SouthGobi Resources

TSX-V: SGQ  HKEX: 1878

# SouthGobi Resources Ltd.
# 南戈壁资源有限公司


# Annual Report 2025

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# SouthGobi Resources Ltd.
Annual Report 2025

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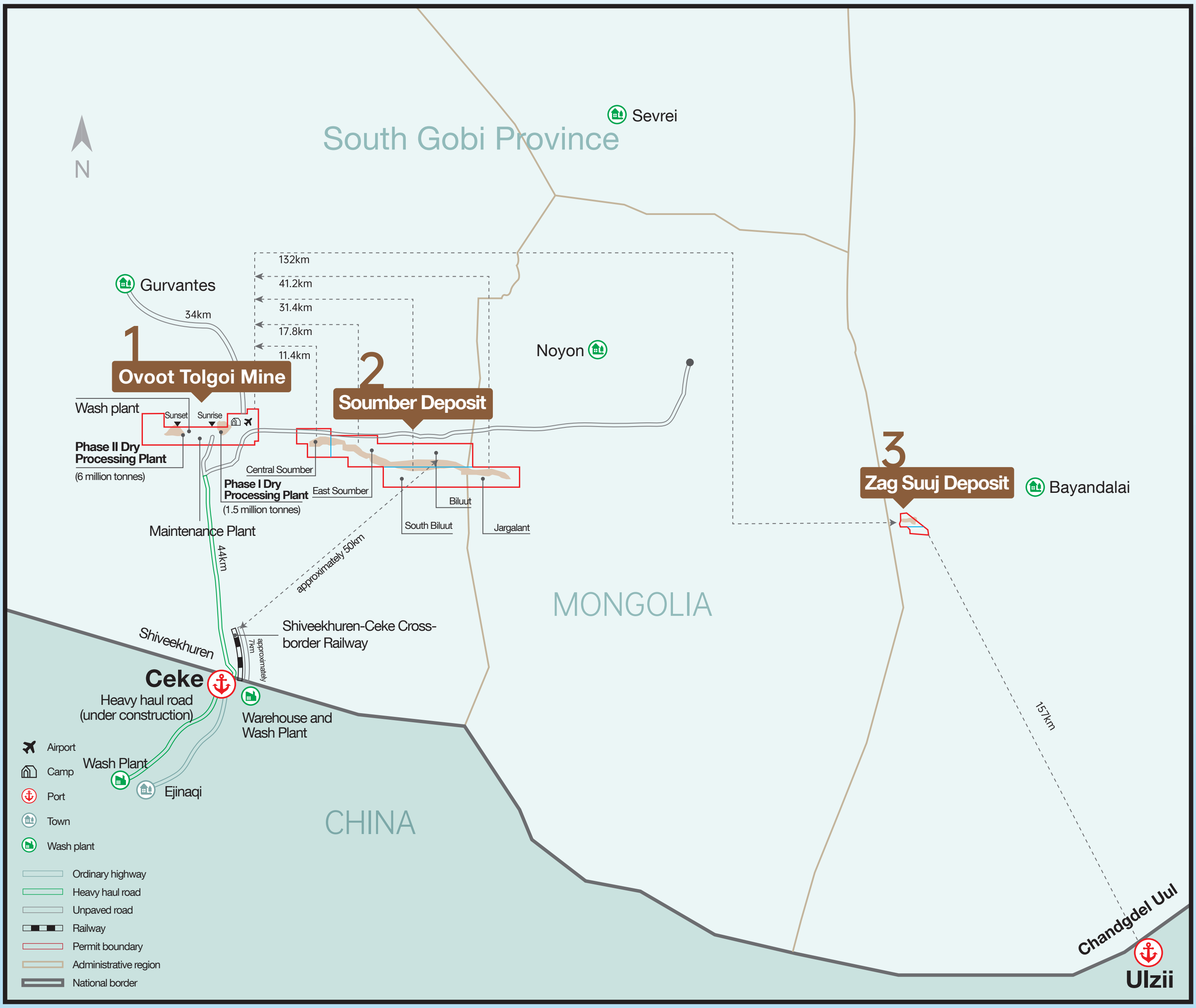
SouthGobi Resources Ltd. (the "Company" or "SouthGobi") is focused on the exploration, development and production of its coal deposits in Mongolia's South Gobi Region. The Company has a 100% shareholding in Southgobi Sands LLC, the Mongolian registered company that holds SouthGobi's mining licenses in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

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



N
South Gobi Province
Sevrei
Gurvantes
34km
132km
41.2km
31.4km
17.8km
11.4km
1
Ovoot Tolgoi Mine
2
Soumber Deposit
Noyon
Wash plant
Sunset
Sunrise
Phase II Dry
Processing Plant
(6 million tonnes)
Central Soumber
Phase I Dry
Processing Plant
(1.5 million tonnes)
East Soumber
Biluut
South Biluut
Jargalant
Maintenance Plant
44km
approximately 50km
3
Zag Suuj Deposit
Bayandalai
MONGOLIA
Shiveekhuren
Shiveekhuren-Ceke Cross-border Railway
approximately 7km
Ceke
Heavy haul road
(under construction)
Warehouse and
Wash Plant
Wash Plant
Ejinaqi
CHINA
157km
Chandgdel Uul
Ulzii
Airport
Camp
Port
Town
Wash plant
Ordinary highway
Heavy haul road
Unpaved road
Railway
Permit boundary
Administrative region
National border

# MESSAGE FROM THE CEO

In 2025, despite the China economy showing signs of gradual recovery, the overall economic environment remained acute. Consequently, demand in the China coal market continued to be weak, and coal prices experienced a significant one-sided slide downward since the beginning of the year. It was not until the fourth quarter that prices became stabilised and showed a slight rebound. The above led to a sharp plunge in Company's average coal selling price from US$70.40 per tonne in 2024 to US$53.49 per tonne in 2025, representing a year-on-year decrease of 24%. To preserve its cash flow, the Company continued to scale up its mining operations significantly in 2025 and adopted various coal processing methods, including screening, wet washing, and dry coal processing, to enhance coal quality and concurrently increased its coal export volume to China. Simultaneously, the Company's product mix underwent a notable change in 2025: the proportion of premium semi-soft coking coal in the product mix reduced from 13% in 2024 to 8% in the current year, while the proportion of processed coal increased from 33% in 2024 to 39% in 2025. These factors resulted in a material adverse effect on the operating results of the Company.

In response to the aforementioned downturn in the China coal market and changes in the product mix, the management team steadfastly adhered to the development strategy of "optimising coal production, streamlining sales process, improving product quality, expanding sales market", and continued the operational mentality of expanding production and enhancing efficiency. During the year, the Company achieved record high results in many operational indicators. Notably, raw coal production reached 16.63 million tonnes, representing a year-on-year increase of 63%, while coal sales volume reached 11.20 million tonnes, a year-on-year increase of 60%. The annual revenue of the Company reached US$600 million, a year-on-year increase of 21%, an outstanding result achieved through the concerted efforts of the management and all SouthGobi employees.

From the coal production perspective, the Company achieved a historic high in raw coal production of 16.63 million tonnes during the year. The stripping operations at the mine site were carried out using excavators in a coordinated manner, with two parallel modes: stripping using self-owned equipment and outsourcing to third-party sub-contractors. During the year, the Company continued to increase its third-party sub-contractors' stripping capacity, persistently expanding the scale of its mining operations. Alongside the rapid growth in coal production, its operational model swiftly shifted from an asset-heavy model to an asset-light one. In 2025, the Company's coal production accounted for 16% of total coal production in Mongolia. From 2023 to 2025, the average annual coal production of the Company was 8.83 million tonnes, which was three times the average annual production of 2.72 million tonnes from 2009 to 2022, representing the fastest growth period in our corporate history.

From the coal processing perspective, total coal processing capacity at the mine site currently stands at approximately 9 million tonnes per year. This enables the upgrading of on-site inventory and incremental WF coal into semi-soft coking washed B coal or high-calorific-value thermal F coal, thereby enriching our product offerings to meet market demand for different coal products. At the same time, it significantly reduces inventory level with continuous cash flow collection. During the year, a total of 7.01 million tonnes of WF coal were processed at the mine site (including 1.90 million tonnes fed into the wet washing plant, 1.42 million tonnes processed through the Phase I Shenzhou dry processing plant, 2.87 million tonnes through the Phase II Shenzhou dry processing plant, and 0.82 million tonnes by screening), yielding 3.70 million tonnes of commercial coal, with a weighted average yield rate of 53%.

## MESSAGE FROM THE CEO

From logistics and clearance perspective, the Company achieved a coal customs clearance volume of 11.09 million tonnes during the year, a historic high. This clearance volume accounted for 34% of the total clearance volume of 32.26 million tonnes at the China-Mongolia Ceke Port in 2025, and 14% of Mongolia's total coal export volume of 78.40 million tonnes. Currently, the Company is the single largest enterprise in terms of coal customs clearance volume at China's Ceke Port.

From the coal sales perspective, the Company achieved historic highs in both its sales volume and revenue in 2025. During the year, its coal sales volume reached 11.20 million tonnes, a year-on-year increase of 60%, while its annual revenue reached US$600 million, a year-on-year increase of 21%. The compound annual growth rate of revenue from 2023 to 2025 was 34%, highlighting the significant effectiveness of the Company's sales expansion and the realisation of a continuous high-growth trend in business revenue for three consecutive years.

Concurrently, leveraging the influence and channel resources of its largest shareholder, JD Zhixing Fund L.P. ("JDZF"), in the PRC coal industry, the Company has established sales stations or offices at locations including Ceke Port, Wuhai, Baotou Salagi Station, Guchengwan Station, Miaoliang, Caofeidian Port and Jingtang Port. The Company has also established multiple sales channels, including direct sales at Ceke Port, road and railway transport to ports (Caofeidian, Jingtang Port), Mongolian coal to Wuhai, and Mongolian coal to Gansu (Jiuquan, Jiayuguan). During the year, the Company built in-depth strategic partnerships with several listed companies and large state-owned enterprises downstream, continuously advancing the corporate strategy of "expanding sales market" for its coal products. 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.

During the year, the Company, in connection with the significant tax penalty imposed by the Mongolian Tax Authority on Southgobi Sands LLC ("SGS"), filed an appeal and held extensive discussions with the Mongolian tax authorities at the legal level. Ultimately, on January 10, 2025, SGS received a resolution issued by the Mongolian Tax Dispute Resolution Council ("TDRC"). Pursuant to the resolution, the TDRC determined to reduce the assessed amount of the tax penalty against SGS from approximately US$80.0 million to approximately US$26.5 million. Consequently, this significant tax penalty matter has been properly resolved.

## MESSAGE FROM THE CEO

At the end of 2025, the Company had a total of 847 employees, an increase of 79 employees compared to 2024. Among them, 732 were Mongolian nationals, accounting for 86% of the total workforce. Additionally, through third-party partner companies, SouthGobi indirectly created over 4,000 stable jobs in Mongolia. In 2025, SGS was honoured as the 10th ranked enterprise in the Top 100 Mongolian Enterprises by the Mongolian Government and the Mongolian National Chamber of Commerce and Industry. The award was personally presented to SGS by former Mongolian Prime Minister Zandaakhuu Enkhbold, fully demonstrating the Company's outstanding corporate strength and significant contribution to Mongolia's economic development.

As a responsible coal mining company, we always regard safety as our top priority. In 2025, 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 fourth consecutive year. Furthermore, the Company had no injury incident or lost workdays due to work-related injuries during the year. Concurrently, the Company provided 13,031 hours of training on occupational health and safety, leadership and specific professional skills to 701 employees. The Company believes that offering employees with career development and training opportunities will not only propel the long-term development of the Company's business but also enable employees to grow in their respective career paths. The Company is committed to creating a safe, inclusive and supportive working environment for all employees, and through the strict implementation of standardised safety guidelines and measures, has ultimately achieved its safety goal of zero work-related fatalities and injuries.

SouthGobi is committed to achieving sustainable development and building environmentally friendly mines. The Company actively responds to the "One Billion Trees" planting plan advocated by the President of Mongolia, and planted approximately 98,000 trees in areas including South Gobi Province, Ulaanbaatar, and Kharkhorin during the year. In terms of environmental management, the Company continuously strives to reduce the impact of its operations on the environment. The Company conducts systematic environmental monitoring each year, 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 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. During the year, total financial and in-kind donations by the Company to local communities amounted to approximately US$0.58 million. The Company is fully aware of its broader social responsibilities and is therefore committed to making meaningful contributions to the development of local communities.

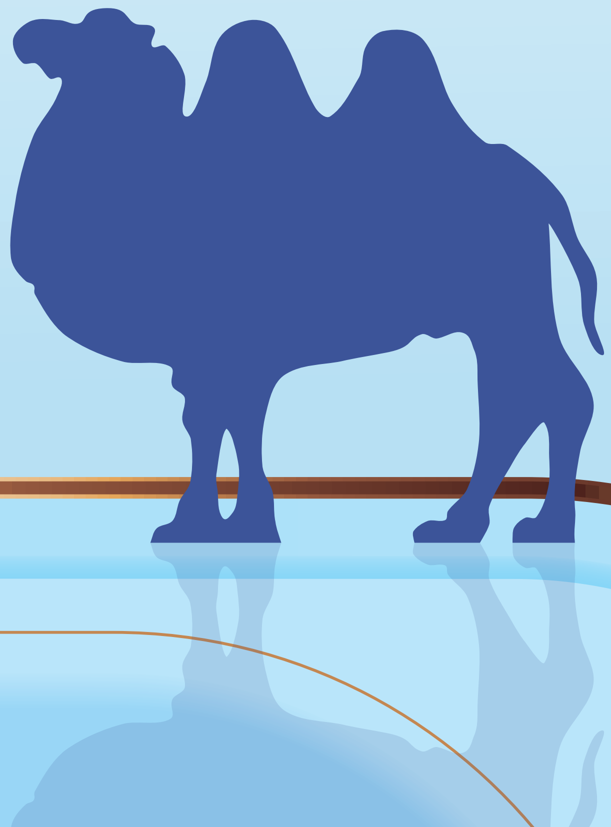
## MESSAGE FROM THE CEO

Looking ahead, while adhering to the concepts of environmental protection and green sustainable development in Mongolia, SouthGobi will continue to implement the development strategy of "optimising coal production, streamlining sales process, improving product quality, expanding sales market", further expand its mining scale, accelerate the development of new mining areas, and actively introduce new energy sources, new technologies and new processes to foster our continuous capacity expansion and performance growth. At the same time, the Group will also contribute more to the tax revenue of Mongolia and create more local employment opportunities.

The management of SouthGobi strives to establish the Company as a large-scale, technology-driven leading multinational energy and mining enterprise, and also endeavours to reward all investors with outstanding operating performance and value returns.

**Ruibin Xu**
*CEO and Executive Director*

March 27, 2026



# 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, 54, 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.

## Chonglin Zhu

### Executive Director and Chief Financial Officer

Ms. Chonglin Zhu, 39, 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.

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 28.87% of the Company's issued and outstanding Shares.

## BOARD OF DIRECTORS AND SENIOR MANAGEMENT

### Chen Shen

**Executive Director and Vice President of Legal**

Mr. Chen Shen, 37, 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") from April 2021 to February 2023, and was 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.

### Zhu Gao

**Non-Executive Director**

Mr. Zhu Gao, 68, 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.

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 15.61% of the Company's issued and outstanding Shares.

## BOARD OF DIRECTORS AND SENIOR MANAGEMENT

### Zaixiang Wen
**Non-Executive Director**

Mr. Zaixiang Wen, 50, 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.

### Yingbin Ian He
**Independent Non-Executive Director and Lead Director**

Mr. Yingbin Ian He, 64, 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 a Director and Executive Chairman of Vatukoula Gold Mines Ltd., with gold mining operations in Fiji,, Lead Independent Director of China Gold International Resources Corp. Ltd., a company dually listed on the Toronto Stock Exchange (stock code: CGG.TO) and the Hong Kong Stock Exchange (stock code: 2099.HK), and a Director of Tri-River Ventures Inc., a company listed on the TSX Venture Exchange ("TSX-V") (stock code: TVR.H). 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, name changed to Atlantic Gold Corp., and acquired by 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.

## BOARD OF DIRECTORS AND SENIOR MANAGEMENT

### Jin Lan Quan
**Independent Non-Executive Director**

Ms. Jin Lan Quan, 63, 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 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), and a P.R.C. Certified Public Accountant (CICPA). She is also a Fellow of the Association of Chartered Certified Accountants of United Kingdom, and member of the Chartered Accountants Australia & New Zealand (CA ANZ).

### Fan Keung Vic Choi
**Independent Non-Executive Director**

Mr. Fan Keung Vic Choi, 61, 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 been a consultant solicitor with Messrs. 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. Mr. Choi was an Independent Non-Executive Director of Shoucheng Holding Limited (a company listed on the Main Board of Hong Kong Stock Exchange from May 2018 to May 2025), 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.

## BOARD OF DIRECTORS AND SENIOR MANAGEMENT

### Allison Snetsinger
**Corporate Secretary**

Ms. Allison Snetsinger, 57, 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 25 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 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, 2025 (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 34 to the Financial Statements and the activities of all major subsidiaries of the Company as at December 31, 2025 are set out in the table below:

| Name | Country/place 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 |
| Alxa League SouthGobi Coal Industry, Co., Ltd. *# | China | CNY50,000,000 | Import agency and coal trading |
| 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 64 to 129 of this Annual Report. The discussion forms part of this directors' report.

# DIRECTORS' REPORT

## Results

The results of the Company for the Financial Year are set out in the Consolidated Statement of Comprehensive Income on page 198 of this Annual Report.

## 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, 2025, 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 29 to the Financial Statements and in the Consolidated Statement of Changes in Equity on page 200 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 Listing Rules) during the Financial Year. The Company did not hold any treasury shares as at December 31, 2025.

## 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, 2025 are set out in the Consolidated Statement of Changes in Equity on page 200 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

Except in such cases where a 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 "2026 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 2026 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 (including Ms. Jin Lan Quan who has continued to serve the Company for more than nine (9) years and Mr. Yingbin Ian He who will have served the Company for nine (9) years as the date of the 2026 AGM) and, as at the date of this report, considers each of them to be independent in accordance with the applicable listing rules and, having regard to (i) their annual confirmation on independence as required under the Rules Governing the Listing of Securities on The Hong Kong Stock Exchange (the "Listing Rules"), (ii) the absence of involvement in the daily management of the Company and (iii) the absence of any relationships or circumstances which would interfere with the exercise of their independent judgement.

## Biographies of the Directors and Senior Management

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

## Directors' service contracts

None of the Directors proposed for re-election at the 2026 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 34 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, 2025, 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% |
| **Officers** | | | | | | | |
| Allison Snetsinger | 3,666 | 2,200 | – | – | 100,000 | 105,866 | 0.04% |

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, 2025 (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. ("JDZF"), respectively. Ms. Chonglin Zhu holds 92.8% of the shares of JD Dingxing Limited.

5. As at December 31, 2025, JDZF is the beneficial owner of 85,714,194 Shares, and 151,289,533 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, 2025.

## 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").

## DIRECTORS' REPORT

### Share Option Plan

The particulars of the Share Option Plan are set out in Note 30.1 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.

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, 2025 | Granted during the period | Exercised during the period | Forfeited during the period | Expired during the period | At December 31, 2025 | 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 | June 29, 2021 | June 29, 2022 – June 29, 2026 | HK$1.41 | – |
| | **150,000** | **–** | **–** | **–** | | **150,000** | | | | |
| Yingbin Ian He | 150,000 | | – | – | – | 150,000 | June 29, 2021 | June 29, 2022 – June 29, 2026 | HK$1.41 | – |
| | **150,000** | **–** | | **–** | **–** | **150,000** | | | | |
| Fan Keung Vic Choi | – | – | – | – | – | – | | | | – |
| Ruibin Xu | – | – | – | – | – | – | | | | – |
| Chonglin Zhu | – | – | – | – | – | – | | | | – |
| Chen Shen | – | – | – | – | – | – | | | | – |
| Zhu Gao | – | – | – | – | – | – | | | | – |
| Zaixiang Wen | – | – | – | – | – | – | | | | – |
| **Total for Directors** | **300,000** | **–** | **–** | **–** | **–** | **300,000** | | | | |
| **Other share option holders** | 907,000 | – | | (250,000) | | 657,000 | June 29, 2021 | June 29, 2022 – June 29, 2026 | HK$1.41 | |
| **Total for other share option holders** | **907,000** | **–** | | **(250,000)** | | **657,000** | | | | |
| **Total** | **1,207,000** | **–** | | **(250,000)** | | **957,000** | | | | |
| **Number of Options available for grant** | **26,218,442** | | | | | **26,468,442** | | | | |

# DIRECTORS' REPORT

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.

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 30 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 30.3 to the Financial Statements.

As at the date of the 2025 Annual Report, the total number of shares available for issue under the Share Purchase Plan remained the same as at December 31, 2025 (2,297), representing approximately 0.00077% 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.

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 30.3 to the Financial Statements.

## Number and remuneration of employees

As at December 31, 2025, the Company had 847 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$17.6 million compared to staff costs of US$15.0 million in 2024.

## 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, 2025, 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 LP ("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, or his estate (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, 2025 (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, 2025, JDZF is the beneficial owner of 85,714,194 Shares, and 151,289,533 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, or his estate, 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, 2025. Each of Messrs. Aminbuhe and Ningqiao Li, or his estate, 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, 2025.

## 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 54 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 employment insurance ("**EI**") program and to the Canada Pension Plan. Each employee and employer contributes their respective portion of the EI premiums.

For the Directors residing in China, the Company contributes to the pension plan and social insurance plan in accordance with the Chinese regulations.

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 30 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 55.46% as at the date of this report, throughout the year ended 31 December 2025, the Company was in compliance with the minimum public float requirement under Listing Rules by maintaining its public float at the level of at least 25 per cent of its total issued shares.

## 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 12% of the Company's purchases.

The five largest suppliers accounted for 36% of the Company's purchases in aggregate.

### Sales

The largest customer accounted for 17% of the Company's sales.

The five largest customers accounted for 41% 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$578,066 (2024: US$853,273).

### 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 132 to 189 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 34 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 92 to 97 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, March 20, 2025 and March 23, 2026.

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

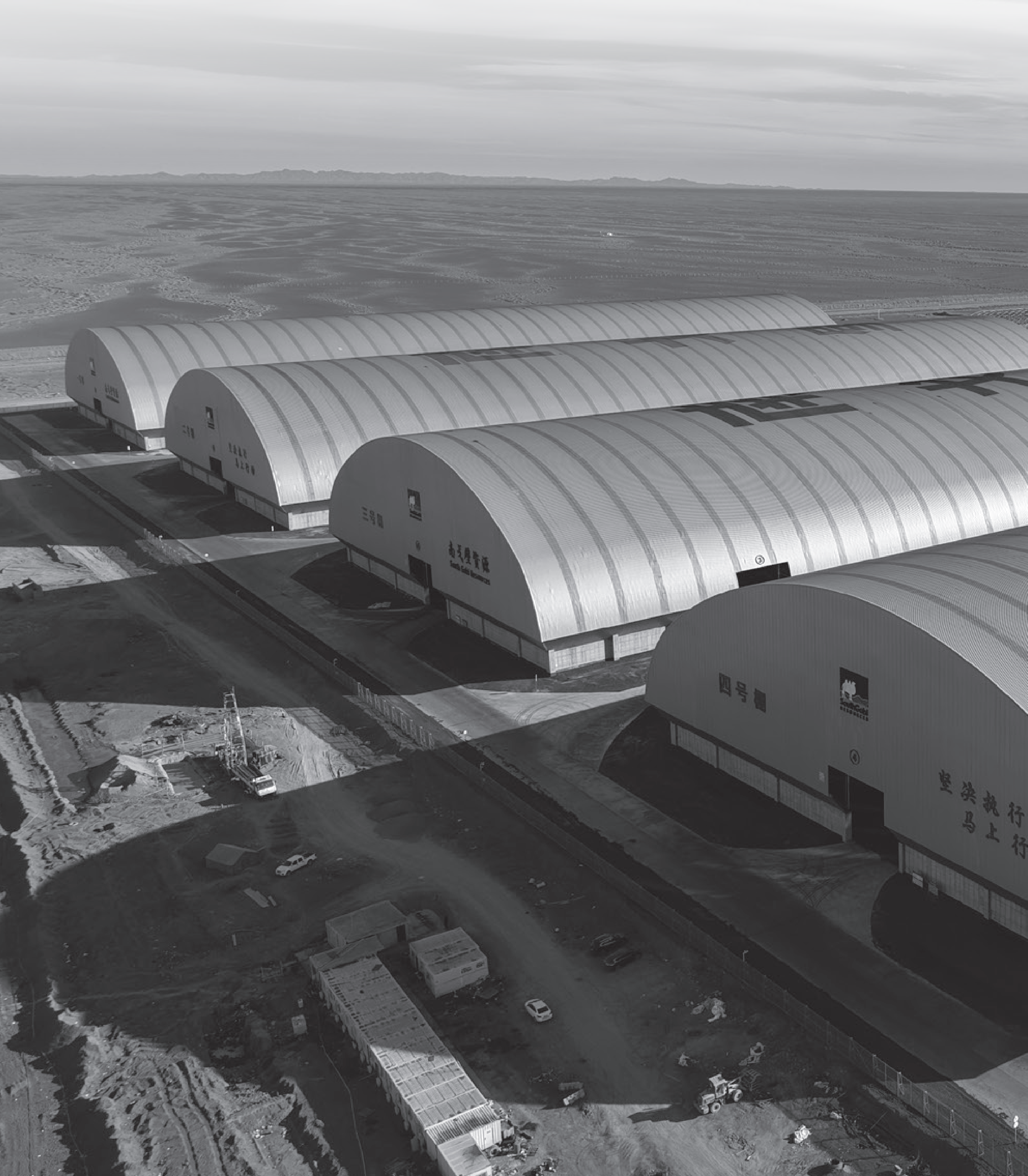
The Company is not aware of any relief on taxation available to the Shareholders by reason of their holdings of the Shares. If the Shareholders are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or exercising of any rights in relation to the Shares, they should 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 2026 AGM. A resolution will be submitted at the 2026 AGM to appoint BDO as the Auditor of the Company.

On behalf of the Board
**Yingbin Ian He**
*Independent Lead Director*
March 27, 2026

# 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, 2025 (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.1.3 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 26, 2025 (the "2025 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, four (4) meetings between the Independent Lead Director, who is fulfilling the duties of the Chairman, and the non-executive directors (the "NEDs") were held. Additionally, during the Financial Year, one (1) meeting between the Independent Lead Director and the INED was 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).

# CORPORATE GOVERNANCE REPORT

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

The Directors of the Company (including non-executive Directors) are not appointed for a specific term and, pursuant to the Company's articles of continuation, all Directors cease to hold office immediately before the election or appointment of directors at the Company's annual general meeting, and shall be eligible for re-election or re-appointment at each annual general meeting.

As at March 27, 2026, to the knowledge of the Company, each of JDZF and Land Grand held approximately 28.87% and 15.61% of the Company's issued and outstanding common shares, respectively.

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, however; 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.

To the knowledge of the Company, none of the Directors are related, except indirectly as noted below. Relationships (including financial, business, family or material/relevant relationship(s)), if any, between board members and in particular, between the chairman and chief executive. 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.

# CORPORATE GOVERNANCE REPORT

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.

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) | Nominating Committee (1) | Compensation Committee (1) | HESS Committee |
|---|---|---|---|
| Jin Lan Quan (Chair) | Yingbin Ian He (Chair) | Fan Keung Vic Choi (Chair) | Ruibin Xu (Chair) |
| Yingbin Ian He | Jin Lan Quan | Yingbin Ian He | Yingbin Ian He |
| Fan Keung Vic Choi | Fan Keung Vic Choi | Jin Lan Quan | Jinsheng Xu(2) |

Notes:

1) The Audit Committee, Nominating Committee, and Compensation Committee are comprised solely of INEDs.
2) Mr. Jinsheng Xu, is Executive Director and President of Southgobi Sands LLC, the Company's wholly-owned subsidiaries.

## 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.

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.

# CORPORATE GOVERNANCE REPORT

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.

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.

The Nominating Committee is responsible for the identification of new candidates for Board nomination. Typically, the Board determines, based on the Company's objectives and strategies and the perceived risks it faces, the competencies, skills, experience and personal qualities it considers necessary or desirable in potential Director candidates. The Nominating Committee utilizes various channels to identify candidates, including referral from Directors, shareholders, management, advisers of the Company and external executive search firms. The Nominating Committee then identifies potential candidates who possess some or all of these attributes for presentation to, and assessment by, the Board, taking into account the Company's strategy and the benefits of various aspects of diversity, including gender, age, culture, ethnicity, educational background, professional experience and other factors.

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;

- reviewing annually the time commitment and contribution of each director to the Board, as well as the director's ability to discharge his/her responsibility effectively, taking into account their professional qualifications and work experience, existing directorships of issuers listed on the Main Board or GEM and other significant external time commitments and other factors or circumstances relevant to the Director's character, integrity, independence and experience; and to conduct other assessments in accordance with the Listing Rules;

- 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.

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 under E.1.2(c)(ii) of the CG Code;

- 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;

- approving the terms of executive directors' service contracts;

- 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, a wholly owned subsidiary of the Company.

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.

# CORPORATE GOVERNANCE REPORT

## 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.

| 2025 Board and Committee Meetings | |
|---|---|
| **Total Number of:** | |
| Board Meetings: | |
| In-Person: | 1 |
| Via conference call: | 4 |
| Audit Committee Meetings: | |
| In-Person: | 1 |
| Via conference call: | 4 |
| Compensation Committee Meetings: | |
| In-Person: | 1 |
| Via conference call: | 2 |
| Nominating Committee Meetings: | |
| In-Person: | 1 |
| Via conference call: | 3 |
| HESS Committee Meetings: | |
| In-Person: | 1 |
| Via conference call: | 3 |

The 2025 AGM was held in Vancouver, Canada, on June 26, 2025 and was attended via teleconference by all the Directors except Mr. Zhu Gao, who was unable to attend due to a scheduling conflict.

It is anticipated that the 2026 AGM will be held in Canada on June 25, 2026. The notice of the 2026 AGM will be sent to shareholders at least 20 clear business days prior to the 2026 AGM.

Over the course of the Financial Year, five (5) Board meetings were held and the overall attendance rate of Directors at Board meetings was 90%. Details of Directors' attendance at the 2025 AGM, Board and Board Committee meetings is shown below:

| | 2025 AGM | Board | Audit | Nominating | Compensation | HESS |
|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | |
| Ruibin Xu | 1/1 | 5/5 | N/A | N/A | N/A | 4/4 |
| Chonglin Zhu | 1/1 | 5/5 | N/A | N/A | N/A | N/A |
| Chen Shen | 1/1 | 5/5 | N/A | N/A | N/A | N/A |
| **Non-Executive Directors** | | | | | | |
| Zhu Gao | 0/1 | 1/5 | N/A | N/A | N/A | N/A |
| Zaixiang Wen | 1/1 | 5/5 | N/A | N/A | N/A | N/A |
| **Independent Non-Executive Directors** | | | | | | |
| Yingbin Ian He | 1/1 | 5/5 | 5/5 | 4/4 | 3/3 | 4/4 |
| Jin Lan Quan | 1/1 | 5/5 | 5/5 | 4/4 | 3/3 | N/A |
| Fan Keung Vic Choi | 1/1 | 5/5 | 5/5 | 4/4 | 3/3 | N/A |

## 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

Each Member of the Board is required to ensure that he/she can give sufficient time and attention to the affairs of the Company and contribute to the development of the Company's strategy and policies through independent, constructive and informed comments. 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 six (6) public companies (including the Company) as at December 31, 2025. 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 2026 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.

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.

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 five (5) professional development seminars, described below, which were attended by all Directors.

| Seminar | Provider | Duration | Mode/Format |
|---|---|---|---|
| Hong Kong Regulatory Framework and Directors' Duties | Hong Kong Institute of Corporate Directors | 1 hour | Webinar |
| PR Crisis Management and Investor Relations | Hong Kong Institute of Corporate Directors | 1 hour | Webinar |
| Transformation of Business Strategy through Adoption of AI | Hong Kong Institute of Corporate Directors | 1 hour | Webinar |
| Impact to Directors on Latest ESG Regulatory Requirement | Hong Kong Institute of Corporate Directors | 1 hour | Webinar |
| Overview of the Coal Industry | Yingbin Ian He, Lead Director | 2 hours | In-person |

Until November 2025, 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.

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 self-study professional development completed by directors during the Financial Year.

| Director | Seminar | Provider | Duration | Mode/Format |
|---|---|---|---|---|
| Jin Lan Quan | Governance Essentials Program | ICD | 1 hour | Webinar |
| | Accounting for the Future | Association of Charted Certified Accountants | 1 hour | Webinar |
| | Sustainability Frameworks and Ethics | Chartered Accountants of Australia and New Zealand | 1 hour | Webinar |
| | Board Oversight of AI | ICD | 1 hour | Webinar |
| | Exploring AI's Economic Potential | Chartered Accountants of Australia and New Zealand | 1 hour | Webinar |

## CORPORATE GOVERNANCE REPORT

| Director | Seminar | Provider | Duration | Mode/Format |
|---|---|---|---|---|
| Yingbin Ian He | Due Diligence for Mergers & Acquisitions with a Focus on Site Visits | Management and Economics Society of Canadian Institute of Mining | 1 hour | Webinar |
| | Canadian Mining Valuation Standards & Guidelines – An Overview and International Perspectives | Management and Economics Society of Canadian Institute of Mining | 1.5 hours | Webinar |
| | Why Projects Fail: Capital Project Lessons Learned and Nickel Project Case Study, | Management and Economics Society of Canadian Institute of Mining | 1 hour | Webinar |
| | Houston, We Have a Big Problem (but) With Solutions | Management and Economics Society of Canadian Institute of Mining | 1 hour | Webinar |
| | Preventing Wage Underpayment in Your Business | Mondaq | 45 minutes | Webinar |
| | Recent Changes in Disclosure and Key Points | Hong Kong SWCS Academy | 30 minutes | Webinar |
| Fan Keung Vic Choi | 7th Belt and Road Conference | Law Society of Hong Kong | 6.25 hours | Webinar |
| | Risk Management Elective ("RME"): Anti-money Laundering and Counter-terrorist Financing | Howse Williams | 1 hour | In-Person |
| | Responsibilities and Duties of Responsible Officers and Manager-In-Charge, SFC Investigations, Monitoring Powers, and Sharing of Recent SFC Key Enforcement Cases | Hong Kong Securities and Investment Institution | 1 hour | In-Person |
| | How Many Decades do we Have? A Review of Recent Key Changes to Offshore Corporate Laws and their Practical Impact | Howse Williams | 1 hour | In-Person |
| | RME: Client Care | Howse Williams | 1.5 hours | In-Person |
| | Regulatory Overview on Securities Lending and Disclosure of Interests Rules and Virtual Asset Trading | Hong Kong Securities and Investment Institution (co-speaker) | 1 hour | In-Person |
| | Circular Fashion and Intellectual Property: Friends or Foes? A Critical Discussion of Fashion at the Crossroads of Innovation, Tradition and Sustainable Development | Chinese University of Hong Kong | 1 hour | Webinar |
| | RME: Core Course for Non-principal Modules 1 & 2 | Law Society of Hong Kong | 8 hours | Webinar |
| | RME: Legal Professional Privilege 2 | Law Society of Hong Kong | 3.5 hours | Webinar |

## 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 2025 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 | General Business Management/ Leadership & Growth | International | CEO and Senior Officer of a Public Company | Board Experience | Mining Industry | Corporate Governance | Accounting Financial Expertise/ Financial Literacy | Legal Expertise | Mining Technical/ Engineering Expertise | Finance/ Capital Markets | Remuneration/ Human Resources | Health and Safety | Environment/ Social Responsibility | Mongolia | China |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fan Keung Vic Choi | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ | ✓ | | ✓ |
| Zhu Gao | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ | ✓ | | ✓ |
| Yingbin Ian He | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | ✓ |
| Jin Lan Quan | ✓ | ✓ | | ✓ | | ✓ | ✓ | ✓ | | ✓ | ✓ | | | | ✓ |
| Chen Shen | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | ✓ |
| Zaixiang Wen | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ | | | ✓ |
| Ruibin Xu | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| 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.

