RME Elective – Risk Management when Advising on New Share Purchase Agreements
- The New UNCITRAL Model Law on Automated Contracting – Significance & Evaluation

Ms. Chonglin Zhu:
- Training on IFRS Sustainability Disclosure Standards hosted by the HKEX
- Education seminar outlining the framework on disclosure timelines, and content requirements as required under the Hong Kong Listing Rules

Mr. Ruibin Xu:
- Training on IFRS Sustainability Disclosure Standards hosted by the HKEX

Mr. Chen Shen:
- Training on IFRS Sustainability Disclosure Standards hosted by the HKEX

Performance Reviews

Annually all Directors and Board Committees complete performance reviews covering Board and Committee responsibility, Board operations, Board and Committee effectiveness, time commitment, risk management, governance practices, internal controls, senior management performance reviews and corporate disclosure oversight. The Independent Lead Director reviewed the completed Board performance assessments and discussed the responses with the Board as a whole, and with individuals Directors, as required. Following review of the completed Board performance reviews it was determined that the Board is fulfilling its obligations as set out in the Board Mandate.

Each Committee Chair reviewed the completed Committee performance reviews and discussed the contents with the relevant Committee and the individual Committee members, as required. Following review of the completed Committee performance reviews it was determined that each Committee is fulfilling its obligations as set out its committee charter.

Board Skills Matrix

Annually each Board member completes a Board Skills Matrix. Following review and analysis of the 2024 Board Skills Matrix below is a summary of the Boards' current skills mix, which provides the Company with a well-rounded and diverse knowledge base with strengths in the mining industry, accounting and legal.

Directors	International Business	CEO and Senior Officer	Leadership and Growth	Mining Industry	M&A/Capital Market	Accounting Financial Expertise	Legal Expertise	Corporate Governance	Remuneration	Health & Safety	Environmental/ Social	Mining Technical/ Engineering	Mongolia Specific
Mr. Fan Keung Vic Choi	✓	✓	✓		✓		✓	✓	✓				
Mr. Zhu Gao	✓	✓	✓	✓	✓			✓	✓				✓
Mr. Yingbin Ian He	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓
Ms. Jin Lan Quan	✓	✓	✓	✓	✓	✓		✓	✓				
Mr. Chen Shen		✓	✓	✓	✓		✓	✓		✓			✓
Mr. Zaixiang Wen	✓	✓	✓		✓	✓			✓		✓		
Mr. Ruibin Xu		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓
Ms. Chonglin Zhu		✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓

Ethical Business Conduct

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

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

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

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

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

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

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

Shareholder Communication Policy

The Board is committed to maintaining an ongoing communication with shareholders and providing timely disclosure of information concerning the Group's material developments to shareholders and investors. The Company has maintained a Shareholder Communication Policy which sets out the general policy and measures adopted by the Company in respect to its communication with Shareholders, both individual and institutional, and, when appropriate, potential investors and analysts who report on and analyze the Company's performance (collectively, the "investment community").

The objective of the Shareholder Communication Policy is to ensure that Shareholders and the investment community are provided with complete, equal, and timely information about the Company (including its financial performance, strategic goals and plans, material business developments, corporate governance, risk profile and other material information) in order to enable Shareholders to make an informed decision with respect to their shares and other securities of the Company and to allow the investment community to engage in constructive dialogue with the Company. Shareholders and the investment community may at any time make a request for the Company's information to the extent such information is of public domain and will be provided with designated contacts, email addresses and enquiry lines of the Company in order to enable them to make any enquiry in respect of the Company.

Over the course of the Financial Year, the Company has reviewed the implementation and effectiveness of the Shareholder Communication Policy and considers that the Shareholder Communication Policy is effectively implemented and During the Financial Year, upon the recommendation of the Nomination Committee, the Board reviewed the Shareholders' Communication Policy and considered it was appropriate and effective.

The Independent Lead Director, who fulfills the duties of the Chairperson, attended and chaired the Company's 2024 AGM, together with other Directors and the external independent auditor and are available to answer questions from shareholders and investors at meetings. All resolutions proposed were duly passed by shareholders' voting at the 2024 AGM.

Pursuant to the Hong Kong Listing Rules, any vote of shareholders at a general meeting are taken by poll. Detailed procedures for conducting a poll are explained to the shareholders at the AGM so that shareholders are familiar with such voting procedures. The poll results are published on the respective websites of the Company and the Hong Kong Stock Exchange.

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

Investor Relations and Communication with Shareholders

The Company follows a policy of disclosing relevant information to shareholders in a timely manner.

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

Board Diversity Policy

The Company is of the view that Board appointments should be based on merit, and is committed to selecting the most suitable candidate to join the Board. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to professional experience, skills, knowledge, cultural and educational background, ethnicity, age and gender. The Company recognizes that diversity is important to ensure that the profiles of Board members provide the necessary range of perspectives, experience and expertise required to achieve effective stewardship. In particular, the Company recognizes that gender diversity is a significant aspect of diversity and acknowledges the important role that women play in contributing to the diversity of perspective on the Board.

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

Gender diversity is an important component of the Company's diversity strategy. The Board is committed to ensuring that gender diversity is actively pursued and seeks to ensure that women comprise at least 30% of the Board composition, giving due consideration to all other factors set forth in the Board Diversity Policy. The Company sought to achieve a target of not less than 30% of women on the Board by December 31, 2024. While the Company remains committed to advancing gender diversity as a key component of its overall diversity strategy, the target of achieving at least 30% women within the Board composition by December 31, 2024, was not met. This outcome was influenced by factors such as the timing of Board transitions, the availability of qualified candidates who bring the necessary skills, experience, and background to complement the existing Board composition, and the need to balance all aspects of diversity outlined in the Board Diversity Policy. These include not only gender but also geographical and industry expertise, ethnicity, knowledge, and other distinguishing qualities that contribute to a well-rounded Board. The Company will continue to take gender diversity into consideration during recruitment such that there is a pipeline of female senior management and potential successors to the Board in the future.

The Board continues to prioritize gender diversity in its recruitment efforts and succession planning to align with the Company's strategic priorities and the principles of the Board Diversity Policy. As at December 31, 2024, the gender ratio in the workforce was 87% male employees and 13% female employees. The Company is also committed to inclusiveness within all its positions. The Company's workforce gender diversity remains reflective of broader industry trends, where mining and coal production roles are predominantly male-dominated due to the historical nature of the industry and operational demands. However, the Company continues to implement measures to encourage greater gender diversity and improve gender representation over time.

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

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

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

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

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

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

The Board currently consists of two (2) women and six (6) men, with females representing 25% of the total number of Directors. Throughout the Company, females represent approximately 13% of the overall workforce and the Company will work to increase this level in the upcoming years. As at March 28, 2025, one-quarter of the Company's senior management are women.

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

Dividend Policy

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

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

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

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

The Board did not recommend the payment of any final dividend for the Financial Year (2023: Nil). No interim dividend was declared or paid during the Financial Year (2023: Nil).

Appointment and Re-election of Directors

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

The skills matrix is also used to develop a list of potential candidates for nomination to the Board. The diverse skills and experience brought by each individual Director nominee can be found in the section "Board Skill Matrix" on page 51 of this annual report.

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

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

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

According to code provision B.2.3 of the Corporate Governance Code, if an independent non-executive Director has served more than nine (9) years, his or her further election should be subject to a separate resolution to be approved by shareholders. Ms. Jin Lan Quan joined the Board of Directors on August 6, 2015 as an INED and has continued to serve the Company for more than (9) nine years. As required by the Corporate Governance Code, the further appointment of Ms. Jin Lan Quan will be subject to a separate resolution to be approved by shareholders at the forthcoming AGM of the Company.

Securities Transactions by Directors

Directors' interests in the Company's securities as at December 31, 2024 are disclosed in the Directors' Report on page 19 of this annual report.

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

CORPORATE GOVERNANCE REPORT

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

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

Remuneration of Directors

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

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

	CAD$
Independent Directors:	45,000
Independent Lead Director:	25,000
Audit Committee Chair:	20,000
Nominating Committee Chair:	20,000
Compensation Committee Chair:	20,000

In June 2024, the Board of Directors approved an increase in the annual retainer for the Chair of the Compensation Committee from CAD$10,000 per annum to CAD$20,000 per annum to align with the retainer paid to the Chair of the Nominating Committee. Should the HESS Committee be chaired by an INED he or she would be entitled to receive the CAD$10,000 annual retainer.

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

No options were granted in 2024.

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

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

Risk Management and Internal Controls

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

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

During the Financial Year, the Company formed an internal audit department, which is committed to maintain and uphold good corporate governance practice and internal control systems. At the same time, the Company continued to engage an independent professional advisor (the "Independent Advisor") in assisting the internal audit department to assess the Company's risk management and internal control systems, including financial, operational and compliance controls, and perform the internal audit function for the year. From which, deficiencies in the design and implementation of internal controls will be identified and recommendations will be proposed for improvement. At least one time per year, the Audit Committee and the Board review the report and recommendations put forward by the internal audit department and Independent Advisor.

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

Disclosure Controls and Procedures and Internal Controls Over Financial Reporting

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

CORPORATE GOVERNANCE REPORT

Management, including Company's CEO and CFO, have evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. As of December 31, 2024, the Company's CEO and CFO have each concluded that the Company's disclosure controls and procedures, as defined in NI 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings, are effective to achieve the purpose for which they have been designed.

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards"). Management is also responsible for the design of the Company's internal control over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS Accounting Standards.

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

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

Management assessed the effectiveness of internal controls over financial reporting using the Internal Control – Updated Integrated Framework (2013) issued by the Committee of Sponsoring Organisations of the Treadway Commission. Based on this evaluation, management concluded that the Company's internal controls over financial reporting were effective as of December 31, 2024.

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

Auditors

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

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

Fees paid/payable to BDO and its affiliates in respect of audit and audit-related services provided during the Financial Year were approximately US$804,000.

These fees are detailed below:

Nature of services rendered	Fees paid/payable (US$000's) BDO 2024
Audit fees [(1)]	744
Audit related fees [(1)]	60
Total	804

Notes:

(1) Fees for audit services billed relating to fiscal 2024 consisted of: (i) audit of the Company's annual financial statements; (ii) review of the Company's quarterly financial statements; (iii) statutory audit of the annual financial statements of subsidiaries of the Company; and (iv) other services related to Canadian securities regulatory authorities' matters.

Responsibilities in Respect of the Financial Statements

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

Going Concern

The Company's consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue to operate until at least December 31, 2025 and will be able to realise its assets and discharge its liabilities in the normal course of operations as they come due. However, in order to continue as a going concern, the Company must generate sufficient operating cash flows, secure additional capital or otherwise pursue a strategic restructuring, refinancing or other transactions to provide it with sufficient liquidity.

Several adverse conditions and material uncertainties cast significant doubt upon the Company's ability to continue as a going concern and the going concern assumption used in the preparation of the Company's consolidated financial statements. The Company had a deficiency in assets of $49.8 million as at December 31, 2024 as compared to a deficiency in assets of $141.3 million as at December 31, 2023 while the working capital deficiency (excess current liabilities over current assets) reached $228.1 million as at December 31, 2024 compared to a working capital deficiency of $218.8 million as at December 31, 2023.

Included in the working capital deficiency as at December 31, 2024 are significant obligations, represented by trade and other payables of $169.3 million and the additional tax and tax penalty of $43.8 million.

The Company may not be able to settle all trade and other payables on a timely basis, and as a result any continuing postponement in settling of certain trade and other payables owed to suppliers and creditors may result in potential lawsuits and/or bankruptcy proceedings being filed against the Company. Except as disclosed elsewhere in this Management's Discussion and Analysis of Financial Condition and Results of Operations, no such lawsuits or proceedings were pending as at March 28, 2025. However, there can be no assurance that no such lawsuits or proceedings will be filed by the Company's creditors in the future and the Company's suppliers and contractors will continue to supply and provide services to the Company uninterrupted.

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

For the purpose of assessing the appropriateness of the use of the going concern basis to prepare the financial statements, management of the Company has prepared a cash flow projection covering a period of 12 months from December 31, 2024. 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 2025 March Deferral Agreement on March 20, 2025 for a deferral of the 2025 March Deferred Amounts; (b) communicating with vendors in agreeing repayment plans of the outstanding payable; and (c) obtaining an avenue of financial support from an affiliate of the Company's major shareholder for a maximum amount of $127.0 million (equivalent to RMB900 million) during the period covered in the cash flow projection. Regarding these plans and measures, there is no guarantee that the suppliers would agree the settlement plan as communicated by the Company. Nevertheless, after considering the above, the directors of the Company believe that there will be sufficient financial resources to continue its operations and to meet its financial obligations as and when they fall due in the next 12 months from December 31, 2024 and therefore are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

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

Company Secretary

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

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

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

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

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

Shareholders' Rights

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

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

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

How Shareholders Can Convene an Extraordinary General Meeting

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

A valid requisition must:

- state the business to be transacted at the meeting (including the wording of any special resolution or exceptional resolution) in 1,000 words or less;

- be signed by and include the names and mailing addresses of all the requisitioning Shareholders, each of whom is a registered Shareholder;

- be made in a single record or several records, each of which is signed by one or more of the requisitioning Shareholders; and

- be delivered to the delivery address or mailed by registered mail to the mailing address of the Company at its registered office.

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

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

CORPORATE GOVERNANCE REPORT

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

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

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

The quorum for meetings of the Shareholders is set forth in the Company's Articles. A quorum for a meeting of the Shareholders is two (2) persons who are, or who are represented by proxy, Shareholders who, in the aggregate, hold at least five per cent (5%) of the Company's issued and outstanding common shares.

Procedures by Which Enquiries May Be Put to the Board

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

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

Procedures for Putting Forward Proposals at Shareholders' Meetings

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

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

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

Constitutional Documents

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

The Company's Articles, which were amended on July 22, 2022, are available on the respective websites of the Company and the Hong Kong Stock Exchange.

On behalf of the Board

Allison Snetsinger
Corporate Secretary
March 28, 2025

A LARGE RESERVES BASE

The Ovoot Tolgoi Deposit has mineral reserves of at least 82.3 million tonnes.

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

Forward-Looking Statements

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

- the Company continuing as a going concern and its ability to realise its assets and discharge its liabilities in the normal course of operations as they become due;
- adjustments to the amounts and classifications of assets and liabilities in the Company's consolidated financial statements and the impact thereof;
- the Company's expectations of sufficient liquidity and capital resources to meet its ongoing obligations and future contractual commitments, including the Company's ability to settle its trade payables, to secure additional funding and to meet its obligations under each of the JD Zhixing Fund L.P. ("JDZF") convertible debenture (the "Convertible Debenture"), and the 2025 March Deferral Agreement (as defined below) as the same become due, the Company's ability to settle the tax penalty payable of $26.5 million imposed by the Mongolian Tax Authority ("MTA") and a provision for additional late tax penalty of $19.0 million;
- 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 2025;
- the results and impact of the Ontario class action (as described under Section 7 of this MD&A under the heading entitled "*Regulatory Issues and Contingencies – Lawsuit*");
- the estimates and assumptions included in the Company's impairment analysis and the possible impact of changes thereof;
- the construction and operation of the Dry Coal Separation System (as defined below) at the Company's Ovoot Tolgoi Mine;
- the agreement with Ejin Jinda and the payments thereunder (as described under Section 7 of this MD&A under the heading entitled "*Regulatory Issues and Contingencies – Toll Wash Plant Agreement with Ejin Jinda*");
- the ability of the Company to enhance the operational efficiency and output throughput of the washing facilities at Ovoot Tolgoi;
- the ability of the Company to enhance the product value by conducting coal processing and coal washing;
- the impact of the Company's activities on the environment and actions taken for the purpose of mitigation of potential environmental impacts and planned focus on health, safety and environmental performance;
- the future demand for coal in China;
- future trends in the Chinese coal industry;
- the Company's outlook and objectives for 2025 and beyond (as more particularly described under Section 15 of this MD&A under the heading entitled "*Outlook*"); and
- other statements that are not historical facts.

Forward-Looking Statements continued

Forward-looking information is based on certain factors and assumptions described below and elsewhere in this MD&A, including, among other things: the current mine plan for the Ovoot Tolgoi mine; mining, production, construction and exploration activities at the Company's mineral properties; the costs relating to anticipated capital expenditures; the capacity and future toll rate of the paved highway; plans for the progress of mining license application processes; mining methods; the Company's anticipated business activities, planned expenditures and corporate strategies; management's business outlook, including the outlook for 2025 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 the tax penalty payable of $26.5 million imposed by the MTA and a provision for additional late tax penalty of $19.0 million; 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 the tax penalty payable of $26.5 million imposed by the MTA and a provision for additional late tax penalty of $19.0 million (as described under Section 1 of this MD&A under the heading entitled "Significant Events and Highlights – Additional Tax and Tax Penalty Imposed by the MTA"); the risk that the import coal quality standards established by Chinese authorities will negatively impact the Company's operations; the risk that Mongolia's southern borders with China will be subject to 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 and the deferral agreement signed on March 20, 2025 (the "2025 March Deferral Agreement"); the impact of amendments to, or the application of, the laws of Mongolia, China and other countries in which the Company carries on business; modifications to existing practices so as to comply with any future permit conditions that may be imposed by regulators; delays in obtaining approvals and lease renewals; the risk of fluctuations in coal prices and changes in China and world economic conditions; the outcome of the Class Action (as described under Section 7 of this MD&A under the heading entitled "Regulatory Issues and Contingencies – 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 and risks relating to the Company's ability to raise additional financing and to continue as a going concern. Please refer to Section 14 of this MD&A under the heading entitled "Risk Factors" for a discussion of these and other risks and uncertainties relating to the Company and its operations. This list is not exhaustive of the factors that may affect any of the Company's forward-looking statements.

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.

Table of Contents

Page		
69	1.	Overview
70		Significant Events and Highlights
74	2.	Selected Annual Information
75	3.	Overview of Operational Data and Financial Results
82	4.	Non-IFRS Financial Measures
84	5.	Properties
84		Operating Mine
85		Mining Operations
86	6.	Liquidity and Capital Resources
97	7.	Regulatory Issues and Contingencies
100	8.	Environment
101	9.	Emolument Policy
101	10.	Outstanding Share Data
102	11.	Disclosure Controls and Procedures and Internal Controls Over Financial Reporting
103	12.	Critical Accounting Estimates and Judgments
103	13.	Recent Accounting Pronouncements
104	14.	Risk Factors
124	15.	Outlook

Introduction

This MD&A is dated as of March 28, 2025 and should be read in conjunction with the consolidated financial statements of the Company and the notes thereto for the year ended December 31, 2024. The Company's consolidated financial statements have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards").

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

The functional currency of the Company's Chinese subsidiaries (SouthGobi Trading (Beijing) Co., Ltd., Inner Mongolia SouthGobi Energy Co., Ltd., Inner Mongolia SouthGobi Mining Development Co., Ltd., Inner Mongolia SouthGobi Enterprise Co., Ltd., Inner Mongolia SouthGobi Trading Co., Ltd. and Wuhai SouthGobi Mining Resources Co., Ltd.) was Renminbi ("RMB") and the functional currency of the Company's Mongolian operations (Southgobi Sands LLC ("SGS"), Mazaalai Resources LLC, TST Coal Trans 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 projects 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	Jaydee Ammugauan	Resources	Independent Consultant
Ovoot Tolgoi	Tao Xu	Reserves	Independent Consultant
Soumber	Jaydee Ammugauan	Resources	Independent Consultant
Soumber	Tao Xu	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 December 2, 2024, prepared by Mr. Jaydee Ammugauan, Mr. Tao Xu and Mr. Larry Li of BAW Mineral Partners Limited ("BAW"). A copy of the Ovoot Tolgoi Technical Report is available under the Company's profile on SEDAR+ at www.sedarplus.ca. BAW has not reviewed or updated the Ovoot Tolgoi Technical Report since the date of publishing.

Disclosure of a scientific or technical nature relating to the Soumber Deposit contained in this MD&A is derived from a technical report (the "Soumber Technical Report") prepared in accordance with NI 43-101 on the Soumber Deposit dated December 2, 2024, prepared by Mr. Jaydee Ammugauan, Mr. Tao Xu and Mr. Larry Li of BAW. A copy of the Soumber Technical Report is available under the Company's profile on SEDAR+ at www.sedarplus.ca. BAW has not reviewed or updated the Soumber Technical Report since the date of publishing.

1. Overview

The Company is an integrated coal mining, development and exploration company with 768 employees as at December 31, 2024. The Company's common shares ("Common Shares") are listed for trading on the Hong Kong Stock Exchange ("HKEX") under the stock code 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 China-Mongolian border.

The Ovoot Tolgoi Mine, strategically located approximately 40km from the Shivee Khuren-Ceke crossing at the China-Mongolia 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 processed and sold as semi-soft coking coal product while some of the unwashed product is sold as a thermal coal product.

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 year ended December 31, 2024 and the subsequent period to March 28, 2025 are as follows:

- ***Operating Results*** – The Company increased the scale of its mining operations in 2024, as well as implementing various coal processing methods, including screening, wet washing and dry coal processing, which have resulted in improved coal quality and enhanced production volume and growth of coal export volume into China during the year.

  In response to the market demand for different coal products, the Company focused on expanding the categories of coal products in its portfolio, including mixed coal, wet washed coal and dry processed coal. In addition, the Company has experienced success with processing its inventory of F-grade coal products through cost-effective screening procedures. As a result of the improvement in the quality of the processed F-grade coal, the Company was able to meet the import coal quality standards established by Chinese authorities and has been exporting this product to China for sale since the first quarter of 2024, further enhancing the Company's coal export volume.

  The Company recorded sales volume of 7.0 million tonnes in 2024 compared to 3.6 million tonnes in 2023, while the Company recorded an average realised selling price of $70.4 per tonne in 2024 compared to $93.0 per tonne in 2023. The decrease in the average realised selling price was mainly due to the Company facing headwinds in the China coal market in 2024, leading to the Company changing its product mix to sell a greater percentage of lower-priced coal products.

- ***Financial Results*** – The Company recorded a $153.9 million profit from operations in 2024 compared to $75.9 million profit from operations in 2023. The financial results for 2024 were impacted by the expansion of its sales network and diversification of its customer base, and a reversal of additional tax and tax penalty of $48.5 million, which was recorded in the fourth quarter of 2024.

- ***Build-Operate-Transfer Agreement*** – On July 15, 2024, the Company's wholly-owned Mongolian subsidiary, SGS, entered into a Build-Operate-Transfer agreement (the "BOT Agreement") with Tangshan Shenzhou Manufacturing Group Co., Ltd ("Tangshan"), pursuant to which Tangshan will be responsible for the construction, operation, and quality management of a new dry coal separation system, including key machinery (collectively, the "Dry Coal Separation System") at the Company's Ovoot Tolgoi Mine in Mongolia, which will be a stand-alone plant separate from the Company's existing dry processing plant. Tangshan will also be responsible for the construction of all related facilities for the Dry Coal Separation System. Under the BOT Agreement, SGS has the right to supervise and manage the overall work of coal quality assurance and operation, including, but not limited to, the supervision and management of operational safety, production planning, and operations management.

  The total consideration payable by the Company over the term of the BOT Agreement is approximately $10.9 million, together with certain additional processing volume-based fees. Subject to the terms as set out therein, the BOT Agreement is effective from July 15, 2024 until October 1, 2029.

1. Overview continued

Significant Events and Highlights continued

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

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

  On February 22, 2024, SGS received another notice from the MTA stating that the MTA anticipated commencing the re-assessment process on or about March 7, 2024 and the duration of such process will be approximately 45 working days.

  On May 15, 2024, SGS received a notice (the "Revised Notice") from the MTA regarding the re-assessment result on the Audit (the "Re-assessment Result"). The re-assessed amount of the tax penalty is approximately $80.0 million. In accordance with applicable Mongolian laws, SGS is entitled to file an appeal to the TDRC regarding the Re-assessment Result within a 30-day period from the date of receiving the Revised Notice.

  On June 12, 2024, following consultation with its independent tax consultant in Mongolia, SGS submitted an appeal letter to the TDRC regarding the Re-assessment Result, in accordance with applicable Mongolian laws.

  On January 10, 2025, SGS received a resolution dated December 19, 2024 (the "Resolution") from the TDRC in response to the appeal letter sent by SGS to the TDRC on June 12, 2024, relating to the Re-assessment Result. As set forth in the Resolution, the TDRC has determined to reduce the re-assessed amount of tax penalty against SGS from approximately $80.0 million to approximately $26.5 million (the "Revised Re-assessment Result"). In accordance with the applicable Mongolian laws, SGS is entitled to file an appeal to the Administrative Court in Ulaanbaatar, Mongolia ("Administrative Court") regarding the Revised Re-assessment Result within a 30-day period from the date of receiving the Resolution. After careful consideration and consultation with the Company's independent tax consultant in Mongolia, the Company has determined not to pursue a further appeal of the Revised Re-assessment Result with the Administrative Court.

  As at December 31, 2024, the Company recorded an additional tax and tax penalty in the amount of $45.5 million (2023: $85.1 million), which consists of a tax penalty payable of $26.5 million (2023: $75.0 million) and a provision for additional late tax penalty of $19.0 million (2023: $10.1 million). As a result of the Revised Re-assessment Result, the Company recorded a reversal of additional tax and tax penalty of $48.5 million in 2024 (2023: $nil). To date, the Company has paid the MTA an aggregate of $1.7 million in relation to the aforementioned tax penalty. The Company anticipates paying down the outstanding amount of the tax and tax penalty from cash generated from operations in the normal course. According to Mongolian tax law, the Mongolian tax authority has a legal authority to demand payment of the outstanding amount of the Revised Re-assessment Result from the Company at its discretion.

1. Overview continued

Significant Events and Highlights continued

- ***2025 March Deferral Agreement*** – On March 20, 2025, the Company and JDZF entered into the 2025 March Deferral Agreement pursuant to which JDZF agreed to grant the Company a deferral of (i) the cash and payment-in-kind interest ("PIK Interest"), management fees, and related deferral fees in the aggregate amount of approximately $111.6 million which will be due and payable to JDZF on or before August 31, 2025 pursuant to the deferral agreement dated March 19, 2024 and the deferral agreement dated April 30, 2024; (ii) semi-annual cash interest payment of approximately $7.9 million payable to JDZF on May 19, 2025 under the Convertible Debenture; (iii) semi-annual cash interest payments of approximately $8.1 million payable to JDZF on November 19, 2025 and the $4.0 million in PIK Interest payable to JDZF on November 19, 2025 under the Convertible Debenture; and (iv) management fees in the aggregate amount of approximately $6.1 million payable to JDZF on May 16, 2025, August 15, 2025, November 15, 2025 and February 15, 2026, respectively, under the amended and restated mutual cooperation agreement (the "Amended and Restated Cooperation Agreement") (collectively, the "2025 March Deferred Amounts").

  The effectiveness of the 2025 March Deferral Agreement and the respective covenants, agreements and obligations of each party under the 2025 March Deferral Agreement are subject to the Company obtaining the requisite approval of the 2025 March Deferral Agreement from shareholders in accordance with the requirements of applicable Canadian securities laws and Rule 14.33 and Rule 14A.36 of the Listing Rules. The Company will be seeking approval of the 2025 March Deferral Agreement from disinterested shareholders at the Company's upcoming annual general meeting ("AGM") of shareholders, which will be held at a future date to be set by the Board.

  The principal terms of the 2025 March Deferral Agreement are as follows:

  - Payment of the 2025 March Deferred Amounts will be deferred until August 31, 2026 (the "2025 March Deferral Agreement Deferral Date").

  - As consideration for the deferral of the 2025 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 2025 March Deferred Amounts, commencing on the date on which each such 2025 March Deferred Amounts would otherwise have been due and payable under the Convertible Debenture.

  - As consideration for the deferral of the 2025 March Deferred Amounts which relate to payment obligations arising from the Amended and Restated Cooperation Agreement, the Company agreed to pay JDZF a deferral fee equal to 1.5% per annum on the outstanding balance of such 2025 March Deferred Amounts commencing on the date on which each such 2025 March Deferred Amounts would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.

1. Overview continued

Significant Events and Highlights continued

- The 2025 March Deferral Agreement does not contemplate a fixed repayment schedule for the 2025 March Deferred Amounts or related deferral fees. Instead, the 2025 March Deferral Agreement requires the Company to use its best efforts to pay the 2025 March Deferred Amounts and related deferral fees due and payable under the 2025 March Deferral Agreement to JDZF. During the period beginning as of the effective date of the 2025 March Deferral Agreement and ending as of the 2025 March Deferral Agreement Deferral Date, the Company will provide JDZF with monthly updates of its financial status and business operations, and the Company and JDZF will on a monthly basis discuss and assess in good faith the amount (if any) of the 2025 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 2025 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.

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

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

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

  Mr. Fan Keung Vic Choi: Mr. Choi was elected as an independent non-executive director at the Company's AGM held on June 27, 2024.

  Mr. Mao Sun: Mr. Sun did not stand for the re-election at the AGM and ceased to be an independent non-executive director on June 27, 2024.

- ***Going Concern*** – Several adverse conditions and material uncertainties relating to the Company cast significant doubt upon the going concern assumption which includes the deficiencies in assets and working capital.

Refer to Section 6 of this MD&A under the heading entitled "Liquidity and Capital Resources" and Section 14 of this MD&A under the heading entitled "Risk Factors" for details.

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

2. Selected Annual Information

$ in thousands, except per share and per tonne information	Year ended December 31, 2024	2023	2022
Revenue	**$ 493,378**	$ 331,506	$ 73,084
Profit from operations	**153,942**	75,870	13,572
Net profit/(loss) attributable to equity holders of the Company	**92,497**	908	(30,419)
Basic earnings/(loss) per share	**$ 0.312**	$ 0.003	$ (0.110)
Diluted earnings/(loss) per share	**0.311**	0.003	(0.110)
Cash from operating activities	**107,916**	160,839	26,137
Cash used in investing activities	**(123,115)**	(49,944)	(13,037)
Cash used in financing activities	**(23,821)**	(72,587)	(1,427)
Coal sales volumes *(millions of tonnes)* [(i)]	**7.02**	3.59	1.11
Average realised selling price *(per tonne)*	**$ 70.40**	$ 93.02	$ 65.69

$ in thousands	As at December 31, 2024	2023	2022
Cash and cash equivalents	**$ 8,590**	$ 47,993	$ 9,255
Total working capital deficiency	**(228,134)**	(218,815)	(184,665)
Total assets	**429,853**	295,738	181,359
Total non-current liabilities	**97,883**	102,900	91,723

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

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

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

The Company increased the scale of its mining operations in 2024, as well as implementing various coal processing methods, including screening, wet washing and dry coal processing, which have resulted in improved coal quality and enhanced production volume and growth of coal export volume into China during the year. The Company recorded sales volume of 7.0 million tonnes in 2024 compared to 3.6 million tonnes in 2023, while the Company recorded an average realised selling price of $70.4 per tonne in 2024 compared to $93.0 per tonne in 2023. The decrease in the average realised selling price was mainly due to the Company facing headwinds in the China coal market in 2024, leading to the Company changing its product mix to sell a greater percentage of lower-priced coal products.

3. Overview of Operational Data and Financial Results

Summary of Annual Operational Data

	Year ended December 31, 2024	2023
Sales Volumes, Prices and Costs		
Premium semi-soft coking coal		
Coal sales *(millions of tonnes)*	**0.91**	2.08
Average realised selling price *(per tonne)*	**$ 105.10**	$ 106.91
Standard semi-soft coking coal/ premium thermal coal		
Coal sales *(millions of tonnes)*	**2.96**	0.53
Average realised selling price *(per tonne)*	**$ 71.86**	$ 70.58
Standard thermal coal		
Coal sales *(millions of tonnes)*	**0.86**	–
Average realised selling price *(per tonne)*	**$ 38.40**	$ –
Processed coal		
Coal sales *(millions of tonnes)*	**2.29**	0.98
Average realised selling price *(per tonne)*	**$ 66.62**	$ 75.23
Total		
Coal sales *(millions of tonnes)*	**7.02**	3.59
Average realised selling price *(per tonne)*	**$ 70.40**	$ 93.02
Raw coal production (millions of tonnes)	**10.20**	4.05
Cost of sales of product sold *(per tonne)*	**$ 51.37**	$ 44.07
Direct cash costs of product sold *(per tonne)* (i)	**$ 39.56**	$ 30.46
Mine administration cash costs of product sold *(per tonne)* (i)	**$ 1.58**	$ 1.39
Total cash costs of product sold *(per tonne)* (i)	**$ 41.14**	$ 31.85
Other Operational Data		
Production waste material moved *(millions of bank cubic meters)*	**59.47**	25.71
Strip ratio *(bank cubic meters of waste material per tonne of coal produced)*	**5.84**	6.36
Lost time injury frequency rate (ii)	**0.06**	0.17

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

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

Overview of Annual Operational Data

The Company recorded an average realised selling price of $70.4 per tonne for 2024 compared to $93.0 per tonne for 2023. The decrease was mainly due to the Company facing headwinds in the China coal market in 2024, leading to the Company changing its product mix to sell a greater percentage of lower-priced coal products. The product mix for 2024 consisted of approximately 13% of premium semi-soft coking coal, 42% of standard semi-soft coking coal/premium thermal coal, 12% of standard thermal coal and 33% of processed coal compared to approximately 58% of premium semi-soft coking coal, 15% of standard semi-soft coking coal/ premium thermal coal and 27% of processed coal in 2023.

The Company's unit cost of sales of product sold was $51.4 per tonne in 2024 compared to $44.1 per tonne in 2023. The increase was due to change in product mix with the Company expanding into certain categories of processed coal with higher production costs.

3. Overview of Operational Data and Financial Results continued

Summary of Annual Financial Results

	Year ended December 31,	
$ in thousands, except per share information	2024	2023
Revenue [i]	**$ 493,378**	$ 331,506
Cost of sales [i]	**(360,588)**	(158,195)
Gross profit excluding idled mine asset costs [ii]	**133,286**	173,487
Gross profit	**132,790**	173,311
Other operating expenses, net	**(3,698)**	(870)
Administration expenses	**(13,454)**	(10,437)
Evaluation and exploration expenses	**(1,362)**	(991)
Reversal of/(provision for) additional tax and tax penalty	**39,666**	(85,143)
Profit from operations	**153,942**	75,870
Finance costs	**(37,766)**	(49,072)
Finance income	**3,626**	5,084
Share of earnings of joint ventures	**3,227**	2,840
Share of earnings of associates	**587**	4
Current income tax expenses	**(31,119)**	(33,818)
Net profit attributable to equity holders of the Company	**92,497**	908
Basic earnings per share	**$ 0.312**	$ 0.003
Diluted earnings per share	**$ 0.311**	$ 0.003

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

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

Overview of Annual Financial Results

The Company recorded a $153.9 million profit from operations in 2024 compared to $75.9 million profit from operations in 2023. The increase was mainly due to an increase of 3.4 million tonnes of sales volume in 2024 as compared to 2023 and a reversal of additional tax and tax penalty of $48.5 million was recorded in the fourth quarter of 2024.

Revenue was $493.4 million in 2024 compared to $331.5 million in 2023. The financial results were impacted by increased sales volume, as a result of expansion of its sales network, diversification of its customer base and expansion of the categories of coal products in its portfolio.

Cost of sales was $360.6 million in 2024 compared to $158.2 million in 2023. The increase in cost of sales was mainly due to increased sales volume and the Company expanding into certain categories of processed coal with higher production costs.

