



SouthGobi Resources Ltd.

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

June 30, 2025

(Expressed in U.S. dollars)

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

Forward-Looking Statements

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

- the Company continuing as a going concern and its ability to realise its assets and discharge its liabilities in the normal course of operations as they become due;
- adjustments to the amounts and classifications of assets and liabilities in the Company's condensed consolidated interim financial statements and the impact thereof;
- the Company's expectations of sufficient liquidity and capital resources to meet its ongoing obligations and future contractual commitments, including the Company's ability to settle its trade payables, to secure additional funding and to meet its obligations under each of the JD Zhixing Fund L.P. ("JDZF") convertible debenture (the "Convertible Debenture"), and the 2025 March Deferral Agreement (as defined below) as the same become due, the Company's ability to settle the tax penalty payable of \$26.5 million imposed by the Mongolian Tax Authority ("MTA") and a provision for additional late tax penalty of \$19.0 million;
- the Company's 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 2025;
- the results and impact of the Ontario class action (as described under Section 6 of this MD&A under the heading entitled "*Regulatory Issues and Contingencies – Lawsuit*");
- 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 outlook and objectives for 2025 and beyond (as more particularly described under Section 12 of this MD&A under the heading entitled "*Outlook*"); and
- other statements that are not historical facts.

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

Forward-Looking Statements continued

Forward-looking information is based on certain factors and assumptions described below and elsewhere in this MD&A, including, among other things: the current mine plan for the Ovoot Tolgoi mine; mining, production, construction and exploration activities at the Company's mineral properties; the costs relating to anticipated capital expenditures; the capacity and future toll rate of the paved highway; plans for the progress of mining license application processes; mining methods; the Company's anticipated business activities, planned expenditures and corporate strategies; management's business outlook, including the outlook for 2025 and beyond; currency exchange rates; operating, labour and fuel costs; the ability of the Company to raise additional financing; 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 and the "2025 March Deferral Agreement" (as defined below); the impact of amendments to, or the application of, the laws of Mongolia, China and other countries in which the Company carries on business; modifications to existing practices so as to comply with any future permit conditions that may be imposed by regulators; delays in obtaining approvals and lease renewals; the risk of fluctuations in coal prices and changes in China and world economic conditions; the outcome of the Class Action (as described under Section 6 of this MD&A under the heading entitled "Regulatory Issues and Contingencies – Lawsuit") and any damages payable by the Company as a result; 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.

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

Forward-Looking Statements continued

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

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Introduction

This MD&A is dated as of August 14, 2025 and should be read in conjunction with the condensed consolidated interim financial statements of the Company and the notes thereto for the three and six months ended June 30, 2025. The Company's condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 – "Interim Financial Reporting" using accounting policies in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards").

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

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

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

Introduction continued

Disclosure of a scientific or technical nature in this MD&A in respect of the Company's material mineral 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 808 employees as at June 30, 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.

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

1. Overview continued

Significant Events and Highlights

The Company's significant events and highlights for the three months ended June 30, 2025 and the subsequent period to August 14, 2025 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 period.

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 3.0 million tonnes for the second quarter of 2025 compared to 1.2 million tonnes for the second quarter of 2024, while the Company recorded an average realised selling price of \$52.6 per tonne for the second quarter of 2025 compared to \$77.6 per tonne for the second quarter of 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 \$14.3 million loss from operations for the second quarter of 2025 compared to a \$15.0 million profit from operations for the second quarter of 2024. The financial results were impacted by the decreased average realised selling price, the change in product mix as the Company sold more processed coal with higher production costs, and an impairment loss on coal stockpiles of \$12.3 million was recorded during the second quarter of 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.

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

1. Overview continued

Significant Events and Highlights continued

- ***Notice from Mongolian Government Plenipotentiary and designation of Company's mining deposits as mineral deposits of strategic importance*** 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.

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.

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

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

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

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

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

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

1. Overview continued

Significant Events and Highlights continued

- ***Additional Tax and Tax Penalty Imposed by the MTA*** continued

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 ("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 ("Proposed Case").

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

On April 25, 2025, SGS obtained a copy of an order dated April 15, 2025 ("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 ("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 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 \$17.3 million in relation to the aforementioned tax penalty. The Company anticipates paying down the outstanding amount of the tax and tax penalty from cash generated from operations in the normal course. According to Mongolian tax law, the Mongolian tax authority has a legal authority to demand payment of the outstanding amount of the Revised Re-assessment Result from the Company at its discretion.

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

1. Overview continued

Significant Events and Highlights continued

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

The effectiveness of the 2025 March Deferral Agreement and the respective covenants, agreements and obligations of each party under the 2025 March Deferral Agreement are subject to the Company obtaining the requisite approval of the 2025 March Deferral Agreement from shareholders in accordance with the requirements of applicable Canadian securities laws and Rule 14.33 and Rule 14A.36 of the 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.

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.