# CORPORATE GOVERNANCE REPORT

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.

The Board reviews the Shareholder Communication Policy annually to ensure the timeliness and effectiveness of corporate messaging, enabling shareholders and other stakeholders to fully understand the Company's business. Over the course of the Financial Year, with the recommendation of the Nominating Committee, the Board reviewed the Shareholder Communication Policy and was satisfied with its implementation and effectiveness.

### Having considered the multiple channels of communication and engagement in place

The Independent Lead Director, who fulfills the duties of the Chairperson, attended and chaired the Company's 2025 AGM, together with the majority of the 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 2025 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 Company 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, in order to enable shareholders to make informed decisions 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.

The Shareholder Communication Policy outlines out the framework implemented by the Company to promote effective two-way communication with shareholders so as to enable them to engage actively with the Company and exercise their rights as shareholders in an informed manner. Multiple communication channels are available including: the publication of notices, announcements, circulars, interim and annual reports; Investor Relations and Corporate Governance sections on the Company's website; general meetings as the primary forum for shareholders' participation; engagement through the Chief Executive Officer and Investor Relations Officer; and conference calls and presentations. The Company's Investor Relations Officer is responsible for responding to investors' inquiries, as well as gathering market information and passing views from shareholders to the Directors and management to ensure such views are properly communicated.

## 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 enhances 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, 2025. 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, 2025, was not met. This outcome was influenced by factors such as: 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, 2025, 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. 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 27, 2026, 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 (2024: Nil). No interim dividend was declared or paid during the Financial Year (2024: 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 49 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.

# CORPORATE GOVERNANCE REPORT

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 nine (9) 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.

Mr. Yingbin Ian He joined the Board of Directors on May 16, 2017 as an INED and as at the date of the 2026 AGM will have served the Company for nine (9) years. As required by the Corporate Governance Code, the further appointment of Mr. Yingbin Ian He 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, 2025 are disclosed in the Directors' Report on page 18 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.

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 |

Should the HESS Committee be chaired by an INED he or she would be entitled to receive the CAD$10,000 annual retainer.

In November 2025, and retroactive to September 1, 2025, the Company approved an annual retainer of CAD$10,000 per annum for each Land Grand International Holding nominee director.

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

No options were granted in 2025.

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.

The Company has an in-house 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 appropriate, effective and adequate for the purpose set out in Principle D2 of the CG Code.

## 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.

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, 2025, 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.

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, 2025.

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$675,000.

These fees are detailed below:

| Nature of services rendered | Fees paid/payable (US$000's)<br>BDO<br>2025 |
|---|---|
| Audit fees [(1)] | 615 |
| Audit related fees [(1)] | 60 |
| **Total** | 675 |

Notes:

(1) Fees for audit services billed relating to fiscal 2025 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, 2026 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 $227.2 million as at December 31, 2025 as compared to a deficiency in assets of $49.8 million as at December 31, 2024 while the working capital deficiency (excess current liabilities over current assets) reached $337.0 million as at December 31, 2025 as compared to a working capital deficiency of $228.1 million as at December 31, 2024.

Included in the working capital deficiency as at December 31, 2025 are significant obligations, represented by trade and other payables of $218.2 million, additional tax and tax penalty of $23.3 million and interest-bearing borrowing of $11.1 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 MD&A, no such lawsuits or proceedings were pending as at March 27, 2026. 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.

## CORPORATE GOVERNANCE REPORT

In addition, the recent global geopolitical events, particularly the escalation of tensions involving Iran and the US, have significantly pushed up international coal prices in the short term due to increasing energy prices and demand for coal as a substitute for natural gas. However, management notes that coal price trends remain subject to uncertainties related to the duration of such conflicts and broader geopolitical developments. Should the conflict ease or cease, the price momentum driven by supply risk premiums and energy substitution may weaken or even reverse, thereby exposing coal prices to considerable downside uncertainty. Such volatility may affect the Company's operations, including the selling price of its coal product and its production costs.

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 consolidated financial statements, management of the Company has prepared a cash flow projection covering a period of 12 months from December 31, 2025. 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 2026 March Deferral Agreement on March 23, 2026 for a deferral of the 2026 March Deferred Amounts; (b) communicating with vendors in agreeing repayment plans of the outstanding payable; and (c) considering geopolitical tensions, specifically the Iran-US conflict, which is expected to create a favourable pricing environment during forecast period. 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, 2025 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 the following key factors: the utilisation of 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, and the fluctuations in international coal prices, which are subject to the developments in geopolitical tensions.

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.

## 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 25 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 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 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 has over 10 years' experience providing regulatory and corporate services to public and private companies, primarily in mining and resource industries. She 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, and an associate member of The Hong Kong Chartered Governance Institute. 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.

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: (i) constitute at least one per cent (1%) of the Company's issued and outstanding common shares; or (ii) hold shares of the Company with a market value in excess of Cdn$2,000. 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. The proposal must include the specific text of the resolution the submitter and the qualified Shareholder(s) wish to be presented to the Shareholders at the AGM, as well as a brief statement (maximum 200 words) explaining why the submitter and the qualified Shareholder(s) are putting the proposal forward.

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 27, 2026

# A LARGE RESERVES BASE

The Ovoot Tolgoi Deposit and Soumber Deposit have mineral reserves of at least 80.57 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"), the 2026 March Deferral Agreement (as defined below) and the 2025 Bank Loan (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 discussions with the Plenipotentiary Representative of the Mongolian Government (as defined below) in relation to determining the Mongolian state's ownership interest in SGS (as defined below);
- 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 2026;
- the estimates and assumptions included in the Company's impairment analysis and the possible impact of changes thereof;
- 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 plans to scale up mining operations and enhance coal processing capabilities;
- the Company's initiatives to strengthen spare parts management to improve maintenance efficiency;
- the Company's plans to deploy advanced remote-control systems, optimise transport routes and further expand the use of electric locomotives;
- the Company's outlook and objectives for 2026 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 2026 and beyond; currency exchange rates; operating, labour and fuel costs; the ability of the Company to raise additional financing; negotiating a constructive understanding and agreement with the Plenipotentiary Representative of the Mongolian Government; 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 (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 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 (as described under Section 1 of this MD&A under the heading entitled "Significant Events and Highlights – Notice from Mongolian Government Plenipotentiary and designation of Company's mining deposits as mineral deposits of strategic importance"); the Company's ability to successfully negotiate a constructive understanding and agreement with the Plenipotentiary Representative of the Mongolian Government; 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"); possible impact of changes to the inputs to the valuation model used to value the embedded derivatives in the Convertible Debenture; the risk of the Company or its subsidiaries default under its existing debt obligations, including the Convertible Debenture, the 2026 March Deferral Agreement and the 2025 Bank Loan; 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; 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 10 of this MD&A under the heading entitled "Risk Factors" for a discussion of these and other risks and uncertainties relating to the Company and its operations. This list is not exhaustive of the factors that may affect any of the Company's forward-looking statements.

## Forward-Looking Statements continued

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

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## Introduction

This MD&A is dated as of March 27, 2026 and should be read in conjunction with the consolidated financial statements of the Company and the notes thereto for the year ended December 31, 2025. 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., Wuhai SouthGobi Mining Resources Co., Ltd. and Alxa League SouthGobi Coal Industry 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 847 employees as at December 31, 2025. 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's 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.

## 1. Overview continued

### Significant Events and Highlights

The Company's significant events and highlights for the year ended December 31, 2025 and the subsequent period to March 27, 2026 are as follows:

- ***Operating Results*** – The Company increased the scale of its mining operations since 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 11.2 million tonnes in 2025 compared to 7.0 million tonnes in 2024, while the Company recorded an average realised selling price of $53.5 per tonne in 2025 compared to $70.4 per tonne in 2024. The decrease in the average realised selling price was mainly due to the Company facing headwinds in the China coal market since 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 $133.2 million loss from operations in 2025 compared to a $153.9 million profit from operations in 2024. The financial results were impacted by the decreased average realised selling price in 2025 as compared to 2024, the change in product mix year-over-year (as the Company sold more processed coal with higher production costs) and impairment losses on coal stockpile and items of property, plant and equipment of $77.3 million and $42.0 million were recorded respectively in 2025.

- ***Notice from Mongolian Government Plenipotentiary and designation of Company's mining deposits as mineral deposits of strategic importance*** – On April 2, 2025, SGS received a letter from a plenipotentiary representative of the Mongolian government (the "Letter") which invited SGS to participate in negotiations in relation to determining the Mongolian state's ownership interest in SGS, being the legal entity which holds the Company's coal mining and exploration licenses in Mongolia.

  The Letter states that, in furtherance of Mongolia's National Wealth Fund Law which was passed in April 2024, the Mongolian government resolved on February 5, 2025 to appoint a plenipotentiary representative (the "Plenipotentiary Representative of the Mongolian Government") to negotiate with legal persons holding a mining license for a deposit designated by the Mongolian government as a strategically important deposit ("Mineral Deposits of Strategic Importance") in relation to determining the proportionate interest the Mongolian state has in such legal entity or whether to replace the Mongolian state's interest with a royalty interest.

## 1. Overview continued

### Significant Events and Highlights continued

The Company has been advised by its Mongolian legal counsel that, the Government of Mongolia is empowered to participate on an equity ownership basis with the license 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 license holder. Based solely on the knowledge of the Company's Mongolian legal counsel, the Company is aware that various other license holders of Mineral Deposits of Strategic Importance have entered into similar negotiations with the Plenipotentiary Representative of the Mongolian Government. The Company also understands that any legal person holding a special licence for a Mineral Deposit of Strategic Importance shall not, individually or jointly with other entities having a common interest, hold more than 34% of the total issued and outstanding shares of such legal person. However, there is uncertainty as to how these regulations will be interpreted and applied to a publicly-listed company which is the beneficial owner of a Mineral Deposit of Strategic Importance. In the event that the aforementioned ownership restriction is not complied with, the Government of Mongolia shall have the right to appoint a Plenipotentiary Representative to take charge of managing such legal person to ensure legal compliance.

On April 24, 2025, SGS initiated preliminary discussions with the Plenipotentiary Representative of the Mongolian Government. The Company anticipates that the discussion between SGS and the Plenipotentiary Representative of the Mongolian Government will continue and both parties will endeavour to engage in good faith for the purpose of arriving at a mutual and constructive understanding and agreement. The Company intends to fully cooperate with the Mongolian government and provide all necessary information to the extent permitted by applicable law.

As at the date of this MD&A, the deposits covered by four of the Company's Mongolian mining licenses have been designated as Mineral Deposits of Strategic Importance by Mongolian government authorities. The relevant mining licenses relate to the Company's Ovoot Tolgoi Mine and the Soumber Deposit.

- ***2025 March Deferral Agreement*** – On March 20, 2025, the Company and JDZF entered into a deferral agreement (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 was 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The 2025 March Deferral Agreement was approved by the Company's disinterested shareholders at the annual general meeting ("AGM") of shareholders convened on June 27, 2025.

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

## 1. Overview continued

### Significant Events and Highlights continued

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.

- 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.

  On March 23, 2026, the Company and JDZF entered into a subsequent deferral agreement with respect to the 2025 March Deferred Amounts. Refer below under the heading entitled "2026 March Deferral Agreement".

## 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.

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

## 1. Overview continued

### Significant Events and Highlights continued

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 applicable Mongolian laws, SGS is entitled to file an appeal to the Administrative Court of First Instance in Ulaanbaatar, Mongolia (the "Administrative Court of First Instance") 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 of First Instance.

On March 19, 2025, SGS received correspondence from the Administrative Court of First Instance requesting supplemental information regarding a court proceeding initiated by certain officers of the MTA (the "MTA Officials") against the TDRC. Upon further enquiry, SGS obtained a copy of an order dated March 7, 2025 issued by the Administrative Court of First Instance regarding commencement of court proceedings brought by the MTA Officials. The MTA Officials petitioned 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 "Proposed Case").

On April 25, 2025, SGS obtained a copy of an order dated April 15, 2025 (the "Latest Court Order") issued by the Administrative Court of First Instance refusing to accept the Proposed Case. According to the Latest Court Order, the Proposed Case was dismissed by the Administrative Court of First Instance. According to applicable Mongolian laws, the plaintiff is entitled to file an appeal to the appellate court, and the Company understood that the MTA Officials, as plaintiff in the Proposed Case, filed an appeal.

On June 9, 2025, SGS obtained a copy of a judgement dated May 27, 2025 (the "Appellate Court Judgement") issued by the Appellate Court for Administrative in Ulaanbaatar, Mongolia (the "Appellate Court"). As per the Appellate Court Judgement, the Appellate Court upheld the court order issued by the Judge of the Administrative Court of First Instance on April 15, 2025. As a result, the claim brought by the MTA Officials against the TDRC in an attempt to dispute or overturn the previous decision made by the TDRC regarding the Re-assessment Result has been dismissed and rejected. According to applicable Mongolian law, the Appellate Court Judgement shall be final and is not subject to further appeal.

In the prior year, the Company recorded an additional tax and tax penalty in the amount of $45.5 million, which consists of a tax penalty payable of $26.5 million and a provision for additional late tax penalty of $19.0 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. To date, the Company has paid the MTA an aggregate of $22.2 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 MTA 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

- ***Bank Loan*** – On October 7, 2025, SGS has entered into a bank loan (the "2025 Bank Loan") for a principal amount of up to RMB235 million (equivalent to approximately $33.1 million) from Khan Bank JSC (the "Bank") with the key commercial terms as follows:

  - Maturity date set at 18 months from drawdown (the "Term");

  - Interest rate of 10% per annum on the outstanding principal and interest is calculated on a 365-day year basis;

  - Loan repayments will consist of interest-only payments during the initial 12 months of the Term, followed by principal amortisation payments during months 13 to 18 of the Term;

  - Certain items of property, plant and equipment with carrying amount of $2.2 million, land-use rights and intangible assets were pledged as security for the 2025 Bank Loan; and

  - The Company intends to use the proceeds of the 2025 Bank Loan to support working capital, operating expenses, taxes and the settlement of accounts payable of SGS.

- ***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 (the "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, creating the class plaintiffs (the "Class Plaintiffs") and permitting the Class Plaintiffs to proceed with the Class Action against only the Company.

# 1. Overview continued

## Significant Events and Highlights continued

Counsel for the plaintiffs and defendant have: (i) completed document production and oral examinations for discovery; (ii) served expert reports on liability and damages; and (iii) designed a mediation process and finalised, with the participation of the relevant Company's insurers, the mediation under the guidance of former Chief Justice of Ontario George Strathy, which mediation was held and completed on August 11, 2025 (the "Mediation").

As a result of the Mediation, the Class Plaintiffs and the Company have conditionally settled (the "Settlement") the Class Action for CA$6.8 million, including all liability and class counsel fees, notice and administrative costs, fees, costs and expenses related to the litigation and the settlement (the "Settlement Payments"). The Settlement Payments are the obligation of the Company's insurers as of January 2014.

The Settlement was approved by Justice Morgan of the Ontario Superior Court of Justice on December 2, 2025. No appeals have been filed and the time to file an appeal has expired.

- ***2026 March Deferral Agreement*** – On March 23, 2026, the Company and JDZF entered into the 2026 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 $140.5 million which will be due and payable to JDZF on or before August 31, 2026 pursuant to the deferral agreement dated March 20, 2025; (ii) semi-annual cash interest payment of approximately $7.9 million payable to JDZF on May 19, 2026 under the Convertible Debenture; (iii) semi-annual cash interest payments of approximately $8.1 million payable to JDZF on November 19, 2026 and the $4.0 million in PIK Interest payable to JDZF on November 19, 2026 under the Convertible Debenture; and (iv) management fees in the aggregate amount of approximately $7.6 million payable to JDZF on May 16, 2026, August 15, 2026, November 15, 2026 and February 15, 2027, respectively, under the Amended and Restated Cooperation Agreement (collectively, the "2026 March Deferred Amounts").

  The effectiveness of the 2026 March Deferral Agreement and the respective covenants, agreements and obligations of each party under the 2026 March Deferral Agreement are subject to the Company obtaining the requisite approval of the 2026 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 2026 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 of directors of the Company (the "Board").

  The principal terms of the 2026 March Deferral Agreement are as follows:

  - Payment of the 2026 March Deferred Amounts will be deferred until August 31, 2027 (the "2026 March Deferral Agreement Deferral Date").

  - As consideration for the deferral of the 2026 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 2026 March Deferred Amounts, commencing on the date on which each such 2026 March Deferred Amounts would otherwise have been due and payable under the Convertible Debenture.

## 1. Overview continued

### Significant Events and Highlights continued

- As consideration for the deferral of the 2026 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 2026 March Deferred Amounts commencing on the date on which each such 2026 March Deferred Amounts would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.

- The 2026 March Deferral Agreement does not contemplate a fixed repayment schedule for the 2026 March Deferred Amounts or related deferral fees. Instead, the 2026 March Deferral Agreement requires the Company to use its best efforts to pay the 2026 March Deferred Amounts and related deferral fees due and payable under the 2026 March Deferral Agreement to JDZF. During the period beginning as of the effective date of the 2026 March Deferral Agreement and ending as of the 2026 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 2026 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 2026 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.

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

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

## 2. Selected Annual Information

| *$ in thousands, except per share and per tonne information* | Year ended December 31, 2025 | 2024 | 2023 |
|---|---|---|---|
| Revenue | **$ 598,819** | $ 493,378 | $ 331,506 |
| Profit/(loss) from operations | **(133,217)** | 153,942 | 75,870 |
| Net profit/(loss) attributable to equity holders of the Company | **(168,766)** | 92,497 | 908 |
| Basic earnings/(loss) per share | **$ (0.569)** | $ 0.312 | $ 0.003 |
| Diluted earnings/(loss) per share | **(0.569)** | 0.311 | 0.003 |
| Cash from operating activities | **51,420** | 107,916 | 160,839 |
| Cash used in investing activities | **(74,108)** | (123,115) | (49,944) |
| Cash from/(used in) financing activities | **25,815** | (23,821) | (72,587) |
| Coal sales volumes (millions of tonnes) [(i)] | **11.20** | 7.02 | 3.59 |
| Average realised selling price (per tonne) | **$ 53.49** | $ 70.40 | $ 93.02 |

| *$ in thousands* | As at December 31, 2025 | 2024 | 2023 |
|---|---|---|---|
| Cash and cash equivalents | **$ 12,375** | $ 8,590 | $ 47,993 |
| Total working capital deficiency | **(336,961)** | (228,134) | (218,815) |
| Total assets | **355,577** | 429,853 | 295,738 |
| Total non-current liabilities | **134,141** | 97,883 | 102,900 |

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

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, 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.

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 11.2 million tonnes in 2025 compared to 7.0 million tonnes in 2024, while the Company recorded an average realised selling price of $53.5 per tonne in 2025 compared to $70.4 per tonne in 2024. The decrease in the average realised selling price was mainly due to the Company facing headwinds in the China coal market since 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, 2025 | 2024 |
|---|---|---|
| **Sales Volumes, Prices and Costs** | | |
| Premium semi-soft coking coal | | |
| Coal sales *(millions of tonnes)* | **0.89** | 0.91 |
| Average realised selling price *(per tonne)* | **$ 66.21** | $ 105.10 |
| Standard semi-soft coking coal/ premium thermal coal | | |
| Coal sales *(millions of tonnes)* | **4.98** | 2.96 |
| Average realised selling price *(per tonne)* | **$ 58.02** | $ 71.86 |
| Standard thermal coal | | |
| Coal sales *(millions of tonnes)* | **0.94** | 0.86 |
| Average realised selling price *(per tonne)* | **$ 21.80** | $ 38.40 |
| Processed coal | | |
| Coal sales *(millions of tonnes)* | **4.39** | 2.29 |
| Average realised selling price *(per tonne)* | **$ 52.53** | $ 66.62 |
| Total | | |
| Coal sales *(millions of tonnes)* | **11.20** | 7.02 |
| Average realised selling price *(per tonne)* | **$ 53.49** | $ 70.40 |
| Raw coal production *(millions of tonnes)* | **16.63** | 10.20 |
| Cost of sales of product sold *(per tonne)* | **$ 53.46** | $ 51.37 |
| Direct cash costs of product sold *(per tonne)* (i) | **$ 44.06** | $ 39.56 |
| Mine administration cash costs of product sold *(per tonne)* (i) | **$ 1.29** | $ 1.58 |
| Total cash costs of product sold *(per tonne)* (i) | **$ 45.35** | $ 41.14 |
| **Other Operational Data** | | |
| Production waste material moved *(millions of bank cubic meters)* | **80.61** | 59.47 |
| Strip ratio *(bank cubic meters of waste material per tonne of coal produced)* | **4.85** | 5.84 |
| Lost time injury frequency rate (ii) | **0.00** | 0.06 |

(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 $53.5 per tonne in 2025 compared to $70.4 per tonne in 2024. The decrease was mainly due to the Company facing headwinds in the China coal market since 2024, leading to the Company changing its product mix to sell a greater percentage of lower-priced coal products. The product mix for 2025 consisted of approximately 8% of premium semi-soft coking coal, 45% of standard semi-soft coking coal/premium thermal coal, 8% of standard thermal coal and 39% of processed coal compared to 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 for 2024.

The Company's unit cost of sales of product sold was $53.5 per tonne in 2025 compared to $51.4 per tonne in 2024. The increase was due to the change in product mix year-over-year, as the Company sold more processed coal with higher production costs.

There was no lost time injury recorded in 2025, while there was a lost time injury frequency rate of 0.06 in 2024.

## 3. Overview of Operational Data and Financial Results continued

### Summary of Annual Financial Results

| | | Year ended December 31, | | |
|---|---|---|---|---|
| *$ in thousands, except per share information* | | 2025 | | 2024 |
| Revenue [(i)] | **$** | **598,819** | $ | 493,378 |
| Cost of sales [(i)] | | **(598,719)** | | (360,588) |
| Gross profit excluding idled mine asset costs [(ii)] | | **1,339** | | 133,286 |
| Gross profit | | **100** | | 132,790 |
| | | | | |
| Other operating income/(expenses), net | | **1,038** | | (3,698) |
| Administration expenses | | **(14,724)** | | (13,454) |
| Evaluation and exploration expenses | | **(337)** | | (1,362) |
| Impairment loss on coal stockpiles | | **(77,334)** | | – |
| Impairment loss on items of property, plant and equipment | | **(41,960)** | | – |
| Reversal of additional tax and tax penalty | | **–** | | 39,666 |
| Profit/(loss) from operations | | **(133,217)** | | 153,942 |
| | | | | |
| Finance costs | | **(37,845)** | | (37,766) |
| Finance income | | **2,001** | | 3,626 |
| Share of earning of a joint venture | | **3,982** | | 3,227 |
| Share of earnings of associates | | **556** | | 587 |
| Current income tax expenses | | **(4,243)** | | (31,119) |
| | | | | |
| Net profit/(loss) attributable to equity holders of the Company | | **(168,766)** | | 92,497 |
| Basic earnings/(loss) per share | **$** | **(0.569)** | $ | 0.312 |
| Diluted earnings/(loss) per share | **$** | **(0.569)** | $ | 0.311 |

(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 $133.2 million loss from operations in 2025 compared to $153.9 million profit from operations in 2024. The decrease was mainly due to the decreased average realised selling price in 2025 as compared to 2024, the change in product mix year-over-year (as the Company sold more processed coal with higher production costs) and impairment losses on coal stockpile and items of property, plant and equipment of $77.3 million and $42.0 million were recorded respectively in 2025.

Revenue was $598.8 million in 2025 compared to $493.4 million in 2024. The financial results were impacted by increased sales volume year-over-year, as a result of an expansion of the Company's sales network, diversification of its customer base and expansion of the categories of coal products in its portfolio.

Cost of sales was $598.7 million in 2025 compared to $360.6 million in 2024. The increase in cost of sales was mainly due to increased sales volume year-over-year, the Company expanding into certain categories of processed coal with higher production costs and more sales were made to a farther destination with higher transportation cost.

## 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 3 of this MD&A for further analysis) during the year.

| | Year ended December 31, | |
|---|---|---|
| *$ in thousands* | 2025 | 2024 |
| Operating expenses | **$ 507,911** | $ 288,773 |
| Share-based compensation expense | **–** | 18 |
| Depreciation and depletion | **46,495** | 19,924 |
| Royalties | **43,074** | 51,377 |
| Cost of sales from mine operations | **$ 597,480** | $ 360,092 |
| Cost of sales related to idled mine assets | **1,239** | 496 |
| Cost of sales | **$ 598,719** | $ 360,588 |

Operating expenses in cost of sales were $507.9 million in 2025 compared to $288.8 million in 2024. The overall increase in operating expenses was due to the Company expanding into certain categories of processed coal with higher production costs and more sales were made to a farther destination with higher transportation cost.

Cost of sales related to idled mine assets in 2025 included $1.2 million related to depreciation expenses for idled equipment (2024: $0.5 million).

Other operating income was $1.0 million in 2025 as compared to other operating expenses of $3.7 million in 2024. The amount mainly consisted of foreign exchange gain of $1.5 million, reversal of impairment loss on materials and supplies inventories of $1.2 million and written off of other payables of $6.3 million, which was offset by management fee of $8.3 million.

| | Year ended December 31, | |
|---|---|---|
| *$ in thousands* | 2025 | 2024 |
| Management fee | **$ 8,315** | $ 6,630 |
| Provision/(reversal of provision) for doubtful trade and other receivables | **(67)** | 10 |
| Foreign exchange loss/(gain), net | **(1,470)** | 134 |
| Loss/(gain) on disposal of items of property, plant and equipment, net | **2** | (261) |
| Impairment loss/(reversal of impairment loss) on materials and supplies inventories | **(1,204)** | 231 |
| Written off of other payables | **(6,272)** | – |
| Gain on contract offsetting arrangement | **(342)** | (3,046) |
| Other operating expenses/(income), net | **$ (1,038)** | $ 3,698 |

## 3. Overview of Operational Data and Financial Results continued

### Overview of Annual Financial Results continued

Administration expenses were $14.7 million in 2025 as compared to $13.5 million in 2024. The change was mainly due to higher daily administration fees and increased salaries and benefits as a result of an expansion of operations.

| | Year ended December 31, | |
|---|---|---|
| *$ in thousands* | 2025 | 2024 |
| Corporate administration | **$ 4,534** | $ 3,293 |
| Legal and professional fees | **2,484** | 2,836 |
| Salaries and benefits | **6,863** | 6,415 |
| Share-based compensation expense | **–** | 45 |
| Depreciation | **843** | 865 |
| Administration expenses | **$ 14,724** | $ 13,454 |

The Company continued to minimise evaluation and exploration expenditures in 2025 in order to preserve the Company's financial resources. Evaluation and exploration activities and expenditures in 2025 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 in both 2025 and 2024, 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

| | 2025 | | | | 2024 | | | |
|---|---|---|---|---|---|---|---|---|
| Quarter Ended | 31-Dec | 30-Sept | 30-Jun | 31-Mar | 31-Dec | 30-Sept | 30-Jun | 31-Mar |
| **Sales Volumes, Prices and Costs** | | | | | | | | |
| Premium semi-soft coking coal | | | | | | | | |
| Coal sales *(millions of tonnes)* | **0.38** | 0.30 | 0.17 | 0.04 | 0.16 | 0.10 | 0.29 | 0.36 |
| Average realised selling price *(per tonne)* | **$ 68.76** | $ 63.37 | $ 59.84 | $ 90.75 | $ 89.56 | $ 116.48 | $ 102.61 | $ 111.01 |
| Standard semi-soft coking coal/ premium thermal coal | | | | | | | | |
| Coal sales *(millions of tonnes)* | **1.13** | 1.25 | 1.65 | 0.95 | 1.31 | 1.09 | 0.28 | 0.28 |
| Average realised selling price *(per tonne)* | **$ 55.58** | $ 48.03 | $ 60.07 | $ 70.46 | $ 69.30 | $ 72.54 | $ 77.04 | $ 76.07 |
| Standard thermal coal | | | | | | | | |
| Coal sales *(millions of tonnes)* | **0.28** | 0.43 | 0.09 | 0.14 | 0.38 | 0.24 | 0.12 | 0.12 |
| Average realised selling price *(per tonne)* | **$ 15.02** | $ 22.59 | $ 17.89 | $ 35.37 | $ 36.99 | $ 37.20 | $ 36.10 | $ 47.91 |
| Processed coal | | | | | | | | |
| Coal sales *(millions of tonnes)* | **1.35** | 1.06 | 1.05 | 0.93 | 0.81 | 0.68 | 0.51 | 0.29 |
| Average realised selling price *(per tonne)* | **$ 58.23** | $ 56.96 | $ 42.46 | $ 50.57 | $ 68.66 | $ 63.65 | $ 73.04 | $ 56.65 |
| Total | | | | | | | | |
| Coal sales *(millions of tonnes)* | **3.14** | 3.04 | 2.96 | 2.06 | 2.66 | 2.11 | 1.20 | 1.05 |
| Average realised selling price *(per tonne)* | **$ 54.76** | $ 48.99 | $ 52.55 | $ 59.51 | $ 65.72 | $ 67.77 | $ 77.55 | $ 79.52 |
| Raw coal production *(millions of tonnes)* | **4.37** | 4.43 | 3.91 | 3.92 | 4.19 | 2.75 | 2.01 | 1.25 |
| Cost of sales of product sold *(per tonne)* | **$ 51.60** | $ 47.22 | $ 53.87 | $ 64.90 | $ 48.92 | $ 52.77 | $ 61.32 | $ 43.36 |
| Direct cash costs of product sold *(per tonne)* (i) | **$ 41.27** | $ 39.39 | $ 44.92 | $ 53.97 | $ 37.92 | $ 41.74 | $ 47.15 | $ 30.70 |
| Mine administration cash costs of product sold *(per tonne)* (i) | **$ 1.34** | $ 0.97 | $ 1.28 | $ 1.70 | $ 1.88 | $ 0.94 | $ 2.42 | $ 1.08 |
| Total cash costs of product sold *(per tonne)* (i) | **$ 42.61** | $ 40.36 | $ 46.20 | $ 55.67 | $ 39.80 | $ 42.68 | $ 49.57 | $ 31.78 |
| **Other Operational Data** | | | | | | | | |
| Production waste material moved *(millions of bank cubic meters)* | **21.91** | 19.48 | 19.86 | 19.36 | 17.48 | 15.04 | 14.59 | 12.36 |
| Strip ratio *(bank cubic meters of waste material per tonne of coal produced)* | **5.02** | 4.39 | 5.08 | 4.93 | 4.17 | 5.48 | 7.27 | 9.87 |
| Lost time injury frequency rate (ii) | **0.00** | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.22 |

(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.

# 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 $65.7 per tonne in the fourth quarter of 2024 to $54.8 per tonne in the fourth quarter of 2025, as a result of the Company facing headwinds in the Chinese coal market in 2025. This led the Company to change its product mix to sell a greater percentage of lower-priced coal products. The product mix for the fourth quarter of 2025 consisted of approximately 12% premium semi-soft coking coal, 36% standard semi-soft coking coal/premium thermal coal, 9% standard thermal coal and 43% of processed coal compared to 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 in the fourth quarter of 2024.

The Company sold 3.1 million tonnes for the fourth quarter of 2025, compared to 2.7 million tonnes for the fourth quarter of 2024.

The Company's unit cost of sales of product sold increased from $48.9 per tonne in the fourth quarter of 2024 to $51.6 per tonne in the fourth quarter of 2025. 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. 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* | 2025 | | | | 2024 | | | |
|---|---|---|---|---|---|---|---|---|
| *Quarter Ended* | 31-Dec | 30-Sept | 30-Jun | 31-Mar | 31-Dec | 30-Sept | 30-Jun | 31-Mar |
| **Financial Results** | | | | | | | | |
| Revenue [i] | **$ 171,861** | $ 148,802 | $ 155,289 | $ 122,867 | $ 174,640 | $ 143,748 | $ 92,821 | $ 82,169 |
| Cost of sales [i] | **(162,036)** | (143,542) | (159,452) | (133,689) | (130,119) | (111,354) | (73,582) | (45,533) |
| Gross profit/(loss) excluding idled mine asset costs [ii] | **10,135** | 5,627 | (3,852) | (10,571) | 44,757 | 32,544 | 19,303 | 36,682 |
| Gross profit/(loss) including idled mine asset costs | **9,825** | 5,260 | (4,163) | (10,822) | 44,521 | 32,394 | 19,239 | 36,636 |
| Other operating income/(expenses), net | **(2,027)** | (699) | 5,335 | (1,571) | (1,194) | (294) | (1,157) | (1,053) |
| Administration expenses | **(5,074)** | (3,273) | (3,128) | (3,249) | (3,627) | (3,400) | (3,014) | (3,413) |
| Evaluation and exploration expenses | **(49)** | (234) | (22) | (32) | (314) | (1,003) | (23) | (22) |
| Impairment loss on coal stockpiles | **(64,986)** | – | (12,348) | – | – | – | – | – |
| Impairment loss on items of property, plant and equipment | **(41,960)** | – | – | – | – | – | – | – |
| Reversal of additional tax and tax penalty | **–** | – | – | – | 39,666 | – | – | – |
| Profit/(loss) from operations | **(104,271)** | 1,054 | (14,326) | (15,674) | 79,052 | 27,697 | 15,045 | 32,148 |
| Finance costs | **(10,471)** | (9,422) | (9,140) | (8,812) | (6,893) | (10,679) | (10,322) | (11,021) |
| Finance income | **19** | 1,908 | 53 | 21 | 3,247 | 733 | 722 | 73 |
| Share of earning of a joint venture | **1,258** | 1,100 | 1,011 | 613 | 1,206 | 133 | 1,055 | 833 |
| Share of earnings/(loss) of associates | **606** | 257 | (120) | (187) | 578 | (1) | – | 10 |
| Current income tax credit/(expenses) | **147** | (1,940) | (284) | (2,166) | (4,899) | (7,844) | (8,585) | (9,791) |
| Net profit/(loss) | **(112,712)** | (7,043) | (22,806) | (26,205) | 72,291 | 10,039 | (2,085) | 12,252 |
| Basic earnings/(loss) per share | **$ (0.380)** | $ (0.024) | $ (0.077) | $ (0.088) | $ 0.244 | $ 0.034 | $ (0.007) | $ 0.041 |
| Diluted earnings/(loss) per share | **$ (0.380)** | $ (0.024) | $ (0.077) | $ (0.088) | $ 0.228 | $ 0.034 | $ (0.007) | $ 0.041 |

(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 $104.3 million loss from operations in the fourth quarter of 2025 compared to a $79.1 million profit from operations in the fourth quarter of 2024. The decrease was mainly due to the decreased average realised selling price realised in the fourth quarter of 2025 as compared to the same period in 2024, change in product mix, as the Company sold more processed coal with higher production costs and impairment losses on coal stockpile and items of property, plant and equipment of $65.0 million and $42.0 million were recorded respectively in the fourth quarter of 2025.