3. Overview of Operational Data and Financial Results continued

Overview of Annual Financial Results continued

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

	Year ended December 31,	
$ in thousands	2024	2023
Operating expenses	**$ 288,773**	$ 114,346
Share-based compensation expense	**18**	4
Depreciation and depletion	**19,924**	5,165
Royalties	**51,377**	38,504
Cost of sales from mine operations	**$ 360,092**	$ 158,019
Cost of sales related to idled mine assets	**496**	176
Cost of sales	**$ 360,588**	$ 158,195

Operating expenses in cost of sales were $288.8 million in 2024 compared to $114.3 million in 2023. The overall increase in operating expenses was due to the Company expanding into certain categories of processed coal with higher production costs.

Cost of sales related to idled mine assets in 2024 included $0.5 million related to depreciation expenses for idled equipment (2023: $0.2 million).

Other operating expenses were $3.7 million in 2024 (2023: $0.9 million). The increase was due to increased management fee in 2024 and no reversal of impairment on materials and supplies inventories was recorded in 2024 (2023: $5.0 million).

	Year ended December 31,	
$ in thousands	2024	2023
Management fee	**$ 6,630**	$ 4,879
Provision for doubtful trade and other receivables	**10**	59
Foreign exchange loss, net	**134**	1,202
Gain on disposal of items of property, plant and equipment, net	**(261)**	–
Impairment/(reversal of impairment) on materials and supplies inventories	**231**	(4,988)
Rental income from short term leases	**–**	(68)
Penalty on late settlement of trade payables	**–**	454
Gain on contract offsetting arrangement	**(3,046)**	(668)
Other operating expenses, net	**$ 3,698**	$ 870

3. Overview of Operational Data and Financial Results continued

Overview of Annual Financial Results continued

Administration expenses were $13.5 million in 2024 as compared to $10.4 million in 2023. The change was mainly due to higher daily administration fees and increased salaries and benefits as a result of expansion of operations.

	Year ended December 31,	
$ in thousands	2024	2023
Corporate administration	**$ 3,688**	$ 2,673
Legal and professional fees	**2,836**	2,483
Salaries and benefits	**6,415**	4,779
Share-based compensation expense	**45**	10
Depreciation	**470**	492
Administration expenses	**$ 13,454**	$ 10,437

The Company continued to minimise evaluation and exploration expenditures in 2024 in order to preserve the Company's financial resources. Evaluation and exploration activities and expenditures in 2024 were limited to ensuring that the Company met the Mongolian Minerals Law requirements in respect of its mining licenses.

Finance costs were $37.8 million and $49.1 million in 2024 and 2023 respectively, which primarily consisted of interest expense on the $250.0 million Convertible Debenture.

3. Overview of Operational Data and Financial Results continued

Summary of Quarterly Operational Data

	2024				2023			
Quarter Ended	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
Sales Volumes, Prices and Costs								
Premium semi-soft coking coal								
Coal sales *(millions of tonnes)*	**0.16**	0.10	0.29	0.36	0.54	0.64	0.57	0.33
Average realised selling price *(per tonne)*	**$ 89.56**	$ 116.48	$ 102.61	$ 111.01	$ 107.59	$ 100.33	$ 103.33	$ 124.72
Standard semi-soft coking coal/ premium thermal coal								
Coal sales *(millions of tonnes)*	**1.31**	1.09	0.28	0.28	0.29	0.18	0.05	0.01
Average realised selling price *(per tonne)*	**$ 69.30**	$ 72.54	$ 77.04	$ 76.07	$ 72.41	$ 68.43	$ 67.09	$ 73.52
Standard thermal coal								
Coal sales *(millions of tonnes)*	**0.38**	0.24	0.12	0.12	–	–	–	–
Average realised selling price *(per tonne)*	**$ 36.99**	$ 37.20	$ 36.10	$ 47.91	$ –	$ –	$ –	$ –
Processed coal								
Coal sales *(millions of tonnes)*	**0.81**	0.68	0.51	0.29	0.13	0.33	0.26	0.26
Average realised selling price *(per tonne)*	**$ 68.66**	$ 63.65	$ 73.04	$ 56.65	$ 77.23	$ 66.03	$ 82.99	$ 78.19
Total								
Coal sales *(millions of tonnes)*	**2.66**	2.11	1.20	1.05	0.96	1.15	0.88	0.60
Average realised selling price *(per tonne)*	**$ 65.72**	$ 67.77	$ 77.55	$ 79.52	$ 92.93	$ 85.57	$ 95.34	$ 104.11
Raw coal production *(millions of tonnes)*	**4.19**	2.75	2.01	1.25	1.34	1.18	0.97	0.56
Cost of sales of product sold *(per tonne)*	**$ 48.92**	$ 52.77	$ 61.32	$ 43.36	$ 38.17	$ 42.23	$ 47.76	$ 51.59
Direct cash costs of product sold *(per tonne)* (i)	**$ 37.92**	$ 41.74	$ 47.15	$ 30.70	$ 26.20	$ 32.26	$ 33.79	$ 28.95
Mine administration cash costs of product sold *(per tonne)* (i)	**$ 1.88**	$ 0.94	$ 2.42	$ 1.08	$ 1.83	$ 0.82	$ 1.60	$ 1.48
Total cash costs of product sold *(per tonne)* (i)	**$ 39.80**	$ 42.68	$ 49.57	$ 31.78	$ 28.03	$ 33.08	$ 35.39	$ 30.43
Other Operational Data								
Production waste material moved *(millions of bank cubic meters)*	**17.48**	15.04	14.59	12.36	7.81	7.34	7.73	2.83
Strip ratio *(bank cubic meters of waste material per tonne of coal produced)*	**4.17**	5.48	7.27	9.87	5.85	6.24	7.93	5.07
Lost time injury frequency rate (ii)	**0.00**	0.00	0.00	0.22	0.22	0.21	0.23	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.

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

3. Overview of Operational Data and Financial Results continued

Overview of Quarterly Operational Data

The Company experienced a decrease in the average selling price of coal from $92.9 per tonne in the fourth quarter of 2023 to $65.7 per tonne in the fourth quarter of 2024, as a result of the Company facing headwinds in the China coal market in 2024, leading to the Company changing its product mix to sell a greater percentage of lower-priced coal products. The product mix for the fourth quarter of 2024 consisted of approximately 6% premium semi-soft coking coal, 49% standard semi-soft coking coal/premium thermal coal, 14% standard thermal coal and 31% of processed coal compared to approximately 56% premium semi-soft coking coal, 30% standard semi-soft coking coal/premium thermal coal and 14% of processed coal in the fourth quarter of 2023.

The Company sold 2.7 million tonnes for the fourth quarter of 2024, compared to 1.0 million tonnes for the fourth quarter of 2023.

The Company's unit cost of sales of product sold increased from $38.2 per tonne in the fourth quarter of 2023 to $48.9 per tonne in the fourth quarter of 2024. The increase was mainly due to the Company expanding into certain categories of processed coal with higher production costs.

Summary of Quarterly Financial Results

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

$ in thousands, except per share information	2024				2023			
Quarter Ended	31-Dec	30-Sept	30-Jun	31-Mar	31-Dec	30-Sept	30-Jun	31-Mar
Financial Results								
Revenue [(i)]	**$ 174,640**	$ 143,748	$ 92,821	$ 82,169	$ 88,504	$ 97,979	$ 83,243	$ 61,780
Cost of sales [(i)]	**(130,119)**	(111,354)	(73,582)	(45,533)	(36,645)	(48,569)	(42,027)	(30,954)
Gross profit excluding idled mine asset costs [(ii)]	**44,757**	32,544	19,303	36,682	51,908	49,491	41,227	30,861
Gross profit including idled mine asset costs	**44,521**	32,394	19,239	36,636	51,859	49,410	41,216	30,826
Other operating income/(expenses), net	**(1,194)**	(294)	(1,157)	(1,053)	4,308	(413)	(4,001)	(764)
Administration expenses	**(3,627)**	(3,400)	(3,014)	(3,413)	(3,879)	(1,846)	(2,656)	(2,056)
Evaluation and exploration expenses	**(314)**	(1,003)	(23)	(22)	(91)	(808)	(28)	(64)
Reversal of/(provision for) additional tax and tax penalty	**39,666**	–	–	–	(10,153)	–	(74,990)	–
Profit/(loss) from operations	**79,052**	27,697	15,045	32,148	42,044	46,343	(40,459)	27,942
Finance costs	**(6,893)**	(10,679)	(10,322)	(11,021)	(12,334)	(13,266)	(11,558)	(11,914)
Finance income	**3,247**	733	722	73	40	4,915	44	85
Share of earnings of joint ventures	**1,206**	133	1,055	833	1,101	809	428	502
Share of earnings/(loss) of associates	**578**	(1)	–	10	4	–	–	–
Current income tax expenses	**(4,899)**	(7,844)	(8,585)	(9,791)	(6,519)	(9,452)	(9,087)	(8,760)
Net profit/(loss)	**72,291**	10,039	(2,085)	12,252	24,336	29,349	(60,632)	7,855
Basic earnings/(loss) per share	**$ 0.244**	$ 0.034	$ (0.007)	$ 0.041	$ 0.082	$ 0.099	$ (0.205)	$ 0.027
Diluted earnings/(loss) per share	**$ 0.228**	$ 0.034	$ (0.007)	$ 0.041	$ 0.082	$ 0.099	$ (0.205)	$ 0.027

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

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

3. Overview of Operational Data and Financial Results continued

Overview of Quarterly Financial Results

The Company recorded a $79.1 million profit from operations in the fourth quarter of 2024 compared to a $42.0 million profit from operations in the fourth quarter of 2023. The financial results for the fourth quarter of 2024 were impacted by the Company recording a reversal of additional tax and tax penalty of $48.5 million during the quarter as a result of the Revised Re-assessment Result.

Revenue was $174.6 million in the fourth quarter of 2024 compared to $88.5 million in the fourth quarter of 2023. The increase was due to: increased sales volume, as a result of expansion of its sales network, diversification of its customer base and expansion of the categories of coal products in its portfolio.

Cost of sales was $130.1 million in the fourth quarter of 2024 compared to $36.6 million in the fourth quarter of 2023. The increase in cost of sales in the fourth quarter of 2024 was mainly due to increased sales volume and the Company expanding into certain categories of processed coal with higher production costs.

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

	Three months ended December 31,	
$ in thousands	2024	2023
Operating expenses	**$ 105,873**	$ 26,906
Depreciation and depletion	**8,908**	1,436
Royalties	**15,102**	8,254
Cost of sales from mine operations	**$ 129,883**	$ 36,596
Cost of sales related to idled mine assets	**236**	49
Cost of sales	**$ 130,119**	$ 36,645

Cost of sales related to idled mine assets in the fourth quarter of 2024 included $0.2 million related to depreciation expenses for idled equipment (fourth quarter of 2023: $0.1 million).

Other operating expenses were $1.2 million in the fourth quarter of 2024 (fourth quarter of 2023: other operating income of $4.3 million). A gain on a contract offsetting arrangement of $2.6 million was recorded and offset by management fee of $2.3 million and foreign exchange loss of $1.1 million in the fourth quarter of 2024 (fourth quarter of 2023: reversal of impairment on materials and supplies inventories of $4.7 million and gain on a contract offsetting arrangement of $0.7 million were recorded and offset by management fee of $1.2 million).

	Three months ended December 31,	
$ in thousands	2024	2023
Management fee	**$ 2,304**	$ 1,229
Provision for/(reversal of) doubtful trade and other receivables	**42**	(119)
Foreign exchange loss/(gain), net	**1,114**	(9)
Loss on disposal of items of property, plant and equipment, net	**1**	–
Impairment/(reversal of impairment) on materials and supplies inventories	**317**	(4,726)
Rental income from short term leases	**–**	(15)
Gain on contract offsetting arrangement	**(2,584)**	(668)
Other operating expenses/(income), net	**$ 1,194**	$ (4,308)

3. Overview of Operational Data and Financial Results continued

Overview of Quarterly Financial Results continued

Administration expenses were $3.6 million in the fourth quarter of 2024 compared to $3.9 million in the fourth quarter of 2023.

	Three months ended December 31,	
$ in thousands	2024	2023
Corporate administration	**$ 928**	$ 803
Legal and professional fees	**719**	994
Salaries and benefits	**1,883**	1,956
Share-based compensation expense	**–**	1
Depreciation	**97**	125
Administration expenses	**$ 3,627**	$ 3,879

The Company continued to minimise evaluation and exploration expenditures in the fourth quarter of 2024 in order to preserve the Company's financial resources. Evaluation and exploration activities and expenditures in the fourth quarter of 2024 were limited to ensuring that the Company met the Mongolian Minerals Law requirements in respect of its mining licenses.

Finance costs were $6.9 million in the fourth quarter of 2024 compared to $12.3 million in the fourth quarter of 2023, which primarily consisted of interest expense on the $250.0 million Convertible Debenture.

4. Non-IFRS Financial Measures

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

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

Cash Costs

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

4. Non-IFRS Financial Measures continued

Cash Costs continued

The following table provides a reconciliation of the cash costs of product sold disclosed for the three months and year ended December 31, 2024 and December 31, 2023. The cash costs of product sold presented below may differ from cash costs of product produced depending on the timing of coal stockpile inventory turnover and impairment of coal stockpile inventories from prior periods.

	Three months ended December 31,		Year ended December 31,	
$ in thousands, except per tonne information	2024	2023	2024	2023
Cash costs				
Cost of sales determined in accordance with IFRS	**$ 130,119**	$ 36,645	**$ 360,588**	$ 158,195
Less royalties	**(15,102)**	(8,254)	**(51,377)**	(38,504)
Less non-cash expenses	**(8,908)**	(1,436)	**(19,942)**	(5,169)
Less non-cash idled mine asset costs	**(236)**	(49)	**(496)**	(176)
Total cash costs	**105,873**	26,906	**288,773**	114,346
Less idled mine asset cash costs	**–**	–	**–**	–
Total cash costs excluding idled mine asset cash costs	**105,873**	26,906	**288,773**	114,346
Coal sales *(millions of tonnes)*	**2.66**	0.96	**7.02**	3.59
Total cash costs of product sold *(per tonne)*	**$ 39.80**	$ 28.03	**$ 41.14**	$ 31.85

	Three months ended December 31,		Year ended December 31,	
$ in thousands, except per tonne information	2024	2023	2024	2023
Cash costs				
Direct cash costs of product sold *(per tonne)*	**$ 37.92**	$ 26.20	**$ 39.56**	$ 30.46
Mine administration cash costs of product sold *(per tonne)*	**1.88**	1.83	**1.58**	1.39
Total cash costs of product sold *(per tonne)*	**$ 39.80**	$ 28.03	**$ 41.14**	$ 31.85

The cash cost of product sold per tonne was increased from $31.9 in 2023 to $41.1 in 2024. The reason for increase was primarily related to change in product mix with the Company expanding into certain categories of processed coal with higher production costs.

4. Non-IFRS Financial Measures continued

Idled Mine Asset Costs

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

The following table provides a reconciliation of the gross profit disclosed for the three months and year ended December 31, 2024 and December 31, 2023.

	Three months ended December 31,		Year ended December 31,	
$ in thousands, except per tonne information	2024	2023	2024	2023
Idled mine asset costs				
Gross profit excluding idled mine asset costs	**$ 44,757**	$ 51,908	**$ 133,286**	$ 173,487
Less non-cash idled mine asset costs	**(236)**	(49)	**(496)**	(176)
Gross profit including idled mine asset costs	**$ 44,521**	$ 51,859	**$ 132,790**	$ 173,311

5. Properties

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

Operating Mine

Ovoot Tolgoi Mine

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

Saleable products from the Ovoot Tolgoi Mine primarily include the Standard and Premium semi-soft coking coal products. Some higher ash content product is processed and sold as semi-soft coking coal product while some of the unwashed product is sold as a thermal coal product, as and when the market allows. The 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 various types of coal processing method and increasing its market penetration in China.

5. Properties continued

Operating Mine continued

Resources

A resource estimate for the Ovoot Tolgoi deposit is set out in the Ovoot Tolgoi Technical Report, which was prepared by BAW on behalf of the Company. A copy of the Ovoot Tolgoi Technical Report was filed under the Company's profile on SEDAR+ at www.sedarplus.ca on December 2, 2024.

Reserves

A reserve estimate for the Ovoot Tolgoi deposit is set out in the Ovoot Tolgoi Technical Report, which was prepared by BAW on behalf of the Company. A copy of the Ovoot Tolgoi Technical Report was filed under the Company's profile on SEDAR+ at www.sedarplus.ca on December 2, 2024.

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: one Liebherr 996 ($34m^3$) hydraulic excavators, four Liebherr R9250 ($15m^3$) hydraulic excavators and nineteen MT4400AC (240 tonne capacity) haul trucks, together with various pieces of ancillary equipment.

Workforce

As at December 31, 2024, SGS employed 663 employees in Mongolia. Of the 663 employees, 45 are employed in the Ulaanbaatar office and 618 at the Ovoot Tolgoi Mine site. Of the 663 employees based in Mongolia, 661 (99%) are Mongolian nationals and of those, 242 (37%) are residents of the local Gurvantes, Dalanzadgad, Sevrei and Noyon Soums.

6. Liquidity and Capital Resources

Liquidity and Capital Management

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

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

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

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

As at December 31, 2024, the amount of reimbursable costs and fees claimed by Turquoise Hill (the "TRQ Reimbursable Amount") amounted to $6.3 million (such amount is included in the trade and other payables).

Additional tax and tax penalty imposed by the MTA

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

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

On February 22, 2024, SGS received another notice from the MTA stating that the MTA anticipated commencing the re-assessment process on or about March 7, 2024 and the duration of such process will be approximately 45 working days.

6. Liquidity and Capital Resources continued

Liquidity and Capital Management continued

Additional tax and tax penalty imposed by the MTA continued

On May 15, 2024, SGS received the Revised Notice from the MTA regarding the Re-assessment Result. The re-assessed amount of the tax penalty is approximately $80.0 million. In accordance with applicable Mongolian laws, SGS is entitled to file an appeal to the TDRC regarding the Re-assessment Result within a 30-day period from the date of receiving the Revised Notice.

On June 12, 2024, following consultation with its independent tax consultant in Mongolia, SGS submitted an appeal letter to the TDRC regarding the Re-assessment Result, in accordance with applicable Mongolian laws.

On January 10, 2025, SGS received the Resolution from the TDRC in response to the appeal letter sent by SGS to the TDRC on June 12, 2024, relating to the Re-assessment Result. As set forth in the Resolution, the TDRC has determined to reduce the re-assessed amount of tax penalty against SGS from approximately $80.0 million to approximately $26.5 million (the "Revised Re-assessment Result"). In accordance with the applicable Mongolian laws, SGS is entitled to file an appeal to the Administrative Court regarding the Revised Re-assessment Result within a 30-day period from the date of receiving the Resolution. After careful consideration and consultation with the Company's independent tax consultant in Mongolia, the Company has determined not to pursue a further appeal of the Revised Re-assessment Result with the Administrative Court.

As at December 31, 2024, the Company recorded an additional tax and tax penalty in the amount of $45.5 million (2023: $85.1 million), which consists of a tax penalty payable of $26.5 million (2023: $75.0 million) and a provision for additional late tax penalty of $19.0 million (2023: $10.1 million). As a result of the Revised Re-assessment Result, the Company recorded a reversal of additional tax and tax penalty of $48.5 million in 2024 (2023: $nil). To date, the Company has paid the MTA an aggregate of $1.7 million in relation to the aforementioned tax penalty. The Company anticipates paying down the outstanding amount of the tax and tax penalty from cash generated from operations in the normal course. According to Mongolian tax law, the Mongolian tax authority has a legal authority to demand payment of the outstanding amount of the Revised Re-assessment Result from the Company at its discretion.

Going concern considerations

The Company's consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue to operate until at least December 31, 2025 and will be able to realise its assets and discharge its liabilities in the normal course of operations as they come due. However, in order to continue as a going concern, the Company must generate sufficient operating cash flows, secure additional capital or otherwise pursue a strategic restructuring, refinancing or other transactions to provide it with sufficient liquidity.

Several adverse conditions and material uncertainties cast significant doubt upon the Company's ability to continue as a going concern and the going concern assumption used in the preparation of the Company's consolidated financial statements. The Company had a deficiency in assets of $49.8 million as at December 31, 2024 as compared to a deficiency in assets of $141.3 million as at December 31, 2023 while the working capital deficiency (excess current liabilities over current assets) reached $228.1 million as at December 31, 2024 compared to a working capital deficiency of $218.8 million as at December 31, 2023.

Included in the working capital deficiency as at December 31, 2024 are significant obligations, represented by trade and other payables of $169.3 million and the additional tax and tax penalty of $43.8 million.

6. Liquidity and Capital Resources continued

Liquidity and Capital Management continued

Going concern considerations 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 result in potential lawsuits and/or bankruptcy proceedings being filed against the Company. Except as disclosed elsewhere in this MD&A, no such lawsuits or proceedings were pending as at March 28, 2025. However, there can be no assurance that no such lawsuits or proceedings will be filed by the Company's creditors in the future and the Company's suppliers and contractors will continue to supply and provide services to the Company uninterrupted.

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

For the purpose of assessing the appropriateness of the use of the going concern basis to prepare the financial statements, management of the Company has prepared a cash flow projection covering a period of 12 months from December 31, 2024. 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 2025 March Deferral Agreement on March 20, 2025 for a deferral of the 2025 March Deferred Amounts; (b) communicating with vendors in agreeing repayment plans of the outstanding payable; and (c) obtaining an avenue of financial support from an affiliate of the Company's major shareholder for a maximum amount of $127.0 million (equivalent to RMB900 million) during the period covered in the cash flow projection. Regarding these plans and measures, there is no guarantee that the suppliers would agree the settlement plan as communicated by the Company. Nevertheless, after considering the above, the directors of the Company believe that there will be sufficient financial resources to continue its operations and to meet its financial obligations as and when they fall due in the next 12 months from December 31, 2024 and therefore are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Significant uncertainties exist regarding the Company's management's ability to achieve its plans as described above. The continued operation of the Company as a going concern depends on a key factor: the utilisation of the financial support from an affiliate of the Company's major shareholder to settle payables, including the additional tax and tax penalty, in a timely manner.

The outcome of this factor will have a significant impact on the Company's ability to continue operating as a going concern. It is crucial to closely monitor and address these uncertainties to ensure the Company's stability and long-term viability.

6. Liquidity and Capital Resources continued

Liquidity and Capital Management continued

Going concern considerations 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 December 31, 2024 and December 31, 2023, the Company was not subject to any externally imposed capital requirements.

Convertible Debenture

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

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

Deferral Agreements

On March 19, 2024, the Company and JDZF entered into an agreement (the "2024 March Deferral Agreement") pursuant to which JDZF agreed to grant the Company a deferral of (i) the cash and PIK Interest, management fees, and related deferral fees in the aggregate amount of approximately $96.5 million due and payable to JDZF on or before August 31, 2024 pursuant to certain prior deferral agreements dated March 24, 2023 and October 13, 2023; (ii) semi-annual cash interest payment of approximately $7.9 million payable to JDZF on May 19, 2024 under the Convertible Debenture; (iii) semi-annual cash interest payments of approximately $8.1 million payable to JDZF on November 19, 2024 and the $4.0 million in PIK Interest payable to JDZF on November 19, 2024 under the Convertible Debenture; and (iv) management fees in the aggregate amount of $2.2 million payable to JDZF on November 15, 2024 and February 15, 2025, respectively, under the Amended and Restated Cooperation Agreement (collectively, the "2024 March Deferred Amounts").

The effectiveness of the 2024 March Deferral Agreement and the respective covenants, agreements and obligations of each party under the 2024 March Deferral Agreement are subject to the Company obtaining the requisite approval of the 2024 March Deferral Agreement from shareholders in accordance with the requirements of applicable Canadian securities laws and Rule 14.33 and Rule 14A.36 of the Listing Rules. The 2024 March Deferral Agreement was approved by the Company's disinterested shareholders through a special meeting of shareholders convened on August 28, 2024.

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

6. Liquidity and Capital Resources continued

Liquidity and Capital Management continued

Deferral Agreements continued

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

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

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

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

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

- If at any time before the 2024 March Deferred Amounts and related deferral fees are fully repaid, the Company proposes to appoint, replace or terminate one or more of its chief executive officer, its chief financial officer or any other senior executive(s) in charge of its principal business function or its principal subsidiary, the Company will first consult with, and obtain written consent (such consent shall not be unreasonably withheld) from JDZF prior to effecting such appointment, replacement or termination.

On April 30, 2024, the Company and JDZF entered into an agreement (the "2024 April Deferral Agreement") pursuant to which JDZF agreed to grant the Company a deferral of the remaining $1.1 million of PIK interest which was payable on November 19, 2022 under the Convertible Debenture, the payment of which was deferred pursuant to a certain prior deferral agreement dated November 11, 2022 (the "November 2022 Deferral Agreement") until November 19, 2023, as well as related deferral fees under the November 2022 Deferral Agreement (collectively, the "2024 April Deferred Amounts").

6. Liquidity and Capital Resources continued

Liquidity and Capital Management continued

Deferral Agreements continued

The effectiveness of the 2024 April Deferral Agreement and the respective covenants, agreements and obligations of each party under the 2024 April Deferral Agreement are subject to the Company obtaining the requisite approval of the 2024 April Deferral Agreement from shareholders in accordance with the requirements of applicable Canadian securities laws and Rule 14.33 and Rule 14A.36 of the Listing Rules. The 2024 April Deferral Agreement was approved by the Company's disinterested shareholders through a special meeting of shareholders convened on August 28, 2024.

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

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

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

- The 2024 April Deferral Agreement does not contemplate a fixed repayment schedule for the 2024 April Deferred Amounts or related deferral fees. Instead, the 2024 April Deferral Agreement requires the Company to use its best efforts to pay the 2024 April Deferred Amounts and related deferral fees due and payable under the 2024 April Deferral Agreement to JDZF. During the period beginning as of the effective date of the 2024 April Deferral Agreement and ending as of the 2024 April Deferral Agreement Deferral Date, the Company will provide JDZF with monthly updates of its financial status and business operations, and the Company and JDZF will on a monthly basis discuss and assess in good faith the amount (if any) of the 2024 April Deferred Amounts and related deferral fees that the Company may be able to repay to JDZF, having regard to the working capital requirements of the Company's operations and business at such time and with the view of ensuring that the Company's operations and business would not be materially prejudiced as a result of any repayment.

- If at any time before the 2024 April Deferred Amounts and related deferral fees are fully repaid, the Company proposes to appoint, replace or terminate one or more of its chief executive officer, its chief financial officer or any other senior executive(s) in charge of its principal business function or its principal subsidiary, the Company will first consult with, and obtain written consent (such consent shall not be unreasonably withheld) from JDZF prior to effecting such appointment, replacement or termination.

On March 20, 2025, the Company and JDZF entered into the 2025 March Deferral Agreement pursuant to which JDZF agreed to grant the Company a deferral of (i) the cash and PIK Interest, management fees, and related deferral fees in the aggregate amount of approximately $111.6 million which will be due and payable to JDZF on or before August 31, 2025 pursuant to the 2024 March Deferral Agreement and the 2024 April Deferral Agreement; (ii) semi-annual cash interest payment of approximately $7.9 million payable to JDZF on May 19, 2025 under the Convertible Debenture; (iii) semi-annual cash interest payments of approximately $8.1 million payable to JDZF on November 19, 2025 and the $4.0 million in PIK Interest payable to JDZF on November 19, 2025 under the Convertible Debenture; and (iv) management fees in the aggregate amount of approximately $6.1 million payable to JDZF on May 16, 2025, August 15, 2025, November 15, 2025 and February 15, 2026, respectively, under Amended and Restated Cooperation Agreement (collectively, the "2025 March Deferred Amounts").

6. Liquidity and Capital Resources continued

Liquidity and Capital Management continued

Deferral Agreements continued

The effectiveness of the 2025 March Deferral Agreement and the respective covenants, agreements and obligations of each party under the 2025 March Deferral Agreement are subject to the Company obtaining the requisite approval of the 2025 March Deferral Agreement from shareholders in accordance with the requirements of applicable Canadian securities laws and Rule 14.33 and Rule 14A.36 of the Listing Rules. The Company will be seeking approval of the 2025 March Deferral Agreement from disinterested shareholders at the Company's upcoming AGM of shareholders, which will be held at a future date to be set by the Board.

The principal terms of the 2025 March Deferral Agreement are as follows:

- Payment of the 2025 March Deferred Amounts will be deferred until the 2025 March Deferral Agreement Deferral Date.

- As consideration for the deferral of the 2025 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 2025 March Deferred Amounts, commencing on the date on which each such 2025 March Deferred Amounts would otherwise have been due and payable under the Convertible Debenture.

- As consideration for the deferral of the 2025 March Deferred Amounts which relate to payment obligations arising from the Amended and Restated Cooperation Agreement, the Company agreed to pay JDZF a deferral fee equal to 1.5% per annum on the outstanding balance of such 2025 March Deferred Amounts commencing on the date on which each such 2025 March Deferred Amounts would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.

- The 2025 March Deferral Agreement does not contemplate a fixed repayment schedule for the 2025 March Deferred Amounts or related deferral fees. Instead, the 2025 March Deferral Agreement requires the Company to use its best efforts to pay the 2025 March Deferred Amounts and related deferral fees due and payable under the 2025 March Deferral Agreement to JDZF. During the period beginning as of the effective date of the 2025 March Deferral Agreement and ending as of the 2025 March Deferral Agreement Deferral Date, the Company will provide JDZF with monthly updates of its financial status and business operations, and the Company and JDZF will on a monthly basis discuss and assess in good faith the amount (if any) of the 2025 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 2025 March Deferred Amounts and related deferral fees are fully repaid, the Company proposes to appoint, replace or terminate one or more of its chief executive officer, its chief financial officer or any other senior executive(s) in charge of its principal business function or its principal subsidiary, the Company will first consult with, and obtain written consent (such consent shall not be unreasonably withheld) from JDZF prior to effecting such appointment, replacement or termination.

6. Liquidity and Capital Resources continued

Liquidity and Capital Management continued

Amendment of Convertible Debenture

On May 13, 2024, the Company and JDZF entered into an amendment agreement (the "Convertible Debenture Amendment") to amend certain terms of the Convertible Debenture.

Pursuant to the Convertible Debenture Amendment, the Company may, by resolution of the Board of the Company, at any time and from time to time prepay, without penalty, the whole or any part of the principal amount outstanding under the Convertible Debenture, together with accrued cash interest and PIK interest thereon to the date of prepayment, provided that:

(i) the Company has, not later than three (3) business days prior to the proposed prepayment date, delivered to JDZF an irrevocable written notice, signed by an independent director of the Company and setting out the terms of the prepayment;

(ii) the amount of such prepayment reduces the then outstanding principal amount under the Convertible Debenture by an amount that is (a) not less than $500,000 and (b) if in excess of $500,000, an integral multiple of $500,000; and

(iii) the proposed prepayment date falls on a business day.

The Company did not provide any additional form of consideration to JDZF in connection with the Convertible Debenture Amendment. Aside from the aforementioned amendments, the existing terms of the Convertible Debenture continue in full force and effect and unchanged.

The effectiveness of the Convertible Debenture Amendment is subject to the Company providing notice to, and obtaining acceptance (if required) from the TSX-V and requisite approval from disinterested shareholders of the Company in accordance with the requirements of applicable Canadian securities laws and Listing Rules. The Convertible Debenture Amendment was approved by the Company's disinterested shareholders through a special meeting of shareholders convened on August 28, 2024.

6. Liquidity and Capital Resources continued

Cash Flow Highlights

	Year ended December 31,	
$ in thousands	2024	2023
Net cash flows from operating activities	**$ 107,916**	$ 160,839
Cash used in investing activities	**(123,115)**	(49,944)
Cash used in financing activities	**(23,821)**	(72,587)
Effect of foreign exchange rate changes on cash	**(383)**	430
Increase/(decrease) in cash for the year	**(39,403)**	38,738
Cash balance, beginning of year	**47,993**	9,255
Cash balance, end of year	**$ 8,590**	$ 47,993

Net cash flows from Operating Activities

The Company generated $107.9 million of cash from operating activities in 2024 compared to $160.8 million in 2023. This is primarily due to the decreased profit margin of its coal products.

Cash used in Investing Activities

The Company used $123.1 million of cash in 2024 in investing activities compared to $49.9 million in 2023. In 2024, expenditures on property, plant and equipment totaled $118.6 million (2023: $44.5 million).

Cash used in Financing Activities

Cash used in financing activities was $23.8 million in 2024 (2023: $72.6 million). This is primarily due to Convertible Debenture interest repayment of $23.0 million was made in 2024.

Contractual Obligations and Guarantees

Day-to-day mining, expansionary and sustaining capital expenditures as well as administrative operations give rise to commitments for future minimum payments. As at December 31, 2024, the Company's operating and capital commitments were:

	Within 1 year	2-3 years	Over 3 years	Total
As at December 31, 2024				
Capital expenditure commitments	**$ 1,422**	**$ 3,829**	**$ 4,195**	**$ 9,446**
Operating expenditure commitments	**1,354**	**39**	**172**	**1,565**
Commitments	**$ 2,776**	**$ 3,868**	**$ 4,367**	**$ 11,011**

6. Liquidity and Capital Resources continued

Ovoot Tolgoi Mine Impairment Analysis

The Company determined that an indicator of impairment existed for its Ovoot Tolgoi Mine cash generating unit as at December 31, 2024. The impairment indicator was the uncertainty of future coal price in China.

Therefore, the Company conducted an impairment test whereby the carrying value of the Company's Ovoot Tolgoi Mine cash generating unit was compared to the recoverable amount (being the "fair value less costs of disposal") using a discounted future cash flow valuation model. The Company's cash flow valuation model takes into consideration the latest available information to the Company, including but not limited to, sales prices, sales volumes, washing production, operating costs and life of mine coal production estimates as at December 31, 2024. The carrying value of the Company's Ovoot Tolgoi Mine cash generating unit was $243.6 million as at December 31, 2024.

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

- Coal resources and reserves as estimated by an independent third-party engineering firm;
- Sales price estimates from an independent market consulting firm;
- Forecasted sales volumes in line with production levels as reference to the mine plan;
- Life-of-mine coal production, strip ratio, capital costs and operating costs; and
- A post-tax discount rate of 16% based on an analysis of the market, country and asset specific factors.

Key sensitivities in the valuation model are as follows:

- For each 1% increase/(decrease) in the long term price estimates, the calculated fair value of the cash generating unit increases/(decreases) by approximately $17.3/(17.4) million;
- For each 1% increase/(decrease) in the post-tax discount rate, the calculated fair value of the cash generating unit (decreases)/increases by approximately $(15.2)/16.1 million;
- For each 1% increase/(decrease) in the cash mining cost estimates, the calculated fair value of the cash generating unit (decreases)/increases by approximately $(9.9)/9.8 million; and
- For each 1% increase/(decrease) in Mongolian inflation rate, the calculated fair value of the cash generating unit (decreases)/increases by approximately $(32.8)/31.0 million.

The impairment analysis did not result in the identification of an impairment loss or an impairment reversal and no charge or reversal was required as at December 31, 2024. A decline of 2% (2023: 5%) in the long-term price estimates, an increase of more than 3% (2023: 8%) in the post-tax discount rate, an increase of 4% (2023: 10%) in the cash mining cost estimates or an increase of 24% (2023: 41%) in Mongolian inflation rate may trigger an impairment charge on the cash generating unit. The Company believes that the estimates and assumptions incorporated in the impairment analysis are reasonable; however, the estimates and assumptions are subject to significant uncertainties and judgments.