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

1. Overview continued

Significant Events and Highlights continued

- **2025 March Deferral Agreement** continued
 - The 2025 March Deferral Agreement does not contemplate a fixed repayment schedule for the 2025 March Deferred Amounts or related deferral fees. Instead, the 2025 March Deferral Agreement requires the Company to use its best efforts to pay the 2025 March Deferred Amounts and related deferral fees due and payable under the 2025 March Deferral Agreement to JDZF. During the period beginning as of the effective date of the 2025 March Deferral Agreement and ending as of the 2025 March Deferral Agreement Deferral Date, the Company will provide JDZF with monthly updates of its financial status and business operations, and the Company and JDZF will on a monthly basis discuss and assess in good faith the amount (if any) of the 2025 March Deferred Amounts and related deferral fees that the Company may be able to repay to JDZF, having regard to the working capital requirements of the Company's operations and business at such time and with the view of ensuring that the Company's operations and business would not be materially prejudiced as a result of any repayment.
 - If at any time before the 2025 March Deferred Amounts and related deferral fees are fully repaid, the Company proposes to appoint, replace or terminate one or more of its chief executive officer, its chief financial officer or any other senior executive(s) in charge of its principal business function or its principal subsidiary, the Company will first consult with, and obtain written consent (such consent shall not be unreasonably withheld) from JDZF prior to effecting such appointment, replacement or termination.
- **Going Concern** – Several adverse conditions and material uncertainties relating to the Company cast significant doubt upon the going concern assumption which includes the deficiencies in assets and working capital.

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

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

2. Overview of Operational Data and Financial Results

Summary of Operational Data

	Three months ended June 30,		Six months ended June 30,	
	2025	2024	2025	2024
Sales Volumes, Prices and Costs				
Premium semi-soft coking coal				
Coal sales (<i>millions of tonnes</i>)	0.17	0.29	0.21	0.65
Average realised selling price (<i>per tonne</i>)	\$ 59.84	\$ 102.61	\$ 65.57	\$ 107.22
Standard semi-soft coking coal/ premium thermal coal				
Coal sales (<i>millions of tonnes</i>)	1.65	0.28	2.60	0.56
Average realised selling price (<i>per tonne</i>)	\$ 60.07	\$ 77.04	\$ 63.88	\$ 76.56
Standard thermal coal				
Coal sales (<i>millions of tonnes</i>)	0.09	0.12	0.23	0.24
Average realised selling price (<i>per tonne</i>)	\$ 17.89	\$ 36.10	\$ 28.54	\$ 41.93
Processed coal				
Coal sales (<i>millions of tonnes</i>)	1.05	0.51	1.98	0.80
Average realised selling price (<i>per tonne</i>)	\$ 42.46	\$ 73.04	\$ 46.28	\$ 67.09
Total				
Coal sales (<i>millions of tonnes</i>)	2.96	1.20	5.02	2.25
Average realised selling price (<i>per tonne</i>)	\$ 52.55	\$ 77.55	\$ 55.41	\$ 78.47
Raw coal production (<i>millions of tonnes</i>)	3.91	2.01	7.83	3.26
Cost of sales of product sold (<i>per tonne</i>)	\$ 53.87	\$ 61.32	\$ 58.39	\$ 52.94
Direct cash costs of product sold (<i>per tonne</i>) ⁽ⁱ⁾	\$ 44.92	\$ 47.15	\$ 48.63	\$ 39.48
Mine administration cash costs of product sold (<i>per tonne</i>) ⁽ⁱ⁾	\$ 1.28	\$ 2.42	\$ 1.45	\$ 1.79
Total cash costs of product sold (<i>per tonne</i>) ⁽ⁱ⁾	\$ 46.20	\$ 49.57	\$ 50.08	\$ 41.27
Other Operational Data				
Production waste material moved (<i>millions of bank cubic meters</i>)	19.86	14.59	39.22	26.95
Strip ratio (<i>bank cubic meters of waste material per tonne of coal produced</i>)	5.08	7.27	5.01	8.27
Lost time injury frequency rate ⁽ⁱⁱ⁾	0.00	0.00	0.00	0.11

(i) A non-IFRS financial measure, refer to section 3. Cash costs of product sold exclude idled mine asset cash costs.

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

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

2. Overview of Operational Data and Financial Results continued

Overview of Operational Data

For the three months ended June 30, 2025

The Company recorded an average realised selling price of \$52.6 per tonne in the second quarter of 2025 compared to \$77.6 per tonne in the second quarter of 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 the second quarter of 2025 consisted of approximately 6% of premium semi-soft coking coal, 56% of standard semi-soft coking coal/premium thermal coal, 3% of standard thermal coal and 35% of processed coal compared to approximately 25% of premium semi-soft coking coal, 23% of standard semi-soft coking coal/premium thermal coal, 10% of standard thermal coal and 42% of processed coal for the second quarter of 2024.

The Company's unit cost of sales of product sold was \$53.9 per tonne in the second quarter of 2025 compared to \$61.3 per tonne in the second quarter of 2024. The decrease was due to change in product mix as more raw coal were sold in the second quarter of 2025 compared to 2024.

The Company ended the second quarter of both 2025 and 2024 without a lost time injury.

For the six months ended June 30, 2025

The Company sold 5.0 million tonnes for the first six months of 2025 as compared to 2.3 million tonnes for the first six months of 2024. The Company recorded an average realised selling price of \$55.4 per tonne for the first six months of 2025 compared to \$78.5 per tonne for the first six months of 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 Company's unit cost of sales of product sold was \$58.4 per tonne for the first six months of 2025 compared to \$52.9 per tonne for the first six months of 2024. The increase was due to the Company expanding into certain categories of processed coal with higher production costs.

There was no lost time injury recorded for the first six months of 2025, while there was a lost time injury frequency rate of 0.11 for the for six months of 2024.