Revenue was $171.9 million in the fourth quarter of 2025 compared to $174.6 million in the fourth quarter of 2024. The Company was able to maintain its revenue amount as a result of an 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 $162.0 million in the fourth quarter of 2025 compared to $130.1 million in the fourth quarter of 2024. The increase in cost of sales was mainly due to increased sales volume, the Company expanding into certain categories of processed coal with higher production costs and the increase in sales made to further destinations with higher transportation cost.

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.

| *$ in thousands* | Three months ended December 31, 2025 | 2024 |
|---|---|---|
| Operating expenses | **$ 133,782** | $ 105,873 |
| Depreciation and depletion | **14,729** | 8,908 |
| Royalties | **13,215** | 15,102 |
| Cost of sales from mine operations | **$ 161,726** | $ 129,883 |
| Cost of sales related to idled mine assets | **310** | 236 |
| Cost of sales | **$ 162,036** | $ 130,119 |

Operating expenses in cost of sales were $133.8 million for the fourth quarter of 2025 compared to $105.9 million for the fourth quarter of 2024. The overall increase in operating expenses was due to the Company expanding into certain categories of processed coal with higher production costs and the increase in sales were made to further destinations with higher transportation cost.

Cost of sales related to idled mine assets in the fourth quarter of 2025 included $0.3 million related to depreciation expenses for idled equipment (fourth quarter of 2024: $0.2 million).

Other operating expenses were $2.0 million for the fourth quarter of 2025 compared to $1.2 million for the fourth quarter of 2024.

| *$ in thousands* | Three months ended December 31, 2025 | 2024 |
|---|---|---|
| Management fee | **$ 2,448** | $ 2,304 |
| Provision/(reversal of provision) for doubtful trade and other receivables | **(12)** | 42 |
| Foreign exchange loss/(gain), net | **(235)** | 1,114 |
| Loss on disposal of items of property, plant and equipment, net | **–** | 1 |
| Impairment loss/(reversal of impairment loss) on materials and supplies inventories | **(171)** | 317 |
| Gain on contract offsetting arrangement | **(3)** | (2,584) |
| Other operating expenses, net | **$ 2,027** | $ 1,194 |

## 3. Overview of Operational Data and Financial Results continued

### Overview of Quarterly Financial Results continued

Administration expenses were $5.1 million in the fourth quarter of 2025 compared to $3.6 million in the fourth quarter of 2024. The change was mainly due to an increase in daily administration expenses and salaries and benefits as a result of an expansion of operations.

| | Three months ended December 31, | |
|---|---|---|
| *$ in thousands* | 2025 | 2024 |
| Corporate administration | **$ 2,179** | $ 826 |
| Legal and professional fees | **530** | 719 |
| Salaries and benefits | **2,153** | 1,883 |
| Depreciation | **212** | 199 |
| Administration expenses | **$ 5,074** | $ 3,627 |

The Company continued to minimise evaluation and exploration expenditures in the fourth quarter of 2025 in order to preserve the Company's financial resources. Evaluation and exploration activities and expenditures in the fourth quarter of 2025 were limited to ensuring that the Company met the Mongolian Minerals Law requirements in respect of its mining licenses.

Finance costs were $10.5 million in the fourth quarter of 2025 compared to $6.9 million in the fourth quarter of 2024, 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, 2025 and December 31, 2024. 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* | 2025 | 2024 | 2025 | 2024 |
| **Cash costs** | | | | |
| Cost of sales determined in accordance with IFRS | **$ 162,036** | $ 130,119 | **$ 598,719** | $ 360,588 |
| Less royalties | **(13,215)** | (15,102) | **(43,074)** | (51,377) |
| Less non-cash expenses | **(14,729)** | (8,908) | **(46,495)** | (19,942) |
| Less non-cash idled mine asset costs | **(310)** | (236) | **(1,239)** | (496) |
| Total cash costs | **133,782** | 105,873 | **507,911** | 288,773 |
| Less idled mine asset cash costs | **–** | – | **–** | – |
| Total cash costs excluding idled mine asset cash costs | **133,782** | 105,873 | **507,911** | 288,773 |
| Coal sales *(millions of tonnes)* | **3.14** | 2.66 | **11.20** | 7.02 |
| Total cash costs of product sold *(per tonne)* | **$ 42.61** | $ 39.80 | **$ 45.35** | $ 41.14 |

| | Three months ended December 31, | | Year ended December 31, | |
|---|---|---|---|---|
| *$ in thousands, except per tonne information* | 2025 | 2024 | 2025 | 2024 |
| **Cash costs** | | | | |
| Direct cash costs of product sold *(per tonne)* | **$ 41.27** | $ 37.92 | **$ 44.06** | $ 39.56 |
| Mine administration cash costs of product sold *(per tonne)* | **1.34** | 1.88 | **1.29** | 1.58 |
| Total cash costs of product sold *(per tonne)* | **$ 42.61** | $ 39.80 | **$ 45.35** | $ 41.14 |

The cash cost of product sold per tonne was increased from $41.1 in 2024 to $45.4 in 2025. The increase was due to the Company expanding into certain categories of processed coal with higher production costs and the increase in sales made to further destinations with higher transportation cost.

## 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 periods. 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, 2025 and December 31, 2024.

| | Three months ended December 31, | | Year ended December 31, | |
|---|---|---|---|---|
| *$ in thousands, except per tonne information* | 2025 | 2024 | 2025 | 2024 |
| **Idled mine asset costs** | | | | |
| Gross profit excluding idled mine asset costs | **$ 10,135** | $ 44,757 | **$ 1,339** | $ 133,286 |
| Less non-cash idled mine asset costs | **(310)** | (236) | **(1,239)** | (496) |
| Gross profit including idled mine asset costs | **$ 9,825** | $ 44,521 | **$ 100** | $ 132,790 |

## 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. 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, 2025, SGS employed 734 employees in Mongolia. Of the 734 employees, 48 are employed in the Ulaanbaatar office, 2 are employed in the Dalanzadgad representative office and 684 at the Ovoot Tolgoi Mine site. Of the 734 employees based in Mongolia, 732 (99%) are Mongolian nationals and of those, 253 (34%) 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.

### Bank Loan

On October 7, 2025, SGS has entered into the 2025 Bank Loan for a principal amount of up to RMB235 million (equivalent to approximately $33.1 million) from the Bank with the key commercial terms as follows:

- Maturity date set at 18 months from drawdown;
- Interest rate of 10% per annum on the outstanding principal land interest is calculated on a 365-day year basis;
- Loan repayments will consist of interest-only payments during the initial 12 months of the Term, followed by principal amortisation payments during months 13 to 18 of the Term;
- Certain items of property, plant and equipment with carrying amount of $2.2 million, land-use rights and intangible assets were pledged as security for the 2025 Bank Loan; and
- The Company intends to use the proceeds of the 2025 Bank Loan to support working capital, operating expenses, taxes and the settlement of accounts payable of SGS.

### 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. In accordance with applicable Mongolian laws, SGS is entitled to file an appeal to the Administrative Court of First Instance 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 of First Instance.

On March 19, 2025, SGS received correspondence from the Administrative Court of First Instance requesting supplemental information regarding a court proceeding initiated by the MTA Officials against the TDRC. Upon further enquiry, SGS obtained a copy of an order dated March 7, 2025 issued by the Administrative Court of First Instance regarding the Proposed Case.

On April 25, 2025, SGS obtained a copy of the Latest Court Order issued by the Administrative Court of First Instance refusing to accept the Proposed Case. According to the Latest Court Order, the Proposed Case was dismissed by the Administrative Court of First Instance. According to applicable Mongolian laws, the plaintiff is entitled to file an appeal to the appellate court, and the Company understood that the MTA Officials, as plaintiff in the Proposed Case, filed an appeal.

On June 9, 2025, SGS obtained the Appellate Court Judgement issued by the Appellate Court. As per the Appellate Court Judgement, the Appellate Court upheld the court order issued by the Judge of the Administrative Court of First Instance on April 15, 2025. As a result, the claim brought by the MTA Officials against the TDRC in an attempt to dispute or overturn the previous decision made by the TDRC regarding the Re-assessment Result has been dismissed and rejected. According to applicable Mongolian law, the Appellate Court Judgement shall be final and is not subject to further appeal.

In the prior year, the Company recorded an additional tax and tax penalty in the amount of $45.5 million, which consists of a tax penalty payable of $26.5 million and a provision for additional late tax penalty of $19.0 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. To date, the Company has paid the MTA an aggregate of $22.2 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 MTA has a legal authority to demand payment of the outstanding amount of the Revised Re-assessment Result from the Company at its discretion.

## 6. Liquidity and Capital Resources continued

### Liquidity and Capital Management continued

#### Going concern considerations

The Company's consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue to operate until at least December 31, 2026 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 $227.2 million as at December 31, 2025 as compared to a deficiency in assets of $49.8 million as at December 31, 2024 while the working capital deficiency (excess current liabilities over current assets) reached $337.0 million as at December 31, 2025 as compared to a working capital deficiency of $228.1 million as at December 31, 2024.

Included in the working capital deficiency as at December 31, 2025 are significant obligations, represented by trade and other payables of $218.2 million, additional tax and tax penalty of $23.3 million and interest-bearing borrowing of $11.1 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 MD&A, no such lawsuits or proceedings were pending as at March 27, 2026. 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.

In addition, the recent global geopolitical events, particularly the escalation of tensions involving Iran and the US, have significantly pushed up international coal prices in the short term due to increasing energy prices and demand for coal as a substitute for natural gas. However, management notes that coal price trends remain subject to uncertainties related to the duration of such conflicts and broader geopolitical developments. Should the conflict ease or cease, the price momentum driven by supply risk premiums and energy substitution may weaken or even reverse, thereby exposing coal prices to considerable downside uncertainty. Such volatility may affect the Company's operations, including the selling price of its coal product and its production costs.

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

## 6. Liquidity and Capital Resources continued

### Liquidity and Capital Management continued

#### Going concern considerations continued

For the purpose of assessing the appropriateness of the use of the going concern basis to prepare the consolidated financial statements, management of the Company has prepared a cash flow projection covering a period of 12 months from December 31, 2025. 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 2026 March Deferral Agreement on March 23, 2026 for a deferral of the 2026 March Deferred Amounts; (b) communicating with vendors in agreeing repayment plans of the outstanding payable; and (c) considering geopolitical tensions, specifically the Iran-US conflict, which is expected to create a favourable pricing environment during forecast period. 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, 2025 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 the following key factors: the utilisation of 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, and the fluctuations in international coal prices, which are subject to the developments in geopolitical tensions.

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, 2025, the Company was not subject to any externally imposed capital requirements.

# 6. Liquidity and Capital Resources continued

## Liquidity and Capital Management continued

### Convertible Debenture

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

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

### Deferral Agreements

*2024 March Deferral Agreement*

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.

## 6. Liquidity and Capital Resources *continued*

### Liquidity and Capital Management *continued*

#### Deferral Agreements *continued*

*2024 March Deferral Agreement continued*

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

- Payment of the 2024 March Deferred Amounts will be 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.

## 6. Liquidity and Capital Resources continued

### Liquidity and Capital Management continued

#### Deferral Agreements continued

*2024 April Deferral Agreement*

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").

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 will be 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.

## 6. Liquidity and Capital Resources continued

### Liquidity and Capital Management continued

#### Deferral Agreements 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 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 2025 March Deferral Agreement was approved by the Company's disinterested shareholders at the AGM of shareholders convened on June 27, 2025.

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

#### Deferral Agreements continued

*2026 March Deferral Agreement*

On March 23, 2026, the Company and JDZF entered into the 2026 March Deferral Agreement pursuant to which JDZF agreed to grant the Company a deferral of the 2026 March Deferred Amounts.

The effectiveness of the 2026 March Deferral Agreement and the respective covenants, agreements and obligations of each party under the 2026 March Deferral Agreement are subject to the Company obtaining the requisite approval of the 2026 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 2026 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 2026 March Deferral Agreement are as follows:

- Payment of the 2026 March Deferred Amounts will be deferred until the 2026 March Deferral Agreement Deferral Date.

- As consideration for the deferral of the 2026 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 2026 March Deferred Amounts, commencing on the date on which each such 2026 March Deferred Amounts would otherwise have been due and payable under the Convertible Debenture.

- As consideration for the deferral of the 2026 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 2026 March Deferred Amounts commencing on the date on which each such 2026 March Deferred Amounts would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.

- The 2026 March Deferral Agreement does not contemplate a fixed repayment schedule for the 2026 March Deferred Amounts or related deferral fees. Instead, the 2026 March Deferral Agreement requires the Company to use its best efforts to pay the 2026 March Deferred Amounts and related deferral fees due and payable under the 2026 March Deferral Agreement to JDZF. During the period beginning as of the effective date of the 2026 March Deferral Agreement and ending as of the 2026 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 2026 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 2026 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.

#### Net Debt to Equity Ratio

The net debt to equity ratio was calculated as net debt divided by equity, while total debt included convertible debenture and lease liabilities of the Company. The net debt to equity ratio as at December 31, 2025 was -251% (December 31, 2024: -945%).

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

## 6. Liquidity and Capital Resources continued

### Cash Flow Highlights

| *$ in thousands* | Year ended December 31, 2025 | 2024 |
|---|---|---|
| Net cash flows from operating activities | **$ 51,420** | $ 107,916 |
| Cash used in investing activities | **(74,108)** | (123,115) |
| Cash from/(used in) financing activities | **25,815** | (23,821) |
| Effect of foreign exchange rate changes on cash | **658** | (383) |
| Increase/(decrease) in cash for the year | **3,785** | (39,403) |
| Cash balance, beginning of year | **8,590** | 47,993 |
| Cash balance, end of year | **$ 12,375** | $ 8,590 |

#### Net cash flows from Operating Activities

The Company generated $51.4 million of cash from operating activities in 2025 compared to $107.9 million in 2024. This is primarily due to the decreased average realised selling price in 2025 compared to 2024 and the change in product mix year-over-year, as the Company sold more processed coal with higher production costs.

#### Cash used in Investing Activities

The Company used $74.1 million of cash in 2025 in investing activities compared to used $123.1 million in 2024. In 2025, expenditures on property, plant and equipment totaled $73.1 million (2024: $118.6 million).

#### Cash from/used in Financing Activities

Cash from financing activities was $25.8 million in 2025 (2024: cash used in $23.8 million). This is primarily due to a new bank loan obtained by SGS in the principal amount of $33.0 million, offset by the repayment of Convertible Debenture interest of $5.5 million in 2025.

### 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, 2025, the Company's operating and capital commitments were:

| | Within 1 year | 2-3 years | Over 3 years | Total |
|---|---|---|---|---|
| **As at December 31, 2025** | | | | |
| Capital expenditure commitments | **$ 2,525** | **$ 3,862** | **$ 3,416** | **$ 9,803** |
| Operating expenditure commitments | **689** | **38** | **165** | **892** |
| **Commitments** | **$ 3,214** | **$ 3,900** | **$ 3,581** | **$ 10,695** |

## 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 ("CGU") as at December 31, 2025. The impairment indicator was the uncertainty of future coal price in China.

During the year, its Ovoot Tolgoi Mine CGU in the mining operation was suffered from the decline of coal selling price, which had an adverse impact on the projected value in use of the operation concerned and consequently resulted in an impairment loss recorded on the CGU of $42.0 million. The pre-tax discount rate used to measure the CGU's value in use was 22.8%.

The Company conducted an impairment test whereby the carrying value of the Company's Ovoot Tolgoi Mine CGU was compared to the recoverable amount (being the "value in use") 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, 2025. The carrying value of the Company's Ovoot Tolgoi Mine CGU was $206.9 million as at December 31, 2025.

The recoverable amounts of all the above CGUs have been determined from value in use calculations based on cash flow projections from formally approved budgets covering limited license period.

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

- Coal resources and reserves as estimated by an independent third-party mining consulting 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 pre-tax discount rate of 22.8% based on an analysis of the market, country and asset specific factors.

Operating margins have been based on past experience and future expectations in the light of anticipated economic and market conditions. Discount rates are based on the Company's beta adjusted to reflect management's assessment of specific risks related to the CGU. Growth rates are based on economic data pertaining to the region concerned.

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 CGU increases/(decreases) by approximately $11.3/(11.4) million;
- For each 1% increase/(decrease) in the post-tax discount rate, the calculated fair value of the CGU (decreases)/increases by approximately $(8.9)/9.4 million;
- For each 1% increase/(decrease) in the cash mining cost estimates, the calculated fair value of the CGU (decreases)/increases by approximately $(7.8)/7.7 million; and
- For each 1% increase/(decrease) in Mongolian inflation rate, the calculated fair value of the CGU (decreases)/increases by approximately $(4.2)/4.1 million.

If any one of the following changes were made to the above key assumptions, the carrying amount and recoverable amount would be equal.

# 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 borrowing, 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* | 2025 | 2024 |
| **Financial assets** | | |
| Cash | **$ 12,375** | $ 8,590 |
| Restricted cash | **853** | 274 |
| Trade and other receivables | **24,141** | 31,486 |
| **Total financial assets** | **$ 37,369** | $ 40,350 |

| | As at December 31, | |
|---|---|---|
| *$ in thousands* | 2025 | 2024 |
| **Financial liabilities** | | |
| Fair value through profit or loss | | |
| Convertible debenture – embedded derivatives | **$ 1** | $ 63 |
| Other financial liabilities | | |
| Trade and other payables | **218,167** | 169,281 |
| Interest-bearing borrowing | **33,405** | – |
| Lease liabilities | **1,707** | 2,192 |
| Convertible debenture – debt host and interest payable | **233,706** | 204,855 |
| **Total financial liabilities** | **$ 486,986** | $ 376,391 |

## 7. Regulatory Issues and Contingencies

### Lawsuit

In January 2014, Siskinds LLP, a Canadian law firm, filed the Class Action against the Company, certain of its former senior officers and directors, and the Former Auditors, in the Ontario Court in relation to the Company's Restatement.

To commence and proceed with the Class Action, the plaintiff was required to seek a 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, creating the Class Plaintiffs and permitting the Class Plaintiffs to proceed with the Class Action against only the Company.

Counsel for the plaintiffs and defendant have: (i) completed document production and oral examinations for discovery; (ii) served expert reports on liability and damages; and (iii) designed a mediation process and finalised, with the participation of the relevant Company's insurers, the Mediation, which was held and completed on August 11, 2025.

As a result of the Mediation, the Class Plaintiffs and the Company have conditionally settled the Class Action for CA$6.8 million, including all liability and class counsel fees, notice and administrative costs, fees, costs and expenses related to the litigation and the settlement (the "Settlement Payments"). The Settlement Payments are the obligation of the Company's insurers as of January 2014.

The Settlement was approved by Justice Morgan of the Ontario Superior Court of Justice on December 2, 2025. No appeals have been filed and the time to file an appeal has expired.

No provision for this matter is required as at December 31, 2025 and 2024.

## 7. Regulatory Issues and Contingencies continued

### 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 12th Court for Administrative Cases of First Instance (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.

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.

## 7. Regulatory Issues and Contingencies continued

### 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.

On March 19, 2025, SGS received correspondence from the Administrative Court of First Instance requesting supplemental information regarding a court proceeding initiated by the MTA Officials against the TDRC. Upon further enquiry, SGS obtained a copy of an order dated March 7, 2025 issued by the Administrative Court of First Instance regarding the Proposed Case.

On April 25, 2025, SGS obtained a copy of the Latest Court Order issued by the Administrative Court of First Instance refusing to accept the Proposed Case. According to the Latest Court Order, the Proposed Case was dismissed by the Administrative Court of First Instance. According to applicable Mongolian laws, the plaintiff is entitled to file an appeal to the appellate court, and the Company understood that the MTA Officials, as plaintiff in the Proposed Case, filed an appeal.

On June 9, 2025, SGS obtained the Appellate Court Judgement issued by the Appellate Court. As per the Appellate Court Judgement, the Appellate Court upheld the court order issued by the Judge of the Administrative Court of First Instance on April 15, 2025. As a result, the claim brought by the MTA Officials against the TDRC in an attempt to dispute or overturn the previous decision made by the TDRC regarding the Re-assessment Result has been dismissed and rejected. According to applicable Mongolian law, the Appellate Court Judgement shall be final and is not subject to further appeal.

In the prior year, the Company has recorded an additional tax and tax penalty in the amount of $45.5 million, which consists of a tax penalty payable of $26.5 million and a provision for additional late tax penalty of $19.0 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. To date, the Company has paid the MTA an aggregate of $22.2 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".

Management will continue to assess whether any subsequent event may impact the amount of the additional tax and tax penalty, in which case an adjustment would be recognised in profit or loss and the carrying amount of the tax liabilities shall be adjusted.

## 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.

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 30 of the Company's consolidated financial statements for the year ended December 31, 2025.

## 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 27, 2026, approximately 296.9 million Common Shares were issued and outstanding. There are also incentive share options outstanding to acquire approximately 1.0 million unissued Common Shares with an exercise price HK$1.41. There are no preferred shares outstanding.

As at March 27, 2026, 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 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 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, 2025, 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, 2025.

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, 2025.

The following new IFRS Accounting Standards and interpretations were adopted by the Company on January 1, 2025. Refer to Note 2.4 of the Company's consolidated financial statement of the year ended December 31, 2025 for details.

| | |
|---|---|
| Amendments to IAS 21 | Lack of Exchangeability |
| Amendments to Illustrative Examples on IFRS 7, IFRS 18, IAS 1, IAS 8, IAS 36 and IAS 37 | Disclosure about Uncertainties in the Financial Statements |

Refer to Note 3.20 of the Company's consolidated financial statements of the year ended December 31, 2025 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.

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

1 Effective for annual periods beginning on or after January 1, 2026.
2 Effective for annual periods beginning on or after January 1, 2027.
3 No mandatory effective date yet determined but available for adoption.

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

## 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".

### 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, 2026 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 $337.0 million as at December 31, 2025;

- 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 $218.2 million, additional tax and tax penalty of $23.3 million and interest-bearing borrowing of $11.1 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.

## 14. Risk Factors continued

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

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

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

- an insolvency filing by or against the Company will cause an event of default under the JDZF Convertible Debenture;

- an insolvency filing by or against the Company may adversely affect its business prospects, including its ability to continue to obtain and maintain the contracts necessary to operate its business on competitive terms;

- there can be no assurance as to the Company's ability to maintain or obtain sufficient financing sources for operations or to fund any reorganisation plan and meet future obligations;

- there can be no assurance that the Company will be able to successfully develop, prosecute, confirm and consummate one or more plans of reorganisation that are acceptable to the applicable courts and its creditors, equity holders and other parties in interest; and

- the value of the Common Shares could be reduced to zero as result of an insolvency filing.

### 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.

**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.

## 14. Risk Factors continued

### 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 Company also understands that any legal person holding a special licence for a Mineral Deposit of Strategic Importance shall not, individually or jointly with other entities having a common interest, hold more than 34% of the total issued and outstanding shares of such legal person. In the event that the aforementioned ownership restriction is not complied with, the Government of Mongolia shall have the right to appoint a Plenipotentiary Representative to take charge of managing such legal person to ensure legal compliance.

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.

As at the date of this MD&A, the deposits covered by four of the Company's Mongolian mining licenses have been designated as Mineral Deposits of Strategic Importance by Mongolian government authorities. The relevant mining licenses relate to the Company's Ovoot Tolgoi Mine and the Soumber Deposit. There can be no assurance that any one or more of the Company's mining licenses or exploration licenses will not be designated as Mineral Deposits of Strategic Importance by Mongolian government authorities 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 27, 2026, 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.

#### The Company is subject to litigation risks.

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. The Company was involved in a Class Action, which commenced in 2014 and was settled in 2025. The Company 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.

## 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.

In the prior year, the Company recorded an additional tax and tax penalty in the amount of $45.5 million and to date, the Company has paid the MTA an aggregate of $22.2 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.

# 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 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.

## 14. Risk Factors continued

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

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

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

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

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

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

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

## 14. Risk Factors continued

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

#### There are a number of risks associated with the Company's operation plan.

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 103 active customers with the largest customer representing approximately 17%, the second largest customer representing approximately 8%, the third largest customer representing approximately 6% and the remaining customers accounting for 69% of the Company's total sales for the year ended December 31, 2025. 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.

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

In prior year, 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.

#### The unreliability 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. 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. 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.

## 14. Risk Factors continued

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

**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. Hong Kong Listing Rules Requirements

### Significant Investments

Except for investments in a joint venture and associates, the Company had no significant investments held as at December 31, 2025.

### Material Acquisition and Disposal of Subsidiaries, Joint Ventures and Associates

The Company did not have any material acquisition or disposal of subsidiaries, joint ventures and associates during the year ended December 31, 2025.

### Future Plans for Material Investments or Capital Assets

There was no specific plan for material investments or capital assets as at December 31, 2025.

### Employees

The total number of employees of the Company as at December 31, 2025 was 847. The Company offers competitive compensation and remuneration packages to attract and retain talented employees. Directors are entitled to salaries, director's fee, Key Performance Indicators ("KPIs") tied to performance goals, discretionary bonus and other benefits, which are determined on the basis of merit, qualifications and competence of the directors in accordance with the remuneration policy of the Company. Employees are remunerated with fixed monthly income plus bonuses upon achieving specific KPIs, fostering motivation and alignment with the Company's operational and financial goals. The Company also operates share option plan for the purpose of attracting, retaining, motivating and rewarding the employees. The Company also sponsors employees to attend external training courses that suit the needs of the Company's business.

## 16. Outlook

The global coal market continues to face structural shifts amid evolving geopolitical and economic conditions. Although international trade tensions have moderated compared with previous years, uncertainties persist due to fluctuating commodity prices, energy transition policies, and regional security concerns. China's ongoing efforts to balance energy security with environmental commitments will continue to shape demand patterns, with coal expected to remain a critical component of its energy mix in the near term.

The strategic partnership between China and Mongolia, particularly under the frameworks of the Belt and Road Initiative and Mongolia's "New Revival Policy", continues to deepen. Significant investments in cross-border infrastructure, including the ongoing expansion and modernisation of railway networks and border ports, are progressively reducing logistical bottlenecks and enhancing efficiency. These advancements are expected to strengthen the competitiveness of Mongolian coking coal in the Chinese market by improving transit efficiency and lowering overall landed costs.

At the same time, challenges persist. China's property sector remains under pressure, and infrastructure investment is being carefully managed, which may constrain steel production and, in turn, coking coal demand.

Against this backdrop, the Company remains cautiously optimistic about the Chinese coal market, as coal continues to be regarded as the primary energy source on which China will rely in the foreseeable future. Coal supply and imports in China are expected to remain limited due to increasingly stringent environmental and safety requirements, which may contribute to volatility in domestic coal prices. The Company will continue to closely monitor market developments and respond proactively to changing conditions.

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.

In 2026, the Company will continue to scale up mining operations and enhance coal processing capabilities to deliver higher product quality and meet evolving customer demands. Initiatives to strengthen spare parts management will be advanced to improve maintenance efficiency and ensure reliable, uninterrupted mining operations. At the same time, the Company will deploy advanced remote-control systems, optimise transport routes, and further expand the use of electric locomotives to enhance the efficiency and capacity of cross-border transportation, ensuring alignment with production growth.

In the medium term, the Company will gradually equip mining operations with remote-control functionality, progressively advancing toward unmanned work sites. This transformation will raise safety standards while addressing labor shortages that constrain capacity expansion. In addition, 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.

## 16. 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 and Soumber Deposit have mineral reserves of at least 80.57 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 27, 2026


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# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## About the Company

### Business Nature

SouthGobi Resources Ltd., together with its subsidiaries (collectively the "Company" or "we"), is an integrated coal mining, development, and trading company. The Company's primary operation site, the Ovoot Tolgoi Mine, is located in Mongolia, approximately 46 kilometres north of border with China. With the mining and exploration licenses for metallurgical coal (as known as coking coal) and thermal coal deposits in the South Gobi Province of Mongolia, the Company transports its coal from the mine site to markets in China via road and railway networks. Positioned strategically between Mongolia's abundant coal reserves and China's capital market, the Company is well-placed to capitalise opportunities presented by the Belt and Road Initiative.

With its advantageous geographical location and comprehensive logistics infrastructure, the Company possess extensive coal resources of nearly 800 million tonnes and the capacity to provide one-stop services, from coal production to transportation and sales. The Company also holds a solid track record in operations and safety management in Mongolia. Its wholly-owned subsidiary, Southgobi Sands LLC ("SGS") has a long-standing history in coal operations and has been recognised with numerous awards since 2007, becoming one of the largest-scale and most reputable mining operations in Mongolia.

### Commitment to Sustainable Growth

As time evolves and industries transform, the Company is redefining the role of energy in a changing world. By unlocking the potential of its mineral resources, it strives to "awaken dormant energy and power the future with greener momentum".

Guided by its development strategy to "Optimise coal production, streamline sales processes, enhance product quality, and expand market reach," the Company is steadily advancing towards its vision of becoming a leading multinational energy enterprise. At the core of this ambition lies a clear commitment to balance resource development with environmental stewardship and long-term value creation.

Rooted in its philosophy of "Black Resources, Green Future," the Company is actively integrating environmental, social, and governance ("ESG") principles into its growth journey, transforming traditional mining operations into a more sustainable, technology-enabled, and responsible energy business.

#### Purpose and Direction

| | |
|---|---|
| Mission | To responsibly harness natural resources to generate economic value, foster long-term development and prosperity, and create sustainable employment opportunities |
| Vision | To become a leading coal enterprise in Mongolia, recognised for operational excellence, strong reputation, and outstanding efficiency |
| Core values | Responsibility, mutual respect, teamwork, fairness, and integrity form the foundation of the Company's culture and guide its decision-making at all levels |

#### Creating Value through Scale, Connectivity, and Innovation

As a dual-listed multinational enterprise with operations spanning multiple regions, the Company has established an integrated value chain covering resource development, cross-border logistics, and market distribution. Strategic investments in infrastructure, including dedicated heavy-haul roads, logistics hubs, and participation in cross-border railway development, have strengthened its role as a key enabler of regional energy connectivity.

At the same time, the Company is embracing technological innovation to enhance efficiency and sustainability. The introduction of advanced equipment, 5G-enabled remote operations, and the gradual deployment of intelligent and low-carbon mining solutions reflect its ambition to build a modern, smart, and environmentally responsible mining operation.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Embedding ESG into Our Operations

Sustainability is not a standalone initiative. It is embedded in the Company's daily operations, shaping how value is created for stakeholders and society at large.

*Environmental Stewardship*

The Company is committed to building "green mines" and promoting environmentally responsible resource development. Through environmental monitoring, land rehabilitation, energy efficiency initiatives, and emissions reduction measures, it actively manages its environmental footprint.

In alignment with Mongolia's "One Billion Trees" Campaign, the Company has planted over 187,000 trees and shrubs since establishment, contributing to ecological restoration and climate resilience. At the same time, it continues to explore low-carbon technologies and optimise production processes to reduce energy consumption and emissions intensity.

*Social Responsibility*

The Company places strong emphasis on the well-being of its employees and the communities in which it operates. Beyond maintaining high standards of occupational health and safety, it actively contributes to local development through community investment initiatives. These include: the construction of kindergarten facilities, provision of essential winter supplies, scholarship programmes, and sponsorship of initiatives that promote healthcare access and preserve cultural heritage. Through these efforts, the Company strives to create shared value and foster resilient communities.

*Strong Governance*

A robust governance framework is fundamental to the Company's sustainable development. The Company upholds high standards of business ethics and integrity, supported by well-established governance structures and comprehensive management policies. Environmental and social risk management practices are continuously strengthened, while climate-related governance and oversight are progressively enhanced to improve the identification, monitoring, and management of emerging risks and opportunities.

## Delivering Tangible Impact

From 2007 to 2025, the Company has invested nearly RMB20 million in ESG-related initiatives*, reflecting its commitment to translating sustainability ambitions into measurable actions. These investments not only support environmental protection and community development but also reinforce the Company's long-term resilience and value creation.

Looking ahead, the Company will continue to integrate ESG considerations into its strategy and operations, leveraging scale, innovation, and cross-border connectivity to deliver long-term, sustainable value for its stakeholders.

* *The approximate investment includes only monetary donations through CSR programme, with investment on "One Billion Trees" National Movement excluded.*

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Key Achievements (Awards in the recent 10 years)

| Year | Award* | Issuing Organisation* | Country |
|---|---|---|---|
| 2025 | Excellent Strategic Partner in 2025 | China Inspection and Certification Group | China |
| | Grade A Taxpayer from 2022-2024 | Ejinqi Tax Bureau of the State Taxation Administration | China |
| | Excellent Enterprises for Social Security Contributions in Sukhbaatar District | Social Security Department of Sukhbaatar District | Mongolia |
| 2024 | Mongolian Top 100 Enterprises – Ranking 10th | Government of Mongolia<br>Mongolian National Chamber of Commerce and Industry | Mongolia |
| | Best Information Provider | National Bureau of Statistics of Mongolia | Mongolia |
| | Friendship Medal# | Mongolian President Khürelsükh | Mongolia |
| | Excellent Taxpayers in Umnugobi province | Tax Office of Umnugobi Province | Mongolia |
| 2023 | Mongolian Top 100 Enterprises – Ranking 11th | Government of Mongolia<br>Mongolian National Chamber of Commerce and Industry | Mongolia |
| 2021 | Mongolian Top 100 Enterprises – Ranking 84th | Government of Mongolia<br>Mongolian National Chamber of Commerce and Industry | Mongolia |
| 2019 | Mongolian Top 100 Enterprises – Ranking 50th | Government of Mongolia<br>Mongolian National Chamber of Commerce and Industry | Mongolia |
| 2018 | Employer of the Year | Governor of Umnugobi Province | Mongolia |
| | Excellent Enterprises for Social Security Contributions in Sukhbaatar District | Social Security Department of Sukhbaatar District | Mongolia |
| | An Organization That Values Healthy and Safe Workplaces | Ministry of Labour and Social Security | Mongolia |
| | The Silk Road Award – In recognition of the outstanding contribution to the socio-economic development of Mongolia | Mongolian National Chamber of Commerce and Industry | Mongolia |
| 2017 | Mongolian Top 100 Enterprises – Ranking 25th | Government of Mongolia<br>Mongolian National Chamber of Commerce and Industry | Mongolia |
| | Top Social Insurance Contribution Payer Employer of the Capital City | Governor of the Capital<br>Mayor of Ulaanbaatar City<br>Capital Health and Social Insurance Department | Mongolia |
| | An Organization That Values Healthy a nd Safe Workplaces | Ministry of Labour and Social Security | Mongolia |
| 2016 | The Silk Road Award – In recognition of outstanding contributions to the socio-economic development of Mongolia | Mongolian National Chamber of Commerce and Industry | Mongolia |
| | Top Social Insurance Contribution Payer Employer of the Capital City | Governor of the Capital and Mayor of Ulaanbaatar and Capital city Department of Health and Social Insurance | Mongolia |
| 2015 | Selected as One of the Top 100 Taxpayers for Five Consecutive Years | Mongolian Tax Administration | Mongolia |
| | Excellent Enterprises for Social Security Contributions | General Department of Social Insurance | Mongolia |

* *The names of awards and issuing organisations are for identification purpose only.*
\# *Award was presented to Mr. Bateer Liu, the Chief Supervisor of SGS.*

## Recent Innovations

### Driving Innovation for Sustainable Growth

As a responsible corporation, the Company considers technological innovation as a key driver of long-term growth and sustainable development. Since its establishment, the Company has proactively explored and adopted advanced technologies across its operations, enhancing efficiency, reducing environmental impact, and strengthening its competitive position within the energy sector.