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

6. Liquidity and Capital Resources continued

Financial Instruments

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

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

	As at December 31,	
$ in thousands	2024	2023
Financial assets		
Cash	**$ 8,590**	$ 47,993
Restricted cash	**274**	423
Trade and other receivables	**31,486**	7,541
Total financial assets	**$ 40,350**	$ 55,957

	As at December 31,	
$ in thousands	2024	2023
Financial liabilities		
Fair value through profit or loss		
Convertible debenture – embedded derivatives	**$ 63**	$ 361
Other financial liabilities		
Trade and other payables	**169,281**	60,192
Lease liabilities	**2,192**	2,991
Convertible debenture – debt host and interest payable	**204,855**	193,939
Total financial liabilities	**$ 376,391**	$ 257,483

7. Regulatory Issues and Contingencies

Lawsuit

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

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

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

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

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

To date, counsel for the plaintiffs and defendant have completed: (i) all document production and (ii) defence oral examinations for discovery. Counsel for the plaintiffs have served their expert reports on liability and damages.

Counsel for the plaintiffs and defendant have entered into a good faith procedural agreement (the "Procedural Agreement"). The parties have engaged the services of an experienced neutral former Chief Justice of Ontario (the "Mediator") to act as a mediator to assist the parties in resolving all pre-trial matters as set out in the Procedural Agreement. The parties have agreed to a pre-trial mediation before the Mediator, which was scheduled for April 2025 with an intention to have the case ready for trial by April 25, 2025. However, the mediation has been adjourned to the summer of 2025 as the parties continue to work with the Mediator to resolve outstanding procedural disputes. The Court has not yet scheduled trial dates. The Company continues to urge a trial as early as possible.

The Company firmly believes that it has a strong defense on the merits and will continue to vigorously defend itself against the Class Action through independent Canadian litigation counsel retained by the Company for this purpose. Due to the inherent uncertainties of litigation, it is not possible to predict the final outcome of the Class Action or determine the amount of potential losses, if any. However, the Company has determined that a provision for this matter as at December 31, 2024 was not required.

7. 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 December 31, 2024 was not required.

Special Needs Territory in Umnugobi

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

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

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

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

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

7. Regulatory Issues and Contingencies continued

Special Needs Territory in Umnugobi continued

On June 18, 2024, the Court of First Instance in Umnugobi Province reviewed the above subject matter in which SGS is the plaintiff and Citizen's Representative Meetings of Gurvantes soum is the defendant. The Court of First Instance determined that the claims made by Citizen's Representative Meetings of Gurvantes soum relating to the License Areas as set forth in the Gurvantes Soum Resolution were invalid. Citizen's Representative Meetings of Gurvantes soum has since applied to the Court of Appeals for an appeal of the Court of First Instance's decision.

On September 12, 2024, the Court of Appeals reviewed the appeal made by Citizen's Representative Meetings of Gurvantes soum and determined that the appeal was invalid. Citizen's Representative Meetings of Gurvantes soum did not apply to the Supreme Court of Mongolia for an appeal of the Court of Appeals' decision upon the expiry of the application deadline. As a result, the decision made by the Court of Appeals is final and conclusive.

Tax Legislation

Mongolian tax, currency and customs legislation is subject to varying interpretation, and changes which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant authorities. The MTA may take a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged by tax authorities. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. The Mongolian tax legislation does not provide definitive guidance in certain areas, specifically in areas such as VAT, withholding tax, corporate income tax, personal income tax, transfer pricing and other areas. From time to time, the Company adopts interpretations of such uncertain areas that reduce the overall tax rate of the Company. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices. The impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

Management believes that its interpretation of relevant legislation is appropriate and the Company's positions related to tax and other legislation will be sustained. However, the Company may be impacted if such unfavourable event occurs. Management regularly performs re-assessment of tax risk and its position may change in the future as a result of the change in conditions that cannot be anticipated with sufficient certainty at present.

As of December 31, 2024, the Company has recorded an additional tax and tax penalty in the amount of $45.5 million (2023: $85.1 million) and the Company has paid the MTA an aggregate of $1.7 million in relation to the aforementioned tax penalty, as more particularly detailed under section 6 "Liquidity and Capital Resources" of this MD&A under the heading entitled "Additional tax and tax penalty imposed by the MTA".

On March 19, 2025, SGS received correspondence from the Administrative Court requesting supplemental information regarding a court proceeding initiated by certain officers of the MTA ("MTA Officials") against the TDRC. Upon further enquiry, SGS obtained a copy of an order dated March 7, 2025 issued by the Administrative Court regarding commencement of court proceedings brought by the MTA Officials. The MTA Officials are petitioning the court to overturn the TDRC's ruling that reduced SGS's tax penalty from approximately $80.0 million to approximately $26.5 million. The Company has recognised a reversal of additional tax and tax penalty of $48.5 million in the consolidated financial statements, reflecting the TDRC's binding decision as of the reporting date.

7. Regulatory Issues and Contingencies continued

Tax Legislation continued

Based on preliminary advice from the Company's independent Mongolian legal counsel and tax consultants: (i) SGS has not been named as a third party defendant to these proceedings; (ii) The TDRC's Revised Re-assessment Result remains legally enforceable unless formally overturned by the court; and (iii) SGS's acceptance of the TDRC's decision makes the ruling final under Mongolian tax law.

Due to the inherent uncertainties surrounding legal proceedings, the ultimate resolution of this matter cannot be predicted with certainty. Should the court rule in favour of the MTA Officials, any resulting adjustments to the provision or recognition of additional liabilities would be accounted for in the period when such determination is made.

8. Environment

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

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

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

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

8. Environment continued

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

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

9. Emolument Policy

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

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

The Company has also adopted an equity incentive plan to incentivise directors and eligible employees. Details of the plan are set out in note 29 of the Company's consolidated financial statements for the year ended December 31, 2024.

10. Outstanding Share Data

The Company is authorised to issue an unlimited number of Common Shares without par value and an unlimited number of preferred shares without par value. As at March 28, 2025, approximately 296.7 million Common Shares were issued and outstanding. There are also incentive share options outstanding to acquire approximately 1.2 million unissued Common Shares with an exercise price HK$1.41. There are no preferred shares outstanding.

As at March 28, 2025, to the best of the Company's knowledge:

- JDZF holds a total of approximately 85.7 million Common Shares representing approximately 28.9% of the issued and outstanding Common Shares;

- Land Grand International Holding Limited ("Land Grand") holds a total of approximately 46.4 million Common Shares representing approximately 15.6% of the issued and outstanding Common Shares; and

- Voyage Wisdom Limited ("Voyage Wisdom") holds a total of approximately 25.8 million Common Shares representing approximately 8.7% of the issued and outstanding Common Shares.

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

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

Management, including CEO and CFO of the Company, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. As of December 31, 2024, CEO and CFO of the Company have each concluded that the Company's disclosure controls and procedures, as defined in NI 52-109 - *Certification of Disclosure in Issuer's Annual and Interim Filings*, are effective to achieve the purpose for which they have been designed.

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

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

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

Management assessed the effectiveness of internal controls over financial reporting using the Internal Control – Updated Integrated Framework (2013) issued by the Committee of Sponsoring Organisations of the Treadway Commission. Based on this evaluation, management concluded that the Company's internal controls over financial reporting were effective as of December 31, 2024.

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

12. Critical Accounting Estimates and Judgments

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

A detailed summary of all of the Company's material accounting policies is included in Note 3 to the Company's consolidated financial statements for the year ended December 31, 2024.

The following new IFRS Accounting Standards and interpretations were adopted by the Company on January 1, 2024. Refer to Note 2.4 of the Company's consolidated financial statement of the year ended December 31, 2024 for details.

Amendments to IAS 1	Presentation of Financial Statements and Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants
Amendments to IAS 7 and IFRS 7	Supplier Finance Arrangements
Amendments to IFRS 16	Lease liabilities in a Sale and Leaseback
Int 5 (Revised)	Interpretation 5 (Revised) Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment On Demand Clause

Refer to Note 3.19 of the Company's consolidated financial statements of the year ended December 31, 2024 for information regarding the significant accounting judgments and estimates.

13. Recent Accounting Pronouncements

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

IFRS 18	Presentation and Disclosure in Financial Statements[4]
IFRS 19	Subsidiaries without Public Accountability: Disclosures[4]
Amendments to IAS 21	Lack of Exchangeability[2]
Amendments to IFRS 9 and IFRS 7	Amendments to the Classification and Measurement of Financial Instruments[3]
Amendments to IFRS 9 and IFRS 7	Contracts Referencing Nature-dependent Electricity[3]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1]
Amendments to IFRS Accounting Standards	Annual Improvements to IFRS Accounting Standards – Volume 11[3]

1 Effective for annual periods beginning on or after a date to be determined.
2 Effective for annual periods beginning on or after 1 January 2025.
3 Effective for annual periods beginning on or after 1 January 2026.
4 Effective for annual periods beginning on or after 1 January 2027.

The Company is currently assessing the effect of these new accounting standards and amendments.

13. Recent Accounting Pronouncements continued

IFRS 18 *Presentation and Disclosures in Financial Statements*

IFRS 18 Presentation and Disclosure in Financial Statements, which was issued by the IASB in April 2024 supersedes IAS 1 and will result in major consequential amendments to IFRS Accounting Standards including IAS 8 Basis of Preparation of Financial Statements (renamed from Accounting Policies, Changes in Accounting Estimates and Errors). Even though IFRS 18 will not have any effect on the recognition and measurement of items in the consolidated financial statements, it is expected to have a significant effect on the presentation and disclosure of certain items. These changes include categorisation and sub-totals in the statement of profit or loss, aggregation/disaggregation and labelling of information, and disclosure of management-defined performance measures. The Company is currently evaluating the full impact of IFRS 18 on its financial statement presentation and disclosures. Further updates will be provided as the assessment progresses.

IFRS 19 *Subsidiaries without Public Accountability: Disclosures*

The adoption of IFRS 19 is optional. IFRS 19 specifies the disclosure requirements that the Company is permitted to apply to substitute the disclosure requirements in other IFRS Accounting Standards. The Company's shares are listed and traded on HKEX and TSX-V. Therefore, it has public accountability according to IFRS 19 and does not qualify for electing to apply the standard to prepare its financial statements.

14. Risk Factors

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

14. Risk Factors continued

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

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

The Company's consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will continue operating until at least December 31, 2025 and will be able to realise its assets and discharge its liabilities in the normal course of operations as they come due. However, certain adverse conditions and material uncertainties cast doubt upon the ability of the Company to continue as a going concern. These include:

- the Company has a working capital deficiency (excess current liabilities over current assets) of $228.1 million as at December 31, 2024;
- the Company has an obligation to pay JDZF under the Convertible Debenture and the associated deferral agreements;
- the trade and other payables of the Company remain high due to liquidity constraints. Refer to Section 6 of this MD&A under the heading entitled "*Liquidity and Capital Resources – Liquidity and Capital Management – Going Concern Considerations*"; and
- the Company has other current liabilities which require settlement in the short-term, including trade and other payables of $169.3 million and an additional tax and tax penalty of $43.8 million.

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

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

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

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

14. Risk Factors continued

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

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

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

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

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

Risks Relating to the Common Shares

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

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

14. Risk Factors continued

Risks Relating to the Common Shares continued

Future stock market conditions may change.

There are risks involved with any equity investment. The market price of the Common Shares may rise or fall depending upon a range of factors and stock market conditions, which are unrelated to the Company's future financial performance. Movements on international stock markets, local interest rates and exchange rates, domestic and international economic and political conditions, as well as government, taxation and other policy changes may affect the stock market. As the Company is a listed company on the HKEX and the TSX-V, its Common Share price will also be subject to numerous influences including broad trends in the stock market and the share prices of individual companies or sectors.

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

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

As a result of work performed by BAW, the Company revised its estimate of total resources at the Ovoot Tolgoi deposit from those described in the 2024 Technical Report, has revised its estimate of total reserves for the Ovoot Tolgoi deposit and prepared a new mine plan. There are no assurances, however, that the Company will execute its mine plan and realise on the estimates for the Ovoot Tolgoi deposit. It is not unusual in the mining industry for mining operations to experience unexpected problems during commercial production, resulting in delays and requiring more capital than anticipated. Actual costs and economic returns may differ materially from the Company's estimates. Risks associated with the operation of mines include, but are not limited to, the following:

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

14. Risk Factors continued

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

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

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

- Ability to generate sufficient sales volumes at economical realised prices;
- Maintaining an adequate water supply to the mine site to permit the continued operations of the wash plant as planned;
- Achieving satisfactory yields from wet washing operations;
- Successful conversion of resources into reserves during the life of mine; and
- Success in enhancing the operational efficiency and the output throughput of the of the wet wash plant.

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

Risks Relating to the Company's Projects in Mongolia

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

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

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

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

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

14. Risk Factors continued

Risks Relating to the Company's Projects in Mongolia continued

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

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

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

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

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

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

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

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

14. Risk Factors continued

Risks Relating to the Company's Projects in Mongolia continued

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

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

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

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

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

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

In accordance with Article 22.3 of Law of Mongolia on Water, 5,602.96 hectares of land, including Sukhaityn Bulag, Uvur Zadgai, and Zuun Shand pertaining to exploration license 9443X, which was converted to mining license MV-0125436 in January 2016, is overlapping with a protected area boundary. The overlapping area has been officially handed over to the local administration. (Resolution No.688 issued on September 24, 2015 by the Head of Cadastral Division of the Mineral Resource Authority) In connection with the nullification of Annex 2 of the Government order No.194 "On determining boundary" issued on June 5, 2012, area around the water reservoir located at MV-016869 license area was annulled from the Specified Area Law.

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

14. Risk Factors continued

Risks Relating to the Company's Projects in Mongolia continued

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

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

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

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

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

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

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

14. Risk Factors continued

Risks Relating to the Company's Projects in Mongolia continued

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

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

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

14. Risk Factors continued

Risks Relating to the Company's Projects in Mongolia continued

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

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

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

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

Risks relating to the Company's business and industry

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

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

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

14. Risk Factors continued

Risks relating to the Company's business and industry continued

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

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

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

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

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

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

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

14. Risk Factors continued

Risks relating to the Company's business and industry continued

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

As at March 28, 2025, to the best of the Company's knowledge:

- JDZF holds a total of 85.7 million Common Shares representing approximately 28.9% of the issued and outstanding Common Shares;

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

- Voyage Wisdom holds a total of approximately 25.8 million Common Shares representing approximately 8.7% of the issued and outstanding Common Shares.

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

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

14. Risk Factors continued

Risks relating to the Company's business and industry continued

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

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

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

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

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

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

As of December 31, 2024, the Company has recorded an additional tax and tax penalty in the amount of $45.5 million and the Company has paid the MTA an aggregate of $1.7 million in relation to the aforementioned tax penalty, as more particularly detailed under section 6 "Liquidity and Capital Resources" of this MD&A under the heading entitled "Additional Tax and Tax Penalty Imposed by MTA".

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

14. Risk Factors continued

Risks relating to the Company's business and industry continued

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

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

- Certain provisions of the Law on Land of Mongolia enacted on June 7, 2002, as amended (the "Land Law of Mongolia") and the 2006 Minerals Law provide for the revocation of previously granted land use rights, mineral exploration licenses or mining licences on the grounds that the affected area of land has been designated as SNT. The Land Law of Mongolia grants the discretion to declare an area of land for special needs purposes to local governing authorities and identifies various broad categories which qualify as special needs. The 2006 Minerals Law requires the local governing authority that designates an area of land as a special needs territory to compensate within one year the licence holder whose rights or licence status are affected. The failure to pay the compensation within the one year period would allow the licence holder to resume its operations. If any of the Company's land use rights or mining licences in Mongolia are revoked because the underlying land is declared as special needs territory, there is no assurance that the Company will receive adequate compensation and its business and results of operation might be adversely and materially affected.

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

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

- On July 24, 2021, SGS was notified by the Implementing Agency of Mongolian Government that the license area covered by two mining licenses (MV-016869 and MV-020451) are no longer overlapping with the SNT. The Company will continue to work with the Mongolian authorities regarding the license area covered by the mining license (MV-020436). There is no assurance that the Company will receive adequate compensation and its business and results of operation might be adversely and materially affected.

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

14. Risk Factors continued

Risks relating to the Company's business and industry continued

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

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

- On June 18, 2024, the Court of First Instance in Umnugobi Province reviewed the above subject matter in which SGS is the plaintiff and Citizen's Representative Meetings of Gurvantes soum is the defendant. The Court of First Instance determined that the claims made by Citizen's Representative Meetings of Gurvantes soum relating to the License Areas as set forth in the Resolution were invalid. Citizen's Representative Meetings of Gurvantes soum has since applied to the Court of Appeals for an appeal of the Court of First Instance's decision.

- On September 12, 2024, the Court of Appeals reviewed the appeal made by Citizen's Representative Meetings of Gurvantes soum and determined that the appeal was invalid. Citizen's Representative Meetings of Gurvantes soum did not apply to the Supreme Court of Mongolia for an appeal of the Court of Appeals' decision upon the expiry of the application deadline. As a result, the decision made by the Court of Appeals is final and conclusive.

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

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

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

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

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

14. Risk Factors continued

Risks relating to the Company's business and industry continued

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

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

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

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

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

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

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

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

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

14. Risk Factors continued

Risks relating to the Company's business and industry continued

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

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

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

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

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

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

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

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

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

14. Risk Factors continued

Risks relating to the Company's business and industry continued

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

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

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

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

The Company has been selling its coal products since 2008. The Company had 78 active customers with the largest customer representing approximately 15%, the second largest customer representing approximately 7%, the third largest customer representing approximately 5% and the remaining customers accounting for 73% of the Company's total sales for the year ended December 31, 2024. In order to mitigate this risk, the Company is attempting to modify its sales strategy in order to expand its existing customer base. With certain of its customers, the Company has accepted payment for coal deliveries in the form of bank instruments, in lieu of cash. There can be no assurance, however, that the Company will be able to satisfy or comply with the funding conditions of such instruments following completion of the coal delivery or the bank that issues the instrument will be capable of paying all or any portion of the proceeds to the Company, which could have a material adverse effect on the business and operations of the Company and may negatively affect the price and volatility of the Common Shares.

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

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

14. Risk Factors continued

Risks relating to the Company's business and industry continued

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

Effective internal controls are necessary for the Company to provide reliable financial reports and prevent fraud. If the Company fails to maintain an effective system of internal controls, the Company may not be able to report its financial results accurately or prevent fraud; and in that case, Shareholders and investors could lose confidence in the Company's financial reporting, which would harm the Company's business and could negatively impact the price of the Common Shares.

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

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

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

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

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

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

14. Risk Factors continued

Risks relating to the Company's business and industry continued

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

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

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

Foreign currency fluctuations could affect expenses and any future earnings.

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

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

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

15. Outlook

Global geopolitical landscape has been evolving continuously. The recent trade tensions between China and the United States are expected to reshape international coal market. As a countermeasure against the new US tariffs on Chinese imports, Chinese government imposed additional custom duties in return, including for US coal products. The surging US import price and escalating uncertainty on trades between both countries may lead to a shift in import sources. Chinese users may seek to increase imports from other countries like Australia, Russia, Canada and Mongolia, which are more stable and reliable sources of coal, to meet its demand.

Strengthening collaboration between the Chinese and Mongolian governments continue to enhance their trade ties, particularly in energy and resources sectors. Initiatives aimed at improving infrastructure, such as roads and railways, will facilitate smoother logistics for coal exports from Mongolia to China. This provides favourable conditions for Mongolia to capture the growing demand from Chinese markets.

However, the recent challenges faced by China's property market and prudent infrastructure investment, have resulted in an overall decline in its steel demand and production, which led to a corresponding reduction in coking coal demand.

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.

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

The Company has been increasing the scale of its mining operations since 2023, as well as implementing various coal processing methods, including screening, wet washing and dry coal processing, which have resulted in enhanced production volumes and growth of coal export volumes into China in 2024.

In 2025, the Company will continue to ramp up its mining operations and coal processing capacity to seize the opportunity in expanding its market share.

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 dry and wet coal processing plants; and (iii) trading and blending different types of coal to produce blended coal products that are economical to the Company.

- **Expand market reach and customer base** – The Company will endeavor to increase sales volume and sales price by: (i) expanding its sales network and diversifying its customer base; (ii) increasing its coal logistics capacity to resolve the bottleneck in the distribution channel; and (iii) setting and adjusting the sales price based on a more market-oriented approach in order to maximise profit while maintaining sustainable long-term business relationships with customers.

15. Outlook continued

- **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 on reducing its production costs and optimising 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 at least 82.3 million tonnes.

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

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

March 28, 2025


996
LIEBHERR
MINING TEREX
1426
26


TEREX MINING
27

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

About the Report

SouthGobi Resources Ltd., together with its subsidiaries (collectively the "Company" or "we"), is an integrated coal mining, development, and trading company. The Ovoot Tolgoi Mine, the main operation site of the Company, is situated in Mongolia, 46 kilometres North of China border. With the mining and exploration licenses for metallurgical coal and thermal coal deposits in the South Gobi Province of Mongolia, the coal produced is transported from the mine site to the markets in China through road and railway networks. The Company is a unique coal mining corporation positioned to leverage on Mongolia's rich coal resources and China's capital market, allowing the Company the seize the opportunities under the Belt and Road Initiative.

With the favourable operating location and fully equipped logistics infrastructure, the Company has vast reserves of coal resources and the capability to provide one-stop services, from the production of coal to the transportation and sales of coal. Moreover, the Company has a strong operations and safety background in Mongolia, in particular, our wholly-owned subsidiary in Mongolia, Southgobi Sands LLC ("SGS") has a long history of coal operations. Since 2007, SGS has received numerous awards, and it is one of the largest-scale and most renown operations in Mongolia.

The Company is pleased to present our Environmental, Social and Governance ("ESG") report (the "Report" or the "ESG Report") for the financial year ended December 31, 2024 (the "Reporting Period" or "2024") which demonstrates core values, ESG-related policies, measures, and performance of the Company. Through the Report, the Company aims to enhance the communication with the Company's stakeholders, while increasing their understanding of the Company's direction and progress on material sustainability issues, boosting their confidence.

Scope of Report

Adopting an operational control approach, this Report covers our coal mining and exploration business segment that is under the operation of SGS which conducts its operational activities in coal mining sites, the coal washing plant, and the coal transportation routes. To ensure consistency, the environmental and social aspects covered in the Report focus on SGS, unless stated otherwise. The coverage of the scope illustrates the environmental and social performance of the Company during the Reporting Period, highlighting the key business activities that have significant ESG impacts on the surrounding areas of the operation sites.

This Report discloses the ESG performance of the Company for the period from January 1, 2024 to December 31, 2024. Unless otherwise specified, the information and data included in the Report pertain the operations of the Company. The information and data are collected from the Company's data collection system, which is integrated into our daily operations and supports our formulation of ESG practices.

Reporting Principles

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

1. **Materiality**: The Company identifies the material ESG issues by conducting regular interactions with its key stakeholders to recognise the ESG issues of concern. The Report discloses information according to the material ESG issues identified. For details on the identification process of ESG issues, please refer to sections "Stakeholder Engagement" and "Materiality Assessment".

2. **Quantitative**: Quantitative approach is applied to the disclosure of the environmental and social performance, with measurable Key Performance Indicators ("KPIs"). The standards, methods and reference sources for relevant data statistics and calculation follow the guideline set forth in "Appendix 2: Reporting Guidance on Environmental KPIs" and "Appendix 3: Reporting Guidance on Social KPIs" issued by the Hong Kong Stock Exchange.

3. **Balance**: The Report presents the Company's performance in an unbiased manner, including both outstanding areas and room for improvement. The Company strives to avoid selections, omissions, or presentation formats that may affect reader's decisions or judgment.

4. **Consistency**: To ensure meaningful comparison of ESG performance, consistent methodologies and reporting framework are adopted, and data from the previous reporting period are presented accordingly. In case of significant changes in the reporting framework or calculation methodology used, corresponding explanation will be provided.

Information Disclosure

The information in this ESG Report was collected from internal policies of the Company's subsidiaries, factual evidence of the implementation of ESG practices within the Company, feedback from staff via online surveys including both quantitative and qualitative data based on the reporting framework, and the statistics of the Company's annual performance in business operations and sustainable development. For the readers' convenience, a complete content index is available at the end of the ESG Report.

This ESG Report is prepared in both English and Chinese. In case of any conflict or inconsistency, the English version shall prevail.

Message from the Board

The Company's board of directors (the "Board") recognises the pivotal role of exceptional ESG performance in driving sustainable business practices and fostering positive impacts within local communities. With unwavering commitment, the Board is dedicated to advancing the Company's growth while simultaneously enhancing environmental stewardship, fulfilling social responsibilities, and upholding robust corporate governance standards.

Governance Structure and Oversight

The Company employs a top-down approach to managing ESG-related matters. As the highest governance body, the Board assumes ultimate responsibility for overseeing all ESG-related issues. This includes monitoring the identification and categorisation of ESG-related matters, assessing their significance in light of the Company's operations and stakeholder concerns, and prioritising them accordingly. The Board also ensures regular monitoring and review of ESG performance and progress, while endorsing ESG policies, reporting frameworks, and management systems pertaining to health, environment, safety, and social responsibility. To drive continuous improvement, the Board approves ESG-related goals and targets, and rigorously tracks progress against these objectives.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Role of the HESS Committee

To support the Board in its oversight duties, the Health, Environment, Safety, and Social Responsibility (HESS) Committee (the "Committee") has been established. The Committee assists the Board by monitoring and reviewing ESG performance, proposing ESG policies and management systems, and providing recommendations for enhancing materiality assessments. Annually, the Committee reviews the Company's ESG Report and offers actionable insights for improving ESG performance. Additionally, the Committee conducts periodic reviews of ESG progress to update goals and targets, ensuring alignment with the Company's sustainable development objectives.

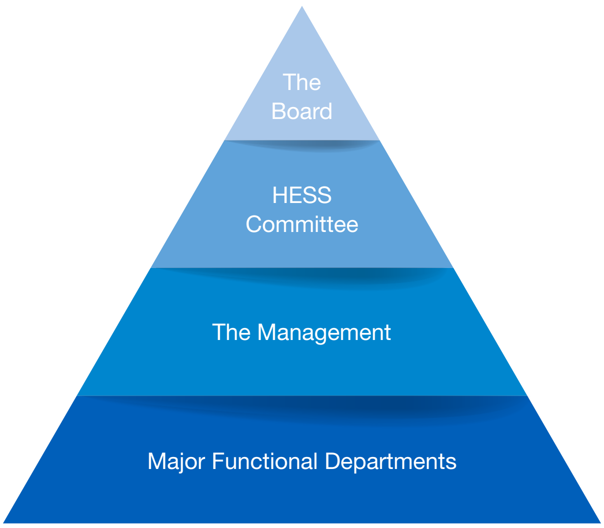
The Committee also reviews incidents and provides recommendations to prevent recurrence, reporting to the Board on a quarterly basis. In the event of an emergency, contingency meetings are convened promptly to address relevant ESG-related issues. To uphold the highest standards of ESG management, the Committee undertook a comprehensive review of its internal policies and procedures in 2024, referencing current best practices. A total of four (4) meetings were held during the Reporting Period to discuss ESG matters.

Operational Implementation

The Company's Management, including Environmental Management, Safety Management, and Human Resources Management teams at the mine site, plays a critical role in developing and implementing ESG management strategies and targets. Key functional departments, such as coal production, coal washing, and human resources, are tasked with minimising environmental pollution, optimising coal processing technologies, and enhancing employee awareness of ESG-related issues.

Through internal communication platforms, external ESG reporting, and proactive stakeholder engagement, the Company ensures timely and effective resolution of ESG-related feedback and concerns. Furthermore, regular training programmes are provided to Board members and employees to deepen their understanding of ESG issues, thereby strengthening the Company's overall ESG management capabilities.

ESG Management Structure



Board Commitment

As the highest governance body of the Company, the Board affirms its unwavering commitment to integrity, operational responsibility, and the pursuit of excellence. We actively seek opportunities to integrate advanced technologies, ensuring the Company remains competitive within the industry. Recognising our broader social responsibilities, we are dedicated to engaging with the public and contributing meaningfully to the development of local communities.

In line with our environmental stewardship, we are committed to minimising the environmental impact of our operations. To this end, we conduct an annual environmental monitoring programme, which includes comprehensive assessments of air quality (encompassing dust and emissions), ground and surface water levels and quality, soil quality, vegetation, biodiversity, and the progress of restoration and rehabilitation efforts.

Safety as a Core Priority

As a responsible player in the coal mining industry, safety remains a paramount priority. We are committed to fostering a safe, inclusive, and supportive working environment for all employees. This is achieved through the strict implementation of standardised safety guidelines and measures, with the ultimate goal of eliminating work-related fatalities and injuries. During the Reporting Period, we are proud to highlight that there were zero (0) work-related fatalities and injuries, reflecting our dedication to maintaining high safety standards. This achievement is underpinned by the continuous monitoring and refinement of our safety policies and their implementation.

To further strengthen safety awareness and support the professional development of our employees, we offer a diverse range of training opportunities throughout the year. These programmes are designed not only to enhance safety practices but also to empower employees to achieve their personal career aspirations.

Stakeholder Engagement

The Company acknowledges the critical importance of addressing stakeholder expectations and concerns in shaping its sustainable strategies. By actively incorporating feedback from key stakeholders, the Company is able to evaluate its ESG performance and implement meaningful improvements from diverse perspectives. To ensure a holistic approach, the Company identifies its internal and external stakeholders based on industry trends, as well as its unique characteristics and developmental objectives. This enables the Company to align its strategies with stakeholder interests and drive sustainable progress effectively.

The Company's decisions and operations have a significant impact on key stakeholders across various categories, including employees and customers. As such, the Company places a high priority on understanding, valuing, and addressing stakeholder concerns by strengthening communication channels. Through a variety of engagement platforms, the Company collects feedback and insights related to its operations and sustainable development initiatives. This ensures continuous improvement in ESG strategies and supports the comprehensive disclosure of this Report, which is aligned with the perspectives of key stakeholders.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Through ongoing interactions with key stakeholders via diverse communication channels (as illustrated below), the Company gains a deeper understanding of stakeholder views on ESG-related issues from multiple perspectives. The expectations and concerns of the Company's key stakeholders are summarised as follows:

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

The Company is committed to transparency and credibility. As part of our commitment, the Company ensures the opinions from our key stakeholders are valued and addressed. Through active engagement with our key stakeholders, the Company continues to refine our sustainable policies and practices, moving towards a responsible and sustainable corporate.

Materiality Assessment

As the Company understands that different stakeholders from various background hold specific views, the Company considers the feedback from our key stakeholders as crucial element in the identification of the Company's material ESG topics. Hence, materiality assessments are regularly conducted to collect and evaluate the key stakeholders' opinions, understanding the material ESG topics of the Company and improving the corresponding strategies in particular.

The Company conducts the materiality assessment in a stepwise manner, which includes processes of identification, prioritisation, and validation, to ensure proper management ESG topics and disclosure of material issues. The processes are detailed as below.

1. Identifying ESG topics

To come up with a list of ESG topics relevant to its operations, the Company considered various sources, including key stakeholders' feedback, material ESG issues identified from previous reporting period, existing policies and procedures, industry and international trend reports, regulatory updates, and external standards. In the consideration of aforementioned sources, the Company identified a list of potential ESG topics, aiming to ensure a holistic identification of material ESG issues relating to the business operations.

The following table shows the list of 16 fundamental sustainability topics, which were considered to have potential impacts on the Company in terms of environment, society and governance during daily operations.

1	Hazardous Emissions and Waste	9	Health and Safety
2	Biodiversity and Land Use	10	Labour Rights
3	Water Resources Management	11	Supply Chain Management
4	Greenhouse Gas (GHG) Emissions	12	Product Safety and Quality
5	Climate Change Resilience	13	Privacy and Data Security
6	Raw Material Procurement	14	Governance
7	Resource Consumption	15	Anti-corruption
8	Energy Transition and Low Carbon Strategy	16	Emergency and Crisis Management

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2. Prioritising ESG issues

The Company classified key stakeholders into two (2) major categories: internal and external stakeholders. Internal stakeholders include directors, senior management, managerial staff, and general staff, while external stakeholders include customers, suppliers, shareholders and investors, government and regulatory authorities, and the community. Representatives of key stakeholders were then invited to participate in an online survey to evaluate and rate the significance of each sustainability topics on the list. Meanwhile, participants were encouraged to raise additional relevant ESG topics of interested and provide any other feedback on engagement practices. After analysing the weighted ratings, the list of sustainability topics was then prioritised, with material topics identified and mapped on the materiality matrix, as shown below.

Stakeholder Engagement Materiality Matrix

According to the results of the materiality matrix, five (5) ESG issues were identified as more material to the Company's operations, being "Hazardous Emissions and Waste", "Biodiversity and Land Use", "Water Resources Management", "Resource Consumption", and "Health and Safety".

3. Validating the outcomes of materiality assessment

The outcomes of the materiality assessment were eventually reviewed and validated by the Board and the Committee. The endorsement of the material ESG issues ensures that the Company is approaching the right direction towards the sustainable development with the most relevant and important ESG issues as well as the implementation of ESG policies and practices. The Company strives to prioritise and focus on the material ESG issues identified, addressing concerns and improving the performance in respective issues.

Comments and Feedback

As we strive for excellence, we value all opinions form our stakeholders and readers. Feedback from every stakeholder is welcomed and appreciated. We believe open communication is the key to continuous improvement and collaborations strengthen relationships with our stakeholders. We are committed to accepting valuable suggestions to improve our efforts in sustainable development. Together, we move towards a greener future.

Should there be any comments or feedback regarding the Company's ESG performance, please share via the following channels.

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

A. Environmental

The Company primarily operates in Mongolia, with its disclosure scope focusing on operational activities within SGS. The Company adheres to the Laws of Mongolia, including but not limited to the Environmental Protection Law of Mongolia ("EPL")*, the Law of Mongolia on Environmental Impact Assessment*, the Law of Mongolia on Water*, the Law of Mongolia on Soil Protection and Prevention of Desertification*, the Law of Mongolia on Waste*, and the Law of Mongolia on Air*.

The Company is committed to demonstrating environmental leadership and fulfilling its obligations to protect the environment through the following commitments:

- Complying with the EPL and regulations established by the government, local self-governing organisations, local governors, and Mongolian state inspectors;

- Adhering to environmental standards, limits, legislation, and procedures, while monitoring their implementation within the organisation;

- Avoiding environmental impact wherever possible by:

  - Monitoring and tracking toxic substances, adverse impacts, and waste discharged into the environment;

  - Reporting on measures taken to reduce or eliminate toxic chemicals, adverse impacts, and waste; and

- Taking steps to minimise its effects, where environmental impact cannot be avoided.

* *Translation for identification purpose only*

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

As a mining license holder, SGS conducted an initial environmental impact assessment (EIA) prior to commencing production at its mining sites. The EIA, the Environmental Management Plan (EMP) and the Environmental Monitoring Plan, which include rehabilitation measures, were approved by the Ministry of Environment and Tourism of Mongolia. With the annual implementation of the EMP, the Company manages its environmental impacts in accordance with the details stated in the plan. For further details on the EMP, please refer to the Company's latest "Annual Information Form" available on the Company's website, under the section Investor Relations (https://www.southgobi.com/html/ir_reports.php).

To enhance the management of its operational practices in environmental and social aspects, the Company has established the "Social and Environmental Policies of SGS". In implementing its environmental policy, the Company is committed to the following practices:

- Upholding responsibility for environmental protection in compliance with Mongolian laws related to mining activities;
- Ensuring environmental considerations are prioritised in all business activities;
- Conducting third-party and internal environmental monitoring in collaboration with governmental organisations and local communities;
- Eliminating and minimising environmental impacts, while rehabilitating and implementing biodiversity offsets in project areas;
- Adhering to Mongolian standards for land rehabilitation during mining operations and at the time of mine closure;
- Establishing and implementing an environmental management system to identify, assess, and manage environmental risks associated with the Company's planning and operational decisions;
- Regularly monitoring and updating the Company's environmental management system and policies to enhance environmental performance;
- Collaborating with specialists, specialised agencies, and administrative bodies to ensure best practices; and
- Providing timely training to employees and contractors on environmental matters.