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

2. Overview of Operational Data and Financial Results continued

Summary of Financial Results

\$ in thousands, except per share information	Three months ended June 30,		Six months ended June 30,	
	2025	2024	2025	2024
Revenue ⁽ⁱ⁾	\$ 155,289	\$ 92,821	\$ 278,156	\$ 174,990
Cost of sales ⁽ⁱ⁾	(159,452)	(73,582)	(293,141)	(119,115)
Gross profit/(loss) excluding idled mine asset costs ⁽ⁱⁱ⁾	(3,852)	19,303	(14,423)	55,985
Gross profit/(loss)	(4,163)	19,239	(14,985)	55,875
Other operating expenses, net	(7,013)	(1,157)	(8,584)	(2,210)
Administration expenses	(3,128)	(3,014)	(6,377)	(6,427)
Evaluation and exploration expenses	(22)	(23)	(54)	(45)
Profit/(loss) from operations	(14,326)	15,045	(30,000)	47,193
Finance costs	(9,140)	(10,322)	(17,952)	(20,655)
Finance income	53	722	74	107
Share of earnings of joint ventures	1,011	1,055	1,624	1,888
Share of earnings/(loss) of associates	(120)	—	(307)	10
Current income tax expenses	(284)	(8,585)	(2,450)	(18,376)
Net profit/(loss) attributable to equity holders of the Company	(22,806)	(2,085)	(49,011)	10,167
Basic and diluted earnings/(loss) per share	\$ (0.077)	\$ (0.007)	\$ (0.165)	\$ 0.034

- (i) Revenue and cost of sales related to the Company's Ovoot Tolgoi Mine within the Coal Division operating segment. Refer to note 3 of the condensed consolidated interim financial statements for further analysis regarding the Company's reportable operating segments.
- (ii) A non-IFRS financial measure, idled mine asset costs represents the depreciation expense relates to the Company's idled plant and equipment.

Overview of Financial Results

For the three months ended June 30, 2025

The Company recorded a \$14.3 million loss from operations for the second quarter of 2025 compared to \$15.0 million profit from operations for the second quarter of 2024. The decrease was mainly due to the decreased average realised selling price, the change in product mix as the Company sold more processed coal with higher production costs, and an impairment loss on coal stockpiles of \$12.3 million was recorded during the second quarter of 2025.

Revenue was \$155.3 million for the second quarter of 2025 compared to \$92.8 million for the second quarter of 2024. The financial results were impacted by increased sales volume, as a result of expansion of its sales network, diversification of its customer base and expansion of the categories of coal products in its portfolio.

Cost of sales was \$159.5 million for the second quarter of 2025 compared to \$73.6 million for the second 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 more sales were made to a farther destination 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 3 of this MD&A for further analysis) during the quarter.

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

2. Overview of Operational Data and Financial Results continued

Overview of Financial Results continued

For the three months ended June 30, 2025 continued

\$ in thousands	Three months ended June 30,	
	2025	2024
Operating expenses	\$ 136,759	\$ 59,483
Share-based compensation expense	–	18
Depreciation and depletion	11,842	3,355
Royalties	10,540	10,662
Cost of sales from mine operations	\$ 159,141	\$ 73,518
Cost of sales related to idled mine assets	311	64
Cost of sales	\$ 159,452	\$ 73,582

Operating expenses in cost of sales were \$136.8 million for the second quarter of 2025 compared to \$59.5 million for the second 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 more sales were made to a farther destination with higher transportation cost.

Cost of sales related to idled mine assets for the second quarter of 2025 included \$0.3 million related to depreciation expenses for idled equipment (second quarter of 2024: \$0.1 million).

Other operating expenses were \$7.0 million for the second quarter of 2025 (second quarter of 2024: \$1.2 million). The increase was due to increased management fee and an impairment loss on coal stockpiles of \$12.3 million was made for the second quarter of 2025, which was offset by a written off of other payables of \$6.3 million.

\$ in thousands	Three months ended June 30,	
	2025	2024
Management fee	\$ 2,229	\$ 1,268
Reversal of provision for doubtful trade and other receivables	–	(4)
Foreign exchange loss/(gain), net	(914)	382
Gain on disposal of items of property, plant and equipment, net	–	(262)
Reversal of impairment loss on materials and supplies inventories	(40)	(67)
Impairment loss on coal stockpiles	12,348	–
Written off of other payables	(6,272)	–
Gain on contract offsetting arrangement	(338)	(160)
Other operating expenses, net	\$ 7,013	\$ 1,157

Administration expenses were \$3.1 million for the second quarter of 2025 as compared to \$3.0 million for the second quarter of 2024.

\$ in thousands	Three months ended June 30,	
	2025	2024
Corporate administration	\$ 1,052	\$ 921
Legal and professional fees	607	741
Salaries and benefits	1,369	1,172
Share-based compensation expense	–	44
Depreciation	100	136
Administration expenses	\$ 3,128	\$ 3,014

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

2. Overview of Operational Data and Financial Results continued

Overview of Financial Results continued

For the three months ended June 30, 2025 continued

The Company continued to minimise evaluation and exploration expenditures in the second quarter of 2025 in order to preserve the Company's financial resources. Evaluation and exploration activities and expenditures in the second 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 \$9.1 million and \$10.3 million for the second quarter of 2025 and 2024 respectively, which primarily consisted of interest expense on the \$250.0 million Convertible Debenture.

For the six months ended June 30, 2025

The Company recorded a \$30.0 million loss from operations in the first six months of 2025 compared to a \$47.2 million profit from operations in the first six months of 2024. The financial results were negatively impacted by the decreased average realised selling price, the change in product mix as the Company sold more processed coal with higher production costs, and an impairment loss on coal stockpiles of \$12.3 million was recorded during the second quarter of 2025.