In parallel, the Company is accelerating its transition towards green and intelligent mining through the integration of renewable energy solutions, digital technologies, and strategic partnerships.

### Enhancing Resource Efficiency through Advanced Coal Processing

*Continuous Improvement in Coal Quality and Productivity*

Since commencing open-pit operations at the Ovoot Tolgoi Mine in 2008, the Company has continuously refined its coal processing capabilities. Raw coal is categorised into SouthGobi A coal, A- coal, B coal, and WF coal, with final products primarily comprising premium semi-soft coking coal, standard semi-soft coking coal, standard thermal coal, and processed coal.

To maximise productivity and improve product quality, the Company has invested in large-capacity, high-efficiency, and environmentally responsible coal processing technologies. In 2024, the Company entered into an agreement with Tangshan Shenzhou Manufacturing Group Co., Ltd. to establish a new dry coal processing plant featuring an advanced dry coal separation system, enhancing both processing capacity and sorting precision.

With the addition of this facility, the Company's total coal processing capacity has reached approximately 9.1 million tonnes per annum, significantly strengthening its operational efficiency.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

*Environmental Stewardship through Advanced Processing Technologies*

Coal Washing Plant

The coal washing plant, established in 2018 and upgraded in 2024, has a processing capacity of 1.6 million tonnes per year, producing processed coal as its primary output. Key environmental and operational enhancements include:

- Installation of an independent wetting system to improve screening accuracy
- Conveyor belt spraying systems to reduce dust emissions and enhance workplace safety
- A double shaft shredder to optimise product sizing form 80 mm to below 25 mm to meet customer demand
- Recycling of approximately 90% of water used in processing for reuse, including dust suppression

To address future water security challenges, the Company plans to drill additional wells equipped with pumping infrastructure with 200 m-depth, ensuring sustainable water supply for operations.

Dry Coal Processing Plant

The Company operates two dry coal processing plants with a combined capacity of 7.5 million tonnes per year, representing a cornerstone of its environmentally responsible operations. Both phases I and II employ cutting-edge coal processing technology in China, utilising advanced intelligent optoelectronic technology, eliminating the need for water and chemicals. This approach:

- Significantly reduces water consumption in a water-scarce region
- Minimises risks of soil and groundwater contamination
- Maintains high calorific value of 5,000-5,500 kcal in products, improving energy efficiency for end-users

In 2025, the Company further enhanced its environmental performance by transitioning energy sources for both phases I and II plants from diesel to electricity, contributing to reduced GHG emissions and improved operational stability. The phase II dry coal processing plant (6.0 million tonnes per year) has also been upgraded with an additional screening system (6-13 mm), further optimising product quality.

### Accelerating the Transition to Green and Renewable Energy

The Company is actively advancing its strategy to integrate renewable energy into its operations, recognising the importance of reducing carbon emission intensity and supporting global decarbonisation efforts. Through recent strategic engagements with industry partners, the Company is exploring collaborative opportunities in:

- Distributed solar photovoltaic systems
- Integrated "solar-storage-charging" infrastructure
- New energy-powered mining and logistics equipment

The Company has already initiated partnerships in the solar energy sector and plans to develop renewable energy infrastructure centred around its Saihan Tala coal storage and distribution base. These initiatives are expected to support cleaner energy consumption across mining operations and logistics networks.

In addition, the Company is exploring the adoption of new energy transportation vehicles and autonomous mining solutions, further enhancing operational efficiency while reducing emissions.

### Smart Mining through Digital Transformation

*AI + 5G Enabled Intelligent Operations*

In line with global technological advancements, the Company has introduced a remote intelligent control system to modernise its mining operations.

Commencing the second quarter of previous year, key equipment such as excavators, loaders, and cranes has been upgraded with a "5G remote control + AI assistance" system developed by Beijing Tuojiangzhe Co. Ltd.*. This enables operators to remotely control equipment from the Wuhai office in China, significantly improving operational efficiency and reducing on-site labour intensity.

*Towards Autonomous and Low-Carbon Mining*

Looking ahead, the Company aims to further enhance its smart mining capabilities through:

- Deployment of driverless mining trucks
- Adoption of renewable energy-powered transport vehicles
- Integration of intelligent logistics systems

These initiatives will support safer, more efficient, and lower-emission mining operations, reinforcing the Company's commitment to sustainable development.

### Creating Long-Term Value through Innovation

By integrating advanced processing technologies, digital innovation, and renewable energy solutions, the Company continues to strengthen its operational resilience and environmental performance.

The Company remains committed to leveraging innovation not only to enhance productivity and product quality, but also to minimise environmental impact and contribute to the sustainable transformation of the energy sector.

* *Translation for identification purpose only.*

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## About the Report

The Company is pleased to present our Environmental, Social and Governance report (the "Report" or the "ESG Report") for the financial year ended December 31, 2025 (the "Reporting Period" or "2025"), demonstrating core values, ESG-related policies, measures, and performance of the Company. Through the Report, the Company aims to strengthen the communication between the Company and its stakeholders, while enhancing their understanding of the Company's direction and progress on material sustainability issues, building up their trust.

This ESG Report is prepared in compliance with the Environmental, Social and Governance Reporting Code (the "ESG Reporting Code") and under the "Comply or Explain" provisions 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").

### Scope of Report

Adopting an operational control approach, this Report encompasses the coal mining and exploration business segment managed by SGS, which operates across coal mining sites, the coal washing plant, and coal transportation routes. To ensure consistency, the environmental and social aspects discussed in the Report focus on SGS, unless specified otherwise. The defined scope reflects the Company's environmental and social performance during the Reporting Period, emphasising key business activities that have significant ESG impacts on the surrounding areas of its operation sites.

This Report discloses the ESG performance of the Company for the period from January 1, 2025 to December 31, 2025. Unless otherwise specified, the information and data included in the Report pertain to the operations of the Company. The information and data are collected from the Company's data collection system, which is integrated into its daily operations and supports its formulation of ESG practices.

### Reporting Principles

In adherence to the ESG Reporting Code, the Report is prepared based on the following four (4) reporting principles:

1. **Materiality**: Through regular engagement with its key stakeholders to understand areas of concern, the Company identifies material ESG issues. The Report discloses information based on the material ESG issues identified. Details of the ESG issue identification process can be found in sections "Stakeholder Engagement" and "Materiality Assessment".

2. **Quantitative**: The Report adopts a quantitative approach in disclosing the Company's environmental and social performance, supported by measurable Key Performance Indicators ("KPIs"). The standards, methodologies, and reference sources for relevant data statistics and calculation comply with the guideline outlined in "Appendix 2: Reporting Guidance on Environmental KPIs" and "Appendix 3: Reporting Guidance on Social KPIs" issued by the Hong Kong Stock Exchange (the "Stock Exchange").

3. **Balance**: Aiming to present the Company's performance objectively, the Report reflects both achievements and areas for improvement. The Company strives to avoid selections, omissions, or presentation formats that may affect reader's decisions or judgment.

4. **Consistency**: To allow meaningful comparison of ESG performance over time, consistent methodologies and reporting framework are applied, with data from the previous reporting period for reference. In case of significant changes in the reporting framework or calculation methodology, explanation will be provided accordingly.

### Information Disclosure

The information in this ESG Report was gathered 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 reader convenience, an extract of the 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") acknowledges that strong ESG performance is crucial to driving sustainable business practices and bringing positive impacts to local communities. The Board remains steadfast in its commitment to facilitating the Company's business development while strengthening environmental stewardship, fulfilling social responsibilities, and maintaining sound corporate governance practices.

### Governance Structure and Oversight

Adopting a top-down approach in managing ESG-related matters, the Board, serving as the highest governance body, holds ultimate responsibility for overseeing all ESG-related issues. In addition to monitoring the identification and categorisation of ESG-related matters, evaluating their significance to the Company's operations and stakeholder concerns, and determining their priority levels, the Board also oversees the regular monitoring and review of ESG performance and progress by approving and tracking ESG-related goals and targets. Meanwhile, the Board endorses ESG policies, reporting frameworks, and management systems related to health, environment, safety, and social responsibility.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Role of the HESS Committee

The Company has established the Health, Environment, Safety, and Social Responsibility (HESS) Committee (the "Committee") to assist the Board in performing its oversight responsibilities. The Committee supports the Board and the Nominating and Corporate Governance Committee by monitoring and reviewing ESG performance, formulating ESG policies and management systems, and offering suggestions to enhance materiality assessments. The Committee reviews the Company's ESG Report annually and provides practical recommendations to improve ESG performance. To ensure alignment with the Company's sustainable development objectives, the Committee regularly reviews ESG progress to update goals and targets.

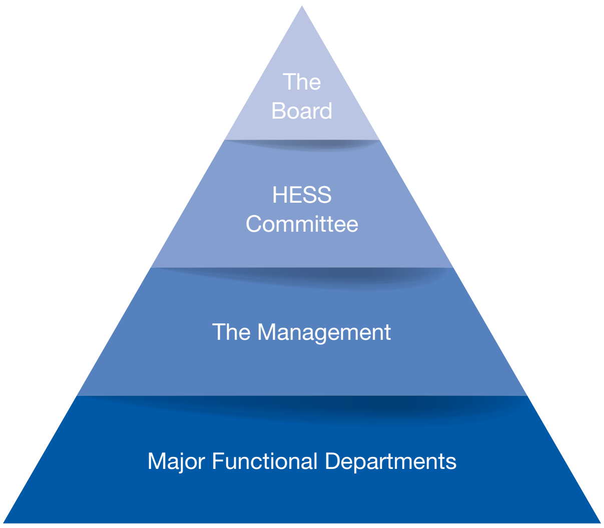
While the Committee examines incidents and proposes corrective actions to prevent recurrence, relevant issues are reported to the Board quarterly. In case of emergencies, contingency meetings are promptly convened to address relevant ESG-related issues. To ensure adherence to best practices, the Committee conducted a comprehensive review of its internal policies and procedures in 2025, benchmarking against leading ESG management standards. During the Reporting Period, a total of three (3) Committee meetings were held to discuss ESG matters.

## Operational Implementation

The Company's Management, comprising the Environmental Management, Safety Management, and Human Resources Management teams at the mine site, plays a vital role in formulating and executing ESG management strategies and targets. Major functional departments, including coal production, coal washing, and human resources, are responsible for minimising environmental pollution, advancing coal processing technologies, and promoting employee awareness of ESG-related issues.

To ensure that ESG-related feedback and concerns are addressed timely and effectively, the Company leverages internal communication channels, external ESG reporting, and proactive stakeholder engagement. Additionally, Board members and employees regularly participate in training programmes to enhance their knowledge of ESG issues, thereby reinforcing the Company's overall capacity for effective ESG management.

**ESG Management Structure**



### Board Commitment

Being the Company's highest governance body, the Board reaffirms its steadfast commitment to integrity, operational responsibility, and the pursuit of excellence. To maintain the Company's competitiveness in the industry, we actively seek to integrate advanced technologies. Acknowledging our broader social responsibilities, we remain devoted to establishing stable relationships with the public and contributing to the sustainable development of local communities.

To demonstrate our environmental stewardship, we are dedicated to minimising the environmental footprints of our operations. To achieve this, an annual environmental monitoring programme is carried out, covering comprehensive assessments of air quality (including dust and emissions), ground and surface water levels and quality, soil quality, vegetation, biodiversity, and the progress of rehabilitation efforts.

### Safety as a Core Priority

As a responsible corporation operating in the coal mining sector, we place the highest emphasis on workplace safety. We strive to create and maintain a safe, inclusive, and supportive working environment for all employees. To achieve the ultimate goal of zero work-related fatalities and injuries, there is strict enforcement of standardised safety guidelines and measures. During the Reporting Period, the Company successfully recorded zero (0) work-related fatalities and injuries, underscoring our strong commitment to safety excellence. This success reflects the continuous monitoring and improvement of our safety policies and practices.

During the Reporting Period, we also provided our employees with several training sessions to further enhance their safety awareness and promote their business ethics. These initiatives are designed to strengthen safety-related working practices while encouraging employees to maintain integrity throughout our business operations.

## Stakeholder Engagement

Recognising the vital role of stakeholder expectations and concerns in shaping its sustainable strategies, the Company proactively engages with key stakeholders and incorporates their feedback. This allows the Company to objectively evaluate its ESG performance and improve its performance and strategies from multiple perspectives. To ensure a comprehensive and inclusive approach, the Company identifies its internal and external stakeholders based on industry trends, business characteristics, and developmental objectives, thereby allowing the Company to align its strategies with stakeholder interests and foster sustainable progress effectively.

As its operations can significantly affect various key stakeholder groups, including employees and customers, the Company prioritises to understand, value, and respond to stakeholder concerns through enhanced communication channels. By leveraging a range of communication platforms, the Company gathers feedback and insights on its operations and sustainability efforts. This ensures continuous improvement on ESG performance and transparency in this Report, which reflects the perspectives of its key stakeholders.

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With continuous engagement and open dialogue across multiple communication channels (as illustrated below), the Company gains a deeper understanding of stakeholder expectations and viewpoints on ESG-related issues. The expectations and concerns of the Company's key stakeholder groups are summarised as follows:

| Stakeholders | Expectations and Concerns | Communication Channels |
|---|---|---|
| Government and regulatory authorities | • Compliance with laws and regulations<br>• Contribution on local economy<br>• Safe production<br>• Energy conservation and reduction of emissions | • Government conferences<br>• Inspection and supervision<br>• Tax Return Filing |
| Shareholders and investors | • Sustainable development of business and return<br>• Return on investment<br>• Compliance with laws and regulations<br>• Safe production<br>• Water resource management<br>• Biodiversity preservation | • General meeting<br>• Results announcements<br>• Information disclosure<br>• Company website<br>• Telephone discussions<br>• Written comments/responses |
| Employees | • Safe production<br>• Employees' right and interests<br>• Career development<br>• Health and safety<br>• Training and development<br>• Water resource management | • Regular meetings<br>• Training<br>• Internal email<br>• Staff handbook<br>• Whistle-blower hotline<br>• Guidelines for reporting allegations of serious wrongdoing<br>• Questionnaires/online engagement |
| Customers | • Quality of products and services<br>• Excellent service<br>• Fair trade | • After-sales services<br>• Quality supervision<br>• Satisfaction survey |
| Suppliers | • Fair and trustworthy cooperation and competition<br>• Quality of products<br>• Business ethics | • Quality supervision<br>• Technical benchmarking<br>• Telephone discussions<br>• Regular meeting |
| Community | • Environmental protection<br>• Community development | • Environmental impact assessment<br>• Declaration and commitment<br>• Community charity |

Striving to maintain transparency and credibility of its operations, the Company is committed to valuing and addressing the feedback of key stakeholders. Through ongoing interaction and dialogue, the Company gains insights from key stakeholders and continuously refines its sustainability policies and practices, driving towards a responsible and sustainable corporate.

## Materiality Assessment

The Company acknowledges that different stakeholders from diverse backgrounds hold distinct perspectives. As such, the Company considers their feedback as an essential component in identifying its material ESG topics. Through regular materiality assessments, the Company gathers and evaluates key stakeholder input to understand the Company's material ESG issues and enhance relevant strategies.

Following a procedural system, a materiality assessment with processes of identification, prioritisation, and validation was conducted. This systematic approach ensures effective management of ESG topics and transparent disclosure of material issues. Detailed procedures are outlined below.

### 1. Identifying ESG topics

To develop a comprehensive list of ESG topics relevant to its business operations, the Company considered diverse sources, including feedback from key stakeholders, material ESG issues identified from previous reporting period, existing policies and procedures, industry and international trend reports, regulatory updates, and external standards. By incorporating insights from these sources, the Company identified a list of potential ESG topics to ensure a well-rounded identification of material ESG issues related to its operations.

The table below presents the list of 16 fundamental sustainability topics that were identified to have potential environmental, social, and governance impacts on the Company 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 |

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## 2. Prioritising ESG issues

The Company categorised key stakeholders into two (2) main groups: internal and external stakeholders. Internal stakeholders are comprised of directors, senior management, managerial staff, and general staff, while external stakeholders consist of customers, suppliers, shareholders and investors, government and regulatory authorities, and the community.

Representatives from these key stakeholder groups were invited to participate in an online survey to assess and rate the importance of each sustainability topic identified. Participants were also encouraged to suggest additional relevant ESG topics of interest and to provide feedback on the Company's engagement practices. With the analysis of weighted ratings, the list of sustainability topics was prioritised accordingly. The material ESG topics identified were mapped on a materiality matrix, as shown below.

Stakeholder Engagement Materiality Matrix


According to the results of the materiality matrix, two (2) ESG issues were identified as more material to the Company's operations, namely "Anti-corruption", and "Emergency and Crisis Management".

## 3. Validating the outcomes of materiality assessment

The results of the materiality assessment were eventually reviewed and validated by the Board and the Committee. The approval of material ESG issues allows the Company to step towards the right direction of sustainable development by focusing on the most relevant and significant ESG issues, along with the implementation of ESG policies and practices. The Company remains dedicated to prioritising the identified material ESG issues, addressing stakeholder concerns and enhancing its performance in these areas.

## Comments and Feedback

Striving for excellence, we welcome all valuable opinions from our stakeholders and readers. Feedback from every stakeholder is greatly appreciated. We believe open dialogue is the key to continuous improvement and relationships-building with our stakeholders. We are committed to receiving 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: | Unit 1208-10, Tower 1, Grand Century Place, 193 Prince Edward Road West, Mongkok, Kowloon, Hong Kong |
| Phone: | +852 2156 1438 (Hong Kong)<br>+1 604 762 6783 (Canada) |

# A. Environmental

The Company's principal operations are based in Mongolia, with the scope of disclosure focused on operational activities within SGS. The Company operates in compliance with 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*.

In alignment with these regulations, the Company is dedicated to demonstrating its environmental stewardship and fulfilling its responsibilities 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 impacts 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 impacts cannot be avoided.

* *Translation for identification purpose only*

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As a licensed mining operator, SGS carries out an initial environmental impact assessment (EIA) before commencing any production activities at its mine sites. The EIA, along with the Environmental Management Plan (EMP) and the Environmental Monitoring Plan, which include rehabilitation measures, are reviewed and approved by the Ministry of Environment and Tourism of Mongolia. Through the annual implementation of the EMP, the Company manages its environmental impacts and mitigates them accordingly with the approved plan. For more information 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).

Moreover, the Company has developed the "Social and Environmental Policies of SGS" to further strengthen the management of its operational practices in the aspects of environment and society. Through the implementation of 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

Through various proactive initiatives, the Company strives to minimise negative environmental impacts under its environmental policy framework, upholding its environmental responsibility. Apart from regularly monitoring emissions and implementing appropriate mitigation actions, such as rehabilitation and biodiversity offsets, the Company places an emphasis on involving local communities in environmental protection initiatives. The Company remains committed to continuously implementing and refining its environmental management system, which includes systematic documentation of environment-related issues, conducting internal compliance audits, and engaging independent experts to perform external audits where necessary.

In 2025, 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 emissions, discharges into water and land, and generation of hazardous and non-hazardous waste that have a significant impact on the Company. Details on the Company's GHG emissions are outlined in sections "Climate-related Metrics".

### A1.1 Air Emissions

Acknowledging the critical importance of maintaining good air quality within and surrounding its operational sites, the Company is committed to developing a comprehensive air quality plan to strengthen its mechanisms for both internal and independent air quality monitoring and analysis. In support of this initiative, SGS engages the environmental consultancy firm, ECOTYCOON, to conduct an on-site assessment.

In 2025, the Company's air emissions included sulphur oxides ("SOx"), nitrogen oxides ("NOx"), and particulate matters ("PM") emitted from the mining operational processes. The breakdown of the Company's air emissions is outlined as follows.

Table 1. The Company's Air Emissions in 2025 and 2024

| Air Emissions[1] | Unit | Amount in 2025 | Intensity (Kg/million tonnes of raw coal produced) in 2025[2] | Amount in 2024[3] | Intensity (Kg/million tonnes of raw coal produced) in 2024[3] |
|---|---|---|---|---|---|
| $SO_x$ | kg | **30.1** | **1.8** | 3.6 | 0.4 |
| $NO_x$ | kg | **20,145.2** | **1,211.3** | 203.2 | 19.9 |
| PM | kg | **1,930.3** | **116.1** | 15.0 | 1.5 |

Note:

1. Air emissions included only the air pollutants in the exhaust gas from light goods vehicles, driven by diesel and petrol;

2. The intensity for 2025 was calculated by dividing the amount of air emissions (in kg) by the Company's total amount of raw coal produced in 2025, which was 16.63 million tonnes; and

3. The amount and intensity in 2024 were extracted from the data in the 2024 ESG Report of the Company.

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Under the SGS's environmental monitoring programme, samples of air pollutants were collected from twelve (12) selected areas and analysed in an authorised laboratory during the Reporting Period. The results of the laboratory analysis, which are the Company's average amount of air pollutants released, are summarised below.

Table 2. The Company's Average Amount of Air Pollutants Released in 2025 and 2024[1]

| Air Pollutants | Unit[2] | Average amount released in 2025 | Average amount released in 2024[3] | MNS 4585:2016 Standard |
|---|---|---|---|---|
| $SO_x$ | mg/m$^3$ | **0** | 0.028 | <0.45 |
| $NO_x$ | mg/m$^3$ | **0** | 0.027 | <0.20 |
| PM | mg/m$^3$ | **0.234** | 0.143 | <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 2024 was extracted from the data in the 2024 ESG Report of the Company.

In accordance with the EMP, SGS conducts regular air quality monitoring and implements preventive and mitigation measures to reduce air pollution at the Ovoot Tolgoi Mine. As a company operating in Mongolia, the Company has established and implemented a monitoring programme that complies with national laws and regulatory requirements. The Company strictly adheres to the Mongolian air quality standard MNS 4585:2016 to manage and regulate its air quality indicators while continuously monitoring and recording the above air pollutants generated from its mining operations.

The Company recognises that there has been an increasing number of vehicles running at the mine site due to increased production recently. Hence, the Company acknowledges that there is a risk of the amount of air pollutants going beyond the air quality standard. To maintain the amount of air pollutants emitted during operations within the standard, the Company will design and implement relevant plans in the coming years.

Although complete elimination of air pollutants emitted from operations is not feasible due to its business nature, the Company strives to manage its air emissions with ongoing monitoring. In 2025, the Company revised its target as to maintain its absolute level of air emissions with the previous reporting period being the baseline year. To understand its progress towards the target, the Company will regularly track its performance and disclose available air emissions data to the public.

## A1.2 Waste Management

In 2025, the Company generated both hazardous and non-hazardous solid waste, as well as non-hazardous wastewater. Breakdown of the Company's waste generation are outlined below.

Table 3. The Company's Waste Generation in 2025 and 2024

| Waste | | Unit | Amount in 2025 | Intensity (Tonnes or $m^3$/ million tonnes of raw coal produced) in 2025[1] | Amount in 2024[2] | Intensity (Tonnes or $m^3$/ million tonnes of raw coal produced) in 2024[2] |
|---|---|---|---|---|---|---|
| Hazardous Waste | Solid Waste | Tonnes | **136** | **8.2** | 120 | 11.8 |
| | Wastewater | $m^3$ | **–[3]** | **–[3]** | 41,067 | 4,028.9 |
| Non-hazardous Waste | Solid Waste | Tonnes | **502** | **30.2** | 180 | 17.7 |
| | Wastewater | $m^3$ | **49,947** | **3,003.2** | 2,925 | 287.0 |

Note:

1. The intensity for 2025 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 2025, which was 16.63 million tonnes;

2. The amount and intensity in 2024 were extracted from the data in the 2024 ESG Report of the Company; and

3. As no hazardous wastewater is generated or discharged from the Company in 2025, no relevant data can be disclosed.

*Hazardous waste*

During the Reporting Period, the Company revised its target as to maintain its absolute levels of hazardous and non-hazardous waste with the previous reporting period being the baseline year. With an emphasis on overall waste reduction, the Company has adopted the 3R principles (Reducing, Reusing, and Recycling) to implement environmentally friendly waste management programmes. Key initiatives include:

- "Waste Collection, Loading, Transportation, and Disposal Procedure";
- "Mine Camp Waste Handling Procedure"; and
- "Mine Workshop Waste Handling Procedure".

With the above policies and procedures, there is standardised guidance for employees to implement waste handling practices covering pasteurisation, appropriate transportation, recycling, disposal, and the overall reduction of adverse environmental impacts. This not only protects the environment by promoting the 3R principles but also secures the health and safety of employees.

In 2025, the Company generated a total of 120,000 litres (2024: 120,000 litres) of waste oil, which was recycled by a professional waste oil recycling contractor in Mongolia. Meanwhile, other types of hazardous waste, including 398 tonnes (2024: 0.5 tonnes) of used tires, 0.3 tonnes (2024: 1.0 tonnes) of used car batteries, and 0.1 tonnes (2024: 2.7 tonnes) of used cartridges, was generated during the Reporting Period.

*Non-hazardous waste*

Recyclable materials derived from the Company's non-hazardous waste are sorted and transported to a local village in Mongolia for repurposing. This initiative allows the Company to lower the amount of waste disposed of at landfills while supporting local communities by creating employment opportunities and contributing to income generation. To further strengthen procedures for handling and managing non-mineral waste, the Company works closely with a local waste service provider in Mongolia.

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## A2. Use of Resources

Adopting the top-down approach to manage ESG-related issues, the Company ensures clear assignment of responsibilities for resource conservation and environmental protection at mine sites, supported by effective communication mechanism across the Company. In 2025, the Company mainly consumed electricity, petrol, diesel, water, and metal.

### A2.1 Energy Consumption

In 2025, the Company's energy consumption was primarily derived from electricity, petrol, and diesel. Electricity is consumed to support operations at the coal washing plant and mine workshop, while petrol and diesel are consumed to power various machineries at mine sites. A summary of the Company's energy consumption is presented below.

Table 4. The Company's Energy Consumption in 2025 and 2024

| Energy Consumption | Unit | Amount in 2025 | Intensity (MWh or L/ million tonnes of raw coal produced) in 2025[1] | Amount in 2024[2] | Intensity (MWh or L/ million tonnes of raw coal produced) in 2024[2] |
|---|---|---|---|---|---|
| Electricity | MWh | **14,402** | **865.9** | 1,774 | 174.0 |
| Diesel | L | **78,710,464** | **4,732,629.0** | 9,713,380 | 952,938.0 |
| Petrol | L | **2,200** | **132.3** | 2,200 | 215.8 |
| **Total Energy Consumption** | MWh | **856,880** | **51,521.7** | **105,760** | **10,375.6** |

Note:

1. The intensity for 2025 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 2025, which was 16.63 million tonnes; and

2. The amount and intensity in 2024 were extracted from the data in the 2024 ESG Report of the Company.

In addition to the above energy resources, the Company also consumed gas and oil during its mining operations. In 2025, total consumption amounted to approximately 541 Gallon/33,000 psi of gas (2024: 849 Gallon/33,000 psi) and 316 tonnes (2024: 270 tonnes) of oil. The Company's gas consumption included propane, oxygen, acetylene, argon, and nitrogen, while its oil consumption included gear oil, hydraulic oil, and engine oil.

Through ongoing monitoring of its energy consumption data, the Company effectively tracks its consumption performance for better management. With the use of electricity-powered loaders and vehicles powered by renewable energy for its coal mining operations, the Company targets to maintain its absolute levels of diesel and petrol consumption with the previous reporting period being the baseline year.

In alignment with its revised target to maintain absolute level of electricity consumption with the previous reporting period being 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

Water resources are consumed in the Ovoot Tolgoi Mine for two (2) major purposes: domestic consumption within the mine camp and operational consumption in mining activities. Domestic water use includes drinking, showering, cleaning, and other daily needs, while operational water is primarily used in the coal washing plant and for dust suppression.

The Company abides by the legal requirements governing water consumption as set by relevant governmental departments. Meanwhile, the Company has established an agreement with the Altai Basin administration to regulate the use of water resource. According to this agreement, the Company makes timely payments of water usage fees, contributing to the local budget.

*Water consumption*
In 2025, the Company's water consumption amounted to a total of 527,600 $m^3$. The following table shows the detailed breakdown of the Company's water consumption.

Table 5. The Company's Water Consumption in 2025 and 2024

| Water Consumption | Unit | Amount in 2025 | Intensity ($m^3$/million tonnes of raw coal produced) in 2025[1] | Amount in 2024[2] | Intensity ($m^3$/million tonnes of raw coal produced) in 2024[2] |
|---|---|---|---|---|---|
| Domestics | $m^3$ | **66,879** | **4,021.2** | 53,371 | 5,236.0 |
| Dust Suppression | $m^3$ | **228,773** | **13,755.4** | 179,875 | 17,646.8 |
| Coal Washing Plant | $m^3$ | **231,948** | **13,946.4** | 129,239 | 12,679.1 |
| **Total Water Consumption** | **$m^3$** | **527,600** | **31,723.0** | **362,485** | **35,561.9** |

Note:

1. The intensity for 2025 was calculated by dividing the amount of water consumption (in $m^3$) by the Company's total amount of raw coal produced in 2025, which was 16.63 million tonnes; and

2. The amount and intensity in 2024 were extracted from the data in the 2024 ESG Report of the Company.

To minimise its environmental impacts brought by its mining operations, the Company strives to reduce and manage its water consumption, particularly in areas of dust suppression. Revising its target, the Company aims to maintain its absolute levels of water consumption with the previous reporting period being the baseline year. To promote water-saving practices, the Company has implemented the following 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 2025, the Company did not face any issues in sourcing water that is fit for purpose. Water resources were available from wells at the licensed mine sites. To meet the Company's high demand of water resources, more research and studies will be required to source new water resources in the coming years, which has been included in the work plan of 2026. To secure a sufficient water supply, the Company will continue monitoring its water supplies across different regions and exploring multiple water sources in the future.

*Utilised Grey Water*

As part of the Company's initiatives to reduce overall water consumption, grey water, particularly from the mine camp, has been reused since 2015. Domestic wastewater is treated in the water treatment facility, and the processed grey water is reused for irrigation and dust suppression purposes. This fosters water conservation and reinforces the Company's commitment to environmental protection. In 2025, SGS treated and recycled domestic wastewater 30,117 $m^3$ (2024: 8,987 $m^3$) for the use in irrigation of green areas and dust suppression at the mine site. The Company continues to expand its grey water reuse capacity and the coverage areas of grey water reuse.

*Spill*

A spill refers to the unintentional release of toxic or hazardous substances into the environment, posing potential harm to natural ecosystems and human health. Spills can occur in both natural environments and industrial workplaces, including mine sites.

The Company acknowledges the potential impacts of spills, and has therefore formulated and implemented a "Wastewater Spill" procedure to prevent occurrences and ensure effective contingency responses against spills. This procedure encompasses regular maintenance of equipment and infrastructure, along with preventive actions to mitigate spill risks. Furthermore, the Company provides employees with training programmes to raise their awareness of spill prevention and emergency response.

With well-defined protocols outlined in the Wastewater Spill procedure, the Company is confident in being able to minimise the risk of wastewater spills. Swift and effective response actions have been implemented to ensure environmental protection, making the Wastewater Spill procedure a key component of the Company's overall risk management strategy. This approach safeguards both the ecosystems and well-being of employees and nearby communities.

### A2.3 Material Consumption

During the Reporting Period, the Company consumed metal other than the above resources. In 2025, the Company's total metal consumption amounted to 1,500 kg (2024: 700 kg), which was mainly used in the operations at mine sites.

## A3. The Environment and Natural Resources

Committed to producing green coal and developing sustainable mine sites, the Company has established a comprehensive "Mine Closure Plan" designed to protect the environment, conserve natural resources, and minimise the significant impacts associated with its mining operations. The Mine Closure Plan aims to effectively manage and mitigate potential adverse effects that may arise regarding mine site closure.

Meanwhile, the Company focuses on soil and water conservation, greening and rehabilitation, and biodiversity conservation. In the future, the Company will remain dedicated to participating in ecological projects and conservation programmes that help preserve and enhance the local environment and ecosystems.

Due to its business nature, the Company recognises the potential risks of contamination to soil, groundwater, ecological, and biodiversity during its mining operations. To address these risks, the Company carries out an annual environmental monitoring programme to evaluate soil and groundwater quality and monitor rehabilitation progress in areas surrounding the Ovoot Tolgoi Mine.

### Soil Management

The results of the environmental monitoring programme in 2025 indicate that no significant soil contamination from heavy metals was detected in areas surrounding the Ovoot Tolgoi Mine. In 2025, a total of fourteen (14) soil samples (2024: sixteen[#]) were collected on a quarterly basis from multiple control points and analysed in certified laboratories to assess compliance with the Mongolian government standard MNS 5850:2019. In the event of heavy metal concentrations exceed allowable thresholds, the Company will promptly implement necessary corrective actions. The table below presents a summary of the Company's overall heavy metal levels in soil for 2025 and 2024.

Table 6. The Company's Overall Amount of Heavy Metals in Soil in 2025 and 2024[1]

| | | Chromium | | Lead | | Cadmium | | Nickel | | Zinc | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Heavy metals | Unit[2] | 2025 | 2024[3] | 2025 | 2024[3] | 2025 | 2024[3] | 2025 | 2024[3] | 2025 | 2024[3] |
| Average | Mg/kg | **50.2** | 49 | **21.5** | 25 | **0[4]** | 0 | **26.1** | 25 | **70** | 73 |
| Maximum | Mg/kg | **63** | 59 | **27** | 30 | **0[4]** | 0 | **35** | 31 | **96** | 90 |
| Minimum | Mg/kg | **30** | 34 | **18** | 22 | **0[4]** | 0 | **16** | 16 | **61** | 59 |
| 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;
3. The amount and intensity in 2024 were extracted from the data in the 2024 ESG Report of the Company; and
4. The amount of cadmium in soil was recorded as smaller than 1 mg/kg.

### Underground Water Management

To keep monitoring the quality of underground water, a total of eight (8) water sources were sampled in 2025, with eighteen (18) parameters analysed. Overall results of the assessment met all the required standards.

# *The number of soil samples collected in 2024 was restated.*

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### Rehabilitation

Mining operations inevitably result in land degradation. However, the Company mitigates this impact by carrying out mining, greening, and rehabilitation initiatives. The rehabilitation process involves several major steps, including topsoil stripping, layering, mining, backfilling, topsoil covering, and vegetation restoration. Among the rehabilitation process, topsoil covering and vegetation restoration play a crucial part in supporting Mongolia's greening initiatives, gradually restoring degraded land to its pre-mining condition.

Since 2008, SGS has successfully rehabilitated 76.2 hectares of land and planted more than 187,000 trees and shrubs, helping to sustain local ecosystems and reduce GHG emissions. In addition to its active participation in the "One Billion Trees" Campaign, SGS also organises biannual tree-planting events at the Ovoot Tolgoi Mine each spring and autumn.

Currently, no areas within the waste stockpile are suitable for rehabilitation. The Company will therefore redirect its rehabilitation efforts in alternative locations, working closely with provincial authorities in Mongolia. In the past, Gurvantes soum was proposed by the local authority as an alternative rehabilitation site, where four (4) mining companies from the Nariin Sukhait region or Ovoot Tolgoi mining complex jointly participated in the construction work.