A1. Emissions

Guided by the framework of its environmental policy, the Company is dedicated to fulfilling its environmental stewardship by minimising adverse impacts through a series of proactive measures. The Company is committed to regularly monitoring emissions and implementing corresponding mitigation actions, including rehabilitation and biodiversity offsets, while actively engaging local communities in environmental protection initiatives. It remains the Company's steadfast determination to continuously adopt and enhance its environmental management system. This includes documenting all environment-related issues, conducting internal compliance audits, and engaging independent experts to audit where necessary.

In 2024, the Company's primary emissions were air and GHG emissions, and hazardous and non-hazardous wastes, and the Company complied with relevant laws and regulations relating to air and GHG emissions, discharges into water and land, and generation of hazardous and non-hazardous waste that have a significant impact on the Company.

A1.1 Air Emissions

The Company recognises the importance of maintaining good air quality within and around its operational sites. It is committed to developing a comprehensive air quality plan aimed at improving its mechanisms for internal and independent air quality monitoring and analysis. In alignment with this objective, SGS engaged the environmental consultancy firm, ECOTYCOON, to conduct an on-site assessment.

In 2024, the Company's air emissions included sulphur oxides ("SO_x"), nitrogen oxides ("NO_x"), and particulate matters ("PM") emitted from the mining operational processes. The breakdown of the Company's air emissions was outlined as follows.

Table 1. The Company's Air Emissions in 2024

Air Emissions[1]	Unit	Amount in 2024	Intensity (Kg/million tonnes of raw coal produced) in 2024[2]
SO_x	kg	**3.6**	0.4
NO_x	kg	**203.2**	19.9
PM	kg	**15.0**	1.5

Note:

1. Air emissions included only the air pollutants in the exhaust gas from private cars, driven by diesel; and

2. The intensity for 2024 was calculated by dividing the amount of air emissions (in kg) by the Company's total amount of raw coal produced in 2024, which was 10.19 million tonnes.

Given that it was the Company's first year to disclose quantitative data on air pollutants emitted, the scope of air emissions disclosure will be further enhanced in the future. Additionally, under the SGS's environmental monitoring programme, samples of the above air pollutants were collected in eleven (11) selected areas and then sent to an authorised laboratory for analysing. To ensure its emissions are in compliance with the Mongolian air quality standard MNS 4585:2016, the Company keeps monitoring and recording the above air pollutants released from the mining operational processes.

The results of the laboratory analysis, which were the Company's average amount of air pollutants released in both 2024 and 2023, were summarised below.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Table 2. The Company's Average Amount of Air Pollutants Released in 2024 and 2023[1]

Air Pollutants	Unit[2]	Average amount released in 2024	Average amount released in 2023[3]	MNS 4585:2016 Standard
SO_x	mg/m^3	**0.028**	0.015	<0.45
NO_x	mg/m^3	**0.027**	0.030	<0.20
PM	mg/m^3	**0.143**	0.250	<0.50

Note:

1. The above data were extracted from the "environmental monitoring programme" performed by the SGS;
2. The unit (mg/m^3) refers to the average amount of air pollutants (in milligram) per cubic meter of air released; and
3. The average amount of air pollutants for 2023 were extracted from the data in the 2023 ESG Report of the Company.

Adhering to the EMP, SGS conducts routine monitoring on air quality and develops measures in preventing and mitigating air pollution at the Ovoot Tolgoi Mine. As a company operating in Mongolia, the Company has established and implemented a monitoring programme in compliance with the laws and requirements of Mongolia. Hence, the Company strictly follows the MNS 4585:2016 standard to control its air quality indicators. Although the air pollutants emitted from its operations cannot be completely eliminated due to its business nature, the Company is targeting to maintain its air emissions level with 2024 being the baseline year to manage its air emissions. The Company is committed to regularly monitoring the amount of air pollutants released and taking its responsibility to disclose available air emissions data to the public.

A1.2 GHG Emissions

The Company recognises that GHG emissions are a significant contributor to climate change. As such, it is committed to monitoring its GHG emissions performance and enhancing the transparency of its emissions reporting. In 2024, the primary sources of the Company's Scope 1 GHG emissions were petrol and diesel consumption for transportation and industrial activities, while Scope 2 GHG emissions resulted from the consumption of purchased electricity.

Table 3. The Company's GHG Emissions in 2024 and 2023[1]

GHG Emissions	Unit	Amount in 2024	Intensity (Tonnes of CO_2e/million tonnes of raw coal produced) in 2024[2]	Amount in 2023[3]	Intensity (Tonnes of CO_2e/million tonnes of raw coal produced) in 2023[3]
Scope 1 (Direct Emissions)[4]	Tonnes of CO_2e	**28,763**	**2,821.8**	–	–
Scope 2 (Energy Indirect Emissions)[5]	Tonnes of CO_2e	**2,004**	**196.6**	3,087.4	762.3
Removal by Planted Trees	Tonnes of CO_2e	**1,265**	**124.1**	–	–
Total GHG Emissions (Scope 1 and 2)	**Tonnes of CO_2e**	**29,502**	**2,894.3**	**3,087.4**	**762.3**

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Note:

1. The methodology adopted for reporting on GHG emissions set out above was based on "How to Prepare an ESG Report – Appendix 2: Reporting Guidance on Environmental KPIs" issued by the Stock Exchange, The GHG Protocol Corporate Accounting and Reporting Standard and the 2006 IPCC (Intergovernmental Panel on Climate Change) Guidelines for National Greenhouse Gas Inventories;

2. The intensity for 2024 was calculated by dividing the amount of GHG emissions (in tonnes of CO_2e) by the Company's total amount of raw coal produced in 2024, which was 10.19 million tonnes;

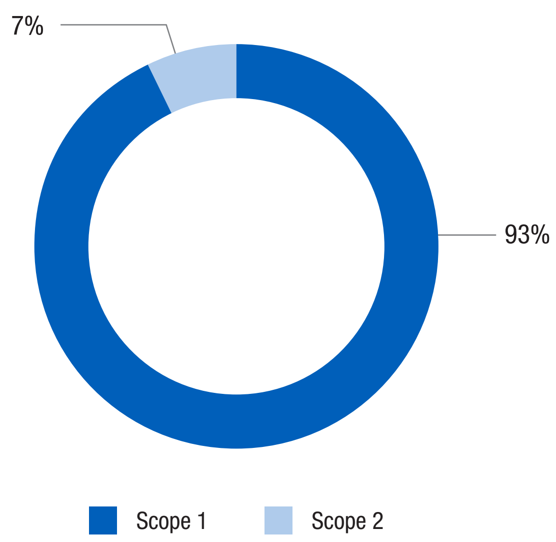
3. The amount and intensity in 2023 were extracted from the data in the 2023 ESG Report of the Company;

4. The Company's Scope 1 (Direct Emissions) included only the GHG emissions arose from the consumption of petrol and diesel consumption in vehicles and operations; and

5. The Company's Scope 2 (Energy Indirect Emissions) included only the GHG emissions arose from consumption of purchased electricity.

In 2024, Scope 1 GHG emissions dominated the Company's emissions profile, accounting for approximately 93% of total emissions, while Scope 2 GHG emissions represented 7%. This emissions pattern reflects the Company's significant reliance on petrol and diesel consumption compared to electricity usage, which is consistent with the nature of its business operations.

The Company's Total GHG Emissions in 2024



Joining the "One Billion Trees" Campaign

Aiming to maintain its GHG emissions level with 2024 being the baseline year, SGS plays an active role in the "One Billion Trees", which is a national campaign advocated by the President of Mongolia aiming to accelerate the greening strategy. In 2024, SGS planted a total of 55,000 trees, including 4,000 larch trees on Bogdhan Mountain in Ulaanbaatar, 6,000 sage trees in Bulgan soum of Umnugovi province, 30,000 pine and elm trees in Gurvantes soum of Umnugovi province, 12,000 sage trees in Bayanlig soum of Bayankhongor province, and 3,000 elm trees near the Ovoot Tolgoi Mine.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A1.3 Waste Management

In 2024, the Company generated both hazardous and non-hazardous solid waste, as well as wastewater. This year marked a significant improvement in waste and wastewater accounting methodology, with expanded accounting and disclosure practices now in place to ensure greater transparency and demonstrate accountability. Details of the Company's waste generation are outlined below.

Table 4. The Company's Waste Generation in 2024 and 2023

Waste		Unit	Amount in 2024	Intensity (Tonnes or m^3/ million tonnes of raw coal produced) in 2024[1]	Amount in 2023[2]	Intensity (Tonnes or m^3/ million tonnes of raw coal produced) in 2023[2]
Hazardous Waste	Solid Waste	Tonnes	**120**	**11.8**	120	29.6
	Wastewater	m^3	**41,067**	**4,028.9**	–	–
Non-hazardous Waste	Solid Waste	Tonnes	**180**	**17.7**	–	–
	Wastewater	m^3	**2,925**	**287.0**	–	–

Note:

1. The intensity for 2024 was calculated by dividing the amount of waste (Solid waste: in tonnes; Wastewater: in m^3) generated by the Company's total amount of raw coal produced in 2024, which was 10.19 million tonnes; and

2. The amount and intensity in 2023 were extracted from the data in the 2023 ESG Report of the Company.

Hazardous waste

Establishing 2024 as the baseline year, the Company aims to maintain its levels of hazardous and non-hazardous waste, with a focus on reducing overall waste generation. To achieve this, the Company has implemented environmentally friendly waste management programmes centred on the 3R principles: reducing, reusing, and recycling. Key initiatives include:

- "Waste Collection, Loading, Transportation, and Disposal Procedure";
- "Mine Camp Waste Handling Procedure"; and
- "Mine Workshop Waste Handling Procedure".

These policies and procedures provide employees with standardised guidance on waste handling practices, promoting the 3R principles while safeguarding the environment and ensuring the health and safety of employees. The measures encompass pasteurisation, appropriate transportation, recycling, disposal, and the overall reduction of adverse environmental impacts.

In 2024, the Company generated a total of 120,000 litres of waste oil, which was managed by a professional waste oil recycling contractor in Mongolia. Additionally, the Company generated other types of hazardous waste, including 0.5 tonnes of used tires, 1.0 tonnes of used car batteries, and 2.7 tonnes of used cartridges. During the Reporting Period, 0.3 tonnes of used cartridges were recycled.

Non-hazardous waste

Recyclable materials from non-hazardous waste generated by the Company are extracted and delivered to a local village in Mongolia for repurposing. This initiative aims to support local communities by creating job opportunities and increasing income, while reducing waste disposal. Furthermore, the Company collaborates with a local waste service provider in Mongolia to enhance non-mineral waste handling and management procedures.

A2. Use of Resources

The Company's top-down approach on managing ESG-related issues allows a clear designation of responsibilities on resources conservation and environmental protection in mining sites, with an effective communication mechanism across the Company. In 2024, the Company primarily consumed electricity, petrol, diesel, water, and metal.

A2.1 Energy Consumption

In 2024, the Company mainly consumed energy resources of electricity, petrol, and diesel. Electricity was consumed to maintain the operations of the coal washing plant and mine workshop, while petrol and diesel were consumed in mining sites for various kinds of operating machineries. The summary of the Company's energy consumption was outlined as below.

Table 5. The Company's Energy Consumption in 2024 and 2023

Energy Consumption	Unit	Amount in 2024	Intensity (MWh or L/ million tonnes of raw coal produced) in 2024[1]	Amount in 2023[2]	Intensity (MWh or L/ million tonnes of raw coal produced) in 2023[2]
Electricity	MWh	**1,774**	**174.0**	3,594	887.5
Diesel	L	**9,713,380**	**952,938.0**	–	–
Petrol	L	**2,200**	**215.8**	–	–
Total Energy Consumption	**MWh**	**105,760**	**10,375.6**	**3,594**	**887.5**

Note:

1. The intensity for 2024 was calculated by dividing the amount of resources (Electricity and Total energy consumption: in MWh; Diesel and Petrol; in L) consumed by the Company's total amount of raw coal produced in 2024, which was 10.19 million tonnes; and

2. The amount and intensity in 2023 were extracted from the data in the 2023 ESG Report of the Company.

Meanwhile, the Company consumed additional gas and oil for mining operations. In 2024, the Company consumed approximately 849 Gallon/33,000 psi of gas (2023: 85 Gallon/33,000 psi) and 270 tonnes (2023: 120 tonnes) of oil. The Company's gas consumption included types of propane, oxygen, acetylene, argon, and nitrogen, while the Company's oil consumption included types of gear oil, hydraulic oil, and engine oil.

To effectively manage its energy consumption, the Company closely monitors its performance in energy conservation. With 2024 marking the first year of accounting for diesel and petrol consumption data, the Company remains cautious in setting specific targets at this preliminary stage. It plans to further evaluate the feasibility of establishing relevant targets in the coming year, once more historical performance data can be analysed. Nevertheless, the Company continues to explore the use of energy-efficient machinery and equipment for its coal mining operations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In line with its goal to maintain electricity consumption levels, using 2024 as the baseline year, the Company has adopted and implemented the following measures to enhance energy efficiency:

- Conducting regular camp meetings to discuss energy consumption efficiency with all employees;
- Displaying signage to remind employees to turn off idling lights;
- Inspecting lighting systems every evening;
- Closely monitoring and maintaining room temperatures; and
- Operating air conditioners according to a fixed schedule.

A2.2 Water Consumption

The Ovoot Tolgoi Mine utilises water for two (2) primary purposes: domestic use within the mine camp and operational use in mining activities. Domestic water consumption includes drinking, showering, cleaning, and other related activities, while operational water is primarily used in the coal washing plant and for dust suppression.

The Company complied with the legal requirements set by relevant governmental departments regarding water consumption. Additionally, it has entered into an agreement with the Altai Basin administration to regulate water resource usage. Under the terms of this agreement, the Company pays water usage fees promptly, contributing to the local budget.

Water consumption

In 2024, the Company consumed a total of 362,485 m^3 of water. The following table shows the detailed breakdown of the Company's water consumption.

Table 6. The Company's Water Consumption in 2024 and 2023

Water Consumption	Unit	Amount in 2024	Intensity (m^3/million tonnes of raw coal produced) in 2024[1]	Amount in 2023[2]	Intensity (m^3/million tonnes of raw coal produced) in 2023[2]
Domestics	m^3	**53,371**	**5,236.0**	23,597	5,826.4
Dust Suppression	m^3	**179,875**	**17,646.8**	155,829	38,476.3
Coal Washing Plant	m^3	**129,239**	**12,679.1**	127,753	31,544.0
Total Water Consumption	**m^3**	**362,485**	**35,561.9**	**307,179**	**75,846.7**

Note:

1. The intensity for 2024 was calculated by dividing the amount of water consumption (in m^3) by the Company's total amount of raw coal produced in 2024, which was 10.19 million tonnes; and
2. The amount and intensity in 2023 were extracted from the data in the 2023 ESG Report of the Company.

The Company is committed to reducing its water consumption, particularly in managing water usage for dust suppression during mining operations, while minimising the environmental impact of its activities. Using 2024 as the baseline year, the Company aims to maintain its current water consumption levels. To conserve water resources, the Company has implemented several measures, including:

- Organising meetings with employees and local residents to promote the importance of water conservation and share best practices for efficient water use;
- Placing rubbish bins in multiple areas within the Ovoot Tolgoi Mine to prevent litter from polluting water sources; and
- Conducting routine cleaning and maintenance around water sources to ensure the quality of water supplies for the mine camp and local communities.

In 2024, the Company did not face any issues in sourcing water that is fit for purpose. Moving forward, it will continue to monitor water supplies across different regions and explore multiple water sources to ensure a stable supply.

Utilised Grey Water
Since 2015, the Company, particularly the mine camp, has reused grey water as part of its efforts to reduce water consumption. Wastewater from domestic use is treated in the water treatment facility, and the processed grey water is reused for irrigation and dust suppression. This initiative not only conserves water resources but also aligns with the Company's commitment to environmental protection. In 2024, SGS treated a total of 37,019 m^3 (2023: 20,140 m^3) of domestic wastewater and recycled 8,987 m^3 (2023: 17,036 m^3) for irrigating green areas and dust suppression at the mine site. The Company aims to increase its grey water reuse capacity and expand the coverage areas for its application.

Spill
A spill is defined as the unintentional release of toxic or hazardous materials into the environment, posing significant risks to natural ecosystems and human health. Spills can occur in both natural environments and workplaces, such as mining sites.

Recognising the potential impacts of spills, the Company has established and implemented a "Wastewater Spill" procedure to prevent such incidents and develop contingency plans for spill response. This procedure includes regular maintenance of equipment and infrastructure, as well as preventive measures to mitigate spill risks. Additionally, the Company provides employees with trainings to raise awareness of spill incidents and equip them with the knowledge to respond effectively.

With clear guidelines outlined in the spill procedure, the Company is confident that the risk of wastewater spills can be minimised. Prompt actions ensure environmental safety, making the spill procedure a critical component of the Company's risk management strategy. This approach ensures risks are mitigated and well-being is protected through swift and effective response measures.

A2.3 Material Consumption

In addition to the resources mentioned above, the Company also consumed metal during the Reporting Period. In 2024, the Company's total metal consumption amounted to 700 kg, principally for mining sites operation purpose.

A3. The Environment and Natural Resources

The Company is dedicated to producing green coal and creating sustainable mining sites. A comprehensive "Mine Closure Plan" has been developed to protect the environment, preserve natural resources, and minimise the significant impacts of the Company's operations. This plan is designed to effectively address and mitigate the adverse effects associated with mine site closure. The Company places a strong emphasis on soil and water conservation, greening and rehabilitation, and biodiversity conservation. It will continue to engage in ecological projects and conservation initiatives to protect and enhance the local environment and ecosystems.

Given the nature of its operations, the Company acknowledges the potential risks of soil, groundwater, ecological, and biodiversity contamination. To address these risks, the Company conducts an annual environmental monitoring programme to assess soil and groundwater quality, as well as the progress of rehabilitation in areas surrounding the Ovoot Tolgoi Mine.

Soil Management

The results of the environmental monitoring programme in 2024 show that there was no significant soil contamination associated with heavy metals in areas surrounding the Ovoot Tolgoi Mine. In 2024, eight (8) soil samples (2023: fourteen) were collected quarterly from various control points and analysed in laboratories to evaluate compliance with the Mongolian government standard MNS 5850:2019. If heavy metal levels exceed permissible limits, appropriate measures are taken. The table below summarises the Company's overall heavy metal levels in soil for 2024 and 2023.

Table 7. The Company's Overall Amount of Heavy Metals in Soil in 2024 and 2023[1]

		Chromium		Lead		Cadmium		Nickel		Zinc	
Heavy metals	Unit[2]	2024	2023[3]	2024	2023[3]	2024	2023[3]	2024	2023[3]	2024	2023[3]
Average	Mg/kg	**49**	33	**25**	18	**0**	0	**25**	30	**73**	64
Maximum	Mg/kg	**59**	40	**30**	29	**0**	0	**31**	35	**90**	78
Minimum	Mg/kg	**34**	27	**22**	11	**0**	0	**16**	21	**59**	48
MNS 5850:2019 Standard	Mg/kg	<150		<100		<3		<100		<150	

Note:

1. The above data were extracted from the environmental monitoring programme of SGS;
2. The unit (mg/kg) refers to the amount of heavy metals (in milligram) contained per kilogram of soil; and
3. The amount and intensity in 2023 were extracted and rounded-off from the data in the 2023 ESG Report of the Company.

Underground Water Management

In 2024, the Company took samples in a total of seven (7) water sources for monitoring the quality of underground water, and the sample analysis of underground water consisted of thirteen (13) parameters. Overall results analysed from these assessments met all the required standards.

Rehabilitation

Mining activities inevitably lead to land degradation, and the Company addresses this by conducting mining, greening, and rehabilitation simultaneously. The rehabilitation process includes topsoil stripping, layering, mining, backfilling, topsoil covering, and vegetation restoration. These steps, particularly topsoil covering and vegetation restoration, contribute to Mongolia's greening efforts and gradually restore degraded land to its pre-mining condition. Since 2008, SGS has rehabilitated 66.2 hectares of land and planted over 89,200 trees and shrubs, supporting healthy ecosystems and reducing GHG emissions. In addition to participating in the "One Billion Trees" Campaign, SGS organises tree-planting activities at the Ovoot Tolgoi Mine twice a year during spring and autumn.

At the waste stockpile, no areas were suitable for rehabilitation. As a result, the Company will focus on rehabilitation efforts in other areas, in collaboration with provincial authorities in Mongolia. During the previous reporting period, the local authority proposed Gurvantes soum as an alternative rehabilitation site, where four mining companies from the Nariin Sukhait region or Ovoot Tolgoi mining complex collaborated on construction work.

Protection of Biodiversity

Currently, no plant or animal species in the vicinity of the Ovoot Tolgoi Mine are classified as endangered. However, the Company continuously monitors biodiversity and develops measures to mitigate the ecological impacts of its mining activities. It remains committed to formulating and implementing further actions to preserve biodiversity. During the previous reporting period, an environmental monitoring programme was conducted in collaboration with other mining companies in the Nariin Sukhait region.

Since 2014, the Company has worked with professional organisations to develop strategies for maintaining biodiversity and ecological balance around the Ovoot Tolgoi Mine, in compliance with Mongolian laws and regulations. Below is a timeline of the Company's biodiversity conservation efforts:

- **2015**: Developed a biodiversity offset plan in collaboration with Mycobio LLC;

- **2016**: Established a water point for wild animals, particularly those classified as rare, in the Tost Toson Bumba Nature Reserve, as part of the biodiversity offset plan;

- **2016-2020**: Offset areas of degraded land in the Tost Toson Bumba Nature Reserve, with achievements shared and presented to local authorities;

- **2017**: Identified and marked the borders of the Tost Toson Bumba Nature Reserve;

- **2020**: Expanded biodiversity offset rehabilitation efforts by publishing brochures featuring endangered birds from the Tost Toson Bumba Nature Reserve. These brochures, produced in collaboration with the Administration Office of "Tost and Toson Bumba", promote species conservation. Efforts were listed as rehabilitation activities in Sevrei soum in 2021 due to the COVID-19 pandemic;

- **2022**: Restored a water point for wild animals in collaboration with the Tost Toson Bumba Mountain Nature Reserve;

- **2023**: Sponsored the furnishing of the information centre at the Tost Toson Bumba Mountain Nature Reserve;

- **2024**: Provided technical rehabilitation support to restore and protect the endangered Black-tailed Gazelle in the Gobi. In partnership with the Tost Toson Bumba Nature Reserve, GPS collars were fitted to monitor the distribution and movement of the species, furthering biodiversity conservation efforts.

A4. Climate Change

With increasing concerns on climate change, the Company has dived into this global issue to gain a deeper understanding of the causes and impacts, particularly the potential impacts climate change may bring. The widespread consequences of climate change on ecosystems and human beings can lead to a series of climate-related risks, and the Company acknowledges the importance of prompt actions in mitigating the situations. Therefore, the Company has proactively formulated the plan “P-05-015 Regulation for Environmental Monitoring of the Ovoot Tolgoi Mine” in identifying and addressing climate-related issues which are material to the Company’s business. In addition to the recommendations of the Task Force on Climate-related Financial Disclosures (“TCFD”), the Company is also working on its plan to establishes a more robust climate management system in accordance with the anticipated regulatory enhancements of the ESG Code of the Hong Kong Stock Exchange.

Governance

The Company’s climate governance structure aligns with its ESG governance framework, as outlined in the previous chapter, “Message from the Board”. The Board of Directors holds ultimate responsibility for overseeing all climate-related issues, with support from the Committee in reviewing climate-related risks and opportunities.

As part of its oversight duties, the Board monitors and tracks the Company’s ESG performance, including the effectiveness of management approaches, metrics, targets, and action plans related to climate change. To ensure the Board possesses the necessary skills and competencies, members participate in training programmes provided by professional organisations from time to time. Additionally, the Board engages with external consultants to stay updated on relevant standards and best practices.

Meanwhile, the Committee plays a critical role in supporting the Board by reviewing, monitoring, and executing internal climate-related policies. Through quarterly Committee meetings, the Board receives updates on climate-related risks and opportunities, facilitating informed discussions. In the event of ESG or climate-related incidents, contingency meetings are convened to address handling procedures. The Board and its committees also review ESG performance, including those related to climate change, through summaries and calculations in ESG Reports, enabling them to monitor progress toward targets and oversee the setting of new goals related to significant climate-related risks and opportunities.

The Company has developed comprehensive handbooks, guidelines, and manuals outlining standardised procedures for managing climate-related risks and opportunities. At the operational level, management supports the design and implementation of climate-related policies, ensuring the maintenance of effective systems for environmental and financial data. Management is also responsible for identifying climate-related issues, reporting them to the Board, and facilitating coordination and communication between departments.

Strategy

The Company has conducted a risk assessment to identify and access climate-related risks specific to its operations and value chains, understanding the potential impacts and managing of climate-related risks. To align with the development of action plans on strategies and capital allocation, the Company has defined its climate-related risks into short-term (1 year), medium-term (5 years), and long-term (10 years). The physical and transition climate-related risks affecting the Company's business operations were identified and presented as follows.

Physical Risks

Risk Type	Risk	Potential Impact	Response
Acute risk	Medium-term • Extreme weather • Increased severity of extreme weather events such as cyclones and floods	• The coal production processes outdoors are susceptible to extreme weathers, possibly leading to water accumulation and collapse in open mining pits, which can cause disruption to the Company's operations and safety-related threats to its employees	• Monitor weather forecasts closely • Implement contingency plan against disasters • Maintain effective communication systems for prompt response actions and minimised disruptions • Increase safety awareness of employees of the Company and contractors with the promotion of measures in response to accidents
Chronic risk	Medium-term • Changes in precipitation patterns and extreme variability in weather patterns • Shortage of water supply	• Productions and operations of the Company may be interrupted by water shortages, leading to higher operational costs and reduced revenue	• Establish sustainable water management policies and practices • Implement water conservation measures • Explore alternative water sources when necessary to increase the Company's resilience under water scarcity
	Long-term • Rising mean temperatures	• Machinery, equipment, and worker's performance may be affected by high temperature, leading to decreased operational productivity and efficiency	• Conduct routine maintenance on equipment • Adopt work schedules to minimise exposure under peak temperatures

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Transition risk

Risk Type	Risk	Potential Impact	Response
Policy and legal risk	Short- to Medium-term • Enhanced emissions reporting obligations • Mandatory regulation of existing products and services	• Compliance with new requirements of the most updated laws and regulations addressing climate change induces additional resources, including financial resources and manpower • Failure to comply with relevant laws and regulations is subjected to extra costs such as penalties and fines, as well as poor reputation of the Company	• Stay informed with the evolving regulations • Update internal policies and practices in alignment with new requirements • Engage with external consultants to ensure compliance with the latest requirements of climate-related laws and regulations
Technology risk	Long-term • Costs to transition to lower emissions technology	• The transition to the lower emissions technology requires advanced and expensive energy-saving equipment, incurring additional costs • The increasing demand of low-emissions technology due to new laws and regulations can cause higher expenses on purchasing less-polluting equipment	• Monitor closely the update of the advanced technology in lowering emissions • Explore options of energy-saving equipment suitable for the Company's operations • Upgrade the equipment to lower energy consumption and increase energy efficiency when necessary
Market risk	Short-term • Uncertainty in market signals Medium-term • Changing customer behaviour	• Under the current situations transitioning towards renewable and clean energy, the Company's strategies in sales and business decisions have to be reconsidered and evaluated with various factors while Company's revenue is anticipated to be reduced	• Explore cleaner energy sources in powering the equipment during operations

Risk Type	Risk	Potential Impact	Response
Reputation risk	Medium-term • Shifts in consumer preferences	• Consumers tend to be less favourable with fossil fuels such non-renewable energy sources with the transition to alternative cleaner energy sources, leading to poor impression of the Company	• Monitor closely the shifts in consumer preference to stay informed about the market trends and changing customer demands • Explore the feasibility in adopting alternative cleaner energy sources during the operations • F-grade coal products have been prohibited from exporting to China for sales since 2018
	Medium-term • Increased stakeholder concern or negative stakeholder feedback	• Under increasing trend of upholding environmental stewardship and corporate social responsibility, failure to promptly respond to climate change and establish sustainable practices can cause lower trustworthiness and poor reputation of the Company, leading to decreased customer loyalty, lower sales, and potential boycotts	• Establish and implement sustainable policies and practices aimed to minimise GHG emissions, combating climate change proactively • Review and update environmental targets to improve emissions and consumption performance • Enhance the disclosure of ESG reporting to increase transparency • Engage in initiatives against climate change, such as the "One Billion Trees" Campaign

Regarding climate-related opportunities, the Company is in the process of evaluating and identifying relevant opportunities. In the upcoming years, the Company is committed to conducting other analysis to identify opportunities and the associated impacts which may potentially bring to the Company.

The climate-related physical risks identified concentrate on mining equipment and machinery and coal productions at the mine sites in Mongolia due to extreme weather events and climate patterns brought by climate change while the climate-related transition risks concentrate on the coal production and sales in Mongolia and Mainland China due to the transitional trend of green energy resources.

To manage the climate-related risks identified or to be identified, the Company primarily adopts risk mitigation approach, which establishes and implements measures to minimise the impacts of climate-related risks. In addition to collecting and analysing data and metrics for progress tracking, the Company also continuously monitors and reviews new climate-related risks and regulatory changes.

In response to the above identified risk, it is anticipated that the Company will adopt more environment-friendly and energy-saving practices for coal mining and upgrade the equipment for coal processing in terms of business model, strategy and resource allocation. To improve the overall efficiency of coal mining and the quality of coal products while minimising emissions and toxic substance, the Company has established an additional facility for coal processing, with a capacity of processing 6 million tonnes of coals, to improve the product quality, reducing the emissions.

At the current stage, a climate transition plan has yet to be developed. In the future, the Company will continuously provide trainings to its employees to raise their awareness and understanding on climate change, while exploring green financing opportunities and optimising the budget allocation to address climate change as means to adjust its business model in terms of human resources and financial resources.

Financial Implications

Through preliminary evaluation, the Company has qualitatively assessed the extent to which identified climate-related risks could adversely affect its financial performance, financial position, and cash flow. These risks include potential disruptions to coal production, equipment damage, and declining sales. In response to these anticipated impacts, the Company has integrated its cash flow projections and current financial conditions to develop financial allocation strategies, including commitments to initiatives such as tree planting.

While the identified climate-related risks are not expected to result in significant material adjustments to the Company's assets and liabilities, a decline in revenue is anticipated due to market trends shifting toward greener energy resources. To address this challenge, the Company has developed measures to embrace sustainable development and green energy sources, aiming to build customer trust as part of its adaptive solutions. At this stage, the Company's strategies, mitigation actions, and financial allocations address only a portion of the risks to its assets and business activities.

The Company has been assessing its climate resilience, considering areas such as policy changes, technological advancements, future climate patterns, and the effectiveness of adaptive measures. This analysis aims to enhance the management of climate-related risks. Moving forward, the Company plans to conduct a more detailed climate scenario analysis to further strengthen its resilience to climate change across its operations. These analyses enable the Company to identify potential impacts of climate-related risks and opportunities under various uncertain conditions along its value chain, as well as evaluate the effectiveness of its financial adaptive solutions.

Risk Management

The Company has conducted a preliminary risk assessment to identify, assess, monitor, and manage climate-related risks. By evaluating the likelihood and impact severity of these risks against the Company's risk appetite, it prioritises risks that exceed acceptable thresholds. Such risks are escalated to the Board and its committees during quarterly and ad hoc meetings for further review and action. Under the Board's oversight, the Company also conducts materiality analyses and stakeholder engagement as part of its strategy to evaluate and prioritise climate-related risks.

The Company employs a holistic approach to assess the likelihood and impact severity of identified risks. Key factors considered include the cause, urgency, and uncertainty of risks, the Company's resilience, and stakeholder concerns. Criteria, such as probability, financial loss, duration and costs of disruption, asset impairment, additional insurance fees, and the Climate Value-at-Risk (Climate VaR) model, are used to evaluate the potential impacts of these risks.

While the Company has not yet conducted a detailed climate-related scenario analysis, it has identified a series of relevant physical and transition risks through its preliminary risk assessment. These risks are integrated into the Company's risk management framework under the material risk categories of Operational and Strategic Risks, ensuring a structured approach to climate-related risk mitigation.

Regular risk assessments enable the Company to review and enhance its climate-related risk monitoring and management practices, supported by robust governance structures and accountability mechanisms. In the future, the Company plans to conduct a comprehensive analysis of the impacts associated with identified climate-related risks to develop effective adaptive solutions. Corresponding information will be disclosed once the analysis is completed.

Metrics and Targets

The Company's Scope 1 and Scope 2 GHG emissions, calculated in accordance with the GHG Protocol: A Corporate Accounting and Reporting Standard (2004) and the 2006 IPCC Guidelines for National Greenhouse Gas Inventories, have been disclosed in this year's annual ESG Report. These internationally recognised standards provide a structured methodology for reporting emissions data. In the coming years, the Company aims to expand its GHG emissions disclosure to include Scope 3 emissions, ensuring a comprehensive understanding of its emissions profile and supporting the development of effective mitigation measures. For further details on the measurement approach and disclosures, please refer to Section A1. Emissions.

At present, the Company has not implemented internal carbon pricing or integrated climate considerations into its remuneration policy as part of its management approach to address climate-related issues. However, the Company is committed to conducting a more detailed evaluation of climate-related issues using cross-industry metrics in the future. These metrics will include the amount and percentage of assets or business activities vulnerable to climate-related risks, as well as capital deployment for climate-related opportunities.

While the Company has not yet set specific quantitative climate-related targets, it remains committed to achieving emissions reduction goals as mentioned in the corresponding sections, namely A1. Emissions and A2. Use of Resources. Currently, the Company has not developed plans to offset its emissions through carbon credits.

B. Social

The Company is committed to demonstrating its social responsibility and contributing to local communities. The policy "The Way We Work" provides guidelines and procedures to safeguard the well-being of the Company's employees. The scope of the policy includes employment policies, health and safety, development and training, labour standards, supply chain management, product responsibility, anti-corruption, and community investment. While creating an ideal working environment for its employees to be productive, the Company is putting efforts in maintaining its community relationships. There are interactions between the Company and local people to discuss and share information on environmental nuisances and the environmental impacts the Company caused, thereby understanding the concerns from local communities and promoting environmental protection among local people.

B1. Employment

The Company upholds the highest standards of business ethics in implementing its employment policies. In 2024, the Company complied with the following employment laws in Mongolia, Mainland China, and Hong Kong.

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

* *Translation for identification only*

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Company values human resources, thereby striving to establish and implement relevant policies to attract and retain talents. In 2024, there were 768 full-time employees. The breakdown of the Company's workforce was outlined as below.