Revenue was \$278.2 million in the first six months of 2025 compared to \$175.0 million in the first six months of 2024. The financial results were impacted by increased sales volume, as a result of expansion of its sales network, diversification of its customer base and expansion of the categories of coal products in its portfolio.

Cost of sales were \$293.1 million in the first six months of 2025 compared to \$119.1 million in the first six months of 2024, as follows:

\$ in thousands	Six months ended June 30,	
	2025	2024
Operating expenses	\$ 251,441	\$ 92,854
Share-based compensation expense	–	18
Depreciation and depletion	20,617	5,565
Royalties	20,521	20,568
Cost of sales from mine operations	\$ 292,579	\$ 119,005
Cost of sales related to idled mine assets	562	110
Cost of sales	\$ 293,141	\$ 119,115

Operating expenses in cost of sales were \$251.4 million in the first six months of 2025 compared to \$92.9 million in the first six months of 2024. The overall increase in operating expenses was due to the increased sales and the Company expanding into certain categories of processed coal with higher production costs.

Cost of sales related to idled mine assets in the first six months of 2025 included \$0.6 million related to depreciation expenses for idled equipment (first six months of 2024: \$0.1 million).

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

2. Overview of Operational Data and Financial Results continued

Overview of Financial Results continued

For the six months ended June 30, 2025 continued

Other operating expenses were \$8.6 million in the first six months of 2025 (first six months of 2024: \$2.2 million). The increase was due to increased management fee and an impairment loss on coal stockpiles of \$12.3 million was made for the second quarter of 2025, which was offset by a written off of other payables of \$6.3 million.

\$ in thousands	Six months ended June 30,	
	2025	2024
Management fee	\$ 3,917	\$ 2,384
Reversal of provision for doubtful trade and other receivables	(56)	(23)
Foreign exchange loss/(gain), net	(945)	582
Gain on disposal of items of property, plant and equipment, net	–	(262)
Reversal of impairment loss on materials and supplies inventories	(70)	(74)
Impairment loss on coal stockpiles	12,348	–
Written off of other payables	(6,272)	–
Gain on contract offsetting arrangement	(338)	(397)
Other operating expenses, net	\$ 8,584	\$ 2,210

Administration expenses were \$6.4 million in the first six months of 2025 (first six months of 2024: \$6.4 million).

\$ in thousands	Six months ended June 30,	
	2025	2024
Corporate administration	\$ 2,094	\$ 1,625
Legal and professional fees	1,148	1,590
Salaries and benefits	2,936	2,898
Share-based compensation expense	–	45
Depreciation	199	269
Administration expenses	\$ 6,377	\$ 6,427

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

Finance costs were \$18.0 million and \$20.7 million in the first six months of 2025 and 2024 respectively, which primarily consisted of interest expense on the \$250.0 million Convertible Debenture.

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

2. Overview of Operational Data and Financial Results continued

Summary of Quarterly Operational Data

Quarter Ended	2025			2024			2023	
	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep
Sales Volumes, Prices and Costs								
Premium semi-soft coking coal								
Coal sales (<i>millions of tonnes</i>)	0.17	0.04	0.16	0.10	0.29	0.36	0.54	0.64
Average realised selling price (<i>per tonne</i>)	\$ 59.84	\$ 90.75	\$ 89.56	\$ 116.48	\$ 102.61	\$ 111.01	\$ 107.59	\$ 100.33
Standard semi-soft coking coal/ premium thermal coal								
Coal sales (<i>millions of tonnes</i>)	1.65	0.95	1.31	1.09	0.28	0.28	0.29	0.18
Average realised selling price (<i>per tonne</i>)	\$ 60.07	\$ 70.46	\$ 69.30	\$ 72.54	\$ 77.04	\$ 76.07	\$ 72.41	\$ 68.43
Standard thermal coal								
Coal sales (<i>millions of tonnes</i>)	0.09	0.14	0.38	0.24	0.12	0.12	–	–
Average realised selling price (<i>per tonne</i>)	\$ 17.89	\$ 35.37	\$ 36.99	\$ 37.20	\$ 36.10	\$ 47.91	\$ –	\$ –
Processed coal								
Coal sales (<i>millions of tonnes</i>)	1.05	0.93	0.81	0.68	0.51	0.29	0.13	0.33
Average realised selling price (<i>per tonne</i>)	\$ 42.46	\$ 50.57	\$ 68.66	\$ 63.65	\$ 73.04	\$ 56.65	\$ 77.23	\$ 66.03
Total								
Coal sales (<i>millions of tonnes</i>)	2.96	2.06	2.66	2.11	1.20	1.05	0.96	1.15
Average realised selling price (<i>per tonne</i>)	\$ 52.55	\$ 59.51	\$ 65.72	\$ 67.77	\$ 77.55	\$ 79.52	\$ 92.93	\$ 85.57
Raw coal production (<i>millions of tonnes</i>)	3.91	3.92	4.19	2.75	2.01	1.25	1.34	1.18
Cost of sales of product sold (<i>per tonne</i>)	\$ 53.87	\$ 64.90	\$ 48.92	\$ 52.77	\$ 61.32	\$ 43.36	\$ 38.17	\$ 42.23
Direct cash costs of product sold (<i>per tonne</i>) ⁽ⁱ⁾	\$ 44.92	\$ 53.97	\$ 37.92	\$ 41.74	\$ 47.15	\$ 30.70	\$ 26.20	\$ 32.26
Mine administration cash costs of product sold (<i>per tonne</i>) ⁽ⁱ⁾	\$ 1.28	\$ 1.70	\$ 1.88	\$ 0.94	\$ 2.42	\$ 1.08	\$ 1.83	\$ 0.82
Total cash costs of product sold (<i>per tonne</i>) ⁽ⁱ⁾	\$ 46.20	\$ 55.67	\$ 39.80	\$ 42.68	\$ 49.57	\$ 31.78	\$ 28.03	\$ 33.08
Other Operational Data								
Production waste material moved (<i>millions of bank cubic meters</i>)	19.86	19.36	17.48	15.04	14.59	12.36	7.81	7.34
Strip ratio (<i>bank cubic meters of waste material per tonne of coal produced</i>)	5.08	4.93	4.17	5.48	7.27	9.87	5.85	6.24
Lost time injury frequency rate ⁽ⁱⁱ⁾	0.00	0.00	0.00	0.00	0.00	0.22	0.22	0.21