### Protection of Biodiversity

Currently, there are no plant or animal species in the vicinity of the Ovoot Tolgoi Mine that are classified as endangered. Nonetheless, the Company maintains ongoing biodiversity monitoring and implements measures to minimise the ecological impacts of its mining operations. The Company remains dedicated to developing and implementing further initiatives aimed to preserve and enhance local biodiversity. In the past, an environmental monitoring programme was conducted in collaboration with other mining companies in the Nariin Sukhait region.

Since 2014, the Company has collaborated with professional organisations to design and implement strategies promoting biodiversity conservation and ecological balance around the Ovoot Tolgoi Mine, in compliance with Mongolian laws and regulations. The timeline below highlights key milestones in the Company's biodiversity conservation journey:

- **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; and

- **2025**: Signed a contract with the United Association of Mongolian Tree Nurseries and Landscaping Organisations to implement phased tree planting in Kharkhorin soum, creating more areas of natural habitats for species.

# B. Social

Committing to fulfilling social responsibilities and making meaningful contributions to local communities, the Company has established the policy "*The Way We Work*", which sets forth clear guidelines and procedures, to protect the well-being of its employees. The policy covers a broad range of areas, including employment policies, health and safety, development and training, labour standards, supply chain management, product responsibility, anti-corruption, and community investment.

The Company has emphasised the creation of a pleasant and supportive working environment where employees can perform at their best. Meanwhile, the Company continues to maintain positive and transparent relationships with local communities. Regular meetings are held between the Company and local residents to exchange information regarding environmental concerns and potential environmental impacts brought by the Company's operations. These engagements not only help the Company to better understand local perspectives and addresses community concerns but also serve to promote environmental awareness and protection among local residents.

## B1. Employment

In 2025, the Company implemented its employment policies in compliance with the following employment laws in Mongolia, Mainland China, and Hong Kong, thereby upholding the highest standards of business ethics.

| Location | Laws and Regulations |
|---|---|
| Mongolia | – Law of Mongolia on Labour*<br>– Law of Mongolia on Minimum Wage*<br>– 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）<br>– Labour Contract Law of the PRC*（中华人民共和国劳动合同法）<br>– 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<br>– Minimum Wage Ordinance (Cap.608) |

* *Translation for identification purpose only*

Regarding human resources as its greatest assets, the Company has developed and implemented relevant policies to attract and retain talents. In 2025, there were 847 full-time employees. The breakdown of the Company's workforce is outlined below.

Table 7. The Number of Employees by Gender, Age Group, Position Level and Geographical Regions of the Company in 2025 and 2024[1]

| | Number of Employees | | Percentage change |
|---|---|---|---|
| | 2025 | 2024[2] | |
| **Total Workforce** | **847** | 768 | +10.29% |
| **Workforce per Category** | | | |
| **Gender** | | | |
| – Male | **734** | 665 | +10.38% |
| – Female | **113** | 103 | +9.71% |
| **Age Group** | | | |
| – 30 or below | **312** | 293 | +6.48% |
| – Between 31-40 | **316** | 291 | +8.59% |
| – Between 41-50 | **162** | 134 | +20.90% |
| – 51 or above | **57** | 50 | +14.00% |
| **Position Level** | | | |
| – General Employees | **632** | 574 | +10.10% |
| – Middle Managerial Level | **187** | 168 | +11.31% |
| – Senior Managerial Level | **28** | 26 | +7.69% |
| **Geographical Region** | | | |
| – Employees in Mongolia | **734** | 663 | +10.71% |
| – Employees in Hong Kong | **18** | 15 | +20.00% |
| – Employees in Mainland China | **95** | 90 | +5.56% |

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 2024 were extracted from the data in the 2024 ESG Report of the Company.

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In 2025, the Company's total turnover rate was 20.78%. The breakdown of the Company's turnover rate is outlined as below.

Table 8. Employee Turnover Rate by Gender, Age Group, and Geographical Regions of the Company in 2025 and 2024[1]

| | Employee turnover rate (Percentage) | | Percentage change |
|---|---|---|---|
| | 2025 | 2024[2] | |
| **Turnover Rate per Category** | | | |
| **Gender** | | | |
| – Male | **22.62%** | 17.89% | +26.38% |
| – Female | **8.85%** | 20.39% | -56.60% |
| **Age Group** | | | |
| – 30 or below | **28.21%** | 21.84% | +29.13% |
| – Between 31-40 | **19.30%** | 16.84% | +14.64% |
| – Between 41-50 | **8.64%** | 11.94% | -27.62% |
| – 51 or above | **22.81%** | 22.00% | +3.67% |
| **Geographical Region** | | | |
| – Employees in Mongolia | **22.48%** | 18.70% | +20.19% |
| – Employees in Hong Kong | **5.56%** | 13.33% | -58.33% |
| – Employees in Mainland China | **10.53%** | 15.56% | -32.33% |

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 as of the end of the Reporting Period. 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 2024 were extracted from the data in the 2024 ESG Report of the Company.

To ensure the effective implementation of relevant policies against standardised procedures and clear guidance, the Company has established its employment policies in adherence to national laws and regulations. In 2025, the Company complied with relevant laws and regulations relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare. With these policies and procedures, the legitimate rights and interests of employees can be safeguarded.

### Recruitment and Promotion

Valuing its human resources, the Company is committed to promoting fair treatment among all applicants and employees. The Company offers recruitment opportunities to both internal and external parties, with merit-based decisions considering qualifications, skills, experience, potential and performance of the candidate or employee. Interviews for suitable candidates are conducted jointly by managers and the Human Resources Department. To maintain compliance with relevant laws and regulations, the Human Resources Department verifies applicant identities and completes hiring checklists prior to extending job offers.

Meanwhile, promotions are determined through annual employee evaluations, taking an individual's work performance, skills, tenure, and leadership potential into account. Promotion recommendations are made by managers and subsequently approved by the respective Department heads to ensure fairness across the Company.

### Compensation and Dismissal

By offering competitive compensation and remuneration packages, the Company attracts, motivates, and retains talented employees. Salaries are disbursed on a regular basis, and periodic benefits surveys are conducted to ensure that the Company's remunerations remain competitive within the industry. Employees are also eligible for performance-based bonuses linked to the achievement of specific KPIs, fostering a culture of motivation and alignment with the Company's operational and financial objectives.

To promote continuous improvement, the Company conducts annual employee evaluations to assess performance, identify achievements, and highlight areas for improvement. These evaluations encourage open and constructive dialogue, allowing employees to share feedback. In accordance with applicable labour laws, the Company strictly prohibits illegal or unfair dismissal with appropriate termination procedures. The Human Resources Department is responsible for reviewing dismissal reasons and conducts termination checklists to ensure fairness and legitimacy.

### Working Hours and Rest Periods

In addition to health and safety, the well-being of employees remains the Company's top priority, particularly for mine workers. To ensure adequate rest periods for its employees, the Company states standard working hours and holiday entitlements as stipulated under local employment regulations in all employment contracts. Work schedules, including shift rotations, for mine workers are clearly defined in rosters. Additionally, employees receive a range of leave entitlements, such as medical leave, wedding leave, compassionate leave, and maternity/paternity leave, and other statutory holidays.

### Equal Opportunity, Diversity, and Anti-Discrimination

Understanding the importance of maintaining an inclusive, equitable, and diverse workplace, the Company has developed employment policies aiming to eliminate any form of bias or discrimination based on race, gender, age, marital status, religion, disability, or any non-job-related factors. A culture of mutual respect is promoted across all levels of the Company, with zero tolerance against discrimination, harassment, and retaliation. Employees are encouraged to raise concerns or report misconduct via confidential email to the Company's whistle-blower hotline. Through the Whistle-blower Programme, all reports will be treated confidentially, and no retaliatory actions against whistle-blowers are allowed.

### Benefits and Welfare

The Company provides all employees with statutory benefits and comprehensive welfare coverage, including commuting compensation for those required to travel beyond their assigned work locations. Eligible employees can claim travel-related expenses in accordance with internal employment policies.

Both employees and the Company contribute to social welfare funds on a monthly basis, which cover pensions, housing, medical benefits, work-related injury compensation, and maternity and unemployment support for local employees. Contribution levels are reviewed and adjusted annually based on official government decrees, and relevant announcements are communicated to employees each year.

## B2. Health and Safety

As a coal mining and exploration company, the Company always emphasises the health and safety of employees. To uphold its commitment to safeguarding the well-being of its employees, the Company strives to deliver a safe working environment to all employees. In 2025, the Company complied with relevant laws and regulations relating to providing a safe working environment and protecting employees from occupational hazards that have a significant impact on the Company.

To ensure employee understanding on safe operational procedures, the Company has developed and implemented the following policies and practices in compliance with the Law of Mongolia on Labour Safety and Hygiene*:

- "Pre-work Risk Assessment Procedures";
- "Procedures for Issuing Personal Protective Equipment"; and
- "Alcohol Testing Policies".

The Company takes responsibility for safeguarding the health and safety of its employees and contractors, ensuring strict adherence to internal policies and the Occupational Safety and Health Ordinance. In its commitment to maintaining zero work-related fatalities and minimising lost time injuries (LTI), smoking is strictly prohibited across all office premises, including lobbies and restrooms, for both employees and visitors.

Whenever concerns or uncertainties regarding the safe execution of their duties exist, employees are encouraged to consult their direct supervisors for advice. In case of an accident or injury, employees must immediately report the incident to their supervisors, obtain medical treatment from registered practitioners, and notify the Company without delay. Employees who experience a LTI during work are entitled to compensation under the Employee Compensation Ordinance, provided that they complete a work accident statement and submit it to the Administrative Department. Failure to follow this procedure may result in forfeiture of the right to claim compensation.

Striving to promote occupational health and safety (OHS) awareness across all levels of the Company, regular training programmes are conducted to reinforce safe work practices and hazard prevention. In the event of workplace safety violations, the Company will carry out thorough investigations to identify root causes, implement corrective actions, and prevent recurrence.

Through the review of its obligations and responsibilities, the Company sets performance targets in alignment with the following OHS goal and objectives, further fostering workplace safety:

- 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 purpose 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 2025, zero work-related fatalities were recorded for the third consecutive year, including the Reporting Period. Meanwhile, there were no LTI (2024: 0) and no lost days due to work injuries (2024: 0) during the Reporting Period. Relevant information regarding the lost time injury frequency rate can be found in the section "Management's Discussion and Analysis of Financial Condition and Results of Operations" of the Annual Report 2025. To ensure the well-being of its employees, the Company remains committed to refining its health and safety policies and measures and raising employee awareness on workplace safety.

## B3. Development and Training

Understanding the importance of lifelong learning, the Company is committed to offering a wide range of development and training opportunities to help employees achieve their career aspirations. With advanced knowledge and skills, employees enhance their professionalism and personal growth, while the Company leverages talented workforce for long-term organisational development.

To support this, the Company has established and implemented comprehensive development and training policies to ensure that regular learning opportunities are available for both SGS employees and contractors. Job-related training and development plans are designed to strengthen the competencies required for employees to meet their career objectives. Employees are encouraged to engage in open discussions with their direct supervisors to identify suitable training options. This collaborative approach helps employees gain a better understanding of their career paths and the potential benefits of various training programmes, allowing them to make informed decisions about their development.

Furthermore, the Company promotes individual career planning to encourage employees to take proactive steps in enhancing their job experiences. Development policies are designed to provide a secure and supportive working environment in which employees can pursue their personal career goals. To further support talent mobility, the Company allows internal transfers and cross-departmental opportunities where necessary and appropriate, enabling employees to broaden their skills and gain diverse professional experiences.

A variety of on-the-job training programmes are offered to strengthen employee capability and competitiveness across all levels. New employees participate in induction training to familiarise themselves with the Company's core values, cultures, and responsibilities. Additional training seminars and workshops on technical skills and management skills are conducted to enhance both individual performance and team collaboration. In alignment with the Company's policies, the middle and senior managerial staff receive dedicated training on team management, emotional intelligence and cohesion, helping to cultivate strong and people-oriented leaders.

The Safety Department provides regular OHS training opportunities to employees, ensuring a culture of safety awareness across operations. Guests visiting the mine sites also receive safety orientation training prior to entry. Professional training activities are coordinated through the collaboration between department managers, the Administrative Department, and the Human Resources Department, jointly organising structured and effective programmes for employee development.

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At the governance level, until November 2025 each director of the Company had a membership with the Canadian Institute of Corporate Directors (ICD), which provides continuous learning opportunities. Through their ICD memberships, directors have the access to online courses related to corporate governance and the mining sector. They also receive regular updates on relevant issues, equipping them with the knowledge and skills required to effectively guide the Company's business and support its employees.

In 2025, training sessions on OHS, management, business integrity and specialised professional skills in addition to new employee training were provided, with a total of 13,031 training hours for 701 employees. The detailed breakdown of the training data is summarised as follows.

Table 9. Number of and Percentage of Employees Trained in the Company by Gender and Position Level in 2025[1]

| | |
|---|---|
| Total Number of Employees | 847 |
| Total Number of Employees Trained | 701 |
| Total Percentage of Employees Trained | 82.76% |

| Unit: Number of Employees | Position Level | | | |
|---|---|---|---|---|
| Gender | General Employees | Middle Managerial Level | Senior Managerial Level | Total |
| Male | 516 | 103 | 9 | 628 |
| % of Employees Trained | 73.61% | 14.69% | 1.28% | 89.59% |
| Female | 37 | 34 | 2 | 73 |
| % of Employees Trained | 5.28% | 4.85% | 0.29% | 10.41% |
| Total | 553 | 137 | 11 | |
| % of Employees Trained | 78.89% | 19.54% | 1.57% | |

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 2025. 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 10. Training Hours Provided by the Company by Gender and Position Level in 2025[1]

| Unit: Training Hours | Position Level | | | |
|---|---|---|---|---|
| Gender | General Employees | Middle Managerial Level | Senior Managerial Level | Total |
| Male | 10,836 | 1,133 | 72 | 12,041 |
| Average Training Hours | 19.04 | 8.04 | 3.00 | 16.40 |
| Female | 666 | 306 | 18 | 990 |
| Average Training Hours | 10.57 | 6.65 | 4.50 | 8.76 |
| Total | 11,502 | 1,439 | 90 | 13,031 |
| Average Training Hours | 18.20 | 7.70 | 3.21 | 15.38 |

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.

By offering career development and training opportunities, the Company strives to empower its workforce alongside its long-term business growth. In addition to its performance appraisal systems, learning opportunities allow employees to enhance their capabilities and work performance, achieving a higher career goal.

## B4. Labour Standards

Upholding human rights and operating with the highest standards of ethics and responsibility, the Company places a great emphasis on safeguarding the welfare of children and teenagers across all employment policies and practices. The Company maintains a strict prohibition against child labour, forced labour, or any form of modern slavery, ensuring that each employee is 18-year-old or older before commencing employment.

In 2025, the Company complied with relevant laws and regulations relating to preventing child and forced labour that have a significant impact on the Company. To eliminate child and forced labour, the Company has formulated internal policies and the Staff Handbook 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 enforces a zero-tolerance attitude towards any instance of child and forced labour. During the Reporting Period, no such cases were identified. In case of any suspected breach of relevant labour laws or regulations, an immediate and thorough investigation will be conducted. If a violation is validated, the corresponding employment contract will be promptly terminated, and the responsible personnel from the Human Resources Department will be subjected to appropriate disciplinary action. Where necessary, the Company will report the incident to local authorities to ensure legal compliance and accountability.

* *Translation for identification purpose only*

## B5. Supply Chain Management

In 2025, SGS had a total of 296 suppliers, with 244 from Mongolia, 51 from PRC, and 1 from Hong Kong. The Company engaged with these major suppliers for their fuel and mining operating services. During the Reporting Period, 100% of its suppliers were covered by the Company's supplier management policy.

The number of suppliers by geographical region in 2025 and 2024 are as follows:

| Region | 2025 | 2024 | Percentage change |
|---|---|---|---|
| Mongolia | **244** | 15 | +1,526.67% |
| PRC | **51** | 58 | -12.07% |
| Hong Kong | **1** | 0 | -[1] |
| Total | **296** | 73 | +305.48% |

Note:

1. As the Company did not engage with suppliers from Hong Kong in the previous reporting period, the percentage change of the region cannot be determined.

### Supplier Engagement

The Company is dedicated to fostering sustainable and resilient supply chains through continuous collaboration and stable relationships with its suppliers. Engagement with reliable and high-quality suppliers allows the Company to maintain consistent excellence in the quality of its products and services.

When selecting potential suppliers, the Company evaluates each candidate based on a range of criteria, including credibility, reputation, product and service quality, regulatory compliance history, and business ethics. A comprehensive investigation is carried out to assess these factors, ensuring that only those suppliers demonstrating exceptional performance are selected for long-term strategic partnerships.

### Supply Chain Risk Management

To effectively identify and mitigate environmental and social risks throughout its supply chain, the Company adheres to a comprehensive set of supplier management standards. Both the Company and its suppliers share a commitment to environmentally responsible practices, including the adoption of clean energy solutions, for minimised environmental impacts and associated risks. In alignment with "The Way We Work," the Company prioritises suppliers whose products and services contribute to low emissions, energy efficiency and resource conservation, meeting the commitment on environmental protection.

Considering social risks, the Company ensures that all procurement activities and supplier selection processes are conducted fairly and objectively, with strict maintenance of data confidentiality. To ensure supplier solvency and supply chain stability, the Company avoids over-reliance on a single supplier. Moreover, clear payment terms have been established to promote mutually fair cooperation with suppliers. Priority is given to professional and reliable suppliers with proven quality assurance, ensuring that their services consistently meet the Company's high standards.

The Procurement Department is responsible for implementing supplier engagement policies and practices, managing supplier relationships, monitoring compliance, and identifying environmental and social risks across the supply chain. Meanwhile, the adoption of environmentally preferable products and services is promoted. The implementation and approval of these initiatives are overseen by the Executive Directors.

In 2025, no major suppliers of the Company were covered by its green procurement policy. To maintain a reliable and sustainable supply chain, the Company conducts ongoing monitoring on supplier performance. If any concerns are identified regarding the supplier's product or service quality, or their environmental and social responsibility performance, the Company will promptly terminate the partnerships with that 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 2025, coal products produced by the Company mainly consisted of premium semi-soft coking coal, standard semi-soft coking coal, standard thermal coal, and processed coal. Alongside the focus on stable supply of coal products, the Company strives to increase its productivity and enhance the quality of its coal products.

In 2025, a total of 16.63 million tonnes of raw coal was produced. During production, the stripped overburden was 80.61 million $m^3$, with a stripping ratio of 4.85 $m^3$ per tonne. Committing to its environmental stewardship, the Company places an emphasis on maintaining several parameters of coal products, aiming to deliver products that meet the standard of safety and cleanliness.

The Company's coal washing plant at the Ovoot Tolgoi Mine has commenced operations since October 2018, primarily washing run-of-mine coals with high ash content. In 2025, WF coal, which is extracted from the open pits at the mine site and containing impurities, was washed as processed coal from the plant for sales. During the Reporting Period, processed coal has an average ash content of 10.5%, an average calorific value of 6,100 kcal/kg, an average sulphur content of 1.15%, G index of 75, and volatile matter of 38.65%. In the future, the Company will continuously enhance the parameters by washing WF coals with more advanced equipment. Meanwhile, alternative innovative technologies will be explored to further improve the quality of coal products sold to the Chinese market. For details regarding the Company's latest technologies adopted for coal washing, please refer to the section "Enhancing Resource Efficiency through Advanced Coal Processing".

### Product Quality Management

The Company understands that customers expect high-quality products and remains committed to continuously improving product standards to foster long-term relationships with trust. Maintaining safety and quality of products reinforces customer confidence while strengthening the Company's reputation and competitiveness within the coal industry. To meet these expectations, the Company has implemented comprehensive measures designed to ensure the consistent delivery of safe and high-quality products.

To maintain product quality, the Company has established a coal quality management system that includes procedures for downgrading coal with suboptimal parameters resulting from prolonged storage. Product quality is managed at the source, with the Sales Department assuming primary responsibility. Working closely with the port laboratory, coal products are tested against multiple parameters and graded into quality categories, ensuring quality consistency and stability.

### Product Recall and Complaints Management

The implementation of the "Purchase Order General Terms and Conditions" provides employees with clear procedures for handling product recalls. Recalls may be initiated if defects, safety issues, or non-compliance with relevant regulatory requirements are detected. In 2025, no coal products sold or shipped were subject to recalls for safety or health reasons.

To drive ongoing improvement on product quality, multiple communication channels, including emails and hotlines, have been established to collect customer feedback. All feedback is regarded as a valuable resource for understanding customer experiences and improving product performance. The Company operates a complaint-handling mechanism to allow swift and effective management of product-related issues. Customer enquiries and complaints are resolved within a reasonable timeframe, while all records are documented and stored in the Company's database for future analysis. In 2025, the Company received no complaints related to products or services.

### Data Protection and Privacy Management

Comprehensive data security measures have been enforced to safeguard confidential and sensitive information belonging to customers, suppliers, and other stakeholders. The IT Department is responsible for maintaining database integrity, with all information protected by robust protection measures. Access to confidential documents is strictly controlled by the head of the Sales Department. Unauthorised access, review, or copying of such materials is strictly prohibited unless formal approval is gained.

In 2025, there were no incidents of unauthorised access, accidental usage, or alteration to data. All employees receive regular training on data privacy and confidentiality, reinforcing the importance of protecting personal information. Disclosure of any personal or confidential data to third parties without proper authorisation is strictly prohibited.

### Intellectual Property Rights and Others

The Company designates Senior Management to protect its intellectual property rights. Agreements with employees and relevant parties establish a shared responsibility for safeguarding the Company's intellectual property rights. Any violations or suspected breaches of relevant laws or regulations can be confidentially reported through the Whistle-blower Programme.

Labelling issues are not applicable to the Company's operations, and hence no relevant information is available for disclosure. Concerning marketing and advertising matters, the Company adopts flexible policies and measures that are tailored to evolving coal market conditions, ensuring compliance and alignment with industry best practices. In 2025, 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

"Anti-corruption" has been identified as one of the Company's material ESG issues through the materiality assessment conducted during the Reporting Period. Therefore, the Company has placed a particular focus on demonstrating business integrity. This ensures that all its business operations comply with the national and local laws and regulations relating to bribery, extortion, fraud and money laundering. With a strong stance against any form of corruption, the Company conducts annual reviews and updates its anti-corruption practices to align with evolving best practices and to strengthen its internal framework for corporate governance and ethical conduct.

Since 2012, the Company has developed and implemented the Code of Business Conduct and Ethics ("Ethics Policy"), also known as "*The Way We Work*". This policy applies to all employees, directors, consultants, and officers of the Company. Supplementing the Ethics Policy, the following policies detailing guidance and procedures on addressing various business ethics-related matters have been formulated, with the aim to enhance the overall Code of Conduct Standards.

- 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.

With the Company's unwavering commitment to fostering a workplace culture with integrity, honesty, and accountability, the Ethics Policy and the Code of Conduct Standards are in place to uphold the highest standards of professional and ethical conduct. Copies of the policies and standards are accessible via the Company's official website or can be obtained upon request through the Company's email address, mailing address, or telephone contact points. The Nominating and Corporate Governance Committee oversees the implementation of and compliance with the Code of Conduct Standards, while monitoring the adherence to legal, regulatory, corporate governance-, and disclosure-related requirements by robust verification systems.

All employees are required to comply with local anti-corruption and anti-bribery laws and regulations. Under the "Guidelines for Investigation into Allegations of Serious Wrongdoing", employees must promptly report any suspected breaches of or misconduct against relevant laws and regulations regarding corruption and bribery or any other ethical standards to their supervisors, any members of the Senior Management, or through the Company's confidential whistle-blower hotline.

To facilitate secure and confidential reporting, the Company has introduced a dedicated Whistle-blower Programme, which is an anonymous platform for its employees to report any concerns or suspected misconduct. This programme is jointly managed by the Company's Corporate Secretary and the Chair of the Audit Committee. Any reported cases will be handled confidentially and fairly. If investigations confirm violations of national laws or regulations, the incidents will be reported to the judicial authority for further actions. For details about the Whistle-blower Programme, please visit the Company's website.

The multi-level and multi-channel reporting structure of the Whistle-blower Programme reinforces transparency and accountability, strengthening the Company's culture of integrity and ethical behaviour. In addition, the Company has established a system to ensure fair treatment to all suppliers. Internal policies clearly indicate the prohibition of gift-giving or receiving under any circumstances. In the event of potential conflicts of interest, employees are required to disclose and report such matters to the Senior Management and/or the Corporate Secretary. Through the above enhanced ethical policies and practices, the Company ensures ongoing workplace culture of integrity.

To deliver ethical business operations, the Company continues to promote employee awareness on ethical standards. During the Reporting Period, the Company organised 6-hour training sessions relating to business integrity for three (3) directors and 329 staff participants. The Ethics Policy has been reaffirmed to employees and issues such as conflicts of interest have been discussed during the training. Meanwhile, the Company has incorporated anti-corruption terms into employment contracts of all employees, ensuring clear understanding of business integrity.

In 2025, 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

Apart from pursuing business growth and success, the Company is dedicated to achieving its goal of improving the quality of life of its employees, their families, and local communities. Adopting its Corporate Social Responsibility (CSR) policy, the Company strives to support local economic, social, and environmental development, thereby contributing to a sustainable future. In 2025, the Company has approved approximately MNT two billion to bring positive impacts to the community in Mongolia.

### Community Relations

To establish stable and long-term community relations, the Company always has the following three (3) primary goals in mind, aiming 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.

### Corporate Social Responsibility

Following the principle of discussing and resolving stakeholder suggestions through the Corporate Citizenship Committee (CCC), SGS renewed its tripartite cooperation agreement with local authorities during the Reporting Period to formulate and implement proposals and initiatives from all parties. To address social needs and enhance social welfare, the CCC has made contribution in various aspects since establishment.

The Company has major contribution to the "One Billion Trees" National Movement and coal donations in winter, alongside new initiatives on early childhood education. To support social employment, the Company has employed a total of 17 disabled residents of Gurvantes soum in 2025.

1. *Education*

   Being the top priority of its CSR programme, the Company is steadfast in supporting education at all levels, from early childhood to higher education. In 2011, the Company established Kindergarten No. 3 in Gurvantes soum of Umnugovi province with the capacity to accommodate 120 children, and expanding to currently accommodate 180 children. For general education schools, the Company has organised programmes to support students' English language learning and physical development competitions. For tertiary educations, the Company has subsidised students to study in fields that are highly needed in the local area.

   In 2025, the Company contributed to the aspect of education as shown below, ensuring local access to quality education and academic success:

   - Providing 40 students with scholarships to cover their full annual tuition fees under the Domestic University Scholarship Programme;

   - Supporting the educational project "Ul medekh Tsetsegkhen Khotkhond – In Umnugovi Province" which targets preschool and primary school children. With initial field studies at Ovoot Tolgoi and in Umnugovi Province, various Facebook reels, YouTube videos, and a final manuscript for a children's book have been produced via the project running up till 2025. Through books, radio and animation videos, the project introduced areas such as mining and unique landscape of the Gobi to children. The Governor of Umnugovi Province also expressed support to the project;

- Donating to the Association of Mongolian and Chinese Language Translators, aiding students in learning languages of Mongolia and China;

- Supporting students from the Gurvantes soum to participate in an international competition, Nomch Oyunii Gaikhamsig;

- Sponsoring necessary learning materials needed for 30 ninth-grade students from the Gurvantes Soum General Education School to participate in the visit to the Umnugovi Vocational Education and Training Centre; and

- Sponsoring "World Water Day Event" to promote water conservation.

2. *Healthcare*

With the aim to improve the health and well-being of local communities, the Company is committed to enhancing citizens' access to healthcare services. In past years, the Company supported the renovation of health centres in targeted soums and donated medical equipment. In addition, the Company has covered medical treatment expenses for local residents, determined by the CCC.

In 2025, the Company contributed to the aspect of healthcare as shown below, assisting citizens in need to professional and specialised medical care and services:

- Providing financial assistance to a local resident to assist with cancer treatment and surgery in Turkey; and

- Sponsoring preventive health examinations for 131 elderly residents from Baga-Ovoo and Bayasakh bags of Gurvantes soum at a Traditional Mongolian Medicine Hospital in the Ceke border area, China. With the Company's investment, elderly residents are now not limited to long distance health-care and have access to medical examinations in Ulaanbaatar, which were their first comprehensive health screening.

3. *Protection and Promotion of Cultural Heritage*

The Company continues to preserve tangible and intangible Mongolian culture by organising a series of cultural events, promoting Mongolian practices and culture. Mongolian cultures include sports, such as horse racing, archery, wrestling, the raising of Bactrian camels, and arts, such as Mongolian calligraphy and traditional long and short songs.

In 2025, the Company contributed to traditional cultural celebrations and sports events as shown below, preserving Mongolia's rich cultural heritage and strengthening the bonding and pride among Mongolian during iconic national festivals:

- Providing 161 elderly residents from Baga-Ovoo and Bayasakh bags with holiday gifts during the Lunar New Year (Tsagaan Sar) celebration;

- Supporting the award ceremony of the Twice State Champion Herder of Mongolia to honour a local herder from Gurvantes soum and sponsoring the prizes for two-year-old horse race; and

- Providing material support to the National Archery Competition "Amazing Khuren Khan Cliff", which was organised jointly by National Archery Association, Gurvan Tegshiin Merged, and Gurvantes Soum Governor's Office, promoting Mongolian sports.

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4. *Construction, Repair, and Infrastructure Improvement*

   In prior years, SGS contributed to projects such as the runway pavement at the Ovoot Tolgoi airport and road maintenance between Gurvantes and Shivee Khuren border crossing. These efforts have fostered the trading and economic development in the South Gobi region while improving the mobility of local residents with ensured safety and shorter travel time. Furthermore, in partnership with the RDCC LLC, SGS successfully constructed a highway connecting the Ovoot Tolgoi Mine to the Shivee Khuren border crossing. This highway not only enhances safety and minimises environmental impacts during coal transportation but also improves overall efficiency and capacity across operations.

   In 2025, the Company continued to contribute to the building of infrastructure as shown below, to facilitate the convenience of local residents:

   - Supporting the work of strengthening the operational capacity and material base of the Tost–Toson Bumbyn Nuruu Protected Area Administration;

   - Providing financial support to purchase construction materials for the Training Complex, which was built by the Emergency Management Department of Umnugovi Province;

   - Constructing a 15-km technological road along the Dalanzadgad–Gurvantes highway corridor within the allocated 74 km route; and

   - Maintaining 10 km of the 36 km Gurvantes–Ovoot Tolgoi road monthly.

5. *Environmental Protection*

   Apart from creating direct social values, the Company is dedicated to protecting the environment and creating sustainable future for long-term values. In 2025, the Company contribute to the aspect of environmental protection as shown below, ensuring healthy ecosystems:

   - Supporting the third consecutive year under the "One Billion Trees" National Movement launched by the President of Mongolia to plant a total of 98,000 trees in 2025. Moreover, a contract was signed with the United Association of Mongolian Tree Nurseries and Landscaping Organisations to implement phased tree planting in Kharkhorin soum;

   - Financing programmes under the Air Pollution Reduction Fund based on an agreement signed with the Government of Mongolia in 2025 to support the vehicle emission reduction system installation projects in Songinokhairkhan, Khan-Uul, and Chingeltei districts of Ulaanbaatar, as well as the gas boiler installation project at School No.149 in Ulaanbaatar; and

   - Spending on waste transportation and sorting services to foster waste management.

6. *Donations for Commemorations*

   To commemorate remarkable persons and moments in Mongolia, the Company's donation in 2025 supported the organisation of annual "Family Day" event of inner Mongolians living and working in Mongolia, the "Mining Week 2025" and the "Mine Pro" exhibition, promoting the mining sector to foreign investors. In addition to recognising the 65th anniversary of the Mongolian National Chamber of Commerce and Industry, the Company also showed condolences to the family of former President P. Ochirbat.

7. *Winter Preparedness*

   In 2025, the Company donated over six thousand tonnes of coals to local communities for preparing resources to overcome cold winter. Beneficial regions include Gurvantes soum, Noyon soum, Bayandalai soum, Sevrei soum, and Border Military Unit 0166, helping residents to stay warm during the winter.

   With ongoing contribution to the community, the Company believes that there will be enhanced community welfare and close bonding maintained between local community members. Upholding its CSR, the Company will continuously address social needs and proactively organise initiatives benefiting community members.

## Climate-related Disclosures

With growing concerns about climate change, the Company has been concentrating attention towards this global issue, focusing on its causes, effects, and potential impacts. Recognising that climate change poses extensive threats to both ecosystems and human beings, the Company emphasises the need for timely action to mitigate these challenges. As such, the Company has developed the plan titled "P-05-015 Regulation for Environmental Monitoring of the Ovoot Tolgoi Mine" to identify and address climate-related issues that are material to its operations. In adherence to the ESG Reporting Code of the Stock Exchange, the Company is gradually establishing a more robust climate management system with plans and actions against climate-related issues.

### Governance

The Company's climate governance structure aligns with its ESG governance framework, as outlined in the previous section, "Message from the Board". The Board takes ultimate responsibility for overseeing all climate-related issues, while the Committee assists in reviewing climate-related risks and opportunities.

In fulfilling its oversight responsibilities, 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 that appropriate skills and competencies are available to oversee strategies designed to respond to climate-related risks and opportunities, the Board members attend training programmes held by professional organisations from time to time, as well as engaging with external consultants to stay informed of the latest standards and best practices.

Meanwhile, the Committee plays a key supporting role by reviewing, monitoring, and implementing internal climate-related policies. Through quarterly Committee meetings, the Board receives updates on climate-related risks and opportunities to foster informed decision-making, thereby overseeing the Company's strategy, its decisions on major transactions, and its risk management processes and related policies. In the event of ESG or climate-related incidents, contingency meetings are convened to determine appropriate responses. Through the review of ESG- and climate-related performance via summaries and calculations in ESG Reports, the Board and its committees oversee the setting of new targets related to significant climate-related risks and opportunities and monitor progress towards such targets.

To guide these efforts, the Company has developed guidelines and manuals with standardised procedures for managing climate-related risks and opportunities. At the operational level, management is responsible for formulating and executing climate-related policies and maintaining effective environmental and financial data systems. In addition to identifying climate-related issues, management is also tasked with reporting findings to the Board and promoting coordination and communication across departments.

### Strategy

By conducting a qualitative risk assessment, the Company has identified and evaluated climate-related risks relevant to its operations and value chains, aiming to understand the potential impacts and establish appropriate management measures against climate-related risks. To align with the development of action plans on strategies and capital allocation, the Company has categorised 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 that may affect the Company's business operations have been identified and outlined below.