Table 8. The Number of Employees by Gender, Age Group, Position Level and Geographical Regions of the Company in 2024 and 2023[1]

	Number of Employees		Percentage
	2024	2023[2]	change
Total Workforce	**768**	554	+38.63%
Workforce per Category			
Gender			
– Male	**665**	481	+38.25%
– Female	**103**	73	+41.10%
Age Group			
– 30 or below	**293**	189	+55.03%
– Between 31-40	**291**	228	+27.63%
– Between 41-50	**134**	100	+34.00%
– 51 or above	**50**	37	+35.14%
Position Level			
– General Employees	**574**	–	–
– Middle Managerial Level	**168**	–	–
– Senior Managerial Level	**26**	–	–
Geographical Region			
– Employees in Mongolia	**663**	466	+42.27%
– Employees in Hong Kong	**15**	17	–11.76%
– Employees in Mainland China	**90**	71	+26.76%

Note:

1. The employment data in headcount was obtained from the Company's Human Resources Department based on the employment contracts entered into between the Company and its employees. The data covered employees engaged in a direct employment relationship with the Company according to relevant local laws and workers whose work and/or workplace was controlled by the Company within the reporting scope. The methodology adopted for reporting on employment data set out above was based on "How to Prepare an ESG Report – Appendix 3: Reporting Guidance on Social KPIs" issued by the Stock Exchange; and

2. The number of employees in 2023 were extracted from the data in the 2023 ESG Report of the Company.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In 2024, the Company's total turnover rate was 18.23%. The breakdown of the Company's turnover rate was outlined as below.

Table 9. Employee Turnover Rate by Gender, Age Group, and Geographical Regions of the Company in 2024 and 2023[1]

	Employee turnover rate (Percentage)		Percentage change
	2024	2023[2]	
Turnover Rate per Category			
Gender			
– Male	**17.89%**	23.08%	–22.47%
– Female	**20.39%**	30.14%	–32.35%
Age Group			
– 30 or below	**21.84%**	26.46%	–17.45%
– Between 31-40	**16.84%**	21.93%	–23.22%
– Between 41-50	**11.94%**	20.00%	–40.30%
– 51 or above	**22.00%**	35.14%	–37.39%
Geographical Region			
– Employees in Mongolia	**18.70%**	24.25%	–22.87%
– Employees in Hong Kong	**13.33%**	41.18%	–67.62%
– Employees in Mainland China	**15.56%**	18.31%	–15.04%

Note:

1. The turnover data in headcount was obtained from the Company's Human Resources Department based on the employment contracts entered into between the Company and its employees. The above data only covers the reporting scope. Turnover rate was calculated by dividing the number of employees who resigned by the number of employees. The methodology adopted for reporting on turnover data set out above was based on "How to Prepare an ESG Report – Appendix 3: Reporting Guidance on Social KPIs" issued by the Stock Exchange; and

2. The employee turnover rate in 2023 were extracted from the data in the 2023 ESG Report of the Company.

The Company's employment policies are developed in compliance with national laws and regulations, ensuring standardised procedures and clear guidance for implementation. In 2024, the Company adhered to relevant laws governing recruitment, promotion, compensation, dismissal, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and employee benefits. These policies and procedures are designed to protect the legitimate rights and interests of employees.

Recruitment and Promotion

The Company recognises human resources as its greatest asset and is committed to fair treatment of all applicants and employees. Recruitment opportunities are advertised both internally and externally, with selections based on qualifications, skills, experience, and merit. Managers, in collaboration with the Human Resources Department, conduct interviews for eligible candidates. To ensure legal compliance, the Human Resources Department verifies applicant identities and completes hiring checklists before extending job offers.

Promotions are determined through annual employee evaluations, considering factors such as performance, skills, tenure, and leadership potential. Managers make final promotion decisions, which are then approved by the respective Department heads.

Compensation and Dismissal

The Company offers competitive compensation and remuneration packages to attract and retain talented employees. Salaries are paid periodically, and regular benefits surveys ensure the Company's offerings remain competitive within the industry. Employees are also eligible for bonuses upon achieving specific KPIs, fostering motivation and alignment with the Company's operational and financial goals.

Annual employee evaluations assess performance, identify achievements, and highlight areas for improvement. These evaluations encourage open communication, with employees invited to provide constructive feedback. The Company strictly prohibits illegal dismissal, ensuring all termination procedures comply with relevant laws. The Human Resources Department reviews dismissal reasons and conducts termination checklists to ensure fairness and legitimacy.

Working Hours and Rest Periods

The Company prioritises the well-being of its employees, particularly mine workers, by ensuring adequate rest periods. Standard working hours and holidays, in compliance with local employment ordinances, are outlined in all employment contracts. Mine workers' shifts and rotations are clearly specified in rosters. Employees also benefit from additional leave entitlements, including medical leave, wedding leave, compassionate leave, and maternity/paternity leave, alongside statutory holidays.

Equal Opportunity, Diversity, and Anti-Discrimination

The Company is committed to maintaining a workplace that values equal opportunity and diversity. Employment policies are free from bias based on race, gender, age, marital status, religion, disability, or any non-job-related factors. The Company fosters an inclusive and respectful environment, strictly prohibiting discrimination, harassment, and retaliation. Employees are encouraged to report concerns or suspected misconduct via email to the Corporate Secretary. Through the Whistle-blower Programme, all reports are handled confidentially, and retaliatory actions are not tolerated.

Benefits and Welfare

The Company provides statutory benefits to all employees, including commuting compensation for those required to travel beyond their assigned work locations. Employees can claim corresponding travel costs in alignment with employment policies.

Both employees and the Company contribute to social welfare funds monthly, covering pensions, housing, medical benefits, work-related injury compensation, and maternity and unemployment support for local employees. Contribution levels are adjusted annually in accordance with government decrees, with announcements and notices provided to employees on a yearly basis.

B2. Health and Safety

As a coal mining and exploration company, the Company places the highest priority on safety. Ensuring a safe working environment is a fundamental part of its commitment to protecting the health and safety of employees. In 2024, the Company complied with relevant laws and regulations relating to a safe working environment and protecting employees from occupational hazards that have a significant impact on the Company.

In adherence to the Law of Mongolia on Labour Safety and Hygiene*, the Company has established and implemented the following policies and practices to provide clear procedures and guidelines for maintaining workplace safety:

- "Pre-work Risk Assessment Procedures";
- "Procedures for Issuing Personal Protective Equipment"; and
- "Alcohol Testing Policies".

The Company is responsible for ensuring the health and safety of its employees and contractors, requiring strict compliance with these policies and the Occupational Safety and Health Ordinance. To maintain zero work-related fatalities and minimise lost time injuries (LTI), smoking is strictly prohibited in all office areas, including lobbies and toilets, for both employees and visitors.

Employees are strongly encouraged to consult their direct supervisors for advice on safety-related issues whenever there is uncertainty about performing job duties. In the event of an accident resulting in injury, employees must immediately report to their supervisors, seek treatment from registered medical practitioners, and notify the Company as soon as possible. Employees who suffer LTI at work are entitled to compensation under the Employee Compensation Ordinance. To claim compensation, the employee must complete a work accident statement and submit it to the Administrative Department. Failure to do so will result in the forfeiture of the right to claim compensation.

The Company is dedicated to promoting occupational health and safety among all employees. To enhance awareness of workplace safety, the Company provides regular training opportunities. In the event of workplace violations, thorough investigations are conducted to address the issues.

To further enhance workplace safety, the Company reviews its obligations and duties, setting performance targets to achieve the following occupational health and safety (OHS) goals and objectives:

- Identifying, mitigating, and regulating operational risks that threaten the health and well-being of employees and contractors;
- Complying with applicable laws, regulations, and standards, while striving to exceed them;
- Establishing accountability for OHS goals, objectives, and performance at all levels;
- Planning, managing, executing, and concluding all operations in alignment with OHS goals and objectives;
- Developing, implementing, and maintaining an effective OHS Management System, referencing internationally recognised best practices;

* *Translation for identification only*

- Providing regular training to employees and contractors to improve their attitudes, knowledge, and skills regarding workplace safety;

- Identifying direct and underlying causes of OHS incidents and implementing measures to prevent recurrence; and

- Reviewing, monitoring, and auditing the effectiveness of the OHS management system to ensure continuous improvement.

In 2024, the Company recorded zero work-related fatalities for the third consecutive year, including the Reporting Period. Additionally, there were no LTI (2023: 1) and no lost days due to work injuries (2023: 161) during the Reporting Period. For further details on the lost time injury frequency rate, please refer to the section "Management's Discussion and Analysis of Financial Condition and Results of Operations". The Company remains committed to enhancing its health and safety policies and measures, ensuring the well-being of its employees.

B3. Development and Training

The Company places a strong emphasis on lifelong learning and is dedicated to providing diverse learning opportunities for its employees to support their career aspirations. By equipping employees with new knowledge and skills, the Company not only empowers its workforce but also drives organisational success, fostering both professional development and personal growth.

The Company has established and implemented internal policies and practices to ensure regular training opportunities are available for employees of SGS and its contractors. Job-related training and development plans are designed to enhance the knowledge and skills necessary for employees to achieve their career goals. Employees are encouraged to consult with their direct supervisors to identify suitable training programmes. This collaborative approach helps employees gain a clearer understanding of their career objectives and the benefits of various training options, enabling them to make informed decisions.

The Company supports employees in conducting individual career planning and taking proactive steps to enhance their on-the-job experiences. Its development policies aim to create a secure and supportive environment for employees to achieve their personal career goals. To facilitate professional growth, the Company allows internal mobility across its businesses where necessary and appropriate, providing employees with opportunities to expand their skills and experiences.

Additionally, diversified on-the-job training are provided by the Company to improve the capability and competitiveness of its employees. There are trainings for new employees to familiarise themselves on the Company's core values, cultures, and the work duties. Furthermore, technical skills trainings and management skills seminars and workshops allow employees to improve individual and team performance. According to the Company's policies, there are team management trainings provided to employees at the Middle and Senior Managerial level, striving to improve emotional intelligence and cohesion within the team. There are regular training opportunities on OHS conducted by the Safety Department. In addition, trainings are also provided to guests visiting the mine site. To organise professional training activities to employees, the relevant department managers collaborate with the Administrative Department and the Human Resources Department of the Company.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Each director of the Company holds a paid membership with the Canadian Institute of Corporate Directors (ICD), ensuring access to continuing education. Through their ICD memberships, directors can participate in online courses related to corporate governance and the mining industry. They also receive regular updates on relevant issues, equipping them with the knowledge and skills necessary to effectively govern the Company's business and support its employees.

In 2024, in addition to new employee trainings, trainings on OHS, leadership, and specialised professional skills were also provided, with a total of 8,687 training hours for 598 employees. The detailed breakdown of the training data was summarised as follows.

Table 10. Number of and Percentage of Employees Trained in the Company by Gender and Position Level in 2024[1]

Total Number of Employees	768
Total Number of Employees Trained	598
Total Percentage of Employees Trained	77.86%

Unit: Number of Employees	Position Level			
Gender	General Employees	Middle Managerial Level	Senior Managerial Level	Total
Male	473	59	22	554
% of Employees Trained	79.10%	9.87%	3.68%	92.64%
Female	24	17	3	44
% of Employees Trained	4.01%	2.84%	0.50%	7.36%
Total	497	76	25	
% of Employees Trained	83.11%	12.71%	4.18%	

Note:

1. The training information was obtained from the Company's Human Resources Department. Training refers to the vocational training that the Company's employees attended in 2024. The above data only covers the reporting scope. The methodology adopted for reporting on the number and percentage of employees trained set out above was based on "How to Prepare an ESG Report – Appendix 3: Reporting Guidance on Social KPIs" issued by the Stock Exchange.

Table 11. Training Hours Provided by the Company by Gender and Position Level in 2024[1]

Unit: Training Hours	Position Level			
Gender	General Employees	Middle Managerial Level	Senior Managerial Level	Total
Male	7,477	322	324	8,123
Average Training Hours	14.60	2.46	14.73	12.22
Female	258	258	48	564
Average Training Hours	4.16	6.97	12.00	5.48
Total	7,735	580	372	8,687
Average Training Hours	13.48	3.45	14.31	11.31

Note:

1. The training information was obtained from the Company's Human Resources Department. The above data only covers the reporting scope. The methodology adopted for reporting training hours set out above was based on "How to Prepare an ESG Report – Appendix 3: Reporting Guidance on Social KPIs" issued by the Stock Exchange.

With the provision of career development and training opportunities, the Company believes that its business can thrive in the long-term together with its employees' personal growth on their own career path. In addition to its performance appraisal systems, the Company can further boost its employees' performance and efforts to have higher achievement.

B4. Labour Standards

The Company is dedicated to upholding human rights and promoting ethical, responsible business practices. As part of this commitment, the Company prioritises the protection of children and teenagers in its employment policies and practices. The employment of child labour, forced labour, or any form of modern slavery is strictly prohibited. The Company ensures that all employees are aged 18 or above, and no underage workers are employed under any circumstances.

In 2024, the Company complied with relevant laws and regulations relating to preventing child and forced labour that have a significant impact on the Company. Internal policies and the Staff Handbook to eradicate child and forced labour have been established in accordance with relevant laws and regulations, including but not limited to:

- Law of Mongolia on Labour*;
- Protection of Minors Law of the PRC*（中华人民共和国未成年人保护法）;
- Provisions on the Prohibition of Using Child Labour*（禁止使用童工规定）;
- Employment Ordinance (Hong Kong); and
- Employment of Children Regulations (Hong Kong).

The Company maintains a zero-tolerance policy towards child and forced labour. During the Reporting Period, no cases of child or forced labour were identified. In the event of any suspected violation of relevant laws or regulations, the Company will immediately conduct a thorough investigation. If a violation is confirmed, the relevant employment contract will be terminated without delay, and responsible staff from the Human Resources Department will face appropriate disciplinary action. Where necessary, such incidents will be reported to local authorities.

* *Translation for identification only*

B5. Supply Chain Management

In 2024, SGS had a total of 73 suppliers, with 15 from Mongolia, and 58 from PRC. There were no suppliers from regions other than Mongolia or PRC during the Reporting Period. Fuel and mining operating services are primarily provided by these suppliers. The Company applied its supplier management policy with 100% of its suppliers during the Reporting Period.

The number of suppliers by geographical region in 2024 and 2023 are as follows:

Region	2024	2023	Percentage change
Mongolia	**15**	106	–85.85%
PRC	**58**	4	+1350.00%
Others	**0**	1	–100.00%
Total	**73**	111	–34.23%

Supplier Engagement

"Supply Chain Management" has been identified as one of the Company's material ESG issues through the materiality assessment conducted during the Reporting Period. As such, the Company places significant emphasis on effective supplier engagement and management. It is committed to maintaining sustainable supply chains through ongoing and stable engagement with suppliers. By partnering with reliable and high-quality suppliers, the Company ensures the quality of its products and services.

During the selection of potential suppliers, the Company evaluates credibility, reputation, product and service quality, regulatory compliance history, and business ethics. A thorough investigation is conducted based on these criteria, leading to the establishment of long-term partnerships with suppliers demonstrating outstanding performance.

Supply Chain Risk Management

To identify and mitigate environmental and social risks across the supply chain, the Company adheres to a series of standards in supplier management. Both the Company and its suppliers are committed to environmentally friendly practices and the use of clean energy to minimise environmental impacts and associated risks.

To address social risks, the Company ensures that procurement activities and supplier selection are conducted objectively, with strict maintenance of data confidentiality. Supplier solvency is safeguarded by avoiding over-reliance on a single supplier. The Company also establishes clear payment terms and fosters fair cooperation with suppliers. Additionally, the Company prioritises professional and reliable suppliers with proven quality assurance, ensuring high standards of service.

In alignment with "The Way We Work", the Company gives preference to suppliers whose products and services support its commitment to minimal emissions generation and resource conservation.

The Procurement Department is responsible for organising, managing, monitoring, and implementing policies and practices related to supplier engagement, identifying environmental and social risks in the supply chain, and promoting environmentally preferable products and services. The Chief Financial Officer (CFO) and Chief Executive Officer (CEO) oversee and approve these initiatives.

In 2024, 7 major suppliers of the Company were covered by its green procurement policy. The Company continuously monitors supplier performance to ensure a secure and sustainable supply chain. In cases where issues arise related to product or service quality, or environmental and social responsibility, the Company will immediately terminate collaboration with the affected supplier. During the Reporting Period, no significant impacts were identified stemming from suppliers' inappropriate business ethics, environmental practices, or labour practices.

B6. Product Responsibility

In 2024, the Company primarily produced coal products of premium semi-soft coking coal, standard semi-soft coking coal, standard thermal coal, and processed coal. While increasing the quantity of coal products, the Company focuses on providing reliable supply of high-quality coal products.

In 2024, a total of 10.19 million tonnes of raw coal was produced and 7.52 million tonnes of raw coal was sold to customers. During production, the stripped overburden was 59.48 million m^3, with a stripping ratio of 5.84 m^3 per tonne. As the Company is eager to provide safe and clean coal products, the Company maintains several parameters in certain levels. In general, the Company's coal products have an average ash content of 16.39%, average calorific value of 6,581.03 kcal/kg, average sulphur content of 1.01%, G index of 63.7, and volatile matter of 31.58%.

Since October 2018, the Company's coal washing plant at the Ovoot Tolgoi Mine has commenced operations to wash run-of-mine coals with high ash content. In 2024, 1.17 million tonnes of WF coal, which is extracted from the open pits at the mine site and containing impurities, was washed and 0.55 million tonnes of WB washed coal, which is processed WF coal, was produced from the coal washing plant. The WB washed coal is then sold as semi-soft coking coal, and 0.56 million tonnes of washed coal were sold during the Reporting Period. Generally, washed coal has an average ash content of 11.85%, an average calorific value of 6,306 kcal/kg, an average sulphur content of 1.24%, G index of 79, and volatile matter of 38.79%. In the future, the Company will continuous to improve the parameters by washing a higher number coal. Meanwhile, alternative innovative technologies will be explored to further enhance the quality of coal products sold to the Chinese market, increasing the profits.

Product Quality Management

The Company recognises that customers demand high-quality products and is committed to enhancing product quality to build and maintain long-term relationships with its customers. Ensuring product safety and quality not only fosters customer trust and confidence but also strengthens the Company's reputation and competitive position in the industry. To meet customer expectations, the Company has implemented robust measures to deliver safe and high-quality products consistently.

To further ensure the quality of its coal products, the Company has established a system to downgrade coal with suboptimal parameters due to prolonged storage periods. Product quality is managed at the source, with the Sales Department taking primary responsibility. In collaboration with the port laboratory, coal products from mining pits are measured against a range of parameters and graded to classify them into different quality levels, ensuring consistency and stability in product quality.

Product Recall and Complaints Management

SGS has implemented the "Purchase Order General Terms and Conditions", which clearly outline procedures for handling product recalls. Recalls may be initiated due to product defects, safety hazards, or non-compliance with relevant regulations. In 2024, no coal products sold or shipped were subject to recalls for safety or health reasons.

To continuously improve product quality, the Company has established multiple communication channels, including emails and hotlines, to gather customer feedback. All feedback is viewed as an opportunity to understand customer experiences and enhance product quality. The Company is committed to addressing complaints promptly and has established a mechanism to handle product-related concerns efficiently. Customer enquiries and complaints are resolved within a reasonable timeframe, and all complaints are documented and stored in the Company's database for review and analysis. In 2024, the Company received no complaints related to products or services.

Data Protection and Privacy Management

The Company has implemented comprehensive measures to protect sensitive data, particularly that of customers, suppliers, and other relevant parties. The IT Department is responsible for maintaining data security, with all data stored in a secure database equipped with robust protection measures. Access to confidential documents within the database is strictly regulated by the head of the Sales Department. Unless with explicit authorisation, otherwise unauthorised access, review, or copying of documents is prohibited.

In 2024, no instances of unauthorised access, accidental usage, or amendments to data were identified. All employees are trained to understand the importance of privacy, and the disclosure of personal data to external parties without consent is strictly prohibited.

Intellectual Property Rights and Others

The Company's Senior Management is responsible for safeguarding its intellectual property rights. Agreements with employees and relevant parties establish a shared commitment to protecting these rights. Any violations of laws or regulations related to patents, copyrights, or trademarks can be reported through the Company's Whistle-blower Programme.

Issues relating to labelling are not applicable to the Company, and hence no relevant information is disclosed. For policies relating to advertising matters, the Company develops flexible policies and measures depending on the coal consumption market conditions. In 2024, the Company complied with relevant laws and regulations relating to health and safety, advertising, labelling and privacy matters relating to products and services provided that have a significant impact on the Company.

B7. Anti-corruption

The Company is committed to upholding its business ethics, and all its business operations comply with the national and local laws and regulations relating to bribery, extortion, fraud and money laundering. As it remains resolute in its stance against corruption, the Company annually reviews and updated its anti-corruption practices to ensure the best practices on area of corporate governance are incorporated into its internal policies.

Since 2012, the Company has developed and implemented the Code of Business Conduct and Ethics ("Ethics Policy"), which is called "The Way We Work". The Ethics Policy always applies to all the Company's employees, directors, consultants, and officers. In addition to the Ethics Policy, the Company has also established the following policies to refine the overall Code of Conduct Standards for providing guidance and procedures in dealing with business ethics-related matters.

- Anti-Corruption Standard;
- Conflicts of Interest Standard;
- Corporate Compliance Policy;
- Corporate Disclosure;
- Confidentiality and Securities Trading Policy;
- Guidelines for Investigation into Allegations of Serious Wrongdoing; and
- Whistle-blower Programme.

Both the Ethics Policy and the Code of Conduct Standards demonstrate the Company's commitment to creating a workplace culture with integrity, honesty, and accountability, in alignment with the highest standards of professional and ethical conduct. Copies of the policies and standards are available on the Company's website, or by request through the Company's email address, posting address, or telephones. The Nominating and Corporate Governance Committee is responsible for ensuring the Company's employees comply with the Code of Conduct Standards, while monitoring the compliance with legal, regulatory, corporate governance-, and disclosure-related requirements by establishing systems for verification.

All employees must adhere by relevant local laws and regulations relating to anti-corruption and anti-bribery. According to the "Guidelines for Investigation into Allegations of Serious Wrongdoing", employees of the Company are required to report incidents of suspected violation of any relevant laws and regulations regarding corruption and bribery or any other requirements to their supervisors, any members of the Senior Management, or through the confidential whistle-blower hotline.

In particular, the Company has adopted the Whistle-blower Programme, which is an anonymous and confidential platform for its employees to report any concerns or suspected misconduct. In cooperation with its Chair of the Audit Committee, the Company's Corporate Secretary takes the responsibility for managing the Whistle-blower Programme. If any suspected incidents are reported, the incidents will be investigated confidentially and fairly. Once any cases violating national laws and regulations are identified, the case will be reported to the judicial authority for following up. For details relating to the Whistle-blower Programme, please visit the Company's website.

The Whistle-blower Programme with multi-level and multi-channel reporting ensures transparent and honest business to further promote integrity in the workplace. Additionally, a system has been established to ensure fair treatment to the Company's suppliers, and policies clearly state that no gifts can be given nor received. In case of any suspected conflicts of interest, the matters have to be reported to the Senior Management and/or the Corporate Secretary. With the above enhanced policies and practices, the Company ensures the maintenance of ethical corporate culture.

With the Company's continuous efforts in promoting integrity, its employees' awareness on anti-corruption has been enhanced. Although the Company did not organise any anti-corruption training to directors and employees during the Reporting Period, relevant policies have been well-announced. Moreover, terms regarding anti-corruption have been incorporated into all employees' contracts, ensuring all employees acknowledge and understand the significance of integrity.

In 2024, the Company complied with relevant laws and regulations relating to bribery, extortion, fraud and money laundering that have a significant impact on the Company, and no concluded legal cases regarding corrupt practices were brought against the Company or its employees.

B8. Community Investment

While striving for business growth and success, the Company is committed to improving the livelihoods of its employees, their families, and local communities. Therefore, the Corporate Social Responsibility (CSR) initiatives have been adopted to enhance the economic prosperity and social development, fostering a more sustainable future.

Community Relations

The Company is committed to maintaining and fostering community relations, thereby aiming to achieve three primary goals, as shown below, to create social values during business operations.

(i) Caring and treating local citizens with dignity and respect;

(ii) Establishing close relationships and mutual trust with local governments; and

(iii) Adopting environment-friendly technologies for coal mining and exploration.

The Company has been actively engaged in community services, particularly the subsidiary, SGS. In the past, SGS participated in the projects of runway pavement at the Ovoot Tolgoi airport and road maintenance between Gurvantes and Shivee Khuren border crossing. These projects have not only stimulated the trading and economic development in local communities of the South Gobi region but also facilitated the movement of local residents with ensured safety and minimal journey time. With the collaboration with RDCC LLC, SGS successfully built a highway from the Ovoot Tolgoi Mine to the Shivee Khuren border crossing. While the highway ensures safety and minimise environmental impacts during coal transportation, it also enhances the efficiency and capacity throughout the whole process.

Corporate Social Responsibility

As the Company is committed to fulfil its CSR, SGS, has established the Corporate Citizenship Committee (CCC) to meet social demands and address corresponding requests within its capability. Since its establishment, the CCC has made donations in various aspects, aiming to bring positive impacts to the broader communities. In 2024, the Company invested a total of MNT 5.7 billion (US$1,681,282.02) to the community in the following four (4) main pillars:

1. *Education*

   The Company believes that education is important, thereby encouraging and supporting the provision of education at all levels, from early childhood to higher education. Since establishment, the Company has established a kindergarten in Gurvantes soum with the capacity to accommodate 180 children. The Company has proactively organised sport activities and encouraged academic improvement among students from elementary, middle, and high schools, while providing full scholarships to university students from Umnugovi Aimag to support their pursuit of degrees.

   In 2024, the Company made a total of MNT135.17 million (US$39,869.98) donations in the aspect of education as shown below, ensuring local access to quality education and academic success:

   - Sponsoring the annual Autumn Sports Spartikiad with MNT17.20 million (US$5,073.34) to promote physical activity and team spirit among 1,800 students from general education schools across four targeted soums;

   - Sponsoring the annual English Olympiad with MNT19.18 million (US$5,657.37) to improve language skills and foster academic excellence among 560 students; and

- Providing annual scholarships to 31 students with MNT98.79 million (US$29,139.27) to cover their tuition fees, equipping the next generations with the ability to become professionals and leaders.

2. *Health*
   The Company is dedicated to maintaining and enhancing the health conditions of local communities, thereby striving to support the improvement in citizens' access to healthcare services. For instance, the Company has provided supports for renovation of health centres in targeted soums and donations of medical equipment. Moreover, the costs of medical treatments for local residents have been covered by the Company, with the determination by the CCC.

   In 2024, the Company donated RMB30,000 to local patients in need for cancer treatment, enhancing the access to professional and specialised medical care and services in China.

3. *Cultural heritage*
   To ensure generations of Mongolian practices and culture, the Company remains steadfast in its dedication to preserving both tangible and intangible Mongolian culture. Mongolian cultures include sports, such as horse racing, archery, wrestling, and the raising of Bactrian camels. In addition, arts such as Mongolian calligraphy and traditional long and short songs has been promoted.

   In 2024, the Company made a total of MNT430.88 million (US$127,093.12) million donations to the local authorities Umnugovi aimag, Gurvantes, Bayandalai, and Sevrei soums to celebrate Mongolia's largest summer national festival, Naadam, and winter celebration, Tsagaan Sar (Lunar New Year). By celebrating and promoting traditional cultural events, the Company aims to preserve Mongolia's rich cultural heritage and strengthen the bonding and pride among Mongolian during iconic national festivals. The following were some of the Company's contribution in this area:

   - Providing Tsagaan Sar gifts with MNT30.80 million (US$9,084.82) to the elderly in local communities for celebration;

   - Supporting the traditional archery held in Gurvantes Archery Stadium with MNT63.90 million (US$18,848.06); and

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- Sponsoring horse race awards in five categories of ages with MNT300.28 million (US$88,571.12) during Naadam celebration in Gurvantes soum.

4. *Local economic contribution*

As part of the commitment to improve the livelihoods of local communities, the Company has collaborated with national and local authorities to support policies and strategies aligned with its CSR initiatives. In particular, the Company has engaged in the tripartite agreements with local authorities to provide community services such as road maintenance and local business supporting.

In 2024, the Company contributed a total of MNT5.08 billion (US$1,498,405.73) for local community activities, with parts of the contribution shown as below:

- Supporting the Billion Trees National Movement launched by the President of Mongolia with an investment of MNT2.5 billion (US$737,404.40) in planting a target of 15 million trees;

- Sponsoring community-based initiatives under public and non-profit organisations with MNT179.3 million (US$52,886.64), with the CCC's approval of donation requests; and

- Donating materials of hay and coal with a worth of MNT2.2 billion (US$648,915.87) to help local families prepare for harsh winter months, ensuring their warmness and well-being.

Through continuous efforts in the community engagement, the Company maintains close relationships with local community members. The Company is committed to fulfilling its social responsibilities and playing an active role in meeting the demands of its diverse stakeholders, contributing to the welfare of the Mongolian people.

HKEX ESG Reporting Guide Content Index

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Aspects, General Disclosures and KPIs	Description	Relevant Chapter/Explanation
Aspect B5: Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	B5. Supply Chain Management
KPI B5.1	Number of suppliers by geographical region.	B5. Supply Chain Management
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored.	B5. Supply Chain Management
KPI B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	B5. Supply Chain Management
KPI B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	B5. Supply Chain Management
Aspect B6: Product Responsibility		
General Disclosure	Information on: a) the policies; and b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	B6. Product Responsibility
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	B6. Product Responsibility
KPI B6.2	Number of products and service-related complaints received and how they are dealt with.	B6. Product Responsibility
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	B6. Product Responsibility
KPI B6.4	Description of quality assurance process and recall procedures.	B6. Product Responsibility
KPI B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	B6. Product Responsibility

Aspects, General Disclosures and KPIs	Description	Relevant Chapter/Explanation
Aspect B7: Anti-Corruption		
General Disclosure	Information on: a) the policies; and b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	B7. Anti-corruption
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the Reporting Period and the outcomes of the cases.	B7. Anti-corruption
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	B7. Anti-corruption
KPI B7.3	Description of anti-corruption training provided to directors and staff.	B7. Anti-corruption
Aspect B8: Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	B8. Community Investment
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	B8. Community Investment
KPI B8.2	Resources contributed (e.g. money or time) to the focused area	B8. Community Investment

SEVERAL GROWTH OPTIONS

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

CONSOLIDATED FINANCIAL STATEMENTS

TABLE OF CONTENTS

		Page
Consolidated Financial Statements		
Consolidated Statements of Comprehensive Income		180
Consolidated Statements of Financial Position		181
Consolidated Statements of Changes in Equity		182
Consolidated Statements of Cash Flows		183
Notes to the consolidated financial statements		
1	Corporate information and going concern	184
2	Basis of preparation	186
3	Material accounting policy information	188
4	Segment information	201
5	Revenue	202
6	Expenses by nature	202
7	Cost of sales	203
8	Other operating expenses, net	203
9	Reversal of/(provision for) additional tax and tax penalty	204
10	Administration expenses	205
11	Finance costs and income	205
12	Taxes	206
13	Director and employee emoluments	208
14	Earnings per share	210
15	Cash and cash equivalents	210
16	Trade and other receivables	211
17	Inventories	212
18	Prepaid expenses	212
19	Property, plant and equipment	213
20	Investments in joint ventures	214
21	Investments in associates	215
22	Trade and other payables	218
23	Deferred revenue	218
24	Lease liabilities	219
25	Convertible debenture	219
26	Decommissioning liability	227
27	Provision for long service payment	227
28	Equity	228
29	Share-based payments	229
30	Reserves	231
31	Capital risk management	231
32	Financial instruments and fair value measurements	232
33	Related party transactions	236
34	Supplemental cash flow information	238
35	Commitments for expenditure	240
36	Contingencies	240
37	Statement of financial position of the investment company	243
38	Reserve and deficit of the investment company	244
Additional stock exchange information		
A1	Five-year summary	245

INDEPENDENT AUDITOR'S REPORT

BDO

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

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

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

香港
干諾道中111號
永安中心25樓

To the Shareholders of SouthGobi Resources Ltd.

Opinion

We have audited the consolidated financial statements of SouthGobi Resources Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 180 to 244 which comprise the consolidated statements of financial position as at December 31, 2024 and December 31, 2023, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2024 and December 31, 2023, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the consolidated financial statements, which indicates that the Group had a deficiency in assets of US$49.8 million while the working capital deficiency reached US$228.1 million as at December 31, 2024. These conditions, along with other matters as set forth in Note 1 to the consolidated financial statements, indicate that a material uncertainty exists that may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matter

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

Impairment of property, plant and equipment

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

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

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

How the matter was addressed in our audit

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

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

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

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

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

Other Information

Management is responsible for the other information. The other information comprises all of the information included in the 2024 annual report of the Company (the "annual report") other than the consolidated financial statements and our auditor's report thereon. We obtained Management's Discussion and Analysis of Financial Condition and Results of Operations prior to the date of this auditor's report. The remaining other information, including Message from the CEO, Board of Directors and Senior Management, Directors' Report, Corporate Governance Report, Environmental, Social and Governance Report, Corporate Information and the other sections (if any) to be included in the annual report, is expected to be made available to us after that date.

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

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

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

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

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

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

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

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

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Group as a basis for forming an opinion on the consolidated financial statements. We are responsible for the direction, supervision and review of the audit work performed for purpose of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

BDO Limited

Certified Public Accountants
Lee, Alfred
Practising Certificate Number P04960

Hong Kong, March 28, 2025

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

	Notes	Year ended December 31, 2024	2023
Revenue	5	$ **493,378**	$ 331,506
Cost of sales	7	**(360,588)**	(158,195)
Gross profit		**132,790**	173,311
Other operating expenses, net	8	**(3,698)**	(870)
Administration expenses	10	**(13,454)**	(10,437)
Evaluation and exploration expenses		**(1,362)**	(991)
Reversal of/(provision for) additional tax and tax penalty	9	**39,666**	(85,143)
Profit from operations		**153,942**	75,870
Finance costs	11	**(37,766)**	(49,072)
Finance income	11	**3,626**	5,084
Share of earnings of joint ventures	20	**3,227**	2,840
Share of earnings of associates	21	**587**	4
Profit before tax		**123,616**	34,726
Current income tax expenses	12	**(31,119)**	(33,818)
Net profit attributable to equity holders of the Company		**92,497**	908
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods			
Exchange difference on translation of foreign operation		**(1,258)**	265
Net comprehensive income attributable to equity holders of the Company		$ **91,239**	$ 1,173
Basic earnings per share	14	$ **0.312**	$ 0.003
Diluted earnings per share	14	$ **0.311**	$ 0.003

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in thousands of U.S. dollars)

	Notes		As at December 31, 2024		2023
Assets					
Current assets					
Cash and cash equivalents	15	**$**	**8,590**	$	47,993
Restricted cash			**274**		423
Trade and other receivables	16		**31,486**		7,541
Inventories	17		**107,246**		52,927
Prepaid expenses	18		**6,083**		6,471
Total current assets			**153,679**		115,355
Non-current assets					
Property, plant and equipment	19		**243,564**		157,119
Investments in joint ventures	20		**12,400**		15,178
Investments in associates	21		**20,210**		8,086
Total non-current assets			**276,174**		180,383
Total assets		**$**	**429,853**	$	295,738
Equity and liabilities					
Current liabilities					
Trade and other payables	22	**$**	**169,281**	$	60,192
Additional tax and tax penalty	9		**43,790**		83,897
Deferred revenue	23		**34,350**		65,670
Lease liabilities	24		**850**		1,206
Income tax payable			**12,891**		20,055
Convertible debenture	25		**120,651**		103,150
Total current liabilities			**381,813**		334,170
Non-current liabilities					
Lease liabilities	24		**1,342**		1,785
Convertible debenture	25		**84,267**		91,150
Decommissioning liability	26		**12,245**		9,939
Provision for long service payments	27		**29**		26
Total non-current liabilities			**97,883**		102,900
Total liabilities			**479,696**		437,070
Equity					
Common shares	28		**1,102,053**		1,101,771
Share option reserve	30		**52,998**		53,030
Capital reserve	30		**533**		499
Exchange fluctuation reserve	28		**(56,205)**		(54,947)
Accumulated deficit	28		**(1,149,222)**		(1,241,685)
Total deficiency in assets			**(49,843)**		(141,332)
Total equity and liabilities		**$**	**429,853**	$	295,738
Net current liabilities		**$**	**(228,134)**	$	(218,815)
Total assets less current liabilities		**$**	**48,040**	$	(38,432)

Corporate information and going concern (Note 1), commitments for expenditure (Note 35) and contingencies (Note 36).