(i) A non-IFRS financial measure, refer to section 3. Cash costs of product sold exclude idled mine asset cash costs.

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

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

2. Overview of Operational Data and Financial Results continued

Summary of Quarterly Financial Results

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

<i>\$ in thousands, except per share information</i>								
Quarter Ended	2025			2024			2023	
	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep
Financial Results								
Revenue ⁽ⁱ⁾	\$ 155,289	\$ 122,867	\$ 174,640	\$ 143,748	\$ 92,821	\$ 82,169	\$ 88,504	\$ 97,979
Cost of sales ⁽ⁱ⁾	(159,452)	(133,689)	(130,119)	(111,354)	(73,582)	(45,533)	(36,645)	(48,569)
Gross profit/(loss) excluding idled mine asset costs ⁽ⁱⁱ⁾	(3,852)	(10,571)	44,757	32,544	19,303	36,682	51,908	49,491
Gross profit/(loss) including idled mine asset costs	(4,163)	(10,822)	44,521	32,394	19,239	36,636	51,859	49,410
Other operating income/(expenses), net	(7,013)	(1,571)	(1,194)	(294)	(1,157)	(1,053)	4,308	(413)
Administration expenses	(3,128)	(3,249)	(3,627)	(3,400)	(3,014)	(3,413)	(3,879)	(1,846)
Evaluation and exploration expenses	(22)	(32)	(314)	(1,003)	(23)	(22)	(91)	(808)
Reversal of/(provision for) additional tax and tax penalty	–	–	39,666	–	–	–	(10,153)	–
Profit/(loss) from operations	(14,326)	(15,674)	79,052	27,697	15,045	32,148	42,044	46,343
Finance costs	(9,140)	(8,812)	(6,893)	(10,679)	(10,322)	(11,021)	(12,334)	(13,266)
Finance income	53	21	3,247	733	722	73	40	4,915
Share of earnings of joint ventures	1,011	613	1,206	133	1,055	833	1,101	809
Share of earnings/(loss) of associates	(120)	(187)	578	(1)	–	10	4	–
Current income tax expenses	(284)	(2,166)	(4,899)	(7,844)	(8,585)	(9,791)	(6,519)	(9,452)
Net profit/(loss)	(22,806)	(26,205)	72,291	10,039	(2,085)	12,252	24,336	29,349
Basic earnings/(loss) per share	\$ (0.077)	\$ (0.088)	\$ 0.244	\$ 0.034	\$ (0.007)	\$ 0.041	\$ 0.082	\$ 0.099
Diluted earnings/(loss) per share	\$ (0.077)	\$ (0.088)	\$ 0.228	\$ 0.034	\$ (0.007)	\$ 0.041	\$ 0.082	\$ 0.099

- (i) Revenue and cost of sales relate to the Company's Ovoot Tolgoi Mine within the Coal Division operating segment. Refer to note 3 of the condensed consolidated interim financial statements for further analysis regarding the Company's reportable operating segments.
- (ii) A non-IFRS financial measure, idled mine asset costs represents the depreciation expense relates to the Company's idled plant and equipment.

3. NON-IFRS Financial Measures

The Company has included the non-IFRS financial measure "cash costs" and "idled mine asset costs" in this MD&A to supplement its condensed consolidated interim financial statements, which have been prepared in accordance with IFRS 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.

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

3. NON-IFRS Financial Measures continued

Cash Costs

The Company uses cash costs to describe its cash production and associated cash costs incurred in bringing the inventories to their present locations and conditions. Cash costs incorporate all production costs, which include direct and indirect costs of production, with the exception of idled mine asset costs and non-cash expenses which are excluded. Non-cash expenses include share-based compensation expense, impairment of coal stockpile inventories, depreciation and depletion of property, plant and equipment and mineral properties. The Company uses this performance measure to monitor its operating cash costs internally and believes this measure provides investors and analysts with useful information about the Company's underlying cash costs of operations. The Company believes that conventional measures of performance prepared in accordance with IFRS 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.

The following table provides a reconciliation of the cash costs of product sold disclosed for the three and six months ended June 30, 2025 and June 30, 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.