### Physical Risks

| Risk Type | Risk | Potential Impact | Response |
|---|---|---|---|
| Acute risk | *Time Horizon under Effects:*<br>• Medium-term<br><br>*Description:*<br>• Increased frequency and severity of extreme weather events such as cyclones and floods | • The outdoor nature of coal production makes it vulnerable to extreme weather conditions, which may result in water accumulation and pit collapses in open mines, potentially disrupting the Company's operations and posing safety hazards to employees | • Implement contingency plan against disasters<br>• Monitor weather forecasts closely<br>• Maintain effective communication systems for prompt response actions and minimised disruptions<br>• Promote measures in response to accidents among employees and contractors to increase their safety awareness |
| Chronic risk | *Time Horizon under Effects:*<br>• Medium-term<br><br>*Description:*<br>• Changes in precipitation patterns and extreme variability in weather patterns<br>• Shortage of water supply | • The Company's production and operational activities may be disrupted by water scarcity, resulting in reduced revenue and increased operational expenses | • Explore alternative water sources when necessary to increase the Company's resilience under water scarcity<br>• Establish sustainable water management policies and practices<br>• Implement water conservation measures |
| | *Time Horizon under Effects:*<br>• Long-term<br><br>*Description:*<br>• Rising mean temperatures | • Extreme heat may impact machinery, equipment, and employee performance, causing a decline in overall productivity and operational efficiency | • Conduct routine maintenance on equipment<br>• Adopt work schedules to regulate employee exposure under peak temperatures |

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## Transition Risks

| Risk Type | Risk | Potential Impact | Response |
|---|---|---|---|
| Policy and legal risk | *Time Horizon under Effects:*<br>• Short- to Medium-term<br><br>*Description:*<br>• Enhanced emissions reporting obligations<br>• Mandatory regulation of existing products and services | • Adhering to newly implemented laws and regulations related to climate change requires additional resources, including financial investment and manpower<br><br>• Non-compliance with applicable climate-related laws and regulations may result in extra expenses such as fines and penalties, along with reputational damage to the Company | • Stay informed with the evolving regulations<br>• Update internal policies and practices in alignment with the latest climate-related requirements<br>• Engage with external consultants to ensure compliance with the latest requirements of climate-related laws and regulations |
| Technology risk | *Time Horizon under Effects:*<br>• Long-term<br><br>*Description:*<br>• Costs to transition to lower emissions technology | • Shifting to lower-emission technologies under new laws and regulations requires the use of advanced and costly energy-efficient equipment, resulting in additional expenditures<br><br>• Uncertainties exist with the acquisition of less-polluting equipment, including the incompatibility to streamline the whole production line and lowered quality of coal mined or processed | • Monitor closely the update of the advanced technology in lowering emissions<br>• Explore options of energy-saving equipment suitable for the Company's operations<br>• Upgrade the equipment to lower energy consumption and increase energy efficiency when necessary |
| Market risk | *Time Horizon under Effects:*<br>• Short-term<br><br>*Description:*<br>• Uncertain market signals<br><br>*Time Horizon under Effects:*<br>• Medium-term<br><br>*Description:*<br>• Changing customer behaviour | • Under the global transition towards renewable and clean energy, the Company must re-evaluate and adjust its sales strategies and business decisions based on multiple factors, with an anticipated decline in revenue | • Evaluate the value chain and adjust its business strategies based on customer behaviours, such as exploring alternative cleaner energy sources in powering the equipment during operations |

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| Risk Type | Risk | Potential Impact | Response |
|---|---|---|---|
| Reputation risk | *Time Horizon under Effects:*<br>• Medium-term<br><br>*Description:*<br>• Shifts in consumer preference | • As consumers increasingly favour cleaner energy alternatives over fossil fuels, the use of non-renewable energy sources may negatively affect the Company's public image | • Explore the feasibility in adopting alternative cleaner energy sources during the operations<br>• Monitor closely the shifts in consumer preference to stay informed about the market trends and changing customer demands<br>• F-grade coal products have been prohibited from exporting to China for sales since 2018 |
| | *Time Horizon under Effects:*<br>• Medium-term<br><br>*Description:*<br>• Increased stakeholder concern or negative stakeholder feedback | • With growing emphasis on environmental stewardship and corporate social responsibility, delays in addressing climate change or implementing sustainable practices could undermine the Company's credibility and reputation, leading to reduced customer trust, lower sales, and potential public boycotts | • Establish and implement sustainable policies and practices aimed to minimise GHG emissions, combating climate change proactively<br>• Review and update environmental targets to improve emissions and consumption performance<br>• Enhance the disclosure of ESG reporting to increase transparency<br>• Engage in initiatives against climate change, such as the "One Billion Trees" Campaign |

To summarise, the climate-related physical risks identified primarily concentrate on mining equipment, machinery and coal productions activities at the Company's mine sites in Mongolia, which are exposed to extreme weather conditions and changing climate patterns. Meanwhile, the climate-related transition risks mainly concentrate on the coal production and sales in Mongolia and Mainland China, influenced by the global shift towards green and renewable energy sources.

To address both current and emerging climate-related risks, the Company adopts a risk mitigation approach, focusing on establishing and implementing measures to minimise their impacts. The Company strives to enhance resilience to physical risks through contingency planning, asset maintenance, and resource management. It also monitors advancements in low-carbon technologies and explores suitable upgrades to improve energy efficiency and reduce emissions. Alongside collecting and analysing data and metrics for progress tracking, the Company continuously monitors and reviews new climate-related risks and regulatory development.

In terms of business model, strategy and resource allocation, the Company plans to integrate more environment-friendly and energy-efficient practices into its coal mining operations and to upgrade equipment used in coal processing. With the aim to enhance production efficiency and coal quality while minimising emissions and hazardous substance, the Company has established an additional coal processing facility with a capacity of 6 million tonnes, designed to improve product quality and further reduce emissions. For details regarding the Company's latest coal processing facility, please refer to the section "Enhancing Resource Efficiency through Advanced Coal Processing".

Currently, the Company has not identified any climate-related opportunities nor set up any climate-related transition plan. In the future, the Company will conduct a more comprehensive analysis to evaluate and identify relevant opportunities and their potential impacts when applicable. To further increase employee understanding on climate change and encourage to implement eco-friendly practices, the Company will provide ongoing training programmes to them where necessary.

## Financial Implications

During the Reporting Period, the Company has qualitatively assessed the potential adverse impacts of identified climate-related risks on its financial position, financial performance, and cash flow. Results indicate that no significant financial impact nor significant risk of a material adjustment to the carrying amounts of assets and liabilities was found on the Company's operations due to identified climate-related risks. Addressing the reputation risks identified, the Company has introduced sustainable and environment-friendly policies and practices, such as tree planting, for enhanced image and reputation. In 2025, around MNT three billion was spent on the "One Billion Trees" National Movement to lower its GHG emissions. As this amount has been part of the Company's investment on environmental protection initiatives, no additional financial impacts were caused by the identified risks.

Looking ahead, the Company anticipates acquiring new green equipment, adopting alternative cleaner energy sources, and implementing new initiatives in response to climate change over the long-term, with relevant capital expenditure remains similar. For instance, electricity-powered loaders will be procured for coal mining activities, while vehicles powered by renewable energy will replace traditional mining equipment, aligning with the Company's energy transition strategies. Considering its capabilities and resources to collect and estimate the precise amount of the financial impacts, as well as the uncertainty of anticipated plans, the Company has no quantitative data on its current and anticipated financial effects available for disclosure at the current phase.

In terms of financial resources, the Company will carefully consider its cash flow projections and current financial conditions when developing financial allocation strategies, as well as exploring green financing opportunities, to manage climate-related risks. In the future, the Company will conduct a more in-depth financial impact assessment to increase the understanding of potential impacts brought by climate-related risks and opportunities and develop appropriate measures when its climate management system gets more mature.

## Scenario Analysis

To assess its climate resilience, the Company conducted a qualitative climate-related scenario analysis during the Reporting Period. For the analysis, two publicly available climate-related scenarios have been applied with reference to the Fifth Assessment Report (AR5) of the Intergovernmental Panel on Climate Change ("IPCC"), namely Representative Concentration Pathways ("RCP") 8.5 and RCP 2.6 to evaluate the Company's potential impacts under scenarios of high-emissions and low-emissions respectively.

*RCP 8.5 – High-emissions Scenario*

The scenario simulates a "worst-case" scenario, which projects a temperature increase of 3.0° C to 5.1° C by 2100 compared to pre-industrial levels. Under the scenario, it is assumed that no new or tightened climate-related policies and regulations have been launched, and no mitigation measures have been implemented, as well as under the condition of increased global GHG emissions. By focusing on the identification of climate-related physical risks over medium- and long-term with the scenario, the Company's resilience to physical impacts caused by climate change and uncertainties can be assessed. The analysis primarily covers the Company's employees, mining equipment, machinery and coal production activities at mine sites in Mongolia. Analysed results showed that there will be vulnerability of employees and equipment under extreme heat, potential operational disruptions, and lowered operational efficiency. This analysis allowed the Company to get prepared for the worst by developing targeted mitigation and adaptive measures, as outlined in the above table.

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*RCP 2.6 -Low-emissions Scenario*

The scenario, aligning with the targets set by the Paris Agreement, simulates an “ideal-case” scenario, which aims to limit global warming to well below 2° C and potentially even 1.5° C. Under the scenario, it is assumed that there are tightened climate-related policies and regulations such as carbon pricing, and proactive and effective mitigation measures have been implemented, as well as under the condition of lowered global GHG emissions. By focusing on the identification of climate-related transition risks over short-, medium-, and long-term with the scenario, the Company’s resilience to the transition towards a green economy can be assessed. The analysis mainly covers the Company’s legal obligations, technologies adopted, and coal production and sales in Mongolia and Mainland China. Analysed results showed that there will be compliance risks, and pressure in shifting to cleaner technology and sustainable practices. This analysis allowed that Company to develop strategies in alignment with global emissions-reduction trends.

For the climate-related scenario analysis, areas of policy changes, technological advancements, future climate patterns, and the effectiveness of adaptive measures have been considered as the significant uncertainties. With the findings of the analysis, it is estimated that the Company’s strategies, mitigation actions, and financial allocations only address the identified risks against its business activities to a certain extent. Moving forward, the Company will conduct a more detailed climate-related scenario analysis to better understand potential impacts of identified risks when the Company possess more resources, while formulating and implementing relevant mitigation and adaptive measures to enhance its climate resilience.

### Risk Management

In recent years, the Company has conducted a high-level risk assessment to manage climate-related risks. Through internal risk registers, the Company systematically identify, assess, prioritise, and monitor climate-related risks. With the qualitative risk assessment and climate-related scenario analysis conducted during the Reporting Period, the Company has identified eleven physical and transition risks.

By assessing the nature, likelihood, and magnitude of the impacts induced by these risks against its risk appetite, the Company prioritises risks that exceed acceptable thresholds. Such risks are reported to the Committee during quarterly and ad hoc meetings for further review and handling. Under the Board’s oversight, the Company also conducts materiality analyses and consider stakeholder feedback as part of its strategy to evaluate and prioritise climate-related risks.

To monitor climate-related risks, the Company will review relevant risks annually during the Committee’s meetings. Identified climate-related risks will also be considered separately in sustainability discussions, ensuring an understanding of climate-related circumstances of the Company and informed decisions.

At this stage, the Company has not identified climate-related opportunities. For climate-related opportunities to be identified in the future, the Company plans to adopt the same process to identify, assess, prioritise and monitor relevant opportunities. Moving forward, the Company will conduct a more in-depth analysis on identified climate-related risks, when applicable, to develop effective adaptive and mitigation solutions against associated impacts. Corresponding information will be disclosed once the analysis is completed.

## Metrics and Targets

### Climate-related Metrics

Recognising that GHG emissions is a significant contributor to climate change, the Company has placed a great emphasis on tracking and monitoring its GHG emissions, serving as the primary metrics. The Company's GHG emissions consist of Scope 1 (Direct Emissions), Scope 2 (Energy Indirect Emissions), and Scope 3 (Other Indirect Emissions).

In 2025, the Company's Scope 1 GHG emissions mainly sourced from petrol and diesel consumption for transportation and industrial activities, while Scope 2 GHG emissions resulted from the consumption of purchased electricity. To enhance the transparency of emissions reporting, the Company accounted its Scope 3 GHG emissions for the first time during the Reporting Period, including five categories as indicated below:

Category 3: Fuel- and energy-related activities
Category 5: Waste generated in operations
Category 6: Business travel
Category 9: Downstream transportation and distribution
Category 11: Use of sold products

In the future, the Company will consider the applicability to further enhance the disclosure of its Scope 3 GHG emissions by including more categories when data readiness and data collecting capacity evolve.

*Accounting Methodology*

To disclose its emissions data with a structured methodology, the Company has applied internationally recognised standards to account its GHG emissions. Details regarding the Company's GHG emissions accounting can be found below:

| | |
|---|---|
| Standards Applied | • "How to Prepare an ESG Report Appendix 2: Reporting Guidance on Environmental KPIs" issued by the Stock Exchange<br>• "GHG Protocol: A Corporate Accounting and Reporting Standard (2004)"<br>• "2006 IPCC Guidelines for National GHG Inventories"<br>• "GHG Protocol: Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011)" |
| Approach Adopted | • Operational control approach |
| Operational Boundary | • Coal mining and exploration business segment of SGS, including the operations at coal mining sites, the coal washing plant, and coal transportation routes |

Table 11. The Company's GHG Emissions in 2025 and 2024

| GHG Emissions | Unit | Amount in 2025 | Intensity (Tonnes of $CO_2e$/million tonnes of raw coal produced) in 2025[1] | Amount in 2024[2] | Intensity (Tonnes of $CO_2e$/million tonnes of raw coal produced) in 2024[2] |
|---|---|---|---|---|---|
| Scope 1[3] | Tonnes of $CO_2e$ | **212,115** | **12,753.9** | 28,763 | 2,821.8 |
| Scope 2 (Location-based)[4] | Tonnes of $CO_2e$ | **16,274** | **978.5** | 2,004 | 196.6 |
| Scope 3[5] | Tonnes of $CO_2e$ | **34,751,631** | **2,089,513.5** | –[6] | –[6] |
| Removal by Planted Trees | Tonnes of $CO_2e$ | **2,254** | **135.5** | 1,265 | 124.1 |
| **Total GHG Emissions (Scope 1, 2 and 3)** | **Tonnes of $CO_2e$** | **34,977,766** | **2,103,110.3** | **29,502** | **2,894.3** |

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Note:

1. The intensity for 2025 was calculated by dividing the amount of GHG emissions (in tonnes of CO2e) by the Company's total amount of raw coal produced in 2025, which was 16.63 million tonnes;
2. The amount and intensity in 2024 were extracted from the data in the 2024 ESG Report of the Company;
3. 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;
4. The Company's Scope 2 (Energy Indirect Emissions) included only the location-based GHG emissions arose from consumption of purchased electricity;
5. The Company's Scope 3 (Other Indirect Emissions) in 2025 included only the GHG emissions arose from Category 3: Fuel- and energy-related activities, Category 5: Waste generated in operations, Category 6: Business travel, Category 9: Downstream transportation and distribution, and Category 11: Use of sold products. Detailed breakdown can be referred to Table 12; and
6. As this is the first time for the Company to account its Scope 3 GHG emissions in 2025, no relevant data in 2024 can be disclosed.

*Comprehensive GHG Inventory – Scope 3 Emissions*

Table 12. The Company's Scope 3 GHG Emissions by Category in 2025

| Scope 3 Category | Unit | Amount in 2025 | Intensity (Tonnes of CO2e/million tonnes of raw coal produced) in 2025[1] |
|---|---|---|---|
| Category 3: Fuel- and energy-related activities[2] | Tonnes of $CO_2e$ | **49,842** | **2,996.9** |
| Category 5: Waste generated in operations[3] | Tonnes of $CO_2e$ | **157** | **9.4** |
| Category 6: Business travel[4] | Tonnes of $CO_2e$ | **258** | **15.5** |
| Category 9: Downstream transportation and distribution[5] | Tonnes of $CO_2e$ | **7,870** | **473.2** |
| Category 11: Use of sold products[6] | Tonnes of $CO_2e$ | **34,693,504** | **2,086,018.5** |
| **Total Scope 3 GHG Emissions** | **Tonnes of $CO_2e$** | **34,751,631** | **2,089,513.5** |

Note:

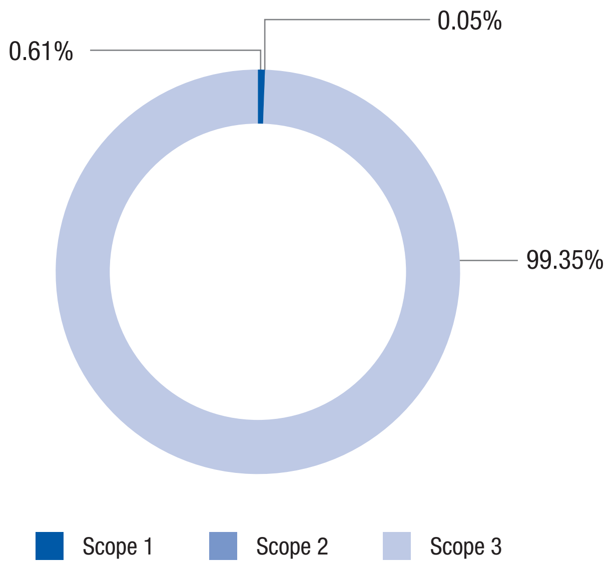
1. The intensity for 2025 was calculated by dividing the amount of each or all category(s) of Scope 3 GHG emissions (in tonnes of CO2e) by the Company's total amount of raw coal produced in 2025, which was 16.63 million tonnes;
2. The Company's category 3 included only the Scope 3 GHG emissions arose from the extraction, production and transportation of fuels and energy purchased or acquired by its operations;
3. The Company's category 5 included only the Scope 3 GHG emissions arose from the disposal of waste generated at landfills and treatment of freshwater consumed by its operations;
4. The Company's category 6 included only the Scope 3 GHG emissions arose from the air travel undertaken by employees for business-related activities;
5. The Company's category 9 included only the Scope 3 GHG emissions arose from the transportation and distribution of coal products from mining site to sales market; and
6. The Company's category 11 included only the Scope 3 GHG emissions arose from the combustion of coal products by end users.

Table 13. The Sources of Emission Factor Applied in the Company's Scope 3 GHG Emissions Accounting

| Category | Sources of Emission Factor |
|---|---|
| Category 3: Fuel- and energy-related activities | • GOV.UK – GHG Reporting: Conversion Factors 2025 |
| Category 5: Waste generated in operations | • China Water Affairs Group Limited ESG Report 2025<br>• GOV.UK – GHG Reporting: Conversion Factors 2025<br>• US EPA - 2025 GHG Emission Factors Hub |
| Category 6: Business travel | • ICAO Carbon Emissions Calculator (ICEC) |
| Category 9: Downstream transportation and distribution | • US Data.Gov – Supply Chain GHG Emission Factors<br>• US Bureau of Labor Statistics – Consumer Price Index (CPI) Inflation Calculator<br>• The Central Bank of Mongolia – Foreign Exchange Rate Movements |
| Category 11: Use of sold products | • US EPA - 2025 GHG Emission Factors Hub |

In 2025, the Company's Scope 1 and 2 GHG emissions experienced an increase in relevant emissions when compared with previous reporting period, while Scope 3 GHG emissions dominated the Company's emissions profile, accounting for approximately 99.35% of total emissions. This is due to the Company's business nature of mining industry, featuring downstream activities of coal transportation and distribution and consumer consumption of coal products. Within its Scope 3 GHG emissions, the Company's major emissions belonged to Category 11: Use of sold products (99.83%) in 2025 as emissions are generated when end users burn the coal products for energy.

**The Company's Total GHG Emissions in 2025**



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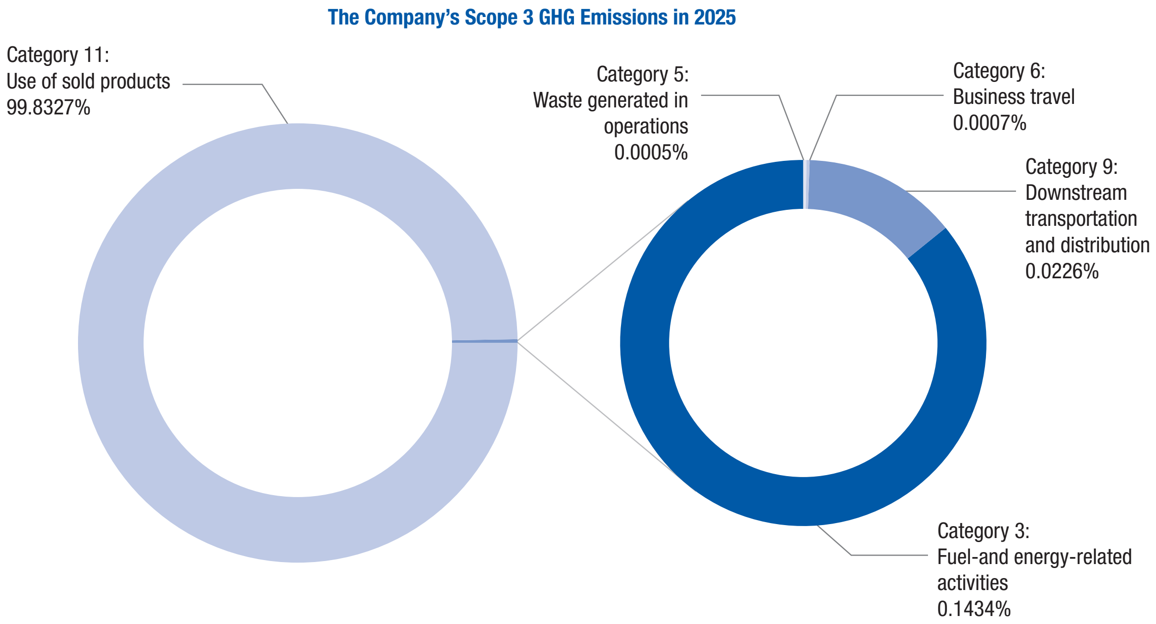


*Target*

For GHG emissions, the Company clarifies the scope of its target to be including Scope 1 and 2 GHG emissions only as most Scope 3 GHG emissions are indirectly emitted and there is a high uncertainty in regulating such emissions. A revised short-term yearly target will be maintaining the Company's absolute level of GHG emissions with the previous reporting period being the baseline year.

*GHG Removal - "One Billion Trees" Campaign*

To facilitate GHG emissions reduction, SGS proactively promotes the campaign "One Billion Trees", which is a national campaign advocated by the President of Mongolia aiming to accelerate the greening strategy. In 2025, SGS planted a total of 98,000 trees, including 55,000 deciduous and coniferous trees in the new settlement area of Kharkhorin soum of Uvurkhangai Province, 30,000 deciduous trees in Gurvantes soum of Umnugovi Province, 10,000 saxaul trees in Sevrei soum, and 3,000 elms and sea buckthorns near Ovoot Tolgoi Mine.

At present, the Company has not applied 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, including the amount and percentage of assets or business activities vulnerable to climate-related risks, and capital deployment for climate-related opportunities, when more resources and capabilities are available.

### Climate-related Targets

The Company has not yet developed plans to offset its emissions through carbon credits or set specific quantitative climate-related targets. However, the Company will continue to monitor its emissions and resource consumption performance, and the progress towards its targets. Other than GHG emissions targets, relevant emissions and resource consumption reduction targets are outlined in the corresponding sections, namely "A1. Emissions" and "A2. Use of Resources".

## Stock Exchange's ESG Reporting Code Content Index

| Aspects, General Disclosures and KPIs | Description | Relevant Chapter/Explanation |
|---|---|---|
| **Part C: "Comply or explain" Provisions** | | |
| **A. Environmental** | | |
| **Aspect A1: Emissions** | | |
| General Disclosure | Information on:<br><br>(a) the policies; and<br>(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 A1.3 | 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. | A1.1 Air 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 |
| 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 |

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

| Aspects, General Disclosures and KPIs | Description | Relevant Chapter/Explanation |
|---|---|---|
| **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 |
| **B. Social** | | |
| **Aspect B1: Employment** | | |
| General Disclosure | Information on:<br><br>a) the policies; and<br>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 |
| **Aspect B2: Health and Safety** | | |
| General Disclosure | Information on<br><br>a) the policies; and<br>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 |

| Aspects, General Disclosures and KPIs | Description | Relevant Chapter/Explanation |
|---|---|---|
| **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:<br><br>a) the policies; and<br>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 |
| **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 |

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

| Aspects, General Disclosures and KPIs | Description | Relevant Chapter/Explanation |
|---|---|---|
| **Aspect B6: Product Responsibility** | | |
| General Disclosure | Information on:<br><br>a) the policies; and<br>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 |
| **Aspect B7: Anti-Corruption** | | |
| General Disclosure | Information on:<br><br>a) the policies; and<br>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 |

| Aspects, General Disclosures and KPIs | Description | Relevant Chapter/Explanation |
|---|---|---|
| **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 |

| Paragraph | Description | Relevant Chapter/Explanation |
|---|---|---|
| **Part D: Climate-related Disclosures** | | |
| **I. Governance** | | |
| 19. | a) Information about the governance body(s) or individual(s) responsible for oversight of climate-related risks and opportunities<br>b) Information about the management's role in the governance processes, controls and procedures used to monitor, manage and oversee climate-related risks and opportunities | Governance |
| **II. Strategy** | | |
| 20. | Information about climate-related risks and opportunities that could reasonably be expected to affect the issuer's cash flows, its access to finance or cost of capital over the short, medium or long term | Strategy |
| 21. | Information about the current and anticipated effects of climate-related risks and opportunities on the issuer's business model and value chain | Strategy |
| 22. | Information about the effects of climate-related risks and opportunities on its strategy and decision-making | Strategy |
| 23. | Information about the progress of plans disclosed in previous reporting periods | As the Company has not set up any climate-related transition plan, no relevant information is available for disclosure in this ESG Report. |

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

| Paragraph | Description | Relevant Chapter/Explanation |
|---|---|---|
| 24. | a) Qualitative and quantitative information about how climate-related risks and opportunities have affected its financial position, financial performance and cash flows for the reporting period | Strategy |
| | b) Qualitative and quantitative information about the climate-related risks and opportunities identified in paragraph 24(a) for which there is a significant risk of a material adjustment within the next annual reporting period to the carrying amounts of assets and liabilities reported in the related financial statements | |
| 25. | how the issuer expects its financial position, financial performance and cash flows to change over the short, medium and long term, given its strategy to manage climate-related risks and opportunities | Strategy |
| 26. | a) Information about the issuer's assessment of its climate resilience as at the reporting date, with the consideration of identified climate-related risks and opportunities | Strategy |
| | b) Information about how and when the climate-related scenario analysis was carried out | |
| **III. Risk Management** | | |
| 27. | a) The processes and related policies used to identify, assess, prioritise and monitor climate-related risks | Risk Management |
| | b) The processes the issuer uses to identify, assess, prioritise and monitor climate-related opportunities | |
| | c) the extent to which, and how, the processes for identifying, assessing, prioritising and monitoring climate-related risks and opportunities are integrated into and inform the issuer's overall risk management process | |
| **IV. Metrics and Targets** | | |
| 28. | Absolute gross greenhouse gas emissions generated during the reporting period, expressed as metric tons of CO2 equivalent | Metrics and Targets |
| 29. | Information about the methodology of accounting greenhouse gas emissions | Metrics and Targets |
| 30. | The amount and percentage of assets or business activities vulnerable to climate-related transition risks. | Metrics and Targets |
| 31. | The amount and percentage of assets or business activities vulnerable to climate-related physical risks | Metrics and Targets |

| Paragraph | Description | Relevant Chapter/Explanation |
|---|---|---|
| 32. | The amount and percentage of assets or business activities aligned with climate-related opportunities | Metrics and Targets |
| 33. | The amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities | Metrics and Targets |
| 34. | Information about whether and how the issuer is applying a carbon price in decision-making and the price of each metric tonne of greenhouse gas emissions the issuer uses to assess the costs of its greenhouse gas emissions, or an appropriate negative statement | Metrics and Targets |
| 35. | Information about whether and how climate-related considerations are factored into remuneration policy, or an appropriate negative statement | Metrics and Targets |
| 36. | Information about industry-based metrics that are associated with one or more particular business models, activities or other common features that characterise participation in an industry | Metrics and Targets |
| 37. | a) Qualitative and quantitative climate-related targets the issuer has set to monitor progress towards achieving its strategic goals | Metrics and Targets |
| | b) Any targets the issuer is required to meet by law or regulation, including any greenhouse gas emissions targets | |
| 38. | Information about its approach to setting and reviewing each target, and how it monitors progress against each target | Governance |
| 39. | Information about its performance against each climate-related target and an analysis of trends or changes in the issuer's performance | As the Company reviewed and adjusted climate-related targets during the Reporting Period, no trend analysis information is available for disclosure in this ESG Report. |
| 40. | For each greenhouse gas emissions target disclosed in accordance with paragraphs 37 to 39, information about the scope, gross greenhouse gas emissions target or a net greenhouse gas emissions target, approach, and the planned use of carbon credits | Metrics and Targets |
| 41. | Information about the applicability of cross-industry metrics and industry-based metrics in preparing disclosures | Metrics and Targets |

*** *The table is extracted from Appendix C2 of the ESG Reporting Code – Part D: Climate-related Disclosures for reference purpose only. For complete information, please refer to the original document issued by the Stock Exchange.*

# 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

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# INDEPENDENT AUDITOR'S REPORT

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**To the Shareholders of SouthGobi Resources Ltd.**

## Opinion

We have audited the consolidated financial statements of SouthGobi Resources Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 198 to 266 which comprise the consolidated statement of financial position as at December 31, 2025, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement 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, 2025, 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 International Standards on Auditing ("ISAs"). 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 Hong Kong Institute of Certified Public Accountants' "Code of Ethics for Professional Accountants" (the "Code"), as applicable to audits of financial statements of public interest entities. We have also fulfilled our other ethical responsibilities in accordance with the Code. 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$227.2 million while the working capital deficiency reached US$337.0 million as at December 31, 2025. As stated in Note 1, these conditions, along with other matters as set forth in Note 1, 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.

## INDEPENDENT AUDITOR'S REPORT

## 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 matter described below to be the key audit matters to be communicated in our report.

### Impairment of property, plant and equipment

*(Refer to note 3.20(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 in the Annual Report

Management is responsible for the other information. The other information comprises all of the information included in the 2025 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 the other information that we obtained prior to the date of this auditor's report, 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 ISAs 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 ISAs, 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 group 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 27, 2026

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

| | Notes | Year ended December 31, 2025 | 2024 |
|---|---|---|---|
| Revenue | 5 | $ **598,819** | $ 493,378 |
| Cost of sales | 7 | **(598,719)** | (360,588) |
| **Gross profit** | | **100** | 132,790 |
| Other operating income/(expenses), net | 8 | **1,038** | (3,698) |
| Administration expenses | 10 | **(14,724)** | (13,454) |
| Evaluation and exploration expenses | | **(337)** | (1,362) |
| Impairment loss on coal stockpiles | 17 | **(77,334)** | – |
| Impairment loss on items of property, plant and equipment | 19 | **(41,960)** | – |
| Reversal of additional tax and tax penalty | 9 | **–** | 39,666 |
| **Profit/(loss) from operations** | | **(133,217)** | 153,942 |
| Finance costs | 11 | **(37,845)** | (37,766) |
| Finance income | 11 | **2,001** | 3,626 |
| Share of earning of a joint venture | 20 | **3,982** | 3,227 |
| Share of earnings of associates | 21 | **556** | 587 |
| **Profit/(loss) before tax** | | **(164,523)** | 123,616 |
| Current income tax expenses | 12 | **(4,243)** | (31,119) |
| **Net profit/(loss) attributable to equity holders of the Company** | | **(168,766)** | 92,497 |
| **Other comprehensive loss to be reclassified to profit or loss in subsequent periods** | | | |
| Exchange difference on translation of foreign operation | | **(8,626)** | (1,258) |
| **Net comprehensive income/(loss) attributable to equity holders of the Company** | | $ **(177,392)** | $ 91,239 |
| **Basic earnings/(loss) per share** | 14 | $ **(0.569)** | $ 0.312 |
| **Diluted earnings/(loss) per share** | 14 | $ **(0.569)** | $ 0.311 |

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

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in thousands of U.S. dollars)

| | Notes | As at December 31, 2025 | 2024 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 15 | **$ 12,375** | $ 8,590 |
| Restricted cash | | **853** | 274 |
| Trade and other receivables | 16 | **24,141** | 31,486 |
| Inventories | 17 | **68,600** | 107,246 |
| Prepaid expenses | 18 | **5,741** | 6,083 |
| **Total current assets** | | **111,710** | 153,679 |
| **Non-current assets** | | | |
| Property, plant and equipment | 19 | **206,883** | 243,564 |
| Investment in a joint venture | 20 | **15,632** | 12,400 |
| Investments in associates | 21 | **21,352** | 20,210 |
| **Total non-current assets** | | **243,867** | 276,174 |
| **Total assets** | | **$ 355,577** | $ 429,853 |
| **Equity and liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 22 | **$ 218,167** | $ 169,281 |
| Additional tax and tax penalty | 9 | **23,276** | 43,790 |
| Deferred revenue | 23 | **52,583** | 34,350 |
| Interest-bearing borrowing | 24 | **11,136** | – |
| Lease liabilities | 25 | **819** | 850 |
| Income tax payable | | **2,362** | 12,891 |
| Convertible debenture | 26 | **140,328** | 120,651 |
| **Total current liabilities** | | **448,671** | 381,813 |
| **Non-current liabilities** | | | |
| Interest-bearing borrowing | 24 | **22,269** | – |
| Lease liabilities | 25 | **888** | 1,342 |
| Convertible debenture | 26 | **93,379** | 84,267 |
| Decommissioning liability | 27 | **17,568** | 12,245 |
| Long service payment liabilities | 28 | **37** | 29 |
| **Total non-current liabilities** | | **134,141** | 97,883 |
| **Total liabilities** | | **582,812** | 479,696 |
| **Equity** | | | |
| Common shares | 29 | **1,102,053** | 1,102,053 |
| Share option reserve | 31 | **52,998** | 52,998 |
| Capital reserve | 31 | **536** | 533 |
| Exchange fluctuation reserve | 29 | **(64,831)** | (56,205) |
| Accumulated deficit | 29 | **(1,317,991)** | (1,149,222) |
| **Total deficiency in assets** | | **(227,235)** | (49,843) |
| **Total equity and liabilities** | | **$ 355,577** | $ 429,853 |
| **Net current liabilities** | | **$ (336,961)** | $ (228,134) |
| **Total assets less current liabilities** | | **$ (93,094)** | $ 48,040 |

Corporate information and going concern (Note 1), commitments for expenditure (Note 36) and contingencies (Note 37)

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

APPROVED BY THE BOARD:

*"Yingbin Ian He"*

*Director*

*"Ruibin Xu"*

*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Expressed in thousands of U.S. dollars and shares in thousands)

| | Number of shares/units | Share capital | Share option reserve | Capital reserve | Exchange fluctuation reserve | Accumulated deficit | Total |
|---|---|---|---|---|---|---|---|
| Balances, January 1, 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) |
| **Balances, January 1, 2025** | **296,705** | **$ 1,102,053** | **$ 52,998** | **$ 533** | **$ (56,205)** | **$ (1,149,222)** | **$ (49,843)** |
| Net loss for the year | **–** | **–** | **–** | **–** | **–** | **(168,766)** | **(168,766)** |
| Exchange differences on translation of foreign operations | **–** | **–** | **–** | **–** | **(8,626)** | **–** | **(8,626)** |
| Total comprehensive loss attributable to equity holders of the Company | **–** | **–** | **–** | **–** | **(8,626)** | **(168,766)** | **(177,392)** |
| Appropriation to capital reserve | **–** | **–** | **–** | **3** | **–** | **(3)** | **–** |
| **Balances, December 31, 2025** | **296,705** | **$ 1,102,053** | **$ 52,998** | **$ 536** | **$ (64,831)** | **$ (1,317,991)** | **$ (227,235)** |

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

(Expressed in thousands of U.S. dollars)

| | Notes | Year ended December 31, 2025 | 2024 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit/(loss) before tax | | **$ (164,523)** | $ 123,616 |
| Adjustments for: | | | |
| Depreciation and depletion | 6 | **48,577** | 20,890 |
| Share-based compensation | 6 | **–** | 63 |
| Provision for long service payment | 6 | **8** | 8 |
| Impairment loss/(reversal of impairment loss) on materials and supplies inventories | 6 | **(1,204)** | 231 |
| Impairment loss on coal stockpiles | 6 | **77,334** | – |
| Provision for/(reversal of) doubtful trade and other receivables | 6 | **(67)** | 10 |
| Loss/(gain) on disposal of items of property, plant and equipment, net | 6 | **2** | (261) |
| Written off of other payables | 6 | **(6,272)** | – |
| Gain on contract offsetting arrangement | 6 | **(342)** | (3,046) |
| Reversal of additional tax and tax penalty | 9 | **–** | (39,666) |
| Interest expense on convertible debenture | 11 | **36,241** | 37,103 |
| Interest expense on interest-bearing borrowing | 11 | **711** | – |
| Interest elements on leased assets | 11 | **226** | 292 |
| Accretion of decommissioning liability | 11 | **667** | 371 |
| Fair value gain on embedded derivatives in convertible debenture | 11 | **(62)** | (298) |
| Gain on modification of convertible debenture | 11 | **(1,890)** | (3,187) |
| Interest income | 11 | **(49)** | (141) |
| Impairment loss on items of property, plant and equipment | 19 | **41,960** | – |
| Share of earning of a joint venture | 20 | **(3,982)** | (3,227) |
| Share of earnings of associates | 21 | **(556)** | (587) |
| Operating cash flows before changes in working capital items | | **26,779** | 132,171 |
| Net change in working capital items | 35.2 | **57,636** | 5,323 |
| Cash generated from operating activities | | **84,415** | 137,494 |
| Income tax and additional tax paid | | **(32,995)** | (29,578) |
| **Net cash flows from operating activities** | | **51,420** | 107,916 |
| **Investing activities** | | | |
| Expenditures on property, plant and equipment | | **(73,135)** | (118,618) |
| Proceeds from disposal of items of property, plant and equipment | | **–** | 1,038 |
| Interest received | 11 | **49** | 141 |
| Investment in an associate | | **(1,310)** | (8,299) |
| Dividend from a joint venture | 20 | **288** | 2,623 |
| **Net cash flows used in investing activities** | | **(74,108)** | (123,115) |
| **Financing activities** | | | |
| Interest payment on convertible debenture | 26.4 | **(5,500)** | (23,000) |
| Interest payment on interest-bearing borrowing | | **(517)** | – |
| Proceeds from interest-bearing borrowing | | **32,954** | – |
| Proceeds from exercise of share options | | **–** | 187 |
| Capital elements of lease rental paid | | **(896)** | (716) |
| Interest elements of lease rentals paid | | **(226)** | (292) |
| **Net cash flows from/(used in) financing activities** | | **25,815** | (23,821) |
| Effect of foreign exchange rate changes, net | | **658** | (383) |
| **Increase/(decrease) in cash and cash equivalents** | | **3,785** | (39,403) |
| Cash and cash equivalents, beginning of year | | **8,590** | 47,993 |
| **Cash and cash equivalents, end of year** | | **$ 12,375** | $ 8,590 |

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, 2025, 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 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, 2026 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 $227,235 as at December 31, 2025 as compared to a deficiency in assets of $49,843 as at December 31, 2024 while the working capital deficiency (excess current liabilities over current assets) reached $336,961 as at December 31, 2025 as compared to a working capital deficiency of $228,134 as at December 31, 2024.