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

APPROVED BY THE BOARD:

"Yingbin Ian He" — *Director*

"Ruibin Xu" — *Director*

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Expressed in thousands of U.S. dollars and shares in thousands)

	Number of shares/units		Share capital		Share option reserve		Capital reserve		Exchange fluctuation reserve		Accumulated deficit		Total
Balances, January 1, 2023	295,227	$	1,101,764	$	53,018	$	396	$	(55,212)	$	(1,242,490)	$	(142,524)
Net profit for the year	–		–		–		–		–		908		908
Exchange differences on translation of foreign operations	–		–		–		–		265		–		265
Total comprehensive income attributable to equity holders of the Company	–		–		–		–		265		908		1,173
Shares issued for:													
Exercise of stock options	51		7		(2)		–		–		–		5
Share-based compensation charged to operations	–		–		14		–		–		–		14
Appropriation to capital reserve	–		–		–		103		–		(103)		–
Balances, December 31, 2023	295,278	$	1,101,771	$	53,030	$	499	$	(54,947)	$	(1,241,685)	$	(141,332)
Balances, January 1, 2024	**295,278**	**$**	**1,101,771**	**$**	**53,030**	**$**	**499**	**$**	**(54,947)**	**$**	**(1,241,685)**	**$**	**(141,332)**
Net profit for the year	**–**		**–**		**–**		**–**		**–**		**92,497**		**92,497**
Exchange differences on translation of foreign operations	**–**		**–**		**–**		**–**		**(1,258)**		**–**		**(1,258)**
Total comprehensive income attributable to equity holders of the Company	**–**		**–**		**–**		**–**		**(1,258)**		**92,497**		**91,239**
Shares issued for:													
Exercise of stock options	**1,427**		**282**		**(95)**		**–**		**–**		**–**		**187**
Share-based compensation charged to operations	**–**		**–**		**63**		**–**		**–**		**–**		**63**
Appropriation to capital reserve	**–**		**–**		**–**		**34**		**–**		**(34)**		**–**
Balances, December 31, 2024	**296,705**	**$**	**1,102,053**	**$**	**52,998**	**$**	**533**	**$**	**(56,205)**	**$**	**(1,149,222)**	**$**	**(49,843)**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in thousands of U.S. dollars)

	Notes	Year ended December 31, 2024	2023
Operating activities			
Profit before tax		**$ 123,616**	$ 34,726
Adjustments for:			
Depreciation and depletion	6	**20,890**	5,833
Share-based compensation	6	**63**	14
Provision for long service payment	6	**8**	26
Impairment/(reversal of impairment) on materials and supplies inventories	6	**231**	(4,988)
Provision for doubtful trade and other receivables	6	**10**	59
Gain on disposal of items of property, plant and equipment, net	6	**(261)**	–
Gain on contract offsetting arrangement	6	**(3,046)**	(668)
Penalty on late settlement of trade payables	6	**–**	454
Provision for/(reversal of) additional tax and tax penalty	9	**(39,666)**	85,143
Interest expense on convertible debenture	11	**37,103**	46,337
Interest elements on leased assets	11	**292**	133
Accretion of decommissioning liability	11	**371**	384
Fair value loss/(gain) on embedded derivatives in convertible debenture	11	**(298)**	292
Gain on modification of convertible debenture	11	**(3,187)**	(4,850)
Interest income	11	**(141)**	(234)
Share of earnings of joint ventures	20	**(3,227)**	(2,840)
Share of earnings of associates	21	**(587)**	(4)
Operating cash flows before changes in working capital items		**132,171**	159,817
Net change in working capital items	34.2	**5,323**	13,383
Cash generated from operating activities		**137,494**	173,200
Income tax paid		**(29,578)**	(12,361)
Net cash flows from operating activities		**107,916**	160,839
Investing activities			
Expenditures on property, plant and equipment		**(118,618)**	(44,524)
Proceeds from disposal of items of property, plant and equipment		**1,038**	45
Interest received	11	**141**	234
Investment in a joint venture		**–**	(986)
Investment in an associate		**(8,299)**	(7,939)
Dividend from a joint venture	20	**2,623**	3,226
Net cash flows used in investing activities		**(123,115)**	(49,944)
Financing activities			
Interest payment on convertible debenture	25	**(23,000)**	(72,132)
Proceeds from exercise of share options		**187**	5
Capital elements of lease rental paid		**(716)**	(327)
Interest elements of lease rentals paid		**(292)**	(133)
Net cash flows used in financing activities		**(23,821)**	(72,587)
Effect of foreign exchange rate changes, net		**(383)**	430
Increase/(decrease) in cash and cash equivalents		**(39,403)**	38,738
Cash and cash equivalents, beginning of year		**47,993**	9,255
Cash and cash equivalents, end of year		**$ 8,590**	$ 47,993

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

1. CORPORATE INFORMATION AND GOING CONCERN

SouthGobi Resources Ltd. is a publicly listed company incorporated in Canada with limited liability under the legislation of the Province of British Columbia and its shares are listed for trading on the Hong Kong Stock Exchange ("HKEX") (Symbol: 1878) and TSX Venture Exchange ("TSX-V") (Symbol: SGQ). The company, together with its subsidiaries (collectively referred to as the "Company"), is an integrated coal mining, development and exploration company. At December 31, 2024, to the Company's best knowledge, JD Zhixing Fund L.P. ("JDZF") owned approximately 28.9% of the outstanding common shares of the Company. Land Grand International Holding Limited ("Land Grand") and Voyage Wisdom Limited owned approximately 15.6% and 8.7% of the outstanding common shares of the Company, respectively.

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

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

Going concern assumption

The Company's consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue to operate until at least December 31, 2025 and will be able to realise its assets and discharge its liabilities in the normal course of operations as they come due. However, in order to continue as a going concern, the Company must generate sufficient operating cash flows, secure additional capital or otherwise pursue a strategic restructuring, refinancing or other transactions to provide it with sufficient liquidity.

Several adverse conditions and material uncertainties cast significant doubt upon the Company's ability to continue as a going concern and the going concern assumption used in the preparation of the Company's consolidated financial statements. The Company had a deficiency in assets of $49,843 as at December 31, 2024 as compared to a deficiency in assets of $141,332 as at December 31, 2023 while the working capital deficiency (excess current liabilities over current assets) reached $228,134 as at December 31, 2024 as compared to a working capital deficiency of $218,815 as at December 31, 2023.

Included in the working capital deficiency as at December 31, 2024 are significant obligations, represented by trade and other payables of $169,281 and an additional tax and tax penalty of $43,790.

The Company may not be able to settle all trade and other payables on a timely basis, and as a result any continuing postponement in settling of certain trade and other payables owed to suppliers and creditors may result in potential lawsuits and/or bankruptcy proceedings being filed against the Company. Except as disclosed elsewhere in these consolidated financial statements, no such lawsuits or proceedings were pending as at March 28, 2025. 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.

1. CORPORATE INFORMATION AND GOING CONCERN continued

Going concern assumption continued

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

For the purpose of assessing the appropriateness of the use of the going concern basis to prepare the financial statements, management of the Company has prepared a cash flow projection covering a period of 12 months from December 31, 2024. 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 2025 March Deferral Agreement (as defined in Note 25.5) on March 20, 2025 for a deferral of the 2025 March Deferred Amounts (as defined in Note 25.5); (b) communicating with vendors in agreeing repayment plans of the outstanding payable; and (c) obtaining an avenue of financial support from an affiliate of the Company's major shareholder for a maximum amount of $127.0 million (equivalent to RMB900 million) during the period covered in the cash flow projection. Regarding these plans and measures, there is no guarantee that the suppliers would agree the settlement plan as communicated by the Company. Nevertheless, after considering the above, the directors of the Company believe that there will be sufficient financial resources to continue its operations and to meet its financial obligations as and when they fall due in the next 12 months from December 31, 2024 and therefore are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Significant uncertainties exist regarding the Company's management's ability to achieve its plans as described above. The continued operation of the Company as a going concern depends on a key factor: the Company's prompt drawdown of the loan from the credit facility to settle payables, including the tax penalty payable and provision for additional late tax penalty, in a timely manner.

The outcome of this factor will have a significant impact on the Company's ability to continue operating as a going concern. It is crucial to closely monitor and address these uncertainties to ensure the Company's stability and long-term viability.

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

As at December 31, 2024 and December 31, 2023, the Company was not subject to any externally imposed capital requirements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2. BASIS OF PREPARATION

2.1 Statement of compliance

The consolidated financial statements, including comparatives, have been prepared in accordance with IFRS Accounting Standards and International Accounting Standards ("IAS Standards") issued by the International Accounting Standards Board ("IASB") and Interpretations (collectively "IFRS Accounting Standards") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

2.2 Basis of presentation

The consolidated financial statements of the Company for the year ended December 31, 2024 were approved and authorised for issue by the Board of Directors of the Company (the "Board") on March 28, 2025.

The consolidated financial statements have been prepared on a historical cost basis except for certain financial assets and financial liabilities which are measured at fair value. The Company's financial instruments are further disclosed in Note 32.

2.3 Basis of consolidation

The consolidated financial statements include the financial statements of SouthGobi Resources Ltd. and its major controlled subsidiaries (Note 33).

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate. All intercompany transactions, balances, income and expenses are eliminated on consolidation.

The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

2.4 Adoption of new and revised standards and interpretations

The following new IFRS Accounting Standards and interpretations were adopted by the Company on January 1, 2024.

Amendments to IAS 1	Presentation of Financial Statements and Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants
Amendments to IAS 7 and IFRS 7	Supplier Finance Arrangements
Amendments to IFRS 16	Lease liabilities in a Sale and Leaseback
Int 5 (Revised)	Interpretation 5 (Revised) Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment On Demand Clause

There have been no new IFRS Accounting Standards or IFRIC interpretations that have a material impact on the Company's results and financial position for the year ended December 31, 2024. The Company has not early applied any new or amended IFRS Accounting Standards that is not yet effective for the year ended December 31, 2024.

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

2. BASIS OF PREPARATION continued

2.5 Standard issued but not yet effective

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

IFRS 18	Presentation and Disclosure in Financial Statements[4]
IFRS 19	Subsidiaries without Public Accountability: Disclosures[4]
Amendments to IAS 21	Lack of Exchangeability[2]
Amendments to IFRS 9 and IFRS 7	Amendments to the Classification and Measurement of Financial Instruments[3]
Amendments to IFRS 9 and IFRS 7	Contracts Referencing Nature-dependent Electricity[3]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1]
Amendments to IFRS Accounting Standards	Annual Improvements to IFRS Accounting Standards – Volume 11[3]

1 Effective for annual periods beginning on or after a date to be determined.
2 Effective for annual periods beginning on or after 1 January 2025.
3 Effective for annual periods beginning on or after 1 January 2026.
4 Effective for annual periods beginning on or after 1 January 2027.

The Company is currently assessing the effect of these new accounting standards and amendments.

IFRS 18 *Presentation and Disclosures in Financial Statements*

IFRS 18 Presentation and Disclosure in Financial Statements, which was issued by the IASB in April 2024 supersedes IAS 1 and will result in major consequential amendments to IFRS Accounting Standards including IAS 8 Basis of Preparation of Financial Statements (renamed from Accounting Policies, Changes in Accounting Estimates and Errors). Even though IFRS 18 will not have any effect on the recognition and measurement of items in the consolidated financial statements, it is expected to have a significant effect on the presentation and disclosure of certain items. These changes include categorisation and sub-totals in the statement of profit or loss, aggregation/disaggregation and labelling of information, and disclosure of management-defined performance measures. The Company is currently evaluating the full impact of IFRS 18 on its financial statement presentation and disclosures. Further updates will be provided as the assessment progresses.

IFRS 19 *Subsidiaries without Public Accountability: Disclosures*

The adoption of IFRS 19 is optional. IFRS 19 specifies the disclosure requirements that the Company is permitted to apply to substitute the disclosure requirements in other IFRS Accounting Standards. The Company's shares are listed and traded on HKEX and TSX-V. Therefore, it has public accountability according to IFRS 19 and does not qualify for electing to apply the standard to prepare its financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. MATERIAL ACCOUNTING POLICY INFORMATION

3.1 Foreign currencies

The consolidated financial statements are presented in the U.S. dollar, which is the functional currency of SouthGobi Resources Ltd. Each entity in the Company has its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the U.S. dollar rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the U.S. dollar rate of exchange ruling at the end of each reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate prevailing at the date of the transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value is determined.

At the end of the reporting period, the assets and liabilities of an entity with the functional currency in a foreign currency are translated into the U.S. dollar at the exchange rates prevailing at the end of the reporting period and the profit or loss is translated into the U.S. dollar at the weighted average exchange rate for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

3.2 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. All other borrowing costs are expensed and included in profit or loss.

3.3 Inventories

Coal stockpile inventories are measured at the lower of production cost and net realisable value. Production cost is determined by the weighted average cost method and includes direct and indirect labor, operating materials and supplies, processing costs, transportation costs and an appropriate portion of fixed and variable overhead expenses. Fixed and variable overhead expenses include depreciation and depletion. Net realisable value represents the future estimated selling price of the product, less estimated costs to complete production and costs necessary to bring the product to sale.

Materials and supplies inventory consists of consumable parts and supplies which are valued at the lower of weighted average cost and net realisable value, less allowances for obsolescence. Replacement cost is used as the best available measure of net realisable value. Supplies used in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost.

3.4 Property, plant and equipment

Property, plant and equipment includes the Company's operating equipment and infrastructure, construction in progress and mineral properties. Property, plant and equipment is stated at cost less accumulated depreciation and depletion and accumulated impairment losses.

Initial recognition

The cost of an item of operating equipment and infrastructure consists of the purchase price or construction cost, including vendor prepayments, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, an initial estimate of the decommissioning liability and capitalised borrowing costs.

3. MATERIAL ACCOUNTING POLICY INFORMATION continued

3.4 Property, plant and equipment continued

Initial recognition continued

Construction in progress is classified to the appropriate category of property, plant and equipment when it is completed and is ready for its intended use.

All direct costs related to the acquisition of mineral property interests are capitalised on a property by property basis. The cost of mineral properties also includes mineral property development costs (Note 3.5), certain production stripping costs (Note 3.6) and decommissioning liabilities related to the reclamation of the Company's mineral properties (Note 3.7).

Depreciation and depletion

Depreciation and depletion are recorded based on the cost of an item of property, plant and equipment, less its estimated residual value, using the straight-line method or unit-of-production method over the following estimated useful lives:

Mobile equipment	5 to 7 years
Other operating equipment	1 to 10 years
Buildings and roads	5 to 20 years
Construction in progress	not depreciated
Mineral properties	unit-of-production basis based on proven and probable reserves

Upon disposal, reclassification to assets held for sale or when no future economic benefits are expected to arise from the continued use of an asset the original cost and related accumulated depreciation is removed from property, plant and equipment. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognised in profit or loss.

The Company conducts an annual assessment of the residual balances, estimated useful lives and depreciation methods being used for property, plant and equipment and any changes arising from the assessment are applied by the Company prospectively.

3.5 Mineral properties

Evaluation and exploration expenses

Evaluation and exploration expenses are charged to profit or loss in the period incurred until such time as it has been determined that a mineral property has technically feasibility and commercially viability.

Production phase

Upon a mine development being ready for its intended use it enters the production phase and depletion of the mineral property is recorded on a unit-of-production basis, using the estimated resources that are expected to be mined in the mine plan as the depletion base. Management's determination of when an asset is ready for its intended use is based on several qualitative and quantitative factors including, but not limited to, the following:

- the elevation or bench where the coal to be mined has been reached; and

- the commissioning of major operating equipment and infrastructure is completed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. MATERIAL ACCOUNTING POLICY INFORMATION continued

3.6 Development and production stripping costs

Once a property is determined to have reached technical feasibility and commercial viability, the Company's subsequent exploration and evaluation and development expenses are capitalised as mineral property costs within property, plant and equipment.

Production stripping activity assets are recognised when the following three criteria are met:

- it is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;
- the entity can identify the component of the ore body for which access has been improved; and
- the costs relating to the stripping activity associated with that component can be measured reliably.

If not all of the criteria are met, the stripping activity costs are included in the cost of inventory produced during the period incurred.

3.7 Decommissioning, restoration and similar liabilities

The Company recognises provisions for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of mineral properties, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a provision for a decommissioning liability is recognised as its present value in the period in which it is incurred. Upon initial recognition of the liability, a corresponding amount is added to the carrying amount of the related asset and the cost is amortised as an expense over the estimated useful life of the asset using the unit-of-production method. Following the initial recognition of the decommissioning liability, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the discount rate and the amount or timing of the underlying cash flows required to settle the obligation. The discount rate used is a credit adjusted risk free rate.

3.8 Investments in associates and joint ventures

An associate is an entity in which the Company has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decision about the relevant activities require the unanimous consent of the parties sharing control.

The Company's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Company's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Company's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Company recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Company and its associates or joint ventures are eliminated to the extent of the Company's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred.

3. MATERIAL ACCOUNTING POLICY INFORMATION continued

3.8 Investments in associates and joint ventures continued

Goodwill arising from the acquisition of associates or joint ventures is included as part of the Company's investments in associates or joint ventures.

If an investment in a joint venture becomes an investment in an associate or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

3.9 Share-based payments

Share-based payment transactions

Employees (including directors and senior executives) of the Company receive a portion of their remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

In situations where equity instruments are issued to non-employees and the value of some or all of the goods or services received by the entity as consideration cannot be measured reliably, they are measured at the fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

Equity-settled transactions

The cost of equity-settled transactions with employees are measured by reference to the fair value at the date on which the awards are granted.

The cost of equity-settled transactions is recognised, together with a corresponding increase in the share option reserve, over the period in which the performance and/or service conditions are fulfilled and end on the date on which the relevant employees become fully entitled to the award. The cumulative expense recognised for equity-settled transactions at each reporting date reflects the Company's best estimate of the number of equity instruments that will ultimately vest. No expense is recognised for awards that do not ultimately vest.

When the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of the modification.

3.10 Earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of shares outstanding during the reporting period.

Diluted earnings per share is calculated by adjusting the profit or loss attributable to equity holders of the Company divided by the weighted average number of shares outstanding for the effects of all dilutive share equivalents. The Company's dilutive share equivalents include stock options.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. MATERIAL ACCOUNTING POLICY INFORMATION continued

3.11 Taxation

Income tax expense represents the sum of tax currently payable and deferred tax.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are substantively enacted at the end of each reporting period.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences, at the end of each reporting period, between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled by the parent, investor or venturer and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been substantively enacted at the end of each reporting period.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss.

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

3. MATERIAL ACCOUNTING POLICY INFORMATION continued

3.12 Financial instruments

(a) Financial assets

All financial assets are initially recorded at fair value and categorised upon inception into one of the following categories: those to be measured subsequently at fair value either through other comprehensive income ("FVOCI") or through profit or loss ("FVTPL"), and those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity investments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

The Company reclassifies debt investments when and only when its business model for managing those assets changes.

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as other operating expenses in the consolidated statements of comprehensive income.

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as other operating expenses in the consolidated statements of comprehensive income.

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. MATERIAL ACCOUNTING POLICY INFORMATION continued

3.12 Financial instruments continued

(b) Financial liabilities

Financial liabilities are categorised, at initial recognition, as financial liabilities at FVTPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable costs.

Financial liabilities categorised as financial liabilities measured at amortised cost are initially recognised at fair value less directly attributable transaction costs. After initial recognition, financial liabilities at amortised cost are subsequently measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Financial liabilities categorised as FVTPL include financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives, are also classified as FVTPL unless they are designated as effective hedging instruments. Transaction costs on financial liabilities classified as FVTPL are expensed as incurred. At the end of each reporting period subsequent to initial recognition, financial liabilities classified as FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities. For liabilities designated at FVTPL, changes due to credit risk are recognised in other comprehensive income.

3.13 Impairment of financial assets

The Company's trade and other receivables are subject to IFRS 9's expected credit loss ("ECL") model.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all trade and other receivables. The Company's definition of a default scenario is if receivables from a customer are over six months past due, or if there is reasonable and supportable evidence that a customer will no longer be able to settle its receivables with the Company.

3. MATERIAL ACCOUNTING POLICY INFORMATION continued

3.14 Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the assets belong.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing fair value less costs to sell, recent market transactions are taken into account. The Company also considers the results of an appropriate valuation model which would generally be determined based on the present value of estimated future cash flows arising from the continued use and eventual disposal of the asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior periods.

3.15 Cash and cash equivalents

Cash and cash equivalents include cash at banks and short term money market instruments with original maturities of three months or less.

3.16 Revenue recognition

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Company's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Company performs; or
- does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. MATERIAL ACCOUNTING POLICY INFORMATION continued

3.16 Revenue recognition continued

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Company and the customer at contract inception. Where the contract contains a financing component which provides a significant financing benefit to the Company, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

Sales of mining coal

Income from sales of mining coal is recognised at a point in time when the goods are delivered to customers and title has passed.

Other income

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

Rental income under operating leases is recognised on a straight-line basis over the term of the relevant lease.

Deferred revenue

Deferred revenue represents the Company's obligation to transfer services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer.

3.17 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to the passage of time is recognised as a finance cost.

3. MATERIAL ACCOUNTING POLICY INFORMATION continued

3.18 Related party transactions

(a) A person or a close member of that person's family is related to the Company if that person:

(i) has control or joint control over the Company;

(ii) has significant influence over the Company; or

(iii) is a member of key management personnel of the Company or the Company's parent.

(b) An entity is related to the Company if any of the following conditions apply:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Company or an entity related to the Company.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a) (i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the Company's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. MATERIAL ACCOUNTING POLICY INFORMATION continued

3.19 Significant accounting judgments and estimates

Information about judgments and estimates in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are as follows:

(a) Going concern assumption

The directors of the Company have prepared the consolidated financial statements on the assumption that the Company will be able to operate as a going concern in the foreseeable future, which is a critical judgement that has the most significant effect on the amounts recognised in the consolidated financial statements. The assessment of the going concern assumption involves making a judgement by the directors about the future outcome of events or conditions which are inherently uncertain. The directors consider that, after taking into account of all major events or conditions, which may give rise to business risks, that individually or collectively may cast significant doubt upon the going concern assumption as set out in Note 1 to the consolidated financial statements, the Company has the capability to continue as a going concern.

(b) Review of carrying value of assets and impairment charges

In the determination of carrying values and impairment charges, management of the Company reviews the recoverable amount (the higher of the fair value less costs of disposal or the value in use) in the case of non-financial assets. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period. Changes in these assumptions may alter the results of non-financial asset and financial asset impairment testing, impairment charges recognised in profit or loss and the resulting carrying amounts of assets.

Ovoot Tolgoi Mine cash generating unit

The Company determined that indicators of impairment existed for its Ovoot Tolgoi Mine cash generating unit as at December 31, 2024. The impairment indicator was the uncertainty of future coal price in China.

Therefore, the Company conducted an impairment test whereby the carrying value of the Company's Ovoot Tolgoi Mine cash generating unit was compared to the recoverable amount (being the "fair value less costs of disposal") using a discounted future cash flow valuation model. The Company's cash flow valuation model takes into consideration the latest available information to the Company, including but not limited to, sales prices, sales volumes, washing production, operating costs and life of mine coal production estimates as at December 31, 2024. The carrying value of the Company's Ovoot Tolgoi Mine cash generating unit was $243,564 as at December 31, 2024.

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

- Coal resources and reserves as estimated by an independent third party engineering firm;
- Sales price estimates from an independent market consulting firm;
- Forecasted sales volumes in line with production levels as reference to the mine plan;
- Life-of-mine coal production, strip ratio, capital costs and operating costs; and
- A post-tax discount rate of 16% based on an analysis of the market, country and asset specific factors.

3. MATERIAL ACCOUNTING POLICY INFORMATION continued

3.19 Significant accounting judgments and estimates continued

(b) Review of carrying value of assets and impairment charges continued

Ovoot Tolgoi Mine cash generating unit continued

Key sensitivities in the valuation model are as follows:

- For each 1% increase/(decrease) in the long term price estimates, the calculated fair value of the cash generating unit increases/(decreases) by approximately $17,300/(17,400);
- For each 1% increase/(decrease) in the post-tax discount rate, the calculated fair value of the cash generating unit (decreases)/increases by approximately $(15,200)/16,100;
- For each 1% increase/(decrease) in the cash mining cost estimates, the calculated fair value of the cash generating unit (decreases)/increases by approximately $(9,900)/9,800; and
- For each 1% increase/(decrease) in Mongolian inflation rate, the calculated fair value of the cash generating unit (decreases)/increases by approximately $(32,800)/31,000.

The impairment analysis did not result in the identification of an impairment loss or an impairment reversal and no charge or reversal was required as at December 31, 2024. A decline of 2% (2023: 5%) in the long-term price estimates, an increase of more than 3% (2023: 8%) in the post-tax discount rate, an increase of 4% (2023: 10%) in the cash mining cost estimates or an increase of 24% (2023: 41%) in Mongolian inflation rate may trigger an impairment charge on the cash generating unit. The Company believes that the estimates and assumptions incorporated in the impairment analysis are reasonable; however, the estimates and assumptions are subject to significant uncertainties and judgments.

(c) Expected credit losses for trade and other receivables

The Company applies the IFRS 9 simplified approach to measuring expected credit losses on its trade receivables and estimates expected credit loss based on the possible default events on its trade and other receivables. The Company has determined that the loss allowance on its trade and other receivables was $22,348 (2023: $22,487) as at December 31, 2024.

(d) Estimated resources

The Company estimates its mineral resources based on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the ore body, and requires complex geological judgments to interpret the data. Changes in resource estimates may impact the carrying value of mining interests, mine restoration provisions, recognition of deferred tax assets, and depreciation and amortisation charges.

(e) Estimated recoverable reserves

Reserve estimates involve expressions of judgment based on various factors such as knowledge, experience and industry practice, and the accuracy of these estimates may be affected by many factors, including estimates and assumptions with respect to coal prices, operating costs, mine plan and life, coal quality and recovery, foreign currency exchange rates and inflation rates. Reserve estimates are made by qualified persons, but will be impacted by changes in the above estimates and assumptions.

Estimated recoverable reserves are used to determine the depletion of mineral properties, in accounting for deferred production stripping costs, in performing impairment testing and for forecasting the timing of the payment of decommissioning, restoration and similar costs. Therefore, changes in the estimates and assumptions used to determine recoverable reserves could impact the carrying value of assets, depletion expense and impairment charges recognised in profit or loss and the carrying value of the decommissioning, restoration and similar liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. MATERIAL ACCOUNTING POLICY INFORMATION continued

3.19 Significant accounting judgments and estimates continued

(e) Estimated recoverable reserves continued

The independent technical report (dated December 2, 2024) was prepared by BAW Mineral Partners Limited (the "BAW report") during the year, in accordance with the requirements of National Instrument 43-101 – Standards of Disclosure for Mineral Projects ("NI 43-101") under applicable Canadian securities laws, in respect of Ovoot Tolgoi Coal Mine. The primary objective of the BAW reports aims to provide an updated estimation of mineral reserves for the Ovoot Tolgoi Coal Mine.

An updated proven and probable reserve estimates of 82.26 million tonnes for Ovoot Tolgoi Coal Mine was reported in the technical reports, which was mainly due to the change in remaining mine life and extraction plans prepared by the Company. The updated reserve estimation was adopted prospectively in accordance with IAS 8.

(f) Long term F-grade coal inventory

As a result of import restrictions established by Chinese authorities at the Ceke border, the Company has been barred from transporting its F-grade coal products into China for sale since December 15, 2018. The Company intends to realise the value of the F-grade coal inventory upon the coal washing and coal blending in order to meet the import standards from Chinese authorities. As at December 31, 2024, none of the F-grade coal products was classified as non-current (December 31, 2023: $nil).

(g) Useful lives and depreciation rates for property, plant and equipment

Depreciation expense is allocated based on estimated property, plant and equipment useful lives and depreciation rates except the mineral properties are depreciated on unit-of-production basis based on proven and probable reserves. Therefore, changes in the useful life or depreciation rates from the initial estimate could impact the carrying value of property, plant and equipment and an adjustment would be recognised in profit or loss.

(h) Taxes

The Company is subject to tax in several jurisdictions and significant judgement is required in determining the tax position and estimates and assumptions in relation to the provision for taxes related to transfer pricing, royalty, air-pollution fee and unpaid tax payables, having regard to the nature. During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination is uncertain. The above-mentioned tax matters exist in Mongolia which is currently subject to re-assessment by the Mongolian Tax Authority ("MTA") and Tax Dispute Resolution Council ("TDRC") which belongs to the Ministry of Justice and works under its supervision.

The Company recognises this tax liabilities based on an official tax act letter issued by the MTA. The Company filed an appeal letter in relation to the tax penalty with the MTA in accordance with the Mongolian laws. This re-assessment relies on estimates and assumptions and may involve a series of complex judgments about final decisions of the MTA. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax expense in the future financial period in which such determination is made.

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

3. MATERIAL ACCOUNTING POLICY INFORMATION continued

3.20 Long service payment ("LSP") liabilities

In June 2022, the Government of Hong Kong SAR (the "Government") enacted the Hong Kong Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 (the "Amendment Ordinance"), which will be effective from May 1, 2025 (the "Transition Date"). Under the Amendment Ordinance, any accrued benefits attributable to the employer's mandatory contributions under mandatory provident fund scheme (the "MPF Scheme") of the Company would no longer be eligible to offset against its obligations on LSP for the portion of the LSP accrued on or after the Transition Date.

The Company has accounted for the offsetting mechanism and its abolition. The Company has determined that the Amendment Ordinance primarily impacts the Company's LSP liability with respect to Hong Kong employees. The Amendment Ordinance has no material impact on the Company's LSP liability.

4. SEGMENT INFORMATION

The Company's Chief Executive Officer (chief operating decision maker) reviews the financial information in order to make decisions about resources to be allocated to the segment and to assess its performance. No operating segment identified by the Board has been aggregated in arriving at the reporting segments of the Company. For management's purpose, the Company has only one reportable operating segment, which is the coal division. The division is principally engaged in coal mining, development and exploration in Mongolia, and logistics and trading of coal in Mongolia and China for the years ended December 31, 2024 and 2023. The Company's resources are integrated and as a result, no discrete operating segment financial information is available. Since this is the only reportable and operating segment of the Company, no further analysis thereof is presented. All the revenue of the Company is generated from trading of coal for the years ended December 31, 2024 and 2023.

Information about major customers

During the years ended December 31, 2024 and 2023, the Coal Division had 78 and 84 active customers, respectively. 1 and 3 customers with respective revenue contributed over 10% of the total revenue during the years ended December 31, 2024 and 2023, with the largest customer accounting for 15% of revenue (2023: 17%), the second largest customer accounting for 7% of revenue (2023: 14%) and the third largest customer accounting for 5% of revenue (2023: 13%).

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

	Mongolia	Hong Kong	China	Consolidated Total
Revenue (i)				
For the year ended December 31, 2024	**$ 1,309**	**$ –**	**$ 492,069**	**$ 493,378**
For the year ended December 31, 2023	–	–	331,506	331,506
Non-current assets				
As at December 31, 2024	**$ 274,372**	**$ 467**	**$ 1,335**	**$ 276,174**
As at December 31, 2023	178,644	135	1,604	180,383

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

5. REVENUE

Revenue represents the value of goods sold which arises from the trading of coal. The Company recognises all revenue from the trading of coal at a point in time when the customer obtains control of the goods or services.

6. EXPENSES BY NATURE

The Company's profit before tax is arrived at after charging/(crediting):

	Year ended December 31, 2024	2023
Depreciation	**$ 20,890**	$ 5,833
Auditors' remuneration	**877**	851
Employee benefit expense (including directors' remuneration)		
Wages and salaries	**$ 14,958**	$ 9,583
Equity-settled share option expense (Note 29)	**63**	14
Pension scheme contributions	**2,102**	1,359
Provision for long service payment (Note 27)	**8**	26
	$ 17,131	$ 10,982
Short term lease payments under operating leases	**$ 508**	$ 283
Foreign exchange loss, net (Note 8)	**134**	1,202
Impairment/(reversal of impairment) on materials and supplies inventories (Note 17)	**231**	(4,988)
Royalties (Note 7)	**51,377**	38,504
Management fee (Note 33)	**6,630**	4,879
Provision for doubtful trade and other receivables (Note 16)	**10**	59
Gain on disposal of items of property, plant and equipment, net	**(261)**	–
Gain on contract offsetting arrangement (Note 8)	**(3,046)**	(668)
Penalty on late settlement of trade payables (Note 8)	**–**	454
Rental income from short term leases (Note 8)	**–**	(68)
Provision for/(reversal of) additional tax and tax penalty (Note 9)		
Provision for additional late tax penalty	**$ 8,797**	$ 10,153
Provision for/(reversal of) additional tax penalty	**(48,463)**	74,990
	$ (39,666)	$ 85,143
Mine operating costs and others	**$ 284,621**	$ 113,170
Total operating expenses	**$ 339,436**	$ 255,636

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

7. COST OF SALES

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

	Year ended December 31, 2024	2023
Operating expenses	$ 288,773	$ 114,346
Share-based compensation expense (Note 29)	18	4
Depreciation and depletion	19,924	5,165
Royalties	51,377	38,504
Cost of sales from mine operations	360,092	158,019
Cost of sales related to idled mine assets [(i)]	496	176
Cost of sales	$ 360,588	$ 158,195

(i) Cost of sales related to idled mine assets for the year ended December 31, 2024 includes $496 of depreciation expense (2023: $176). The depreciation expense relates to the Company's idled plant and equipment.

Cost of inventories recognised as expense in cost of sales for the year ended December 31, 2024 totaled $231,543 (2023: $92,482).

8. OTHER OPERATING EXPENSES, NET

The Company's other operating expenses, net consist of the following amounts:

	Year ended December 31, 2024	2023
Management fee (Note 33)	$ 6,630	$ 4,879
Provision for doubtful trade and other receivables (Note 16)	10	59
Foreign exchange loss, net	134	1,202
Gain on disposal of items of property, plant and equipment, net	(261)	–
Impairment/(reversal of impairment) on materials and supplies inventories (Note 17)	231	(4,988)
Rental income from short term leases	–	(68)
Penalty on late settlement of trade payables	–	454
Gain on contract offsetting arrangement	(3,046)	(668)
Other operating expenses, net	$ 3,698	$ 870

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

9. REVERSAL OF/(PROVISION FOR) ADDITIONAL TAX AND TAX PENALTY

On July 18, 2023, SouthGobi Sands LLC ("SGS") a wholly-owned subsidiary of the Company, received an official notice (the "Notice") issued by the MTA stating that the MTA had completed a periodic tax audit (the "Audit") on the financial information of SGS for the tax assessment years between 2017 and 2020, including transfer pricing, royalty, air-pollution fee and unpaid tax payables. As a result of the Audit, the MTA has notified SGS that it is imposing a tax penalty against SGS in the amount of approximately $74,990. The penalty mainly relates to the different view on the interpretation of tax law between the Company and the MTA. Under Mongolian law, the Company had a period of 30 days from the date of receipt of the Notice to file an appeal in relation to the Audit. Subsequently the Company engaged an independent tax consultant in Mongolia to provide tax advice and support to the Company and filed an appeal letter in relation to the Audit with the MTA in accordance with Mongolian laws on August 17, 2023.