\$ in thousands, except per tonne information	Three months ended June 30,		Six months ended June 30,	
	2025	2024	2025	2024
Cash costs				
Cost of sales determined in accordance with IFRS	\$ 159,435	\$ 73,582	\$ 293,124	\$ 119,115
Less royalties	(10,540)	(10,662)	(20,521)	(20,568)
Less non-cash expenses	(11,842)	(3,373)	(20,617)	(5,583)
Less non-cash idled mine asset costs	(311)	(64)	(562)	(110)
Total cash costs	136,742	59,483	251,424	92,854
Less idled mine asset cash costs	—	—	—	—
Total cash costs excluding idled mine asset cash costs	136,742	59,483	251,424	92,854
Coal sales (millions of tonnes)	2.96	1.20	5.02	2.25
Total cash costs of product sold (per tonne)	\$ 46.20	\$ 49.57	\$ 50.08	\$ 41.27

\$ in thousands, except per tonne information	Three months ended June 30,		Six months ended June 30,	
	2025	2024	2025	2024
Cash costs				
Direct cash costs of product sold (per tonne)	\$ 44.92	\$ 47.15	\$ 48.63	\$ 39.48
Mine administration cash costs of product sold (per tonne)	1.28	2.42	1.45	1.79
Total cash costs of product sold (per tonne)	\$ 46.20	\$ 49.57	\$ 50.08	\$ 41.27

The cash cost of product sold per tonne was decreased from \$49.6 for the second quarter of 2024 to \$46.2 for the second quarter of 2025. The decrease was due to change in product mix as more raw coal were sold in the second quarter of 2025 compared to 2024.

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

3. 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/(loss) disclosed for the three and six months ended June 30, 2025 and June 30, 2024.

\$ in thousands, except per tonne information	Three months ended June 30,		Six months ended June 30,	
	2025	2024	2025	2024
Idled mine asset costs				
Gross profit/(loss) excluding idled mine asset costs	\$ (3,852)	\$ 19,303	\$ (14,423)	\$ 55,985
Less non-cash idled mine asset costs	(311)	(64)	(562)	(110)
Gross profit/(loss) including idled mine asset costs	\$ (4,163)	\$ 19,239	\$ (14,985)	\$ 55,875

4. Properties

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

Operating Mine

Ovoot Tolgoi Mine

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

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

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.

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

4. Properties continued

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 (34m³) hydraulic excavators, four Liebherr R9250 (15m³) hydraulic excavators and nineteen MT4400AC (240 tonne capacity) haul trucks, together with various pieces of ancillary equipment.

Workforce

As at June 30, 2025, SGS employed 701 employees in Mongolia. Of the 701 employees, 47 are employed in the Ulaanbaatar office, 2 are employed in the Dalanzadgad representative office and 652 at the Ovoot Tolgoi Mine site. Of the 701 employees based in Mongolia, 697 (99%) are Mongolian nationals and of those, 250 (36%) are residents of the local Gurvantes, Dalanzadgad, Sevrei and Noyon Soums.

5. Liquidity and Capital Resources

Liquidity and Capital Management

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

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.

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.

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

5. Liquidity and Capital Resources continued

Liquidity and Capital Management continued

Additional tax and tax penalty imposed by the MTA 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 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.

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

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 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 \$17.3 million in relation to the aforementioned tax penalty. The Company anticipates paying down the outstanding amount of the tax and tax penalty from cash generated from operations in the normal course. According to Mongolian tax law, the Mongolian tax authority has a legal authority to demand payment of the outstanding amount of the Revised Re-assessment Result from the Company at its discretion.

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

5. Liquidity and Capital Resources continued

Liquidity and Capital Management continued

Going concern considerations

The Company's condensed consolidated interim financial statements have been prepared on a going concern basis which assumes that the Company will continue to operate until at least June 30, 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 condensed consolidated interim financial statements. The Company had a deficiency in assets of \$108.4 million as at June 30, 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 \$148.0 million as at June 30, 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 June 30, 2025 are significant obligations, represented by trade and other payables of \$212.3 million and the additional tax and tax penalty of \$28.2 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 August 14, 2025. However, there can be no assurance that no such lawsuits or proceedings will be filed by the Company's creditors in the future and the Company's suppliers and contractors will continue to supply and provide services to the Company uninterrupted.

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

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

5. Liquidity and Capital Resources continued

Liquidity and Capital Management continued

Going concern considerations continued

For the purpose of assessing the appropriateness of the use of the going concern basis to prepare the financial statements, management of the Company has prepared a cash flow projection covering a period of 12 months from June 30, 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 2025 March Deferral Agreement on March 20, 2025 for a deferral of the 2025 March Deferred Amounts; (b) communicating with vendors in agreeing repayment plans of the outstanding payable; and (c) obtaining an avenue of financial support from an affiliate of the Company's major shareholder for a maximum amount of \$127.0 million (equivalent to RMB900 million) during the period covered in the cash flow projection. Regarding these plans and measures, there is no guarantee that the suppliers would agree the settlement plan as communicated by the Company. Nevertheless, after considering the above, the directors of the Company believe that there will be sufficient financial resources to continue its operations and to meet its financial obligations as and when they fall due in the next 12 months from June 30, 2025 and therefore are satisfied that it is appropriate to prepare the condensed consolidated interim financial statements on a going concern basis.

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

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

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

As at June 30, 2025 and December 31, 2024, the Company was not subject to any externally imposed capital requirements.

Convertible Debenture

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

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

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

5. Liquidity and Capital Resources continued

Liquidity and Capital Management continued

Deferral Agreements

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.

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

5. Liquidity and Capital Resources continued

Liquidity and Capital Management continued

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 June 30, 2025 was -476% (December 31, 2024: -945%).