Included in the working capital deficiency as at December 31, 2025 are significant obligations, represented by trade and other payables of $218,167, additional tax and tax penalty of $23,276 and interest-bearing borrowing of $11,136.

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 27, 2026. 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

In addition, the recent global geopolitical events, particularly the escalation of tensions involving Iran and the US, have significantly pushed up international coal prices in the short term due to increasing energy prices and demand for coal as a substitute for natural gas. However, management notes that coal price trends remain subject to uncertainties related to the duration of such conflicts and broader geopolitical developments. Should the conflict ease or cease, the price momentum driven by supply risk premiums and energy substitution may weaken or even reverse, thereby exposing coal prices to considerable downside uncertainty. Such volatility may affect the Company's operations, including the selling price of its coal product and its production costs.

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 consolidated financial statements, management of the Company has prepared a cash flow projection covering a period of 12 months from December 31, 2025. 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 2026 March Deferral Agreement (as defined in Note 26.5) on March 23, 2026 for a deferral of the 2026 March Deferred Amounts (as defined in Note 26.5); (b) communicating with vendors in agreeing repayment plans of the outstanding payable; and (c) considering geopolitical tensions, specifically the Iran-US conflict, which is expected to create a favourable pricing environment during forecast period. 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, 2025 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 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, and the fluctuations in international coal prices, which are subject to the developments in geopolitical tensions.

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, 2025, 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 consolidated 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, 2025 were approved and authorised for issue by the Board of Directors of the Company (the "Board") on March 27, 2026.

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 33.

## 2.3 Basis of consolidation

The consolidated financial statements include the financial statements of SouthGobi Resources Ltd. and its major controlled subsidiaries (Note 34).

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, 2025.

| | |
|---|---|
| Amendments to IAS 21 | Lack of Exchangeability |
| Amendments to Illustrative Examples on IFRS 7, IFRS 18, IAS 1, IAS 8, IAS 36 and IAS 37 | Disclosure about Uncertainties in the Financial Statements |

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, 2025. The Company has not early applied any new or amended IFRS Accounting Standards that is not yet effective for the year ended December 31, 2025.

(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.

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

1 Effective for annual periods beginning on or after January 1, 2026.
2 Effective for annual periods beginning on or after January 1, 2027.
3 No mandatory effective date yet determined but available for adoption.

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

Further information about those IFRS Accounting Standards that are expected to be applicable to the Company is described below:

IFRS 18 replaces IAS 1 Presentation of Financial Statements. While a number of sections have been brought forward from IAS 1 with limited changes, IFRS 18 introduces new requirements for presentation within the statement of profit or loss, including specified totals and subtotals. Entities are required to classify all income and expenses within the statement of profit or loss into one of the five categories: operating, investing, financing, income taxes and discontinued operations and to present two new defined subtotals. It also requires disclosures about management defined performance measures in a single note and introduces enhanced requirements on the grouping (aggregation and disaggregation) and the location of information in both the primary financial statements and the notes. Some requirements previously included in IAS 1 are moved to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, which is renamed as IAS 8 Basis of Preparation of Financial Statements. As a consequence of the issuance of IFRS 18, limited, but widely applicable, amendments are made to IAS 7 Statement of Cash Flows, IAS 33 Earnings per Share and IAS 34 Interim Financial Reporting. In addition, there are minor consequential amendments to other IFRS Accounting Standards. IFRS 18 and the consequential amendments to other IFRS Accounting Standards are effective for annual periods beginning on or after January 1, 2027 with earlier application permitted. Retrospective application is required. The new requirements are expected to impact the Company's presentation of the statement of profit or loss and other comprehensive income and disclosures of the Company's financial performance. So far, the Company considers that IFRS 18 is unlikely to have a significant impact on the Company's results of operations and financial position.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 2. BASIS OF PREPARATION continued

### 2.5 Standard issued but not yet effective continued

IFRS 19 allows eligible entities to elect to apply reduced disclosure requirements while still applying the recognition, measurement and presentation requirements in other IFRS Accounting Standards. To be eligible, at the end of the reporting period, an entity must be a subsidiary as defined in IFRS 10 Consolidated Financial Statements, cannot have public accountability and must have a parent (ultimate or intermediate) that prepares consolidated financial statements available for public use which comply with IFRS Accounting Standards. IFRS 19 was amended in 2025 to (i) remove disclosure objectives from IFRS 19; (ii) reduce the disclosure requirements relating to supplier finance arrangements and a specific class of financial liabilities; and (iii) replace disclosure requirements relating to management-defined performance measures with a cross-reference to IFRS 18 for entities that use these measures. Earlier application is permitted. The amendments are not expected to have any significant impact on the Company's financial statements.

Amendments to IFRS 9 and IFRS 7 Amendments to the Classification and Measurement of Financial Instruments clarify the date on which a financial asset or financial liability is derecognised and introduce an accounting policy option to derecognise a financial liability that is settled through an electronic payment system before the settlement date if specified criteria are met. The amendments clarify how to assess the contractual cash flow characteristics of financial assets with environmental, social and governance and other similar contingent features. Moreover, the amendments clarify the requirements for classifying financial assets with non-recourse features and contractually linked instruments. The amendments also include additional disclosures for investments in equity instruments designated at fair value through other comprehensive income and financial instruments with contingent features. The amendments shall be applied retrospectively with an adjustment to opening retained profits (or other component of equity) at the initial application date. Prior periods are not required to be restated and can only be restated without the use of hindsight. Earlier application of either all the amendments at the same time or only the amendments related to the classification of financial assets is permitted. The amendments are not expected to have any significant impact on the Company's financial statements.

Amendments to IFRS 9 and IFRS 7 Contracts Referencing Nature-dependent Electricity clarify the application of the "own-use" requirements for in-scope contracts and amend the designation requirements for a hedged item in a cash flow hedging relationship for in-scope contracts. The amendments also include additional disclosures that enable users of financial statements to understand the effects these contracts have on an entity's financial performance and future cash flows. The amendments relating to the own-use exception shall be applied retrospectively. Prior periods are not required to be restated and can only be restated without the use of hindsight. The amendments relating to the hedge accounting shall be applied prospectively to new hedging relationships designated on or after the date of the initial application. Earlier application is permitted. The amendments to IFRS 9 and IFRS 7 shall be applied at the same time. The amendments are not expected to have any significant impact on the Company's financial statements.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss resulting from a downstream transaction when the sale or contribution of assets constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB. However, the amendments are available for adoption now.

# 2. BASIS OF PREPARATION continued

## 2.5 Standard issued but not yet effective continued

Amendments to IAS 21 Translation to a Hyperinflationary Presentation Currency require the translation from a non-hyperinflationary functional currency into a hyperinflationary presentation currency at the closing rate. The amendments also require an entity whose functional currency and presentation currency are the currency of a hyperinflationary economy to restate the comparative amounts of a foreign operation whose functional currency is that of a non-hyperinflationary economy, by applying the general price index, in accordance with paragraph 34 of IAS 29 Financial Reporting in Hyperinflationary Economies, to the foreign operation's comparative figures. The amendments introduce certain additional disclosures. Earlier application is permitted. The amendments are not expected to have any significant impact on the Company's financial statements.

Annual Improvements to IFRS Accounting Standards — Volume 11 set out amendments to IFRS 1, IFRS 7 (and the accompanying Guidance on implementing IFRS 7), IFRS 9, IFRS 10 and IAS 7. Details of the amendments that are expected to be applicable to the Company are as follows:

- IFRS 7 Financial Instruments: Disclosures: The amendments have updated certain wording in paragraph B38 of IFRS 7 and paragraphs IG1, IG14 and IG20B of the Guidance on implementing IFRS 7 for the purpose of simplification or achieving consistency with other paragraphs in the standard and/or with the concepts and terminology used in other standards. In addition, the amendments clarify that the Guidance on implementing IFRS 7 does not necessarily illustrate all the requirements in the referenced paragraphs of IFRS 7 nor does it create additional requirements. Earlier application is permitted. The amendments are not expected to have any significant impact on the Company's financial statements.

- IFRS 9 Financial Instruments: The amendments clarify that when a lessee has determined that a lease liability has been extinguished in accordance with IFRS 9, the lessee is required to apply paragraph 3.3.3 of IFRS 9 and recognise any resulting gain or loss in profit or loss. However, the amendments do not address how a lessee distinguishes between a lease modification as defined in IFRS 16 and an extinguishment of a lease liability in accordance with IFRS 9. In addition, the amendments have updated certain wording in paragraph 5.1.3 of IFRS 9 and Appendix A of IFRS 9 to remove potential confusion. Earlier application is permitted. The amendments are not expected to have any significant impact on the Company's financial statements.

- IFRS 10 Consolidated Financial Statements: The amendments clarify that the relationship described in paragraph B74 of IFRS 10 is just one example of various relationships that might exist between the investor and other parties acting as de facto agents of the investor, which removes the inconsistency with the requirement in paragraph B73 of IFRS 10. Earlier application is permitted. The amendments are not expected to have any significant impact on the Company's financial statements.

- IAS 7 Statement of Cash Flows: The amendments replace the term "cost method" with "at cost" in paragraph 37 of IAS 7 following the prior deletion of the definition of "cost method". Earlier application is permitted. The amendments are not expected to have any impact on the Company's 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 Company 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.

## 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 Employees' benefits

#### (a) Retirement benefits schemes

The Company operates defined contribution retirement benefit schemes for its employees in accordance with the laws and regulations of the respective countries in which it operates. Contributions are recognised as an expense in profit or loss in the period when the related employee service is rendered.

*Hong Kong*

Eligible employees in Hong Kong (aged 18 to 65 with at least 59 days of service) participate in the Mandatory Provident Fund Scheme (the "MPF Scheme"). Contributions are calculated at 5% of the employee's relevant income for both the employer and the employee, subject to a maximum relevant income of HK$30,000 per month (2024: HK$30,000). The Company's contributions under the MPF Scheme vest fully with the employees immediately upon payment. However, under the relevant legislation, such contributions and the accrued returns are required to be preserved until the employee reaches the retirement age of 65. The Company has no further obligation beyond the payment of these contributions.

*Mongolia*

For the Company's subsidiaries operating in Mongolia, employees are required to participate in the social insurance scheme operated by the local government. Under the Social Insurance Law of Mongolia, the subsidiaries are responsible for withholding 11.5% of employees' salary or similar income (the "Relevant Income") as the employee's contribution, and contributing between 12.5% and 14.5% of the Relevant Income as the employer's contribution. The employer's contributions are recognised in profit or loss as they become payable.

*People's Republic of China (PRC)*

The Company's subsidiaries operating in the PRC participate in a central pension scheme administered by the local municipal governments. These subsidiaries are required to contribute a specified percentage of their payroll costs to the scheme. Contributions are recognised in profit or loss as they become payable in accordance with the rules of the central pension scheme.

#### (b) Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and where employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset. A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave after deducting an amount already paid.

# 3. MATERIAL ACCOUNTING POLICY INFORMATION continued

## 3.20 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 consider that the Company has the ability to continue as a going concern. The assessment of the going concern assumption, as disclosed in Note 3.1, involves making judgements by the directors of the Company, at a particular point of the time, about the future outcome of events or conditions which are inherently uncertain. These include the financial ability of the affiliate of the Company's major shareholder to provide financial support to the Company for the settlement of payables, and the fluctuations international coal prices, which are subject to the developments in geopolitical tensions.

### (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 ("CGU")*

The Company determined that indicators of impairment existed for its Ovoot Tolgoi Mine CGU as at December 31, 2025. The impairment indicator was the uncertainty of future coal price in China.

During the year, its Ovoot Tolgoi Mine CGU in the mining operation was suffered from the decline of coal selling price, which had an adverse impact on the projected value in use of the operation concerned and consequently resulted in an impairment loss recorded on the CGU of $41,960. The pre-tax discount rate used to measure the CGU's value in use was 22.8%.

The Company conducted an impairment test whereby the carrying value of the Company's Ovoot Tolgoi Mine CGU was compared to the recoverable amount (being the "value in use") 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, 2025. The carrying value of the Company's Ovoot Tolgoi Mine CGU was $206,883 as at December 31, 2025.

The recoverable amounts of all the above CGUs have been determined from value in use calculations based on cash flow projections from formally approved budgets covering limited license period.

## 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

### 3.20 Significant accounting judgments and estimates continued

#### (b) Review of carrying value of assets and impairment charges continued

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

- Coal resources and reserves as estimated by an independent third-party mining consulting 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 pre-tax discount rate of 22.8% based on an analysis of the market, country and asset specific factors.

Operating margins have been based on past experience and future expectations in the light of anticipated economic and market conditions. Discount rates are based on the Company's beta adjusted to reflect management's assessment of specific risks related to the CGU. Growth rates are based on economic data pertaining to the region concerned.

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 CGU increases/(decreases) by approximately $11,300/(11,400);
- For each 1% increase/(decrease) in the post-tax discount rate, the calculated fair value of the CGU (decreases)/increases by approximately $(8,900)/9,400;
- For each 1% increase/(decrease) in the cash mining cost estimates, the calculated fair value of the CGU (decreases)/increases by approximately $(7,800)/7,700; and
- For each 1% increase/(decrease) in Mongolian inflation rate, the calculated fair value of the CGU (decreases)/increases by approximately $(4,200)/4,100.

If any one of the following changes were made to the above key assumptions, the carrying amount and recoverable amount would be equal.

#### (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 $22,488 as at December 31, 2025 (2024: $22,348).

#### (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.

# 3. MATERIAL ACCOUNTING POLICY INFORMATION continued

## 3.20 Significant accounting judgments and estimates continued

### (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.

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) 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.

### (g) 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

# 4. SEGMENT INFORMATION

The Company's Chief Executive Officer (chief operating decision maker) reviews the financial information in order to make decisions about resources to be allocated to the segment and to assess its performance. No operating segment identified by the Board 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 China and Mongolia for the years ended December 31, 2025 and 2024.

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, 2025 and 2024.

### Information about major customers

During the years ended December 31, 2025 and 2024, the Coal Division had 103 and 78 active customers, respectively. 1 customer with revenue contributed over 10% of the total revenue during the year ended December 31, 2025 and is accounting for 17% ($100,000) of the total revenue. 1 customer with revenue contributed over 10% of the total revenue during the year ended December 31, 2024 and is accounting for 15% ($74,434) of the total revenue.

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, 2025 | **$ 23** | **$ –** | **$ 598,796** | **$ 598,819** |
| For the year ended December 31, 2024 | 1,309 | – | 492,069 | 493,378 |
| **Non-current assets** | | | | |
| As at December 31, 2025 | **$ 242,703** | **$ 254** | **$ 910** | **$ 243,867** |
| As at December 31, 2024 | 274,372 | 467 | 1,335 | 276,174 |

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

(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/(loss) before tax is arrived at after charging/(crediting):

| | Year ended December 31, 2025 | 2024 |
|---|---|---|
| Depreciation | $ 48,577 | $ 20,890 |
| Auditors' remuneration | 675 | 877 |
| Employee benefit expense (including directors' remuneration) | | |
| Wages and salaries | $ 17,583 | $ 14,958 |
| Equity-settled share option expense (Note 30) | – | 63 |
| Pension scheme contributions | 2,670 | 2,102 |
| Provision for long service payment (Note 28) | 8 | 8 |
| | $ 20,261 | $ 17,131 |
| Short term lease payments under operating leases | $ 208 | $ 508 |
| Foreign exchange loss/(gain), net (Note 8) | (1,470) | 134 |
| Impairment loss/(reversal of impairment loss) on materials and supplies inventories (Note 17) | (1,204) | 231 |
| Impairment loss on coal stockpiles (Note 17) | 77,334 | – |
| Impairment loss on items of property, plant and equipment (Note 19) | 41,960 | – |
| Royalties (Note 7) | 43,074 | 51,377 |
| Management fee (Note 34) | 8,315 | 6,630 |
| Provision/(reversal of provision) for doubtful trade and other receivables (Note 16) | (67) | 10 |
| Loss/(gain) on disposal of items of property, plant and equipment, net | 2 | (261) |
| Written off of other payables (Note 8) | (6,272) | – |
| Gain on contract offsetting arrangement (Note 8) | (342) | (3,046) |
| Reversal of additional tax and tax penalty | | |
| Provision for additional late tax penalty | $ – | $ 8,797 |
| Reversal of additional tax penalty | – | (48,463) |
| | $ – | $ (39,666) |
| Mine operating costs and others | $ 500,985 | $ 284,621 |
| **Total operating expenses** | $ 732,036 | $ 339,436 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(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, 2025 | 2024 |
|---|---|---|
| Operating expenses | **$ 507,911** | $ 288,773 |
| Share-based compensation expense (Note 30) | **–** | 18 |
| Depreciation and depletion | **46,495** | 19,924 |
| Royalties | **43,074** | 51,377 |
| Cost of sales from mine operations | **597,480** | 360,092 |
| Cost of sales related to idled mine assets (i) | **1,239** | 496 |
| **Cost of sales** | **$ 598,719** | $ 360,588 |

(i) Cost of sales related to idled mine assets for the year ended December 31, 2025 includes $1,239 of depreciation expense (2024: $496). 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, 2025 totaled $463,526 (2024: $231,543).

# 8. OTHER OPERATING EXPENSES/(INCOME), NET

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

| | Year ended December 31, 2025 | 2024 |
|---|---|---|
| Management fee (Note 34) | **$ 8,315** | $ 6,630 |
| Provision/(reversal of provision) for doubtful trade and other receivables (Note 16) | **(67)** | 10 |
| Foreign exchange loss/(gain), net | **(1,470)** | 134 |
| Loss/(gain) on disposal of items of property, plant and equipment, net | **2** | (261) |
| Impairment loss/(reversal of impairment loss) on materials and supplies inventories (Note 17) | **(1,204)** | 231 |
| Written off of other payables (i) | **(6,272)** | – |
| Gain on contract offsetting arrangement | **(342)** | (3,046) |
| **Other operating expenses/(income), net** | **$ (1,038)** | $ 3,698 |

(i) The Company has written off of a significant other payable of $6,272 (2024: $nil) for which the contractual claim limitation period is expired as of the end of the reporting period pursuant to the relevant laws and regulations.

# 9. ADDITIONAL TAX AND TAX PENALTY

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 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.

## 9. ADDITIONAL TAX AND TAX PENALTY continued

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 applicable Mongolian laws, SGS is entitled to file an appeal to the Administrative Court of First Instance in Ulaanbaatar, Mongolia (the "Administrative Court of First Instance") 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 of First Instance.

On March 19, 2025, SGS received correspondence from the Administrative Court of First Instance requesting supplemental information regarding a court proceeding initiated by certain officers of the MTA (the "MTA Officials") against the TDRC. Upon further enquiry, SGS obtained a copy of an order dated March 7, 2025 issued by the Administrative Court of First Instance regarding commencement of court proceedings brought by the MTA Officials. The MTA Officials petitioned 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 "Proposed Case").

On April 25, 2025, SGS obtained a copy of an order dated April 15, 2025 (the "Latest Court Order") issued by the Administrative Court of First Instance refusing to accept the Proposed Case. According to the Latest Court Order, the Proposed Case was dismissed by the Administrative Court of First Instance. According to applicable Mongolian laws, the plaintiff is entitled to file an appeal to the appellate court, and the Company understood that the MTA Officials, as plaintiff in the Proposed Case, filed an appeal.

On June 9, 2025, SGS obtained a copy of a judgement dated May 27, 2025 (the "Appellate Court Judgement") issued by the Appellate Court for Administrative in Ulaanbaatar, Mongolia (the "Appellate Court"). As per the Appellate Court Judgement, the Appellate Court upheld the court order issued by the Judge of the Administrative Court of First Instance on April 15, 2025. As a result, the claim brought by the MTA Officials against the TDRC in an attempt to dispute or overturn the previous decision made by the TDRC regarding the Re-assessment Result has been dismissed and rejected. According to applicable Mongolian law, the Appellate Court Judgement shall be final and is not subject to further appeal.

In the prior year, the Company has recorded an additional tax and tax penalty in the amount of $45,477, which consists of a tax penalty payable of $26,527 and a provision for additional late tax penalty of $18,950. 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. To date, the Company has paid the MTA an aggregate of $22,201 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 MTA has a legal authority to demand payment of the outstanding amount of the Revised Re-assessment Result from the Company at its discretion.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(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, | |
|---|---|---|
| | **2025** | **2024** |
| Corporate administration | **$ 4,534** | $ 3,293 |
| Legal and professional fees | **2,484** | 2,836 |
| Salaries and benefits | **6,863** | 6,415 |
| Share-based compensation expense (Note 30) | **–** | 45 |
| Depreciation | **843** | 865 |
| **Administration expenses** | **$ 14,724** | $ 13,454 |

## 11. FINANCE COSTS AND INCOME

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

| | Year ended December 31, | |
|---|---|---|
| | **2025** | **2024** |
| Interest expense on convertible debenture (Note 26.4) | **$ 36,241** | $ 37,103 |
| Interest expense on interest-bearing borrowing | **711** | – |
| Interest elements on leased assets | **226** | 292 |
| Accretion of decommissioning liability | **667** | 371 |
| **Finance costs** | **$ 37,845** | $ 37,766 |

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

| | Year ended December 31, | |
|---|---|---|
| | **2025** | **2024** |
| Fair value gain on embedded derivatives in convertible debenture (Note 26.4) | **$ 62** | $ 298 |
| Gain on modification of convertible debenture (Note 26.4) | **1,890** | 3,187 |
| Interest income | **49** | 141 |
| **Finance income** | **$ 2,001** | $ 3,626 |

## 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, 2025 | 2024 |
|---|---|---|
| Current tax: | | |
| PRC Enterprise Income Tax ("EIT") | **$ 200** | $ 1,031 |
| Mongolian corporate income tax | **4,043** | 30,088 |
| **Income tax expenses** | **$ 4,243** | $ 31,119 |

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% (2024: 27%). A reconciliation between the Company's tax expense and the product of the Company's profit/(loss) before tax multiplied by the Company's domestic tax rate is as follows:

| | Year ended December 31, 2025 | 2024 |
|---|---|---|
| Profit/(loss) before tax | **$ (164,523)** | $ 123,616 |
| Statutory tax rate | **27%** | 27% |
| Income tax expenses/(credit) based on combined Canadian federal and provincial statutory rates | **(44,421)** | 33,376 |
| Tax effect of higher/(lower) effective tax rate in foreign jurisdictions | **1,974** | (1,953) |
| Underprovision/(overprovision) of income tax in the prior year | **82** | (9,890) |
| Tax effect of tax losses and temporary differences not recognised | **(900)** | 9,382 |
| Tax effect of withholding tax on intercompany interest | **1,730** | 1,814 |
| Tax effect of profit attributable to a joint venture | **(996)** | (807) |
| Tax effect of income not subject to tax | **(4,823)** | (6,029) |
| Tax effect of non-deductible expenses | **51,597** | 5,226 |
| **Income tax expenses** | **$ 4,243** | $ 31,119 |

## 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, 2025 | 2024 |
|---|---|---|
| Non-capital losses | **$ 213,459** | $ 205,660 |
| Capital losses | **30,049** | 30,049 |
| Foreign exchange and others | **317,543** | 320,975 |
| **Total unrecognised amounts** | **$ 561,051** | $ 556,684 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(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, 2025 | |
|---|---|---|---|
| | | **U.S. Dollar Equivalent** | **Expiry dates** |
| **Non-capital losses** | | | |
| Canada | **$** | **191,545** | 2043 – 2045 |
| China | | **21,914** | 2030 |
| | **$** | **213,459** | |
| **Capital losses** | | | |
| Canada | **$** | **30,049** | Indefinite |

| | | 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 |

### 12.4 Pillar Two income taxes

In 2021, the Organisation for Economic Co-operation and Development published the Global Anti-Base Erosion Model Rules ("Pillar Two Model Rules") for a new global minimum tax reform applicable to large multinational enterprises. The Company operates in jurisdictions where the Pillar Two Model Rules have either been enacted or are already effective. However, as the Company's estimated effective tax rates of all jurisdictions in which the Company operates are higher than 15%, after taking into account the adjustments under the Pillar Two Model Rules based on management's best estimate, the directors of the Company considered the Company is not liable to top-up tax under the Pillar Two Model Rules.

The Company has applied the temporary mandatory exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes and accounted for the tax as current tax when incurred.

(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, 2025 | 2024 |
|---|---|---|
| Directors' fees | $ 254 | $ 281 |
| Other emoluments for executive and non-executive directors | | |
| Salaries and other benefits | 840 | 1,113 |
| Retirement Scheme Contributions | 69 | 68 |
| **Directors' emoluments** | $ 1,163 | $ 1,462 |

## Year ended December 31, 2025

| Name of director | Directors' fees | Salaries and other benefits | Share-based compensation | Pension and social insurance contributions | Total |
|---|---|---|---|---|---|
| **Executive directors** | | | | | |
| Ruibin Xu | $ – | $ 280 | $ – | $ 22 | $ 302 |
| Chonglin Zhu | – | 280 | – | 22 | 302 |
| Chen Shen | – | 280 | – | 22 | 302 |
| | $ – | $ 840 | $ – | $ 66 | $ 906 |
| **Non-executive directors** | | | | | |
| Fan Keung Vic Choi | $ 75 | $ – | $ – | $ – | $ 75 |
| Zhu Gao | 3 | – | – | – | 3 |
| Yingbin Ian He | 98 | – | – | 3 | 101 |
| Jin Lan Quan | 75 | – | – | – | 75 |
| Zaixiang Wen | 3 | – | – | – | 3 |
| | $ 254 | $ – | $ – | $ 3 | $ 257 |
| **Directors' emoluments** | $ 254 | $ 840 | $ – | $ 69 | $ 1,163 |

## 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 continued

### 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.

### Five highest paid individuals

The five highest paid individuals included three directors of the Company for the year ended December 31, 2025 (2024: three directors). The emoluments of the five highest paid individuals are as follows:

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | | 2025 | | 2024 |
| Salaries and other benefits | **$** | **1,302** | $ | 1,560 |
| Share-based compensation | | **–** | | 63 |
| **Total emoluments** | **$** | **1,302** | $ | 1,623 |

The emoluments for the five highest paid individuals were within the following bands:

| | Year ended December 31, | |
|---|---|---|
| | 2025 | 2024 |
| HK$ 1,500,001 to HK$ 2,000,000 | **2** | 2 |
| HK$ 2,000,001 to HK$ 2,500,000 | **3** | – |
| HK$ 2,500,001 to HK$ 3,000,000 | **–** | – |
| HK$ 3,000,001 to HK$ 3,500,000 | **–** | 3 |
| | **5** | 5 |

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

## 14. EARNINGS/(LOSS) PER SHARE

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

| | Year ended December 31, | |
|---|---|---|
| | **2025** | **2024** |
| Net profit/(loss) | **$ (168,766)** | $ 92,497 |
| Weighted average number of shares | **296,705** | 296,618 |
| **Basic earnings/(loss) per share** | **$ (0.569)** | $ 0.312 |
| **Earnings/(loss)** | | |
| Profit/(loss) for the purposes of diluted earnings/(loss) per share | **$ (168,766)** | $ 92,497 |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purposes of basic earnings/(loss) per share | **296,705** | 296,618 |
| Effect of dilutive potential ordinary shares: | | |
| – Share options | **–** | 1,278 |
| Weighted average number of ordinary shares for the purposes of diluted earnings/(loss) per share | **296,705** | 297,896 |
| **Diluted earnings/(loss) per share** | **$ (0.569)** | $ 0.311 |

Potentially dilutive items not included in the calculation of diluted loss per share for the year ended December 31, 2025 include the underlying shares comprised in the convertible debenture (Note 26) and stock options (Note 30) that were anti-dilutive.

## 15. CASH AND CASH EQUIVALENTS

| | As at December 31, | |
|---|---|---|
| | **2025** | **2024** |
| Cash and bank balances | **$ 13,228** | $ 8,864 |
| Less: Restricted cash [(i)] | **(853)** | (274) |
| **Cash and cash equivalents** | **$ 12,375** | $ 8,590 |

(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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(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, 2025 | 2024 |
|---|---|---|
| Denominated in U.S. Dollars | $ 55 | $ 99 |
| Denominated in Chinese Renminbi | 10,197 | 6,271 |
| Denominated in Mongolian Tugriks | 1,809 | 1,962 |
| Denominated in Canadian Dollars | 97 | 25 |
| Denominated in Hong Kong Dollars | 217 | 233 |
| **Cash** | **$ 12,375** | $ 8,590 |

# 16. TRADE AND OTHER RECEIVABLES

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

| | As at December 31, 2025 | 2024 |
|---|---|---|
| Trade receivables | $ 19,714 | $ 25,418 |
| Other receivables | 3,986 | 2,114 |
| Bills receivables | 441 | 3,954 |
| **Total trade and other receivables** | **$ 24,141** | $ 31,486 |

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, 2025 | 2024 |
|---|---|---|
| Less than 1 month | $ 22,710 | $ 28,630 |
| 1 to 3 months | 1,413 | 2,856 |
| 3 to 6 months | 18 | – |
| **Total trade and other receivables** | **$ 24,141** | $ 31,486 |

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 $22,488 as at December 31, 2025 (December 31, 2024: $22,348), 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, 2025 reconcile to the opening loss allowances as follows:

| | |
|---|---|
| **Loss allowance for trade and other receivables** | |
| **Opening loss allowance as at January 1, 2025** | **$ 22,348** |
| Decrease in loss allowance recognised in profit or loss during the year (Note 8) | **(67)** |
| Exchange realignment | **207** |
| **Closing loss allowance as at December 31, 2025** | **$ 22,488** |
| **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** |

(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, 2025 | 2024 |
|---|---|---|
| **Current inventories** | | |
| Coal stockpiles | **$ 53,501** | $ 90,390 |
| Materials and supplies | **15,099** | 16,856 |
| **Total inventories** | **$ 68,600** | $ 107,246 |

For the year ended December 31, 2025, the Company recognised an impairment loss on coal stockpiles of $77,334 (2024: $nil) and a reversal of impairment loss on materials and supplies inventories of $1,204 (2024: impairment loss on materials and supplies inventories of $231).

The reversal of impairment loss on materials and supplies inventories is due to the reuse of certain spare parts that were previously impaired for certain mining equipment's repair and maintenance purposes.

Due to the weakened market demand from China since the second half of 2024, the Company was suffering from a decline of its coal selling price. As a result, the Company performed an impairment loss assessment on its coal products and an impairment loss on coal stockpiles of $77,334 was recorded during the year ended December 31, 2025 (2024: $nil).

The Company will continue to closely monitor the market condition, reassess any potential impairment loss indicators and its financial impact subsequently and will consider to make any further adjustment when necessary.

## 18. PREPAID EXPENSES

The Company's prepaid expenses consist of the following amounts:

| | As at December 31, 2025 | 2024 |
|---|---|---|
| Vendor prepayments | **$ 4,265** | $ 4,644 |
| Other prepaid expenses | **1,476** | 1,439 |
| **Total prepaid expenses** | **$ 5,741** | $ 6,083 |

For the year ended December 31, 2025, the Company did not record any impairment on vendor prepayments (2024: $nil).