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

On February 22, 2024, SGS received another notice from the MTA stating that the MTA anticipates commencing the re-assessment process on or about March 7, 2024 and the duration of such process will be approximately 45 working days.

On May 15, 2024, SGS received a notice (the "Revised Notice") from the MTA regarding the re-assessment result on the Audit (the "Re-assessment Result"). The re-assessed amount of the tax penalty is approximately $80,000. In accordance with applicable Mongolian laws, SGS is entitled to file an appeal to the TDRC regarding the Re-assessment Result within a 30-day period from the date of receiving the Revised Notice.

On June 12, 2024, following consultation with its independent tax consultant in Mongolia, SGS has submitted an appeal letter to the TDRC regarding the Re-assessment Result, in accordance with applicable Mongolian laws.

On January 10, 2025, SGS received a resolution dated December 19, 2024 (the "Resolution") from the TDRC in response to the appeal letter sent by SGS to the TDRC on June 12, 2024, relating to the Re-assessment Result. As set forth in the Resolution, the TDRC has determined to reduce the re-assessed amount of tax penalty against SGS from approximately $80,000 to approximately $26,500 (the "Revised Re-assessment Result"). In accordance with the applicable Mongolian laws, SGS is entitled to file an appeal to the Administrative Court in Ulaanbaatar, Mongolia ("Administrative Court") regarding the Revised Re-assessment Result within a 30-day period from the date of receiving the Resolution. After careful consideration and consultation with the Company's independent tax consultant in Mongolia, the Company has determined not to pursue a further appeal of the Revised Re-assessment Result with the Administrative Court.

As at December 31, 2024, the Company has recorded an additional tax and tax penalty in the amount of $45,477 (2023: $85,143), which consists of a tax penalty payable of $26,527 (2023: $74,990) and a provision for additional late tax penalty of $18,950 (2023: $10,153). As a result of the Revised Re-assessment Result, the Company recorded a reversal of additional tax and tax penalty of $48,463 in 2024 (2023: $nil). To date, the Company has paid the MTA an aggregate of $1,687 in relation to the aforementioned tax penalty. The Company anticipates paying down the outstanding amount of the tax and tax penalty from cash generated from operations in the normal course. According to Mongolian tax law, the Mongolian tax authority has a legal authority to demand payment of the outstanding amount of the Revised Re-assessment Result from the Company at its discretion.

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

10. ADMINISTRATION EXPENSES

The Company's administration expenses consist of the following amounts:

	Year ended December 31,	
	2024	**2023**
Corporate administration	**$ 3,688**	$ 2,673
Legal and professional fees	**2,836**	2,483
Salaries and benefits	**6,415**	4,779
Share-based compensation expense (Note 29)	**45**	10
Depreciation	**470**	492
Administration expenses	**$ 13,454**	$ 10,437

11. FINANCE COSTS AND INCOME

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

	Year ended December 31,	
	2024	**2023**
Interest expense on convertible debenture (Note 25.4)	**$ 37,103**	$ 46,337
Fair value loss on embedded derivatives in convertible debenture (Note 25.4)	**–**	292
Value added tax on interest from intercompany loan	**–**	1,926
Interest elements on leased assets	**292**	133
Accretion of decommissioning liability	**371**	384
Finance costs	**$ 37,766**	$ 49,072

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

	Year ended December 31,	
	2024	**2023**
Fair value gain on embedded derivatives in convertible debenture (Note 25.4)	**$ 298**	$ –
Gain on modification of convertible debenture (Note 25.4)	**3,187**	4,850
Interest income	**141**	234
Finance income	**$ 3,626**	$ 5,084

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

12. TAXES

12.1 Income tax recognised in profit or loss

	Year ended December 31,	
	2024	2023
Current tax:		
PRC Enterprise Income Tax ("EIT")	$ 1,031	$ 6,159
Mongolian corporate income tax	30,088	27,659
Income tax expenses	$ 31,119	$ 33,818

No provision for Hong Kong Profits Tax, Canadian Corporation Income Tax, Singapore Corporate Income Tax haves been made in the financial statements as the Company has no assessable profits for both years.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% on the estimated assessable profits.

Mongolian corporate income tax was calculated at 10% to the first MNT 6 billion of annual taxable income and 25% on the remaining annual taxable income for both years.

The Canadian statutory tax rate was 27% (2023: 27%). A reconciliation between the Company's tax expense and the product of the Company's loss before tax multiplied by the Company's domestic tax rate is as follows:

	Year ended December 31,	
	2024	2023
Profit before tax	$ 123,616	$ 34,726
Statutory tax rate	27%	27%
Income tax expenses based on combined Canadian federal and provincial statutory rates	33,376	9,376
Tax effect of higher effective tax rate in foreign jurisdictions	(1,953)	(2,543)
Overprovision of income tax in prior year	(9,890)	–
Tax effect of tax losses and temporary differences not recognised	9,382	10,787
Tax effect of withholding tax on intercompany interest	1,814	3,168
Tax effect of profit attributable to a joint venture	(807)	(606)
Tax effect of income not subject to tax	(6,029)	(5,322)
Tax effect of non-deductible expenses	5,226	18,958
Income tax expenses	$ 31,119	$ 33,818

12.2 Unrecognised deductible temporary differences and unused tax losses

The Company's deductible temporary differences and unused tax losses for which no deferred tax asset is recognised consist of the following amounts:

	As at December 31,	
	2024	2023
Non-capital losses	$ 205,660	$ 202,465
Capital losses	30,049	30,049
Foreign exchange and others	320,975	361,968
Total unrecognised amounts	$ 556,684	$ 594,482

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

12. TAXES continued

12.3 Expiry dates

The expiry dates of the Company's unused tax losses are as follows:

	As at December 31, 2024	
	U.S. Dollar Equivalent	**Expiry dates**
Non-capital losses		
Canada	$ **201,141**	2042-2044
China	**4,519**	2029
	$ **205,660**	
Capital losses		
Canada	$ **30,049**	Indefinite

	As at December 31, 2023	
	U.S. Dollar Equivalent	**Expiry dates**
Non-capital losses		
Canada	$ **197,772**	2041-2043
China	**4,693**	2028
	$ **202,465**	
Capital losses		
Canada	$ **30,049**	Indefinite

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

13. DIRECTOR AND EMPLOYEE EMOLUMENTS

Directors' emoluments

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1) (a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, the Company's directors' emoluments consist of the following amounts:

	Year ended December 31, 2024	2023
Directors' fees	**$ 281**	$ 358
Other emoluments for executive and non-executive directors		
Salaries and other benefits	**1,113**	1,122
Retirement Scheme Contributions	**68**	41
Directors' emoluments	**$ 1,462**	$ 1,521

Year ended December 31, 2024

Name of director	Directors' fees	Salaries and other benefits	Share-based compensation	Pension and social insurance contributions	Total
Executive directors					
Ruibin Xu	$ –	$ 371	$ –	$ 18	$ 389
Chonglin Zhu	–	371	–	22	393
Chen Shen	–	371	–	22	393
	$ –	$ 1,113	$ –	$ 62	$ 1,175
Non-executive directors					
Fan Keung Vic Choi (i)	$ 41	$ –	$ –	$ –	$ 41
Zhu Gao	–	–	–	–	–
Yingbin Ian He	103	–	–	3	106
Jin Lan Quan	86	–	–	–	86
Mao Sun (ii)	51	–	–	3	54
Zaixiang Wen	–	–	–	–	–
	$ 281	$ –	$ –	$ 6	$ 287
Directors' emoluments	$ 281	$ 1,113	$ –	$ 68	$ 1,462

(i) Appointed to the Board during the year ended December 31, 2024.

(ii) Ceased to be a non-executive director upon conclusion of the Company's annual general meeting held on June 27, 2024.

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

13. DIRECTOR AND EMPLOYEE EMOLUMENTS continued

Year ended December 31, 2023

Name of director	Directors' fees	Salaries and other benefits	Share-based compensation	Pension and social insurance contributions	Total
Executive directors					
Ruibin Xu (i)	$ –	$ 283	$ –	$ 8	$ 291
Chonglin Zhu	–	350	–	11	361
Chen Shen	–	327	–	11	338
Dong Wang (ii)	–	162	–	5	167
	$ –	$ 1,122	$ –	$ 35	$ 1,157
Non-executive directors					
Zhu Gao	$ –	$ –	$ –	$ –	$ –
Yingbin Ian He	120	–	–	3	123
Gang Li (iii)	–	–	–	–	–
Jin Lan Quan	106	–	–	–	106
Mao Sun	132	–	–	3	135
Zaixiang Wen (i)	–	–	–	–	–
	$ 358	$ –	$ –	$ 6	$ 364
Directors' emoluments	$ 358	$ 1,122	$ –	$ 41	$ 1,521

(i) Appointed to the Board during the year ended December 31, 2023.

(ii) Redesignated from an executive director to a non-executive director on May 15, 2023, and ceased to be a non-executive director upon conclusion of the Company's annual general meeting held on June 20, 2023.

(iii) Resigned from the Board during the year ended December 31, 2023.

Five highest paid individuals

The five highest paid individuals included three directors of the Company for the year ended December 31, 2024 (2023: three directors). The emoluments of the five highest paid individuals are as follows:

	Year ended December 31, 2024	2023
Salaries and other benefits	**$ 1,560**	$ 1,470
Share-based compensation	**63**	–
Total emoluments	**$ 1,623**	$ 1,470

The emoluments for the five highest paid individuals were within the following bands:

	Year ended December 31, 2024	2023
HK$ 1,500,001 to HK$ 2,000,000	**2**	1
HK$ 2,000,001 to HK$ 2,500,000	**–**	2
HK$ 2,500,001 to HK$ 3,000,000	**–**	2
HK$ 3,000,001 to HK$ 3,500,000	**3**	–
	5	5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

14. EARNINGS PER SHARE

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

	Year ended December 31, 2024	Year ended December 31, 2023
Net profit	**$ 92,497**	$ 908
Weighted average number of shares	**296,618**	295,252
Basic earnings per share	**$ 0.312**	$ 0.003
Earnings		
Profit for the purposes of diluted earnings per share	**$ 92,497**	$ 908
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**296,618**	295,252
Effect of dilutive potential ordinary shares:		
– Share options	**1,278**	470
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**297,896**	295,722
Diluted earnings per share	**$ 0.311**	$ 0.003

Potentially dilutive items not included in the calculation of diluted earnings per share for the year ended December 31, 2024 include the underlying shares comprised in the convertible debenture (Note 25) that were anti-dilutive.

15. CASH AND CASH EQUIVALENTS

	As at December 31, 2024	As at December 31, 2023
Cash and bank balances	**$ 8,864**	$ 48,416
Less: Restricted cash (i)	**(274)**	(423)
Cash and cash equivalents	**$ 8,590**	$ 47,993

(i) Pursuant to relevant regulations in Mainland China, the Company is required to place certain amounts at designated bank accounts as guaranteed deposits for issuance of guarantee letter as requested by China Customs.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Company, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

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

15. CASH AND CASH EQUIVALENTS continued

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

	As at December 31, 2024	2023
Denominated in U.S. Dollars	**$ 99**	$ 1,511
Denominated in Chinese Renminbi	**6,271**	37,555
Denominated in Mongolian Tugriks	**1,962**	8,221
Denominated in Canadian Dollars	**25**	95
Denominated in Hong Kong Dollars	**233**	611
Cash	**$ 8,590**	$ 47,993

16. TRADE AND OTHER RECEIVABLES

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

	As at December 31, 2024	2023
Trade receivables	**$ 25,418**	$ –
Other receivables	**6,068**	7,541
Total trade and other receivables	**$ 31,486**	$ 7,541

The aging of the Company's trade and other receivables, based on invoice date and net of provisions, is as follows:

	As at December 31, 2024	2023
Less than 1 month	**$ 28,630**	$ 2,182
1 to 3 months	**2,856**	5,359
Total trade and other receivables	**$ 31,486**	$ 7,541

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 $22,348 (December 31, 2023: $22,487) as at December 31, 2024, based upon an expected loss rate of 10% for trade and other receivables 90 days past due and 100% for trade and other receivables 180 days past due.

The closing allowances for trade and other receivables as at December 31, 2024 reconcile to the opening loss allowances as follows:

Loss allowance for trade and other receivables	
Opening loss allowance as at January 1, 2024	**$ 22,487**
Increase in loss allowance recognised in profit or loss during the year (Note 8)	**10**
Exchange realignment	**(149)**
Closing loss allowance as at December 31, 2024	**$ 22,348**
Opening loss allowance as at January 1, 2023	**$ 22,599**
Increase in loss allowance recognised in profit or loss during the year (Note 8)	**59**
Exchange realignment	**(171)**
Closing loss allowance as at December 31, 2023	**$ 22,487**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

17. INVENTORIES

The Company's inventories consist of the following amounts:

	As at December 31, 2024	2023
Current inventories		
Coal stockpiles	**$ 90,390**	$ 37,754
Materials and supplies	**16,856**	15,173
Total inventories	**$ 107,246**	$ 52,927

Other operating expenses for the year ended December 31, 2024 includes an impairment loss of $231 (2023: reversal of impairment loss of $4,988). This reversal is specifically related to the Company's materials and supplies inventories due to the reuse of certain items that were previously impaired for certain mining equipment repair and maintenance purposes.

18. PREPAID EXPENSES

The Company's prepaid expenses consist of the following amounts:

	As at December 31, 2024	2023
Vendor prepayments	**$ 4,644**	$ 5,363
Other prepaid expenses	**1,439**	1,108
Total prepaid expenses	**$ 6,083**	$ 6,471

For the year ended December 31, 2024, the Company did not record any impairment on vendor prepayments (2023: $nil).

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

19. PROPERTY, PLANT AND EQUIPMENT

The Company's property, plant and equipment consist of the following amounts:

	Mobile equipment	Other operating equipment	Buildings and roads	Right-of-use assets	Mineral properties	Non-depreciable assets	Total
Cost							
As at January 1, 2024	$ 207,947	$ 21,794	$ 64,107	$ 5,226	$ 245,533	$ 1,404	$ 546,011
Additions	**12,128**	**1,367**	**543**	**639**	**91,246**	**12,695**	**118,618**
Disposals	**(2,116)**	**(63)**	**(10)**	**–**	**–**	**–**	**(2,189)**
Exchange realignment	**1,609**	**73**	**203**	**16**	**716**	**5**	**2,622**
As at December 31, 2024	**$ 219,568**	**$ 23,171**	**$ 64,843**	**$ 5,881**	**$ 337,495**	**$ 14,104**	**$ 665,062**
Accumulated depreciation and impairment charges							
As at January 1, 2024	$ (202,796)	$ (20,360)	$ (56,739)	$ (1,536)	$ (107,461)	$ –	$ (388,892)
Depreciation for the year	**(2,129)**	**(675)**	**(1,153)**	**(1,230)**	**(27,036)**	**–**	**(32,223)**
Eliminated on disposals	**1,339**	**63**	**10**	**–**	**–**	**–**	**1,412**
Exchange realignment	**(1,177)**	**(36)**	**(137)**	**(5)**	**(440)**	**–**	**(1,795)**
As at December 31, 2024	**$ (204,763)**	**$ (21,008)**	**$ (58,019)**	**$ (2,771)**	**$ (134,937)**	**$ –**	**$ (421,498)**
Carrying amount							
As at January 1, 2024	$ 5,151	$ 1,434	$ 7,368	$ 3,690	$ 138,072	$ 1,404	$ 157,119
As at December 31, 2024	**$ 14,805**	**$ 2,163**	**$ 6,824**	**$ 3,110**	**$ 202,558**	**$ 14,104**	**$ 243,564**

	Mobile equipment	Other operating equipment	Buildings and roads	Right-of-use assets	Mineral properties	Non-depreciable assets	Total
Cost							
As at January 1, 2023	$ 203,761	$ 21,610	$ 63,359	$ 1,268	$ 206,165	$ 1,340	$ 497,503
Additions	2,710	774	27	3,944	37,069	–	44,524
Disposals	(745)	(819)	–	–	–	–	(1,564)
Exchange realignment	2,221	229	721	14	2,299	64	5,548
As at December 31, 2023	$ 207,947	$ 21,794	$ 64,107	$ 5,226	$ 245,533	$ 1,404	$ 546,011
Accumulated depreciation and impairment charges							
As at January 1, 2023	$ (200,206)	$ (20,332)	$ (54,914)	$ (964)	$ (101,741)	$ –	$ (378,157)
Depreciation for the year	(1,227)	(631)	(1,308)	(562)	(4,615)	–	(8,343)
Eliminated on disposals	700	819	–	–	–	–	1,519
Exchange realignment	(2,063)	(216)	(517)	(10)	(1,105)	–	(3,911)
As at December 31, 2023	$ (202,796)	$ (20,360)	$ (56,739)	$ (1,536)	$ (107,461)	$ –	$ (388,892)
Carrying amount							
As at January 1, 2023	$ 3,555	$ 1,278	$ 8,445	$ 304	$ 104,424	$ 1,340	$ 119,346
As at December 31, 2023	$ 5,151	$ 1,434	$ 7,368	$ 3,690	$ 138,072	$ 1,404	$ 157,119

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

19. PROPERTY, PLANT AND EQUIPMENT continued

19.1 Non-depreciable assets

The non-depreciable assets mainly include the construction in progress. Depreciation on these assets will commence once they are ready for their intended use.

19.2 Pledge on items of property, plant and equipment

As at December 31, 2024, most of the Company's mobile equipment and other operating equipment with carrying value of $11,350 (2023: $3,183) were pledged as security of convertible debenture.

19.3 Right-of-use assets

The right-of-use assets relate to the buildings, plant and equipment as at December 31, 2024 and 2023.

19.4 Impairment charges

No impairment nor reversal of impairment was made during the year ended December 31, 2024 (2023: $nil).

20. INVESTMENTS IN JOINT VENTURES

The Company's investments consist of the following amounts:

	As at December 31, 2024	2023
Non-current investments in joint ventures		
Investment in RDCC LLC	**$ 12,400**	$ 11,834
Investment in Shiveekhuren Terminal LLC	**–**	3,344
Total investments	**$ 12,400**	$ 15,178

The Company has a 40% interest in RDCC LLC, a joint venture. RDCC LLC has a concession agreement with the State Property Committee of Mongolia to construct a paved highway from the Company's Ovoot Tolgoi Mine to the Chinese-Mongolian border for the exclusive use of third party coal transport companies. In October 2012, the concession agreement was structured as a 17-year build, operate and transfer agreement. The construction was completed in 2014 and operations commenced in the second quarter of 2015. On September 17, 2015, the Invest Mongolia Agency signed an amendment to the concession agreement with RDCC LLC to extend the exclusive right of ownership to 30 years.

The movement of the Company's investment in RDCC LLC is as follows:

	As at December 31, 2024	2023
Balance, beginning of year	**$ 11,834**	$ 12,528
Dividend received	**(2,623)**	(3,226)
Share of earnings of a joint venture	**3,227**	2,423
Exchange realignment	**(38)**	109
Balance, end of year	**$ 12,400**	$ 11,834

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

20. INVESTMENTS IN JOINT VENTURES continued

Summarised financial statement information of RDCC LLC, which is a material joint venture, is as follows (presented on a 100% basis in which the Company has a 40% investment):

	As at December 31, 2024	2023
Current assets	**$ 11,682**	$ 5,192
Non-current assets	**17,115**	18,819
Total assets	**$ 28,797**	$ 24,011
Current liabilities	**$ 3,765**	$ 3,069
Total liabilities	**$ 3,765**	$ 3,069

	Year ended December 31, 2024	2023
Revenue	**$ 12,888**	$ 10,091
Gross profit	**10,192**	7,265
Other operating and finance costs	**(272)**	(247)
Profit before tax	**9,920**	7,018
Income tax expenses	**(1,854)**	(961)
Net profit	**$ 8,066**	$ 6,057
Other comprehensive income	**$ –**	$ –
Total comprehensive income	**$ 8,066**	$ 6,057

The movement of the Company's investment in Shiveekhuren Terminal LLC is as follows:

	As at December 31, 2024	2023
Balance, beginning of year	**$ 3,344**	$ 1,910
Transfer to investment in an associate	**(3,344)**	–
Additions, net	**–**	986
Share of earnings of a joint venture	**–**	417
Exchange realignment	**–**	31
Balance, end of year	**$ –**	$ 3,344

21. INVESTMENTS IN ASSOCIATES

The Company's investments consists of the following amounts:

	As at December 31, 2024	2023
Non-current investments in associates		
Investment in Nariinsukhait Railway LLC	**$ 16,290**	$ 8,086
Investment in Shiveekhuren Terminal LLC	**3,920**	–
Total investments	**$ 20,210**	$ 8,086

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

21. INVESTMENTS IN ASSOCIATES continued

The Company increased its investment in Nariinsukhait Railway LLC ("Nariinsukhait") by 20% during the first quarter of 2023, resulting in a total ownership stake of 40% in Nariinsukhait as of the year-end date. As a result of this increased ownership, the decision-making process for business activities in Nariinsukhait has changed from unanimous decision-making to majority voting. As a result, the Company has significant influence over Nariinsukhait which is classified as an associate.

The movement of the Company's investment in Nariinsukhait is as follows:

	As at December 31, 2024	2023
Balance, beginning of year	**$ 8,086**	$ –
Transfer from investment in a joint venture	**–**	80
Additions	**–**	17
Fund contributions	**8,299**	7,922
Share of earnings of an associate	**3**	4
Exchange realignment	**(98)**	63
Balance, end of year	**$ 16,290**	$ 8,086

Summarised financial statement information of Nariinsukhait, which is a material associate, is as follows (presented on a 100% basis in which the Company has a 40% investment):

	As at December 31, 2024	2023
Current assets	**$ 69,414**	$ 9,035
Non-current assets	**627**	27,919
Total assets	**$ 70,041**	$ 36,954
Current liabilities	**$ 5,844**	$ 7,241
Non-current liabilities	**23,493**	9,651
Total liabilities	**$ 29,337**	$ 16,892

	Year ended December 31, 2024	2023
Revenue	**$ 117**	$ –
Gross profit	**–**	–
Other operating and finance income	**11**	12
Profit before tax	**11**	12
Income tax expenses	**(2)**	(2)
Net profit	**$ 9**	$ 10
Other comprehensive income	**$ –**	$ –
Total comprehensive income	**$ 9**	$ 10

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

21. INVESTMENTS IN ASSOCIATES continued

The charter of Shiveekhuren Terminal LLC ("Shiveekhuren") was updated in December 2024, the decision-making process for its business activities changed from unanimous decision-making to majority voting. As a result, the Company's investment in Shiveekhuren is reclassified from joint venture to associate.

The movement of the Company's investment in Shiveekhuren is as follows:

	As at December 31, 2024	2023
Balance, beginning of year	$ –	$ –
Transfer from investment in a joint venture	3,344	–
Share of earnings of an associate	584	–
Exchange realignment	(8)	–
Balance, end of year	**$ 3,920**	$ –

Summarised financial statement information of Shiveekhuren, which is a material associate, is as follows (presented on a 100% basis in which the Company has a 14.65% investment):

	As at December 31, 2024	2023
Current assets	$ 9,785	$ 6,226
Non-current assets	21,823	9,675
Total assets	**$ 31,608**	$ 15,901
Current liabilities	$ 4,872	$ 2,628
Total liabilities	**$ 4,872**	$ 2,628

	Year ended December 31, 2024	2023
Revenue	$ 9,414	$ 5,329
Gross profit	8,644	3,610
Other operating and finance costs	(3,350)	(323)
Profit before tax	5,294	3,287
Income tax expenses	(1,252)	(557)
Net profit	**$ 4,042**	$ 2,730
Other comprehensive income	$ –	$ –
Total comprehensive income	**$ 4,042**	$ 2,730

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

22. TRADE AND OTHER PAYABLES

Trade and other payables of the Company primarily consist of amounts outstanding for trade purchases relating to coal mining, development and exploration activities and mining royalties payable. The usual credit period taken for trade purchases is between 30 to 90 days.

The aging of the Company's trade and other payables, based on invoice date, is as follows:

	As at December 31,	
	2024	2023
Less than 1 month	**$ 53,646**	$ 7,466
1 to 3 months	**50,936**	24,862
3 to 6 months	**18,205**	3,041
Over 6 months	**46,494**	24,823
Total trade and other payables	**$ 169,281**	$ 60,192

The trade and other payables of $169,281 (2023: $60,192) included other tax payables of $55,225 (2023: $16,492).

23. DEFERRED REVENUE

At December 31, 2024, the Company had deferred revenue of $34,350, which represents cash prepayments from customers for future coal sales (2023: $65,670).

The movement of the Company's deferred revenue is as follows:

	Year ended December 31,	
	2024	2023
Balance, beginning of year	**$ 65,670**	$ 30,282
Revenue recognised that was included in the deferred revenue balance	**(65,508)**	(30,190)
Repayment of trade deposits	**(8,435)**	(11,235)
Increase due to trade deposits received, excluding amounts recognised as revenue during the year	**44,157**	76,882
Exchange realignment	**(1,534)**	(69)
Balance, end of year	**$ 34,350**	$ 65,670

The performance obligation related to the revenue from customers for contracts that are unsatisfied (or partially unsatisfied) are expected to be recognised within one year after the reporting date. The Company applies the practical expedient and does not disclose information about any remaining performance obligation that is a part of contract that has original expected duration of one year or less.

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

24. LEASE LIABILITIES

The Company leases certain of its office premises and plant for daily operations. These leases have remaining lease terms ranging from 2 to 5 years.

At December 31, 2024, the total future minimum lease payments and their present values were as follows:

	Minimum lease payments As at December 31,		Present value of minimum lease payments As at December 31,	
	2024	**2023**	**2024**	**2023**
Amounts payable:				
Within one year	**$ 1,213**	$ 1,486	**$ 1,023**	$ 1,206
In the second year	**726**	1,002	**622**	844
In the third to fifth year, inclusive	**603**	1,101	**547**	941
Total minimum lease payments	**$ 2,542**	$ 3,589	**$ 2,192**	$ 2,991
Future finance charges	**(350)**	(598)		
Total net lease payables	**$ 2,192**	$ 2,991		
Portion classified as current liabilities	**(850)**	(1,206)		
Non-current portion	**$ 1,342**	$ 1,785		

25. CONVERTIBLE DEBENTURE

25.1 Key commercial terms

On November 19, 2009, the Company issued a convertible debenture to China Investment Corporation (together with its wholly-owned subsidiaries and affiliates, "CIC") for $500,000. The convertible debenture bears interest at 8.0% per annum (6.4% payable semi-annually in cash and 1.6% payable annually in the Company's Common Shares) and has a maximum term of 30 years. The convertible debenture is secured by a first ranking charge over the Company's assets, including shares of its material subsidiaries. During 2010, the Company exercised a right within the debenture to call and convert $250,000 of the debenture for 21,471 common shares. Following the conversion, the outstanding principal balance was $250,000 and has remained unchanged at that balance to December 31, 2023.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

25. CONVERTIBLE DEBENTURE continued

25.1 Key commercial terms continued

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. Chen Shen) were nominated by JDZF.

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

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

- Registration rights – JDZF has registration rights under applicable Canadian provincial securities laws in connection with the common shares issuable upon conversion of the convertible debenture.

- Event of default – JDZF could demand for the principal and corresponding interest from the Company immediately when certain events, including default of interest payment, suspension of trading and delisting of its shares from the TSX-V and the HKEX have occurred.

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

25. CONVERTIBLE DEBENTURE continued

25.2 Debt host and embedded derivatives

The convertible debenture is presented as a liability since it contains no equity components. The convertible debenture is a hybrid instrument, containing a debt host component and three embedded derivatives – the investor's conversion option, the issuer's conversion option and the equity based interest payment provision (the 1.6% share interest payment) (the "embedded derivatives"). The debt host component is classified as other financial liabilities and is measured at amortised cost using the effective interest rate method and the embedded derivatives are classified as FVTPL and all changes in fair value are recorded in profit or loss.

The difference between the debt host component and the principal amount of the loan outstanding is accreted to profit or loss over the expected life of the convertible debenture.

The embedded derivatives were valued upon initial measurement and subsequent periods using a Monte Carlo simulation valuation model. A Monte Carlo simulation model is a valuation model that relies on random sampling and is often used when 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.

25.3 Valuation assumptions

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

	As at December 31,	
	2024	**2023**
Floor conversion price	**CA$8.88**	CA$8.88
Ceiling conversion price	**CA$11.88**	CA$11.88
Common share price	**CA$0.56**	CA$0.39
Historical volatility	**25%**	29%
Risk free rate of return	**3.48%**	3.51%
Foreign exchange spot rate (CA$ to U.S. Dollar)	**0.695**	0.755
Forward foreign exchange rate curve (CA$ to U.S. Dollar)	**0.695 to 0.930**	0.755 to 0.897

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

25. CONVERTIBLE DEBENTURE continued

25.4 Presentation

Based on the Company's valuation as at December 31, 2024, the fair value of the embedded derivatives decreased by $298 (2023: increased by $292) compared to December 31, 2023. The decrease was recorded as finance income for the year ended December 31, 2024.

For the year ended December 31, 2024, the Company recorded interest expense of $37,103 related to the convertible debenture as a finance cost (2023: $46,337). 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 14.1%.

A modification gain of $3,187 was recognised in profit or loss for the year ended December 31, 2024 (2023: $4,850) for the difference between the original contractual cash flows and modified cash flows under the 2024 March Deferral Agreement (as defined in Note 25.5) and 2024 April Deferral Agreement (as defined in Note 25.5) discounted at the new effective interest rate.

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

	Year ended December 31,	
	2024	**2023**
Balance, beginning of year	**$ 194,300**	$ 224,653
Interest expense on convertible debenture (Note 11)	**37,103**	46,337
Increase/(decrease) in fair value of embedded derivatives (Note 11)	**(298)**	292
Gain on modification of convertible debenture (Note 11)	**(3,187)**	(4,850)
Interest paid	**(23,000)**	(72,132)
Balance, end of year	**$ 204,918**	$ 194,300

The convertible debenture balance consists of the following amounts:

	As at December 31,	
	2024	**2023**
Current convertible debenture		
Interest payable	**$ 120,651**	$ 103,150
	120,651	103,150
Non-current convertible debenture		
Debt host and interest payable	**$ 84,204**	$ 90,789
Fair value of embedded derivatives	**63**	361
	84,267	91,150
Total convertible debenture	**$ 204,918**	$ 194,300

25. CONVERTIBLE DEBENTURE continued

25.5 Interest deferral and settlement

On March 19, 2024, the Company and JDZF entered into an agreement (the "2024 March Deferral Agreement") pursuant to which JDZF agreed to grant the Company a deferral of (i) the cash and payment-in-kind interest ("PIK Interest"), management fees, and related deferral fees in the aggregate amount of approximately $96,500 which will be due and payable to JDZF on or before August 31, 2024 pursuant to certain prior deferral agreements dated March 24, 2023 and October 13, 2023; (ii) semi-annual cash interest payment of approximately $7,900 payable to JDZF on May 19, 2024 under the Convertible Debenture; (iii) semi-annual cash interest payments of approximately $8,100 payable to JDZF on November 19, 2024 and the $4,000 in PIK Interest payable to JDZF on November 19, 2024 under the Convertible Debenture; and (iv) management fees in the aggregate amount of $2,200 payable to JDZF on November 15, 2024 and February 15, 2025, respectively, under the Amended and Restated Cooperation Agreement (collectively, the "2024 March Deferred Amounts").

The effectiveness of the 2024 March Deferral Agreement and the respective covenants, agreements and obligations of each party under the 2024 March Deferral Agreement are subject to the Company obtaining the requisite approval of the 2024 March Deferral Agreement from shareholders in accordance with the requirements of applicable Canadian securities laws and Rule 14.33 and Rule 14A.36 of the Listing Rules. The 2024 March Deferral Agreement was approved by the Company's disinterested shareholders through a special meeting of shareholders convened on August 28, 2024.

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

25. CONVERTIBLE DEBENTURE continued

25.5 Interest deferral and settlement continued

- If at any time before the 2024 March Deferred Amounts and related deferral fees are fully repaid, the Company proposes to appoint, replace or terminate one or more of its chief executive officer, its chief financial officer or any other senior executive(s) in charge of its principal business function or its principal subsidiary, the Company will first consult with, and obtain written consent (such consent shall not be unreasonably withheld) from JDZF prior to effecting such appointment, replacement or termination.

On April 30, 2024, the Company and JDZF entered into an agreement (the "2024 April Deferral Agreement") pursuant to which JDZF agreed to grant the Company a deferral of the remaining $1,100 of PIK interest which was payable on November 19, 2022 under the Convertible Debenture, the payment of which was deferred pursuant to a certain prior deferral agreement dated November 11, 2022 (the "November 2022 Deferral Agreement") until November 19, 2023, as well as related deferral fees under the November 2022 Deferral Agreement (collectively, the "2024 April Deferred Amounts").

The effectiveness of the 2024 April Deferral Agreement and the respective covenants, agreements and obligations of each party under the 2024 April Deferral Agreement are subject to the Company obtaining the requisite approval of the 2024 April Deferral Agreement from shareholders in accordance with the requirements of applicable Canadian securities laws and Rule 14.33 and Rule 14A.36 of the Listing Rules. The 2024 April Deferral Agreement was approved by the Company's disinterested shareholders through a special meeting of shareholders convened on August 28, 2024.

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

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

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

- The 2024 April Deferral Agreement does not contemplate a fixed repayment schedule for the 2024 April Deferred Amounts or related deferral fees. Instead, the 2024 April Deferral Agreement requires the Company to use its best efforts to pay the 2024 April Deferred Amounts and related deferral fees due and payable under the 2024 April Deferral Agreement to JDZF. During the period beginning as of the effective date of the 2024 April Deferral Agreement and ending as of the 2024 April Deferral Agreement Deferral Date, the Company will provide JDZF with monthly updates of its financial status and business operations, and the Company and JDZF will on a monthly basis discuss and assess in good faith the amount (if any) of the 2024 April Deferred Amounts and related deferral fees that the Company may be able to repay to JDZF, having regard to the working capital requirements of the Company's operations and business at such time and with the view of ensuring that the Company's operations and business would not be materially prejudiced as a result of any repayment.

- If at any time before the 2024 April 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.

25. CONVERTIBLE DEBENTURE continued

25.5 Interest deferral and settlement continued

On March 20, 2025, the Company and JDZF entered into an agreement (the "2025 March Deferral Agreement") pursuant to which JDZF agreed to grant the Company a deferral of (i) the cash and PIK Interest, management fees, and related deferral fees in the aggregate amount of approximately $111,600 which will be due and payable to JDZF on or before August 31, 2025 pursuant to the 2024 March Deferral Agreement and the 2024 April Deferral Agreement; (ii) semi-annual cash interest payment of approximately $7,900 payable to JDZF on May 19, 2025 under the Convertible Debenture; (iii) semi-annual cash interest payments of approximately $8,100 payable to JDZF on November 19, 2025 and the $4,000 in PIK Interest payable to JDZF on November 19, 2025 under the Convertible Debenture; and (iv) management fees in the aggregate amount of approximately $6,100 payable to JDZF on May 16, 2025, August 15, 2025, November 15, 2025 and February 15, 2026, respectively, under the Amended and Restated Cooperation Agreement (collectively, the "2025 March Deferred Amounts").