Cash Flow Highlights

\$ in thousands	Six months ended June 30,	
	2025	2024
Net cash flows from operating activities	\$ 34,570	\$ 32,355
Cash used in investing activities	(39,349)	(64,294)
Cash used in financing activities	(374)	(3,291)
Effect of foreign exchange rate changes on cash	(823)	(105)
Decrease in cash for the period	(5,976)	(35,335)
Cash balance, beginning of period	8,590	47,993
Cash balance, end of period	\$ 2,614	\$ 12,658

Net cash flows from Operating Activities

The Company generated \$34.6 million of cash from operating activities in the first six months of 2025 compared to \$32.4 million in the first six months of 2024. This is primarily due to the increased sales volume.

Cash used in Investing Activities

The Company used \$39.3 million of cash during the first six months of 2025 in investing activities compared to used \$64.3 million during the first six months of 2024. In the first six months of 2025, expenditures on property, plant and equipment totaled \$39.6 million (first six months of 2024: \$64.0 million).

Cash used in Financing Activities

Cash used in financing activities was \$0.4 million in the first six months of 2025 (first six months of 2024: \$3.3 million).

Contractual Obligations and Guarantees

Day-to-day mining, expansionary and sustaining capital expenditures as well as administrative operations give rise to commitments for future minimum payments. As at June 30, 2025, the Company's operating and capital commitments were:

	Within 1 year	2-3 years	Over 3 years	Total
As at June 30, 2025				
Capital expenditure commitments	\$ 1,964	\$ 3,848	\$ 3,815	\$ 9,627
Operating expenditure commitments	1,216	38	159	1,413
Commitments	\$ 3,180	\$ 3,886	\$ 3,974	\$ 11,040

Ovoot Tolgoi Mine Impairment Analysis

The Company determined that an indicator of impairment existed for its Ovoot Tolgoi Mine cash generating unit as at June 30, 2025. The impairment indicator was the uncertainty of future coal price in China. Since the recoverable amount was higher than carrying value of the Ovoot Tolgoi Mine cash generating unit, there was no impairment of non-financial asset recognised during the six months ended June 30, 2025.

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

5. Liquidity and Capital Resources continued

Financial Instruments

The fair value of financial assets and financial liabilities at amortised cost is determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions. The fair value of all the financial instruments of the Company approximates their carrying value because of the demand nature or short-term maturity of these instruments, except for the fair values of trade and other payables, interest bearing borrowings, and convertible debenture below their respective carrying amounts given the current financial condition of the Company as described under Section 5 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.

\$ in thousands	As at	
	June 30, 2025	December 31, 2024
Financial assets		
Cash	\$ 2,614	\$ 8,590
Restricted cash	838	274
Trade and other receivables	17,233	31,486
Total financial assets	\$ 20,685	\$ 40,350

\$ in thousands	As at	
	June 30, 2025	December 31, 2024
Financial liabilities		
Fair value through profit or loss		
Convertible debenture – embedded derivatives	\$ 7	\$ 63
Other financial liabilities		
Trade and other payables	212,289	169,281
Lease liabilities	1,979	2,192
Convertible debenture – debt host and interest payable	222,392	204,855
Total financial liabilities	\$ 436,667	\$ 376,391

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

6. Regulatory Issues and Contingencies

Lawsuit

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

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

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

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

In December 2018, the parties agreed to a consent Certification Order, whereby the action against the former senior officers and directors was withdrawn and the Class Action would only proceed against the Company, creating the class plaintiffs ("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 finalized, 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 is conditional upon the approval of a judge of the Superior Court of Justice of Ontario (the "Court"), expected to be presented to the Court by the Class Plaintiffs with the support of the Company on or before December 31, 2025.

The Company continues to believe that it has a strong defence on the merits. No provision for this matter is required as at June 30, 2025.

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

6. 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.

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

6. 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.

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

On April 25, 2025, SGS obtained a copy 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 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 \$17.3 million in relation to the aforementioned tax penalty, as more particularly detailed under section 5 "Liquidity and Capital Resources" of this MD&A under the heading entitled "Additional tax and tax penalty imposed by the MTA".

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

6. Regulatory Issues and Contingencies continued

Tax Legislation continued

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.

7. Outstanding Share Data

The Company is authorised to issue an unlimited number of Common Shares without par value and an unlimited number of preferred shares without par value. As at August 14, 2025, approximately 296.7 million Common Shares were issued and outstanding. There are also incentive share options outstanding to acquire approximately 1.2 million unissued Common Shares with an exercise price HK\$1.41. There are no preferred shares outstanding.

As at August 14, 2025, to the best of the Company's knowledge:

- JDZF holds a total of approximately 85.7 million Common Shares representing approximately 28.9% of the issued and outstanding Common Shares;
- Land Grand International Holding Limited 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.

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

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

9. Critical Accounting Estimates and Judgments

There have been no other new IFRS Accounting Standards or IFRIC interpretations that is not yet effective that would be expected to have a material impact on the Company, except those disclosed in the Company's annual consolidated financial statements for the year ended December 31, 2024.

Refer to Note 2.3 of the Company's condensed consolidated interim financial statements of the quarter ended June 30, 2025 for information regarding the accounting judgments and estimates.

10. Risk Factors

There are certain risks involved in and related to the Company's operations, some of which are beyond its control. Material risks and uncertainties affecting the Company, their potential impact on the Company's operations and the Company's principal risk management strategies are, except as updated by this MD&A, substantially unchanged from those disclosed in the Company's most recently filed Annual Information Form for the year ended December 31, 2024, which is available under the Company's profile on SEDAR+ at www.sedarplus.ca.

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

11. HONG KONG LISTING RULES REQUIREMENTS

Significant Investments

Except for investments in joint ventures and associates, the Company had no significant investments held as at June 30, 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 six months ended June 30, 2025.