## 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

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, 2025 | $ 219,568 | $ 23,171 | $ 64,843 | $ 5,881 | $ 337,495 | $ 14,104 | $ 665,062 |
| Additions | **5,159** | **2,108** | **215** | **362** | **65,066** | **225** | **73,135** |
| Disposals | **(6,357)** | **(423)** | **(15)** | **–** | **–** | **–** | **(6,795)** |
| Reallocation | **–** | **1,406** | **3,274** | **–** | **–** | **(4,680)** | **–** |
| Exchange realignment | **(8,995)** | **(1,081)** | **(2,627)** | **(234)** | **(10,514)** | **(483)** | **(23,934)** |
| **As at December 31, 2025** | **$ 209,375** | **$ 25,181** | **$ 65,690** | **$ 6,009** | **$ 392,047** | **$ 9,166** | **$ 707,468** |
| **Accumulated depreciation and impairment charges** | | | | | | | |
| As at January 1, 2025 | $ (204,763) | $ (21,008) | $ (58,019) | $ (2,771) | $ (134,937) | $ – | $ (421,498) |
| Depreciation for the year | **(6,983)** | **(1,138)** | **(1,217)** | **(1,276)** | **(53,943)** | **–** | **(64,557)** |
| Eliminated on disposals | **6,357** | **421** | **15** | **–** | **–** | **–** | **6,793** |
| Impairment charges | **(2,062)** | **(745)** | **(1,491)** | **(349)** | **(35,768)** | **(1,545)** | **(41,960)** |
| Exchange realignment | **8,444** | **959** | **2,374** | **110** | **8,750** | **–** | **20,637** |
| **As at December 31, 2025** | **$ (199,007)** | **$ (21,511)** | **$ (58,338)** | **$ (4,286)** | **$ (215,898)** | **$ (1,545)** | **$ (500,585)** |
| **Carrying amount** | | | | | | | |
| As at January 1, 2025 | $ 14,805 | $ 2,163 | $ 6,824 | $ 3,110 | $ 202,558 | $ 14,104 | $ 243,564 |
| **As at December 31, 2025** | **$ 10,368** | **$ 3,670** | **$ 7,352** | **$ 1,723** | **$ 176,149** | **$ 7,621** | **$ 206,883** |

| | 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 |

(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, 2025, most of the Company's mobile equipment, buildings and other operating equipment with carrying amount of $12,071 (December 31, 2024: $11,350) were pledged as securities of convertible debenture, and buildings with carrying amount of $2,244 (December 31, 2024: $nil) were pledged as securities of interest-bearing borrowing. These pledged buildings were released from the convertible debenture securities accordingly.

## 19.3 Right-of-use assets

The right-of-use assets relate to the buildings, plant and equipment as at December 31, 2025 and 2024.

## 19.4 Impairment charges

Impairment loss of $41,960 was made during the year ended December 31, 2025 (2024: $nil).

# 20. INVESTMENT IN A JOINT VENTURE

The Company's investment consists of the following amounts:

| | As at December 31, | |
|---|---|---|
| | 2025 | 2024 |
| **Non-current investment in a joint venture** | | |
| Investment in RDCC LLC | **$ 15,632** | $ 12,400 |
| **Total investments** | **$ 15,632** | $ 12,400 |

The Company has a 40% interest in RDCC LLC, a joint venture. RDCC LLC has a concession agreement with the State Property Committee of Mongolia to construct a paved highway from the Company's Ovoot Tolgoi Mine to the Chinese-Mongolian border for the exclusive use of third party coal transport companies. In October 2012, the concession agreement was structured as a 17-year build, operate and transfer agreement. The construction was completed in 2014 and operations commenced in the second quarter of 2015. On September 17, 2015, the Invest Mongolia Agency signed an amendment to the concession agreement with RDCC LLC to extend the exclusive right of ownership to 30 years.

The movement of the Company's investment in RDCC LLC is as follows:

| | Year ended December 31, | |
|---|---|---|
| | 2025 | 2024 |
| Balance, beginning of year | **$ 12,400** | $ 11,834 |
| Dividend received | **(288)** | (2,623) |
| Share of earning of a joint venture | **3,982** | 3,227 |
| Exchange realignment | **(462)** | (38) |
| **Balance, end of year** | **$ 15,632** | $ 12,400 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 20. INVESTMENT IN A JOINT VENTURE 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, 2025 | 2024 |
|---|---|---|
| Current assets | **$ 12,886** | $ 11,682 |
| Non-current assets | **26,022** | 17,115 |
| **Total assets** | **$ 38,908** | $ 28,797 |
| Current liabilities | **$ (3,409)** | $ (3,765) |
| **Total liabilities** | **$ (3,409)** | $ (3,765) |

| | Year ended December 31, 2025 | 2024 |
|---|---|---|
| Revenue | **$ 16,403** | $ 12,888 |
| Gross profit | **13,159** | 10,192 |
| Other operating and finance costs | **(597)** | (272) |
| Profit before tax | **12,562** | 9,920 |
| Income tax expenses | **(2,607)** | (1,854) |
| **Net profit** | **$ 9,955** | $ 8,066 |
| Other comprehensive income | **$ –** | $ – |
| **Total comprehensive income** | **$ 9,955** | $ 8,066 |

The movement of the Company's investment in Shiveekhuren Terminal LLC is as follows:

| | Year ended December 31, 2025 | 2024 |
|---|---|---|
| Balance, beginning of year | **$ –** | $ 3,344 |
| Transfer to investment in an associate | **–** | (3,344) |
| **Balance, end of year** | **$ –** | $ – |

## 21. INVESTMENTS IN ASSOCIATES

The Company's investments consist of the following amounts:

| | As at December 31, 2025 | 2024 |
|---|---|---|
| **Non-current investments in associates** | | |
| Investment in Nariinsukhait Railway LLC | **$ 16,829** | $ 16,290 |
| Investment in Shiveekhuren Terminal LLC | **4,523** | 3,920 |
| **Total investments** | **$ 21,352** | $ 20,210 |

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

## 21. INVESTMENTS IN ASSOCIATES continued

The movement of the Company's investment in Nariinsukhait Railway LLC ("Nariinsukhait") is as follows:

| | Year ended December 31, | |
|---|---|---|
| | 2025 | 2024 |
| Balance, beginning of year | $ 16,290 | $ 8,086 |
| Fund contributions | 1,310 | 8,299 |
| Share of earning/(loss) of an associate | (159) | 3 |
| Exchange realignment | (612) | (98) |
| **Balance, end of year** | **$ 16,829** | $ 16,290 |

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, | |
|---|---|---|
| | 2025 | 2024 |
| Current assets | $ 73,427 | $ 69,414 |
| Non-current assets | 119 | 627 |
| **Total assets** | **$ 73,546** | $ 70,041 |
| Current liabilities | $ (7,007) | $ (5,844) |
| Non-current liabilities | (24,489) | (23,493) |
| **Total liabilities** | **$ (31,496)** | $ (29,337) |

| | Year ended December 31, | |
|---|---|---|
| | 2025 | 2024 |
| Revenue | $ – | $ – |
| Gross profit | – | – |
| Other operating and finance income/(expenses) | (396) | 11 |
| Profit/(loss) before tax | (396) | 11 |
| Income tax expenses | (3) | (2) |
| **Net profit/(loss)** | **$ (399)** | $ 9 |
| Other comprehensive income | $ – | $ – |
| **Total comprehensive income/(loss)** | **$ (399)** | $ 9 |

## 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 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:

| | Year ended December 31, | |
|---|---|---|
| | **2025** | **2024** |
| Balance, beginning of year | **$ 3,920** | $ – |
| Transfer from investment in a joint venture | **–** | 3,344 |
| Share of earning of an associate | **715** | 584 |
| Exchange realignment | **(112)** | (8) |
| **Balance, end of year** | **$ 4,523** | $ 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, | |
|---|---|---|
| | **2025** | **2024** |
| Current assets | **$ 7,486** | $ 9,785 |
| Non-current assets | **27,190** | 21,823 |
| **Total assets** | **$ 34,676** | $ 31,608 |
| Current liabilities | **$ (4,716)** | $ (4,872) |
| **Total liabilities** | **$ (4,716)** | $ (4,872) |

| | Year ended December 31, | |
|---|---|---|
| | **2025** | **2024** |
| Revenue | **$ 10,153** | $ 9,414 |
| Gross profit | **9,205** | 8,644 |
| Other operating and finance costs | **(3,034)** | (3,350) |
| Profit before tax | **6,171** | 5,294 |
| Income tax expenses | **(1,290)** | (1,252) |
| **Net profit** | **$ 4,881** | $ 4,042 |
| Other comprehensive income | **$ –** | $ – |
| **Total comprehensive income** | **$ 4,881** | $ 4,042 |

(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, | |
|---|---|---|
| | **2025** | **2024** |
| Less than 1 month | **$ 63,802** | $ 53,646 |
| 1 to 3 months | **45,091** | 50,936 |
| 3 to 6 months | **19,530** | 18,205 |
| Over 6 months | **89,744** | 46,494 |
| **Total trade and other payables** | **$ 218,167** | $ 169,281 |

The trade and other payables of $218,167 (2024: $169,281) included other tax payables of $35,641 (2024: $55,225).

## 23. DEFERRED REVENUE

At December 31, 2025, the Company had deferred revenue of $52,583, which represents cash prepayments from customers for future coal sales (2024: $34,350).

The movement of the Company's deferred revenue is as follows:

| | Year ended December 31, | |
|---|---|---|
| | **2025** | **2024** |
| Balance, beginning of year | **$ 34,350** | $ 65,670 |
| Revenue recognised that was included in the deferred revenue balance | **(34,256)** | (65,508) |
| Repayment of trade deposits | **(16,191)** | (8,435) |
| Increase due to trade deposits received, excluding amounts recognised as revenue during the year | **66,045** | 44,157 |
| Exchange realignment | **2,635** | (1,534) |
| **Balance, end of year** | **$ 52,583** | $ 34,350 |

The performance obligation related to the revenue from customers for contracts that are unsatisfied (or partially unsatisfied) are expected to be recognised within one year after the reporting date. The Company applies the practical expedient and does not disclose information about any remaining performance obligation that is a part of contract that has original expected duration of one year or less.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

# 24. INTEREST-BEARING BORROWING

| | As at December 31, 2025 | 2024 |
|---|---|---|
| **Current interest-bearing borrowing** | | |
| Bank loan [(i)] | **$ 11,136** | $ – |
| **Non-current interest-bearing borrowing** | | |
| Bank loan [(i)] | **22,269** | – |
| **Total interest-bearing borrowing** | **$ 33,405** | $ – |

## (i) Bank Loan

On October 7, 2025, SGS has entered into a bank loan (the "2025 Bank Loan") for a principal amount of up to RMB235,000,000 (equivalent to approximately $33,075) from Khan Bank JSC (the "Bank") with the key commercial terms as follows:

- Maturity date set at 18 months from drawdown (the "Term");
- Interest rate of 10% per annum on the outstanding principal and interest is calculated on a 365-day year basis;
- Loan repayments will consist of interest-only payments during the initial 12 months of the Term, followed by principal amortisation payments during months 13 to 18 of the Term;
- Certain items of property, plant and equipment with carrying amount of $2,244, land-use rights and intangible assets were pledged as security for the 2025 Bank Loan; and
- The Company intends to use the proceeds of the 2025 Bank Loan to support working capital, operating expenses, taxes and the settlement of accounts payable of SGS.

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

## 25. 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, 2025, the total future minimum lease payments and their present values were as follows:

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | As at December 31, | | As at December 31, | |
| | 2025 | 2024 | 2025 | 2024 |
| Amounts payable: | | | | |
| Within one year | **$ 978** | $ 1,213 | **$ 820** | $ 1,023 |
| In the second year | **681** | 726 | **604** | 622 |
| In the third to fifth year, inclusive | **301** | 603 | **283** | 547 |
| Total minimum lease payments | **$ 1,960** | $ 2,542 | **$ 1,707** | $ 2,192 |
| Future finance charges | **(253)** | (350) | | |
| **Total net lease payables** | **$ 1,707** | $ 2,192 | | |
| **Portion classified as current liabilities** | **(819)** | (850) | | |
| **Non-current portion** | **$ 888** | $ 1,342 | | |

## 26. CONVERTIBLE DEBENTURE

### 26.1 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, 2025.

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)

# 26. CONVERTIBLE DEBENTURE continued

## 26.1 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)

## 26. CONVERTIBLE DEBENTURE continued

### 26.2 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.

### 26.3 Valuation assumptions

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

| | As at December 31, | |
|---|---|---|
| | **2025** | **2024** |
| Floor conversion price | **CA$8.88** | CA$8.88 |
| Ceiling conversion price | **CA$11.88** | CA$11.88 |
| Common share price | **CA$0.21** | CA$0.56 |
| Historical volatility | **20%** | 25% |
| Risk free rate of return | **3.79%** | 3.48% |
| Foreign exchange spot rate (CA$ to U.S. Dollar) | **0.729** | 0.695 |
| Forward foreign exchange rate curve (CA$ to U.S. Dollar) | **0.729 to 0.893** | 0.695 to 0.930 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 26. CONVERTIBLE DEBENTURE continued

### 26.4 Presentation

Based on the Company's valuation as at December 31, 2025, the fair value of the embedded derivatives decreased by $62 (2024: decreased by $298) compared to December 31, 2024. The decrease was recorded as finance income for the year ended December 31, 2025.

For the year ended December 31, 2025, the Company recorded interest expense of $36,241 related to the convertible debenture as a finance cost (2024: $37,103). 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 $1,890 was recognised in profit or loss for the year ended December 31, 2025 (2024: $3,187) for the difference between the original contractual cash flows and modified cash flows under the 2025 March Deferral Agreement (as defined in Note 26.5) discounted at the new effective interest rate.

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

| | Year ended December 31, | |
|---|---|---|
| | **2025** | **2024** |
| Balance, beginning of year | **$ 204,918** | $ 194,300 |
| Interest expense on convertible debenture (Note 11) | **36,241** | 37,103 |
| Decrease in fair value of embedded derivatives (Note 11) | **(62)** | (298) |
| Gain on modification of convertible debenture (Note 11) | **(1,890)** | (3,187) |
| Interest paid | **(5,500)** | (23,000) |
| **Balance, end of year** | **$ 233,707** | $ 204,918 |

The convertible debenture balance consists of the following amounts:

| | As at December 31, | |
|---|---|---|
| | **2025** | **2024** |
| **Current convertible debenture** | | |
| Interest payable | **$ 140,328** | $ 120,651 |
| | **140,328** | 120,651 |
| **Non-current convertible debenture** | | |
| Debt host and interest payable | **$ 93,378** | $ 84,204 |
| Fair value of embedded derivatives | **1** | 63 |
| | **93,379** | 84,267 |
| **Total convertible debenture** | **$ 233,707** | $ 204,918 |

# 26. CONVERTIBLE DEBENTURE continued

## 26.5 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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)

# 26. CONVERTIBLE DEBENTURE continued

## 26.5 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.

## 26. CONVERTIBLE DEBENTURE continued

### 26.5 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 2025 March Deferral Agreement was approved by the Company's disinterested shareholders at the annual general meeting ("AGM") of shareholders convened on June 27, 2025.

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)

# 26. CONVERTIBLE DEBENTURE continued

### 26.5 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.

On March 23, 2026, the Company and JDZF entered into the an agreement (the "2026 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 $140,500 which will be due and payable to JDZF on or before August 31, 2026 pursuant to the deferral agreement dated March 20, 2025; (ii) semi-annual cash interest payment of approximately $7,900 payable to JDZF on May 19, 2026 under the Convertible Debenture; (iii) semi-annual cash interest payments of approximately $8,100 payable to JDZF on November 19, 2026 and the $4,000 in PIK Interest payable to JDZF on November 19, 2026 under the Convertible Debenture; and (iv) management fees in the aggregate amount of approximately $7,600 payable to JDZF on May 16, 2026, August 15, 2026, November 15, 2026 and February 15, 2027, respectively, under the Amended and Restated Cooperation Agreement (collectively, the "2026 March Deferred Amounts").

The effectiveness of the 2026 March Deferral Agreement and the respective covenants, agreements and obligations of each party under the 2026 March Deferral Agreement are subject to the Company obtaining the requisite approval of the 2026 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 2026 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 2026 March Deferral Agreement are as follows:

- Payment of the 2026 March Deferred Amounts will be deferred until August 31, 2027 (the "2026 March Deferral Agreement Deferral Date").

- As consideration for the deferral of the 2026 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 2026 March Deferred Amounts, commencing on the date on which each such 2026 March Deferred Amounts would otherwise have been due and payable under the Convertible Debenture.

- As consideration for the deferral of the 2026 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 2026 March Deferred Amounts commencing on the date on which each such 2026 March Deferred Amounts would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.

## 26. CONVERTIBLE DEBENTURE continued

### 26.5 Interest deferral and settlement continued

- The 2026 March Deferral Agreement does not contemplate a fixed repayment schedule for the 2026 March Deferred Amounts or related deferral fees. Instead, the 2026 March Deferral Agreement requires the Company to use its best efforts to pay the 2026 March Deferred Amounts and related deferral fees due and payable under the 2026 March Deferral Agreement to JDZF. During the period beginning as of the effective date of the 2026 March Deferral Agreement and ending as of the 2026 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 2026 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 2026 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.

### 26.6 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, 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

# 27. DECOMMISSIONING LIABILITY

At December 31, 2025, 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, 2025 totaled $22,446 (2024: $16,313). The estimated future reclamation and closure costs are inflated using an estimated inflation rate of 7.5% (2024: 7.5%) and discounted at 16% per annum (2024: 16% 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, 2025 and 2024 were as follows:

| | Year ended December 31, | |
|---|---|---|
| | **2025** | **2024** |
| Balance, beginning of year | **$ 12,245** | $ 9,939 |
| Adjustments | **5,166** | 1,981 |
| Accretion | **667** | 371 |
| Exchange realignment | **(510)** | (46) |
| **Balance, end of year** | **$ 17,568** | $ 12,245 |

# 28. LONG SERVICE PAYMENT LIABILITIES

The Company operates a mandatory provident fund scheme (the "MPF Scheme") for the employees in Hong Kong. In addition, the employees employed under the Hong Kong Employment Ordinance are also entitled to long service payment ("LSP") if the eligibility criteria are met.

| | As at December 31, | |
|---|---|---|
| | **2025** | **2024** |
| **Total long service payment liabilities** | **$ 37** | $ 29 |

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.

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

## 28. 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, 2025, the Company employed 9 permanent employees in Hong Kong that is subject to LSP consideration (2024: 9).

The movements of the provision of long service payments recognised in the consolidated statement of financial position are as follows:

| | Year ended December 31, | |
|---|---|---|
| | **2025** | **2024** |
| Balance, beginning of year | **$ 29** | $ 26 |
| Current service cost | **8** | 8 |
| Benefits paid | **–** | (5) |
| **Balance, end of year** | **$ 37** | $ 29 |

The principal actuarial assumptions used are as follows:

| | Year ended December 31, | |
|---|---|---|
| | **2025** | **2024** |
| Discount rate | **2.02% p.a.** | 2.02% p.a. |
| Expected rate of future salary increase | **3%** | 3% |

Expected contributions to the LSP obligation by the Company for the year ended December 31, 2025 after the offset the accrued MPF account balance is approximately $405 (2024: $405).

## 29. EQUITY

### 29.1 Share capital

The Company has authorised an unlimited number of common and preferred shares with no par value. At December 31, 2025, the Company had 296,705 common shares outstanding (2024: 296,705) and no preferred shares outstanding (2024: nil).

| | As at December 31, | | | |
|---|---|---|---|---|
| | **2025** | | **2024** | |
| **Ordinary share issued at fully paid** | **Number of shares/units** | **Share capital** | **Number of shares/units** | **Share capital** |
| Balance, beginning of year | **296,705** | **$ 1,102,053** | 295,278 | $ 1,101,771 |
| Shares issued under share options (Note 30) | **–** | **–** | 1,427 | 282 |
| **Balance, end of year** | **296,705** | **$ 1,102,053** | 296,705 | $ 1,102,053 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

# 29. EQUITY continued

### 29.2 Exchange fluctuation reserve

Gains/losses arising on retranslating the net assets of foreign operations into presentation currency.

### 29.3 Accumulated deficit and dividends

At December 31, 2025, the Company has accumulated a deficit of $1,317,991 (2024: $1,149,222). 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, 2025 (2024: $nil).

# 30. SHARE-BASED PAYMENTS

### 30.1 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, 2025, the Company did not grant any stock options to officers, employees, directors and other eligible persons (2024: nil).

The weighted average assumptions used for the Black-Scholes option pricing model were as follows:

| | Year ended December 31, | |
|---|---|---|
| | **2025** | **2024** |
| 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.

There is no share-based compensation expense for the year ended December 31, 2025 (2024: $63). No share-based compensation expense (2024: $45) has been allocated to administration expenses and no share-based compensation expense (2024: $18) has been allocated to cost of sales.

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

# 30. SHARE-BASED PAYMENTS continued

## 30.2 Outstanding stock options

The option transactions under the stock option plan are as follows:

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | 2025 | | 2024 | |
| | Number of options | Weighted average exercise price (CA$) | Number of options | Weighted average exercise price (CA$) |
| Balance, beginning of year | **1,207** | **$ 0.22** | 3,213 | $ 0.19 |
| Options exercised | **–** | **–** | (1,427) | 0.17 |
| Options expired | **(250)** | **0.22** | (579) | 0.14 |
| **Balance, end of year** | **957** | **$ 0.22** | 1,207 | $ 0.22 |

The stock options outstanding and exercisable are as follows:

| | As at December 31, 2025 | | | | | |
|---|---|---|---|---|---|---|
| | 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) |
| $1.41 | **957** | **$ 1.41** | **0.49** | **957** | **$ 1.41** | **0.49** |
| Total | **957** | | **0.49** | **957** | | **0.49** |

| | 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 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 30. SHARE-BASED PAYMENTS continued

### 30.3 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, 2025 and 2024, 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.

## 31. RESERVES

### 31.1 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 30.

The share option reserve transactions for the years ended December 31, 2025 and 2024 are as follows:

| | Year ended December 31, | |
|---|---|---|
| | 2025 | 2024 |
| Balance, beginning of year | **$ 52,998** | $ 53,030 |
| Exercise of stock options | **–** | (95) |
| Share-based compensation charged to operations | **–** | 63 |
| **Balance, end of year** | **$ 52,998** | $ 52,998 |

### 31.2 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.

## 32. 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.

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

## 32. CAPITAL RISK MANAGEMENT continued

At December 31, 2025, the Company's capital structure consists of interest-bearing borrowing (Note 24), lease liabilities (Note 25), convertible debenture (Note 26) and the equity of the Company (Note 29). 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, 2025 | 2024 |
|---|---|---|
| Debt | **$ 582,812** | $ 479,696 |
| Cash and cash equivalents | **(12,375)** | (8,590) |
| **Net debt** | **$ 570,437** | $ 471,106 |
| **Equity** | **$ (227,235)** | $ (49,843) |
| **Net debt to equity ratio** | **-251%** | -945% |

For the year ended December 31, 2025, 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, 2025, the Company had cash and cash equivalents of $12,375 (December 31, 2024: $8,590).

## 33. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

### 33.1 Categories of financial instruments

The Company's financial assets and financial liabilities are categorised as follows:

| | As at December 31, 2025 | 2024 |
|---|---|---|
| **Financial assets** | | |
| At amortised cost | | |
| Cash and cash equivalents | **$ 12,375** | $ 8,590 |
| Restricted cash | **853** | 274 |
| Trade and other receivables (Note 16) | **24,141** | 31,486 |
| **Total financial assets** | **$ 37,369** | $ 40,350 |
| **Financial liabilities** | | |
| Fair value through profit or loss | | |
| Convertible debenture – embedded derivatives (Note 26) | **$ 1** | $ 63 |
| At amortised cost | | |
| Trade and other payables (Note 22) | **218,167** | 169,281 |
| Interest-bearing borrowing (Note 24) | **33,405** | – |
| Lease liabilities (Note 25) | **1,707** | 2,192 |
| Convertible debenture – debt host (Note 26) | **233,706** | 204,855 |
| **Total financial liabilities** | **$ 486,986** | $ 376,391 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

# 33. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS continued

## 33.2 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 26) is determined using a Monte Carlo simulation. None of the fair value change in the embedded derivatives for the year ended December 31, 2025 is related to a change in the credit risk of the convertible debenture. All of the change in fair value is associated with changes in market conditions.

The following table provides an analysis of the Company's financial instruments that are measured and disclosed subsequent to initial recognition at fair value, grouped into Level 1 to 3 based on the degree to which the inputs used to determine the fair value are observable.

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1, that are observable either directly or indirectly.

- Level 3 fair value measurements are those derived from valuation techniques that include inputs that are not based on observable market data.

| | As at December 31, 2025 | | | |
|---|---|---|---|---|
| **Recurring measurements** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Financial liabilities measured at fair value** | | | | |
| Convertible debenture – embedded derivatives | **$ –** | **$ –** | **$ 1** | **$ 1** |
| **Total financial liabilities measured at fair value** | **$ –** | **$ –** | **$ 1** | **$ 1** |

| | As at December 31, 2024 | | | |
|---|---|---|---|---|
| **Recurring measurements** | **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 |

There were no transfers between Level 1, 2 and 3 for the year ended December 31, 2025 (2024: nil).

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

# 33. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS continued

## 33.3 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, | |
|---|---|---|
| | 2025 | 2024 |
| **Increase/decrease in foreign exchange rate against respective functional currency** | | |
| +5% | **$ (1,573)** | $ 273 |
| –5% | **$ 1,573** | $ (273) |

### 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% (2024: 3%).

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.

The Company has certain bank borrowings and lease liabilities which are entitled to fixed interest rates. Those arrived at variable rates expose the Company to cash flow interest rate risk whereas those carried at fixed rates expose the Company to fair value interest rate risk.

### 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, 2025 or 2024 respectively and the corresponding historical credit losses experienced within this period as well as the forecast regarding the industry environment.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 33. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS continued

### 33.3 Financial risk management objectives and policies continued

#### Credit risk continued

On that basis, the loss allowance as at December 31, 2025 and 2024 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, 2025** | | | | | |
| Expected loss rate | (i) | (i) | 10% | 100% | |
| Gross carrying amount – trade and other receivables | **$ 22,710** | **$ 1,413** | **$ 20** | **$ 22,486** | **$ 46,629** |
| Loss allowance | **$ –** | **$ –** | **$ 2** | **$ 22,486** | **$ 22,488** |
| **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 |

(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, 2025, 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)

# 33. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS continued

## 33.3 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, 2025** | | | | | | |
| Trade and other payables | **$ 218,167** | **$ –** | **$ –** | **$ –** | **$ 218,167** | **$ 218,167** |
| Interest-bearing borrowing [(i)] | **1,666** | **12,765** | **22,733** | **–** | **37,164** | **33,405** |
| Lease liabilities [(i)] | **489** | **489** | **983** | **–** | **1,961** | **1,707** |
| Convertible debenture – cash interest [(i)] | **15,437** | **14,656** | **100,000** | **410,000** | **540,093** | **233,707** |
| | **$ 235,759** | **$ 27,910** | **$ 123,716** | **$ 410,000** | **$ 797,385** | **$ 486,986** |
| **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 |

(i) The expected undiscounted cash flows of the above noted financial liabilities include the cash interest payment on the interest-bearing borrowing, lease liabilities and convertible debenture for the years ended December 31, 2025 and December 31, 2024. Refer to Note 24, Note 25 and Note 26 for the terms of interest-bearing borrowing, lease liabilities and convertible debenture, respectively.

# 34. 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, 2025 | 2024 |
|---|---|---|---|
| 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% |
| Alxa League South Gobi Coal Industry Co., Ltd. [(i)] | China | **100%** | N/A |

(i) SouthGobi Trading (Beijing) Co., Ltd., Inner Mongolia SouthGobi Energy Co., Ltd. and Alxa League South Gobi Coal Industry Co., Ltd. were registered as a wholly-foreign-owned enterprise under law of China.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 34. RELATED PARTY TRANSACTIONS continued

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, 2025 and 2024:

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

During the year ended December 31, 2025, management fee of $8,315 was recorded in profit or loss (2024: $6,630).

### 34.1 Related party expenses

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

| | Year ended December 31, | |
|---|---|---|
| | 2025 | 2024 |
| Finance costs | $ 36,241 | $ 37,103 |
| Management fee | 8,315 | 6,630 |
| Rental expenses[i] | 81 | 81 |
| **Related party expenses** | **$ 44,637** | $ 43,814 |

(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 (2024: $81).

### 34.2 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, | |
|---|---|---|
| | 2025 | 2024 |
| Salaries, fees and other benefits | $ 1,276 | $ 1,910 |
| **Total remuneration** | **$ 1,276** | $ 1,910 |

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

# 35. SUPPLEMENTAL CASH FLOW INFORMATION

## 35.1 Non-cash financing and investing activities

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

| | Year ended December 31, 2025 | 2024 |
|---|---|---|
| Depreciation and amortisation capitalised in mineral properties | **$ 5,872** | $ 3,287 |
| Increase in decommissioning liability | **5,282** | 1,981 |

## 35.2 Net change in working capital items

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

| | Year ended December 31, 2025 | 2024 |
|---|---|---|
| Decrease/(increase) in trade and other receivables | **$ 8,174** | $ (22,355) |
| Increase in inventories | **(25,403)** | (53,351) |
| Decrease in prepaid expenses and deposits | **404** | 398 |
| Increase in trade and other payables | **56,262** | 111,794 |
| Increase/(decrease) in deferred revenue | **18,199** | (31,163) |
| **Net change in working capital items** | **$ 57,636** | $ 5,323 |

Depreciation and depletion capitalised in inventories for the year ended December 31, 2025 totaled $10,214 (2024: $6,131).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

# 35. SUPPLEMENTAL CASH FLOW INFORMATION continued

## 35.3 Reconciliation of liabilities arising from financing activities

| | Interest-bearing borrowing | Lease liabilities | Convertible debenture | Total |
|---|---|---|---|---|
| At January 1, 2024 | $ – | $ 2,991 | $ 194,300 | $ 197,291 |
| Changes from financing cash flows: | | | | |
| Interest payment on convertible debenture | – | – | (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 and January 1, 2025 | $ – | $ 2,192 | $ 204,918 | $ 207,110 |
| Changes from financing cash flows: | | | | |
| Interest payment on convertible debenture | **–** | **–** | **(5,500)** | **(5,500)** |
| Proceeds from interest-bearing borrowing | **32,954** | **–** | **–** | **32,954** |
| Interest payment on interest-bearing borrowing | **(517)** | **–** | **–** | **(517)** |
| Capital element of lease rentals paid | **–** | **(896)** | **–** | **(896)** |
| Interest element of lease rentals paid | **–** | **(226)** | **–** | **(226)** |
| Total changes from financing cash flows | **32,437** | **(1,122)** | **(5,500)** | **25,815** |
| Other charges: | | | | |
| Interest expenses | **711** | **226** | **36,241** | **37,178** |
| Changes in fair value of embedded derivatives | **–** | **–** | **(62)** | **(62)** |
| Gain on modification of convertible debenture | **–** | **–** | **(1,890)** | **(1,890)** |
| Increase in finance lease payable | **–** | **457** | **–** | **457** |
| | **711** | **683** | **34,289** | **35,683** |
| Exchange adjustments | **257** | **(46)** | **–** | **211** |
| At December 31, 2025 | **$ 33,405** | **$ 1,707** | **$ 233,707** | **$ 268,819** |

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

# 36. 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, 2025** | | | | |
| Capital expenditure commitments | **$ 2,525** | **$ 3,862** | **$ 3,416** | **$ 9,803** |
| Operating expenditure commitments | **689** | **38** | **165** | **892** |
| **Commitments** | **$ 3,214** | **$ 3,900** | **$ 3,581** | **$ 10,695** |
| **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 |

# 37. CONTINGENCIES

## 37.1 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 (the "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, creating the class plaintiffs (the "Class Plaintiffs") and permitting the Class Plaintiffs to proceed with the Class Action against only the Company.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 37. CONTINGENCIES continued

### 37.1 Lawsuit continued

Counsel for the plaintiffs and defendant have: (i) completed document production and oral examinations for discovery; (ii) served expert reports on liability and damages; and (iii) designed a mediation process and finalised, with the participation of the relevant Company's insurers, the mediation under the guidance of former Chief Justice of Ontario George Strathy, which mediation was held and completed on August 11, 2025 (the "Mediation").

As a result of the Mediation, the Class Plaintiffs and the Company have conditionally settled (the "Settlement") the Class Action for CA$6.8 million, including all liability and class counsel fees, notice and administrative costs, fees, costs and expenses related to the litigation and the settlement (the "Settlement Payments"). The Settlement Payments are the obligation of the Company's insurers as of January 2014.

The Settlement was approved by Justice Morgan of the Ontario Superior Court of Justice on December 2, 2025. No appeals have been filed and the time to file an appeal has expired.

No provision for this matter is required as at December 31, 2025 and 2024.

### 37.2 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.

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

## 38. 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, | |
|---|---|---|
| | **2025** | **2024** |
| **Assets** | | |
| **Non-current assets** | | |
| Investment in subsidiaries | **$ –** | $ – |
| **Total non-current assets** | **–** | – |
| **Current assets** | | |
| Cash and cash equivalents | **107** | 66 |
| Other receivables | **13** | 5 |
| Prepaid expenses | **98** | 97 |
| **Total current assets** | **218** | 168 |
| **Total assets** | **$ 218** | $ 168 |
| **Equity and liabilities** | | |
| **Current liabilities** | | |
| Other payables | **$ 25,274** | $ 22,888 |
| Current portion of convertible debenture | **140,328** | 120,651 |
| **Total current liabilities** | **165,602** | 143,539 |
| **Non-current liabilities** | | |
| Convertible debenture | **93,379** | 84,267 |
| **Total non-current liabilities** | **93,379** | 84,267 |
| **Total liabilities** | **258,981** | 227,806 |
| **Equity** | | |
| Common shares | **1,102,053** | 1,102,053 |
| Share option reserve | **52,998** | 52,998 |
| Accumulated deficit | **(1,413,814)** | (1,382,689) |
| **Total deficiency in assets** | **(258,763)** | (227,638) |
| **Total equity and liabilities** | **$ 218** | $ 168 |

**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)

## 39. 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, 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) |
| **Balances, January 1, 2025** | **$ 52,998** | **$ (1,382,689)** | **$ (1,329,691)** |
| Net loss for the year | **–** | **(31,125)** | **(31,125)** |
| **Balances, December 31, 2025** | **$ 52,998** | **$ (1,413,814)** | **$ (1,360,816)** |

## 40. SUBSEQUENT EVENT DISCLOSURE

On March 23, 2026, the Company and JDZF entered into the 2026 March Deferral Agreement pursuant to which JDZF agreed to grant the Company a deferral of the 2026 March Deferred Amounts.

# 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, | | | | |
|---|---|---|---|---|---|
| | **2025** | 2024 | 2023 | 2022 | 2021 |
| Revenue | **$ 598,819** | $ 493,378 | $ 331,506 | $ 73,084 | $ 43,398 |
| Gross profit | **100** | 132,790 | 173,311 | 15,322 | 12,094 |
| Net comprehensive income/(loss) attributable to equity holders of the Company | **$ (177,392)** | $ 91,239 | $ 1,173 | $ (55,163) | $ (14,570) |
| Basic earnings/(loss) per share | **$ (0.569)** | $ 0.312 | $ 0.003 | $ (0.110) | $ (0.053) |
| Diluted earnings/(loss) per share | **$ (0.569)** | $ 0.311 | $ 0.003 | $ (0.110) | $ (0.053) |

| | As at December 31, | | | | |
|---|---|---|---|---|---|
| | **2025** | 2024 | 2023 | 2022 | 2021 |
| Total assets | **$ 355,577** | $ 429,853 | $ 295,738 | $ 181,359 | $ 206,113 |
| Less: total liabilities | **(582,812)** | (479,696) | (437,070) | (323,883) | (296,563) |
| Total deficiency in assets | **$ (227,235)** | $ (49,843) | $ (141,332) | $ (142,524) | $ (90,450) |

# 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)*

## 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