The effectiveness of the 2025 March Deferral Agreement and the respective covenants, agreements and obligations of each party under the 2025 March Deferral Agreement are subject to the Company obtaining the requisite approval of the 2025 March Deferral Agreement from shareholders in accordance with the requirements of applicable Canadian securities laws and Rule 14.33 and Rule 14A.36 of the Listing Rules. The Company will be seeking approval of the 2025 March Deferral Agreement from disinterested shareholders at the Company's upcoming annual general meeting of shareholders, which will be held at a future date to be set by the Board.

The principal terms of the 2025 March Deferral Agreement are as follows:

- Payment of the 2025 March Deferred Amounts will be deferred until August 31, 2026 (the "2025 March Deferral Agreement Deferral Date").

- As consideration for the deferral of the 2025 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 2025 March Deferred Amounts, commencing on the date on which each such 2025 March Deferred Amounts would otherwise have been due and payable under the Convertible Debenture.

- As consideration for the deferral of the 2025 March Deferred Amounts which relate to payment obligations arising from the Amended and Restated Cooperation Agreement, the Company agreed to pay JDZF a deferral fee equal to 1.5% per annum on the outstanding balance of such 2025 March Deferred Amounts commencing on the date on which each such 2025 March Deferred Amounts would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.

- The 2025 March Deferral Agreement does not contemplate a fixed repayment schedule for the 2025 March Deferred Amounts or related deferral fees. Instead, the 2025 March Deferral Agreement requires the Company to use its best efforts to pay the 2025 March Deferred Amounts and related deferral fees due and payable under the 2025 March Deferral Agreement to JDZF. During the period beginning as of the effective date of the 2025 March Deferral Agreement and ending as of the 2025 March Deferral Agreement Deferral Date, the Company will provide JDZF with monthly updates of its financial status and business operations, and the Company and JDZF will on a monthly basis discuss and assess in good faith the amount (if any) of the 2025 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

25. CONVERTIBLE DEBENTURE continued

25.5 Interest deferral and settlement continued

- If at any time before the 2025 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.

25.6 Amendment of Convertible Debenture

On May 13, 2024, the Company and JDZF entered into the Convertible Debenture Amendment to amend certain terms of the Convertible Debenture.

Pursuant to the Convertible Debenture Amendment, the Company may, by resolution of the Board, at any time and from time to time prepay, without penalty, the whole or any part of the principal amount outstanding under the Convertible Debenture, together with accrued cash interest and PIK interest thereon to the date of prepayment, provided that:

(i) the Company has, not later than three (3) business days prior to the proposed prepayment date, delivered to JDZF an irrevocable written notice, signed by an independent director of the Company and setting out the terms of the prepayment;

(ii) the amount of such prepayment reduces the then outstanding principal amount under the Convertible Debenture by an amount that is (a) not less than $500 and (b) if in excess of $500, an integral multiple of $500; and

(iii) the proposed prepayment date falls on a business day.

The Company is not providing any additional form of consideration to JDZF in connection with the Convertible Debenture Amendment. Aside from the aforementioned amendments, the existing terms of the Convertible Debenture continue in full force and effect and unchanged.

The effectiveness of the Convertible Debenture Amendment is subject to the Company providing notice to, and obtaining acceptance (if required) from the TSX-V and requisite approval from disinterested shareholders of the Company in accordance with the requirements of applicable Canadian securities laws and Listing Rules. The Convertible Debenture Amendment was approved by the Company's disinterested shareholders through a special meeting of shareholders convened on August 28, 2024.

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

26. DECOMMISSIONING LIABILITY

At December 31, 2024, the decommissioning liability relates to reclamation and closure costs of the Company's Ovoot Tolgoi Mine.

The Ovoot Tolgoi Mine decommissioning liability is calculated as the net present value of the estimated future reclamation and closure costs, which as at December 31, 2024 totaled $16,313 (2023: $12,810). The estimated future reclamation and closure costs are inflated using an estimated inflation rate of 7.5% (2023: 10.5%) and discounted at 16% per annum (2023: 17% per annum) to determine the year end decommissioning liability. The settlement of the decommissioning liability will occur through to 2038.

The movements in the decommissioning liability during the years ended December 31, 2024 and 2023 were as follows:

	Year ended December 31, 2024	Year ended December 31, 2023
Balance, beginning of year	**$ 9,939**	$ 7,650
Adjustments	**1,981**	1,803
Accretion (Note 11)	**371**	384
Exchange realignment	**(46)**	102
Balance, end of year	**$ 12,245**	$ 9,939

27. LONG SERVICE PAYMENT LIABILITIES

The Company operates a MPF scheme for the employees in Hong Kong. In addition, the employees employed under the Hong Kong Employment Ordinance are also entitled to LSP if the eligibility criteria are met.

	As at December 31, 2024	As at December 31, 2023
Total long service payment liabilities	**$ 29**	$ 26

The Company provides LSP for its employees in respect of LSP on cessation of employment in certain circumstances under the Hong Kong Employment Ordinance.

Hong Kong employees that have been employed continuously for at least five years are entitled to LSP in accordance with the Hong Kong Employment Ordinance under certain circumstances. These circumstances include where an employee is dismissed for reasons other than serious misconduct or redundancy, that employee resigns at the age of 65 or above, or the employment contract is of fixed term and expires without renewal. The amount of LSP payable is determined with reference to the employee's final salary (capped at HK$22,500) and the years of service, reduced by the amount of any accrued benefits derived from the Company's contributions to MPF scheme, with an overall cap of HK$390,000 per employee.

In June 2022, the Government gazetted the Amendment Ordinance, which will eventually abolish the statutory right of an employer to reduce its LSP payable to a Hong Kong employee by drawing on its mandatory contributions to the MPF scheme. The Government has subsequently announced that the Amendment Ordinance will come into effect from May 1, 2025 (the "Transition Date"). Separately, the Government is also expected to introduce a subsidy scheme to assist employers after the abolition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

27. LONG SERVICE PAYMENT LIABILITIES continued

Among other things, once the abolition of the offsetting mechanism takes effect, an employer can no longer use any of the accrued benefits derived from its mandatory MPF contributions (irrespective of the contributions made before, on or after the Transition Date) to reduce the LSP in respect of an employee's service from the Transition Date. However, where an employee's employment commenced before the Transition Date, the employer can continue to use the above accrued benefits to reduce the LSP in respect of the employee's service up to that date; in addition, the LSP in respect of the service before the Transition Date will be calculated based on the employee's monthly salary immediately before the Transition Date and the years of service up to that date. As at December 31, 2024, the Company employed 9 permanent employees in Hong Kong that is subject to LSP consideration (2023: 10).

The movements of the provision of long service payments recognised in the consolidated statement of financial position are as follows:

	Year ended December 31, 2024	2023
Balance, beginning of year	**$ 26**	$ –
Current service cost	**8**	25
Interest cost	**–**	1
Benefits paid	**(5)**	–
Balance, end of year	**$ 29**	$ 26

The principal actuarial assumptions used are as follows:

	Year ended December 31, 2024	2023
Discount rate	**2.02% p.a.**	2.02% p.a.
Expected rate of future salary increase	**3%**	3%

Expected contributions to the long service payment obligation by the Company for the year ended December 31, 2024 after the offset the accrued MPF account balance is approximately $405 (2023: $405).

28. EQUITY

28.1 Share capital

The Company has authorised an unlimited number of common and preferred shares with no par value. At December 31, 2024, the Company had 296,705 common shares outstanding (2023: 295,278) and no preferred shares outstanding (2023: nil).

	As at December 31,			
	2024		2023	
Ordinary share issued at fully paid	**Number of shares/units**	**Share capital**	**Number of shares/units**	**Share capital**
Balance, beginning of year	**295,278**	**$ 1,101,771**	295,227	$ 1,101,764
Shares issued under share options (Note 29)	**1,427**	**282**	51	7
Balance, end of year	**296,705**	**$ 1,102,053**	295,278	$ 1,101,771

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

28. EQUITY continued

28.2 Exchange fluctuation reserve

Gains/losses arising on retranslating the net assets of foreign operations into presentation currency.

28.3 Accumulated deficit and dividends

At December 31, 2024, the Company has accumulated a deficit of $1,149,222 (2023: $1,241,685). No dividend has been paid or declared by the Company since inception.

The Board did not recommend the payment of any dividend for the year ended December 31, 2024 (2023: $nil).

29. SHARE-BASED PAYMENTS

29.1 Stock option plan

The Company has a stock option plan which permits the Board to grant options to acquire common shares of the Company at the volume weighted average closing price for the five days preceding the date of grant. The Company is authorised to issue stock options for a maximum of 10% of the issued and outstanding common shares pursuant to the stock option plan. The stock option plan permits the Board to set the terms for each stock option grant; however, the general terms of stock options granted under the plan include a maximum exercise period of 5 years and a vesting period of 3 years with 33% of the grant vesting on the first anniversary of the grant, 33% vesting on the second anniversary of the grant and 34% vesting on the third anniversary of the grant.

For the year ended December 31, 2024, the Company did not grant any stock options to officers, employees, directors and other eligible persons (2023: nil).

The weighted average assumptions used for the Black-Scholes option pricing model were as follows:

	Year ended December 31,	
	2024	**2023**
Risk free interest rate	**0.87%**	0.87%
Expected life	**3.43**	3.43
Expected volatility (i)	**79%**	79%
Expected dividend per share	**$nil**	$nil

(i) Expected volatility has been calculated based on historical volatility of the Company's publicly traded shares over a period equal to the expected life of the options.

The total share-based compensation expense for the year ended December 31, 2024 was $63 (2023: $14). Share-based compensation expense of $45 (2023: $10) has been allocated to administration expenses and share-based compensation expense of $18 (2023: $4) has been allocated to cost of sales.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

29. SHARE-BASED PAYMENTS continued

29.2 Outstanding stock options

The option transactions under the stock option plan are as follows:

	Year ended December 31,					
	2024			2023		
	Number of options		Weighted average exercise price (CA$)	Number of options		Weighted average exercise price (CA$)
Balance, beginning of year	**3,213**	**$**	**0.19**	4,993	$	0.18
Options exercised	**(1,427)**		**0.17**	(51)		0.13
Options forfeited	**–**		**–**	(524)		0.22
Options expired	**(579)**		**0.14**	(1,205)		0.16
Balance, end of year	**1,207**	**$**	**0.22**	3,213	$	0.19

The stock options outstanding and exercisable are as follows:

	As at December 31, 2024							
	Options Outstanding				Options Exercisable			
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)**
$1.41	**1,207**	**$**	**1.41**	**1.49**	**1,207**	**$**	**1.41**	**1.49**
Total	**1,207**			**1.49**	**1,207**			**1.49**

	As at December 31, 2023							
	Options Outstanding				Options Exercisable			
Exercise price (CA$)	**Options outstanding**		**Weighted average exercise price (CA$)**	**Weighted average remaining contractual life (years)**	**Options outstanding and exercisable**		**Weighted average exercise price (CA$)**	**Weighted average remaining contractual life (years)**
$0.11 – $0.13	1,175	$	0.12	0.80	1,175	$	0.12	0.80

Exercise price (HK$)	**Options outstanding**		**Weighted average exercise price (HK$)**	**Weighted average remaining contractual life (years)**	**Options outstanding and exercisable**		**Weighted average exercise price (HK$)**	**Weighted average remaining contractual life (years)**
$1.41	2,038	$	1.41	2.50	1,515	$	1.41	2.50
Total	3,213			1.88	2,690			1.76

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

29. SHARE-BASED PAYMENTS continued

29.3 Employee Share Purchase Plan

Share purchase plan as part of a long term employee retention program equity incentive plan, which allows the Company's eligible employees to contribute up to 7% of their basic annual salary to purchase shares in the Company. The Company contributes 50% of the employee's contribution and at the end of each calendar quarter shares are purchased on behalf of the employee. At the end of each quarter, the Company's share will be issued. Upon the conversion to primary listing on the HKEX, the Company has undertaken not to issue any further shares under the Share Purchase Plan. For the years ended December 31, 2024 and 2023, eligible employees did not pay and the Company did not contribute to purchase any ordinary shares of the Company under the employee share purchase plan.

30. RESERVES

30.1 Share option reserve

The Company's share option reserve relates to stock options granted by the Company to officers, employees, directors and other eligible persons under its stock option plan. Details about the Company's share-based payments are further disclosed in Note 29.

The share option reserve transactions for the years ended December 31, 2024 and 2023 are as follows:

	Year ended December 31,	
	2024	2023
Balance, beginning of year	**$ 53,030**	$ 53,018
Exercise of stock options	**(95)**	(2)
Share-based compensation charged to operations	**63**	14
Balance, end of year	**$ 52,998**	$ 53,030

30.2 Capital reserve

Pursuant to the applicable laws and regulations of the People's Republic of China, a portion of the profits of a subsidiary has been transferred to reserve funds (i.e. capital reserve), which the Company is restricted from using.

31. CAPITAL RISK MANAGEMENT

The Company's capital risk management objectives are to safeguard the Company's ability to continue as a going concern in order to support the Company's normal operating requirements, continue the development and exploration of its mineral properties and to maintain a flexible capital structure which optimises the costs of capital at an acceptable risk.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares, acquire previously issued shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents. In order to facilitate management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including capital deployment, results from operations, results from the exploration and development of its properties and general industry conditions. The annual and updated budgets are approved by the Board.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

31. CAPITAL RISK MANAGEMENT continued

At December 31, 2024, the Company's capital structure consists of convertible debenture (Note 25), lease liabilities (Note 24) and the equity of the Company (Note 28). Except for disclosed elsewhere in the consolidated financial statements, the Company is not subject to any externally imposed capital requirements. In order to maximise ongoing development efforts, the Company does not pay dividends.

The net debt to equity ratio at the end of the reporting period was as follows:

	As at December 31, 2024	2023
Debt	**$ 479,696**	$ 437,070
Cash and cash equivalents	**(8,590)**	(47,993)
Net debt	**$ 471,106**	$ 389,077
Equity	**$ (49,843)**	$ (141,332)
Net debt to equity ratio	**-945%**	-275%

For the year ended December 31, 2024, there were no significant changes in the processes used by the Company or in the Company's objectives and policies for managing its capital. As at December 31, 2024, the Company had cash and cash equivalents of $8,590 (December 31, 2023: $47,993).

32. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

32.1 Categories of financial instruments

The Company's financial assets and financial liabilities are categorised as follows:

	As at December 31, 2024	2023
Financial assets		
At amortised cost		
Cash and cash equivalents	**$ 8,590**	$ 47,993
Restricted cash	**274**	423
Trade and other receivables (Note 16)	**31,486**	7,541
Total financial assets	**$ 40,350**	$ 55,957
Financial liabilities		
Fair value through profit or loss		
Convertible debenture – embedded derivatives (Note 25)	**$ 63**	$ 361
At amortised cost		
Trade and other payables (Note 22)	**169,281**	60,192
Lease liabilities (Note 24)	**2,192**	2,991
Convertible debenture – debt host (Note 25)	**204,855**	193,939
Total financial liabilities	**$ 376,391**	$ 257,483

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

32. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS continued

32.2 Fair value

The fair value of financial assets and financial liabilities measured at amortised cost is determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions. The Company considers that the carrying amount of all its financial assets and financial liabilities measured at amortised cost approximates their fair value, except as disclosed below.

The fair values of the Company's financial instruments classified as FVTPL are determined as follows:

- The fair value of financial instruments that are not traded in an active market are determined using generally accepted valuation models using inputs that are directly (i.e. prices) or indirectly (i.e. derived from prices) observable. The fair value of the embedded derivatives within the convertible debenture (Note 25) is determined using a Monte Carlo simulation. None of the fair value change in the embedded derivatives for the year ended December 31, 2024 is related to a change in the credit risk of the convertible debenture. All of the change in fair value is associated with changes in market conditions.

The following table provides an analysis of the Company's financial instruments that are measured and disclosed subsequent to initial recognition at fair value, grouped into Level 1 to 3 based on the degree to which the inputs used to determine the fair value are observable.

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1, that are observable either directly or indirectly.

- Level 3 fair value measurements are those derived from valuation techniques that include inputs that are not based on observable market data.

Recurring measurements	As at December 31, 2024 Level 1	Level 2	Level 3	Total
Financial liabilities measured at fair value				
Convertible debenture – embedded derivatives	**$ –**	**$ –**	**$ 63**	**$ 63**
Total financial liabilities measured at fair value	**$ –**	**$ –**	**$ 63**	**$ 63**

Recurring measurements	As at December 31, 2023 Level 1	Level 2	Level 3	Total
Financial liabilities measured at fair value				
Convertible debenture – embedded derivatives	$ –	$ –	$ 361	$ 361
Total financial liabilities measured at fair value	$ –	$ –	$ 361	$ 361

There were no transfers between Level 1, 2 and 3 for the year ended December 31, 2024 (2023: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

32. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS continued

32.3 Financial risk management objectives and policies

The financial risk arising from the Company's operations are currency risk, interest rate risk, credit risk, liquidity risk and commodity price risk. These risks arise from the normal course of operations and all transactions undertaken are to support the Company's ability to continue as a going concern. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management of the Company manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

The Company is exposed to foreign currency risk on its sales or purchases in currencies other than the U.S. dollar. The Company manages this risk by matching receipts and payments in the same currency.

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

	As at December 31, 2024	2023
Increase/decrease in foreign exchange rate against respective functional currency		
+5%	**$ 273**	$ (183)
-5%	**$ (273)**	$ 183

Interest rate risk

The Company is exposed to interest rate risk on the variable rate of interest earned on its cash. However, the rate of interest earned on these instruments is below 3% (2023: 3%); therefore, the interest rate risk is not significant.

The Company has not entered into any derivative instruments to manage interest rate fluctuations, however, management closely monitors interest rate exposure and the risk exposure is limited.

Credit risk

The Company is exposed to credit risk associated with its cash and trade and other receivables. The Company's maximum exposure to credit risk is equal to the carrying amount of these instruments.

The Company applies the IFRS 9 simplified approach to measuring ECL which uses a lifetime expected loss allowance for all trade and other receivables.

To measure the expected credit losses, trade and other receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 2 years before December 31, 2024 or 2023 respectively and the corresponding historical credit losses experienced within this period as well as the forecast regarding the industry environment.

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

32. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS continued

32.3 Financial risk management objectives and policies continued

Credit risk continued

On that basis, the loss allowance as at December 31, 2024 and 2023 was determined as follows for trade and other receivables:

	Less than 1 month	1 to 3 months	3 to 6 months	Over 6 months	Total
As at December 31, 2024					
Expected loss rate	(i)	(i)	10%	100%	
Gross carrying amount – trade and other receivables	**$ 28,630**	**$ 2,856**	**$ –**	**$ 22,348**	**$ 53,834**
Loss allowance	**$ –**	**$ –**	**$ –**	**$ 22,348**	**$ 22,348**
As at December 31, 2023					
Expected loss rate	(i)	(i)	10%	100%	
Gross carrying amount – trade and other receivables	$ 2,182	$ 5,359	$ –	$ 22,487	$ 30,028
Loss allowance	$ –	$ –	$ –	$ 22,487	$ 22,487

(i) The expected credit loss rate is considered insignificant.

The Company's credit risk on cash arises from possible default of the counterparty. The Company limits its exposure to counterparty credit risk on cash by only dealing with financial institutions with high credit ratings.

The Company seeks to manage its credit risk on trade and other receivables by trading with third party customers it considers to be creditworthy. It is the Company's policy that all customers are required to prepay deposits to the Company for future purchasing from the Company, and for those who wish to trade on credit terms are subject to credit verification procedures.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to settle or manage its obligations associated with financial liabilities. Based on the Company's cash flow projection covering a period of 12 months from December 31, 2024, the Company is expected to have sufficient capital resources in order to satisfy its ongoing obligations and future contractual commitments. Please refer to Note 1 for further details.

The Company's current and expected remaining contractual maturities for its financial liabilities with agreed repayment periods are as follows. The table includes the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to satisfy the liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

32. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS continued

32.3 Financial risk management objectives and policies continued

Liquidity risk continued

	0 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total contractual undiscounted cash flow	Carrying amount
As at December 31, 2024						
Trade and other payables	**$ 169,281**	**$ –**	**$ –**	**$ –**	**$ 169,281**	**$ 169,281**
Lease liabilities (i)	**607**	**606**	**1,329**	**–**	**2,542**	**2,192**
Convertible debenture – cash interest (i)	**14,673**	**14,388**	**100,000**	**430,000**	**559,061**	**204,918**
	$ 184,561	**$ 14,994**	**$ 101,329**	**$ 430,000**	**$ 730,884**	**$ 376,391**
As at December 31, 2023						
Trade and other payables	$ 60,192	$ –	$ –	$ –	$ 60,192	$ 60,192
Lease liabilities (i)	743	743	2,108	–	3,594	2,991
Convertible debenture – cash interest (i)	11,488	18,215	100,000	200,000	329,703	194,300
	$ 72,423	$ 18,958	$ 102,108	$ 200,000	$ 393,489	$ 257,483

(i) The expected undiscounted cash flows of the above noted financial liabilities include the cash interest payment on the lease liabilities and convertible debenture for the years ended December 31, 2024 and December 31, 2023. Refer to Note 24 and Note 25 for the terms of lease liabilities and convertible debenture, respectively.

33. RELATED PARTY TRANSACTIONS

The consolidated financial statements include the financial statements of SouthGobi Resources Ltd. and its significant subsidiaries listed in the following table:

Name	Place of incorporation	% equity interest As at December 31, 2024	2023
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. (i)	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. and Inner Mongolia SouthGobi Energy Co., Ltd. were registered as a wholly-foreign-owned enterprise under law of China.

In addition to the transactions detailed elsewhere in profit or loss, the Company had related party transactions with the following company related by way of directors or shareholders in common during the years ended December 31, 2024 and 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.

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

33. RELATED PARTY TRANSACTIONS continued

During the year ended December 31, 2024, management fee of $6,630 was recorded in profit or loss (2023: $4,879).

33.1 Related party expenses

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

	Year ended December 31,	
	2024	**2023**
Finance costs	**$ 37,103**	$ 46,337
Management fee	**6,630**	4,879
Rental expenses (i)	**81**	79
Warehouse logistics expenses (ii)	**–**	98
Office supplies expenses (iii)	**–**	51
Related party expenses	**$ 43,814**	$ 51,444

(i) Rental expenses payment to a related company were $81, 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 (2023: $79).

(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 in 2023. The logistic company ceased to be a related company of the Company in 2024.

(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 (2023: $51).

33.2 Key management personnel compensation

The remuneration of the Company's directors and other members of key management, who have the authority and responsibility for planning, directing and controlling the activities of the Company, consists of the following amounts:

	Year ended December 31,	
	2024	**2023**
Salaries, fees and other benefits	**$ 1,910**	$ 2,175
Total remuneration	**$ 1,910**	$ 2,175

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

34. SUPPLEMENTAL CASH FLOW INFORMATION

34.1 Non-cash financing and investing activities

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

	Year ended December 31, 2024	2023
Depreciation and amortisation capitalised in mineral properties	**$ 3,287**	$ 2,350
Increase in decommissioning liability	**1,981**	1,803

34.2 Net change in working capital items

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

	Year ended December 31, 2024	2023
Increase in trade and other receivables	**$ (22,355)**	$ (5,024)
Increase in inventories	**(53,351)**	(13,700)
Decrease/(increase) in prepaid expenses and deposits	**398**	(3,884)
Increase in trade and other payables	**111,794**	524
Increase/(decrease) in deferred revenue	**(31,163)**	35,467
Net change in working capital items	**$ 5,323**	$ 13,383

Depreciation and depletion capitalised in inventories for the year ended December 31, 2024 totaled $6,131 (2023: $269).

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

34. SUPPLEMENTAL CASH FLOW INFORMATION continued

34.3 Reconciliation of liabilities arising from financing activities

	Lease liabilities	Convertible debenture	Total
At January 1, 2023	$ 502	$ 224,653	$ 225,155
Changes from financing cash flows:			
Interest payments	–	(72,132)	(72,132)
Capital element of lease rentals paid	(327)	–	(327)
Interest element of lease rentals paid	(133)	–	(133)
Total changes from financing cash flows	(460)	(72,132)	(72,592)
Other charges:			
Interest expenses	133	46,337	46,470
Changes in fair value of embedded derivatives	–	292	292
Gain on modification of convertible debenture	–	(4,850)	(4,850)
Increase in finance lease payable	2,789	–	2,789
	2,922	41,779	44,701
Exchange adjustments	27	–	27
At December 31, 2023 and January 1, 2024	$ 2,991	$ 194,300	$ 197,291
Changes from financing cash flows:			
Interest payments	**–**	**(23,000)**	**(23,000)**
Capital element of lease rentals paid	**(716)**	**–**	**(716)**
Interest element of lease rentals paid	**(292)**	**–**	**(292)**
Total changes from financing cash flows	**(1,008)**	**(23,000)**	**(24,008)**
Other charges:			
Interest expenses	**292**	**37,103**	**37,395**
Changes in fair value of embedded derivatives	**–**	**(298)**	**(298)**
Gain on modification of convertible debenture	**–**	**(3,187)**	**(3,187)**
Decrease in finance lease payable	**(61)**	**–**	**(61)**
	231	**33,618**	**33,849**
Exchange adjustments	**(22)**	**–**	**(22)**
At December 31, 2024	**$ 2,192**	**$ 204,918**	**$ 207,110**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

35. COMMITMENTS FOR EXPENDITURE

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

	Within 1 year	2-3 years	Over 3 years	Total
As at December 31, 2024				
Capital expenditure commitments	**$ 1,422**	**$ 3,829**	**$ 4,195**	**$ 9,446**
Operating expenditure commitments	**1,354**	**39**	**172**	**1,565**
Commitments	**$ 2,776**	**$ 3,868**	**$ 4,367**	**$ 11,011**
As at December 31, 2023				
Capital expenditure commitments	$ –	$ –	$ –	$ –
Operating expenditure commitments	1,359	39	192	1,590
Commitments	$ 1,359	$ 39	$ 192	$ 1,590

36. CONTINGENCIES

36.1 Lawsuit

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

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

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

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

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

To date, counsel for the plaintiffs and defendant have completed (i) all document production and (ii) defence oral examinations for discovery. Counsel for the plaintiffs have served their expert reports on liability and damages.

36. CONTINGENCIES continued

36.1 Lawsuit continued

Counsel for the plaintiffs and defendant have entered into a good faith procedural agreement (the "Procedural Agreement"). The parties have engaged the services of an experienced neutral, former Chief Justice of Ontario (the "Mediator"), to act as a mediator to assist the parties in resolving all pre-trial matters as set out in the Procedural Agreement. The parties have agreed to a pre-trial mediation before the Mediator, which was scheduled for April 2025 with an intention to have the case ready for trial by April 25, 2025. However, the mediation has been adjourned to the summer of 2025 as the parties continue to work with the Mediator to resolve outstanding procedural disputes. The Court has not yet scheduled trial dates. The Company continues to urge a trial as early as possible.

The Company firmly believes that it has a strong defense on the merits and will continue to vigorously defend itself against the Class Action through independent Canadian litigation counsel retained by the Company for this purpose. Due to the inherent uncertainties of litigation, it is not possible to predict the final outcome of the Class Action or determine the amount of potential losses, if any. However, the Company has determined that a provision for this matter as at December 31, 2024 was not required.

36.2 Toll Wash Plant Agreement with Ejin Jinda

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

Under the agreement with Ejin Jinda, which required the commercial operation of the wet washing facility to commence on October 1, 2011, the additional fees payable by the Company under the wet washing contract would have been $18,500. At each reporting date, the Company assesses the agreement with Ejin Jinda and has determined it is not probable that this $18,500 will be required to be paid. Accordingly, the Company has determined that a provision for this matter as at December 31, 2024 and 2023 was not required.

36.3 Tax Legislation

Mongolian tax, currency and customs legislation is subject to varying interpretation, and changes which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant authorities. The MTA may take a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged by tax authorities. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. The Mongolian tax legislation does not provide definitive guidance in certain areas, specifically in areas such as VAT, withholding tax, corporate income tax, personal income tax, transfer pricing and other areas. From time to time, the Company adopts interpretations of such uncertain areas that reduce the overall tax rate of the Company. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices. The impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

Management believes that its interpretation of relevant legislation is appropriate and the Company's positions related to tax and other legislation will be sustained. However, the Company may be impacted if such unfavourable event occurs. Management regularly performs re-assessment of tax risk and its position may change in the future as a result of the change in conditions that cannot be anticipated with sufficient certainty at present.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

36. CONTINGENCIES continued

36.3 Tax Legislation continued

As of December 31, 2024, the Company has recorded an additional tax and tax penalty in the amount of $45,477 and the Company has paid the MTA an aggregate of $1,687 in relation to the aforementioned tax penalty, as more particularly detailed under note 9 to the consolidated financial statements.

36.4 Tax Contingencies and Potential Legal Proceeding

Subsequent to the reporting date of December 31, 2024:

On March 19, 2025, SGS received correspondence from the Administrative Court requesting supplemental information regarding a court proceeding initiated by certain officers of the MTA (“MTA Officials”) against the TDRC. Upon further enquiry, SGS obtained a copy of an order dated March 7, 2025 issued by the Administrative Court regarding commencement of court proceedings brought by the MTA Officials. The MTA Officials are petitioning the court to overturn the TDRC’s ruling that reduced SGS’s tax penalty from approximately $80,000 to approximately $26,500. The Company has recognised a reversal of additional tax and tax penalty of $48,463 in the consolidated financial statements, reflecting the TDRC’s binding decision as of the reporting date.

Based on preliminary advice from the Company’s independent Mongolian legal counsel and tax consultants: (i) SGS has not been named as a third party defendant to these proceedings; (ii) The TDRC’s Revised Re-assessment Result remains legally enforceable unless formally overturned by the court; and (iii) SGS’s acceptance of the TDRC’s decision makes the ruling final under Mongolian tax law.

Due to the inherent uncertainties surrounding legal proceedings, the ultimate resolution of this matter cannot be predicted with certainty. Should the court rule in favour of the MTA Officials, any resulting adjustments to the provision or recognition of additional liabilities would be accounted for in the period when such determination is made.

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

37. STATEMENT OF FINANCIAL POSITION OF THE INVESTMENT COMPANY

The statement of financial position of the investment company prepared on a stand-alone basis is presented below:

	As at December 31, 2024	2023
Assets		
Non-current assets		
Investment in subsidiaries	**$ –**	$ –
Total non-current assets	**–**	–
Current assets		
Cash and cash equivalents	**66**	1,381
Other receivables	**5**	7
Prepaid expenses	**97**	94
Total current assets	**168**	1,482
Total assets	**$ 168**	$ 1,482
Equity and liabilities		
Current liabilities		
Other payables	**$ 22,888**	$ 16,422
Current portion of convertible debenture	**120,651**	103,150
Total current liabilities	**143,539**	119,572
Non-current liabilities		
Convertible debenture	**84,267**	91,150
Total non-current liabilities	**84,267**	91,150
Total liabilities	**227,806**	210,722
Equity		
Common shares	**1,102,053**	1,101,771
Share option reserve	**52,998**	53,030
Accumulated deficit	**(1,382,689)**	(1,364,041)
Total deficiency in assets	**(227,638)**	(209,240)
Total equity and liabilities	**$ 168**	$ 1,482

APPROVED BY THE BOARD:

"Yingbin Ian He"
Director

"Ruibin Xu"
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

38. RESERVE AND DEFICIT OF THE INVESTMENT COMPANY

The reserve and deficit of the investment company prepared on a stand-alone basis is presented below:

	Share option reserve	Accumulated deficit	Total
Balances, January 1, 2023	$ 53,018	$ (1,390,897)	$ (1,337,879)
Net profit for the year	–	26,856	26,856
Exercise of stock options	(2)	–	(2)
Share-based compensation charged to operations	14	–	14
Balances, December 31, 2023	$ 53,030	$ (1,364,041)	$ (1,311,011)
Balances, January 1, 2024	**$ 53,030**	**$ (1,364,041)**	**$ (1,311,011)**
Net loss for the year	**–**	**(18,648)**	**(18,648)**
Exercise of stock options	**(95)**	**–**	**(95)**
Share-based compensation charged to operations	**63**	**–**	**63**
Balances, December 31, 2024	**$ 52,998**	**$ (1,382,689)**	**$ (1,329,691)**

UNAUDITED APPENDIX TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of U.S. dollars and shares in thousands, unless otherwise indicated)

ADDITIONAL STOCK EXCHANGE INFORMATION

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

A1. FIVE-YEAR SUMMARY

The following table contains a five-year summary of the Company's results, assets and liabilities:

	Year ended December 31,				
	2024	**2023**	**2022**	**2021**	**2020**
Revenue	**$ 493,378**	$ 331,506	$ 73,084	$ 43,398	$ 85,951
Gross profit	**132,790**	173,311	15,322	12,094	27,294
Net comprehensive income/(loss) attributable to equity holders of the Company	**$ 91,239**	$ 1,173	$ (55,163)	$ (14,570)	$ (27,132)
Basic earnings/(loss) per share	**$ 0.312**	$ 0.003	$ (0.110)	$ (0.053)	$ (0.074)
Diluted earnings/(loss) per share	**$ 0.311**	$ 0.003	$ (0.110)	$ (0.053)	$ (0.074)

	As at December 31,				
	2024	**2023**	**2022**	**2021**	**2020**
Total assets	**$ 429,853**	$ 295,738	$ 181,359	$ 206,113	$ 214,632
Less: total liabilities	**(479,696)**	(437,070)	(323,883)	(296,563)	(290,869)
Total deficiency in assets	**$ (49,843)**	$ (141,332)	$ (142,524)	$ (90,450)	$ (76,237)

CORPORATE INFORMATION

Directors

Executive Directors:

Mr. Ruibin Xu *(Chief Executive Officer)*
Ms. Chonglin Zhu *(Chief Financial Officer)*
Mr. Chen Shen *(Vice President of Legal)*

Non-Executive Directors:

Mr. Zhu Gao
Mr. Zaixiang Wen

Independent Non-Executive Directors:

Mr. Yingbin Ian He *(Independent Lead Director)*
Ms. Jin Lan Quan
Mr. Fan Keung Vic Choi

Audit Committee

Ms. Jin Lan Quan *(Chair)*
Mr. Yingbin Ian He
Mr. Fan Keung Vic Choi

Nominating and Corporate Governance Committee

Mr. Yingbin Ian He *(Chair)*
Ms. Jin Lan Quan
Mr. Fan Keung Vic Choi

Compensation and Benefits Committee

Ms. Jin Lan Quan *(Chair)*
Mr. Yingbin Ian He
Mr. Fan Keung Vic Choi

Health, Environment, Safety and Social Responsibility Committee

Mr. Ruibin Xu *(Chair)*
Mr. Yingbin Ian He
Mr. Jinsheng Xu *(Executive Director of SGS)*

Operations Committee

Mr. Yingbin Ian He *(Chair)*
Mr. Ruibin Xu

Joint Company Secretaries

Ms. Allison Snetsinger and Ms. Shuk Wan So

Records and Registered Office

20th floor – 250 Howe Street, Vancouver, British Columbia, Canada V6C 3R8

Principal Place of Business in Hong Kong

Units 1208-10, Tower 1, Grand Century Place, 193 Prince Edward Road West, Mongkok, Kowloon, Hong Kong

Principal Place of Business in Mongolia

8th Floor, Monnis Building, Orgil Stadium 22, Great Mongolian State Street, 18th Khoroo, Khan-Uul District, Ulaanbaatar, Mongolia, 17011

Principal Bankers

Canada:

BMO Bank of Montreal

Hong Kong:

Standard Chartered Bank (Hong Kong) Limited

Principal Share Registrar

TSX Trust Company
Suite 1600-1066 West Hastings Street, Vancouver, British Columbia, Canada V6E 3X1

Branch Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong

Independent Auditor

BDO Limited (Hong Kong)

Website address

SouthGobi.com