Future Plans for Material Investments or Capital Assets

There was no specific plan for material investments or capital assets as at June 30, 2025.

Employees

The total number of employees of the Company as at June 30, 2025 was 808. 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.

12. Outlook

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

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

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

The Company remains cautiously optimistic regarding the Chinese coal market, as coal is still considered to be the primary energy source which China will continue to rely on in the foreseeable future. Coal supply and coal import in China are expected to be limited due to increasingly stringent requirements relating to environmental protection and safety production, which may result in volatile coal prices in China. The Company will continue to monitor and react proactively to the dynamic market.

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

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

12. Outlook continued

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

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

In the medium term, the Company will continue to adopt various strategies to enhance its product mix in order to maximise revenue, expand its customer base and sales network, improve logistics, optimise its operational cost structure and, most importantly, operate in a safe and socially responsible manner.

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

- **Enhance product mix** – The Company will focus on improving the product mix by: (i) improving mining operations; (ii) utilising the Company's dry and wet coal processing plants; and (iii) trading and blending different types of coal to produce blended coal products that are economical to the Company.
- **Expand market reach and customer base** – The Company will endeavor to increase sales volume and sales price by: (i) expanding its sales network and diversifying its customer base; (ii) increasing its coal logistics capacity to resolve the bottleneck in the distribution channel; and (iii) setting and adjusting the sales price based on a more market-oriented approach in order to maximise profit while maintaining sustainable long-term business relationships with customers.
- **Increase production and optimise cost structure** – The Company will aim to increase coal production volume to take advantage of economies of scale. The Company will also focus on reducing its production costs and optimising its cost structure through engaging sizable third-party contract mining companies to enhance its operation efficiency, strengthening procurement management, ongoing training and productivity enhancement.
- **Operate in a safe and socially responsible manner** – The Company will continue to maintain the highest standards in health, safety and environmental performance and operate in a corporate socially responsible manner.

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

- **Strategic location** – The Ovoot Tolgoi Mine is located approximately 40km from China, which represents the Company's main coal market. The Company has an infrastructure advantage, being approximately 50km from a major Chinese coal distribution terminal with rail connections to key coal markets in China.
- **A large reserves base** – The Ovoot Tolgoi Deposit has mineral reserves of at least 82.3 million tonnes.
- **Several growth options** – The Company has several growth options including the Soumber Deposit and Zag Suuj Deposit, located approximately 20km east and approximately 150km east of the Ovoot Tolgoi Mine, respectively.
- **Bridge between China and Mongolia** – The Company is well-positioned to capture the resulting business opportunities between China and Mongolia, and have a strong operational record for the past decade in Mongolia. The Company will seek assistance and support from its two largest shareholders, which are both experienced coal mining enterprises in China.

August 14, 2025



SouthGobi Resources Ltd.

Condensed Consolidated Interim Financial Statements

June 30, 2025

(Expressed in U.S. dollars)

(Unaudited)

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CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME

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

	Notes	Three months ended June 30,		Six months ended June 30,	
		2025	2024	2025	2024
Revenue	4	\$ 155,289	\$ 92,821	\$ 278,156	\$ 174,990
Cost of sales	6	(159,452)	(73,582)	(293,141)	(119,115)
Gross profit/(loss)		(4,163)	19,239	(14,985)	55,875
Other operating expenses, net	7	(7,013)	(1,157)	(8,584)	(2,210)
Administration expenses		(3,128)	(3,014)	(6,377)	(6,427)
Evaluation and exploration expenses		(22)	(23)	(54)	(45)
Profit/(loss) from operations		(14,326)	15,045	(30,000)	47,193
Finance costs	9	(9,140)	(10,322)	(17,952)	(20,655)
Finance income	9	53	722	74	107
Share of earnings of joint ventures		1,011	1,055	1,624	1,888
Share of earnings/(loss) of associates		(120)	—	(307)	10
Profit/(loss) before tax		(22,522)	6,500	(46,561)	28,543
Current income tax expenses	10	(284)	(8,585)	(2,450)	(18,376)
Net profit/(loss) attributable to equity holders of the Company		(22,806)	(2,085)	(49,011)	10,167
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods					
Exchange difference on translation of foreign operation		(5,324)	(196)	(9,552)	2,006
Net comprehensive income/(loss) attributable to equity holders of the Company		\$ (28,130)	\$ (2,281)	\$ (58,563)	\$ 12,173
Basic and diluted earnings/(loss) per share	11	\$ (0.077)	\$ (0.007)	\$ (0.165)	\$ 0.034

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

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

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

		As at	
	Notes	June 30, 2025	December 31, 2024
Assets			
Current assets			
Cash and cash equivalents	13	\$ 2,614	\$ 8,590
Restricted cash	13	838	274
Trade and other receivables	14	17,233	31,486
Inventories	15	106,548	107,246
Prepaid expenses		4,761	6,083
Total current assets		131,994	153,679
Non-current assets			
Property, plant and equipment	16	246,369	243,564
Investment in a joint venture		13,173	12,400
Investments in associates		19,147	20,210
Total non-current assets		278,689	276,174
Total assets		\$ 410,683	\$ 429,853
Equity and liabilities			
Current liabilities			
Trade and other payables	17	\$ 212,289	\$ 169,281
Additional tax and tax penalty	8	28,184	43,790
Deferred revenue		25,370	34,350
Lease liabilities		1,023	850
Income tax payable		13,090	12,891
Current portion of convertible debenture	18	—	120,651
Total current liabilities		279,956	381,813
Non-current liabilities			
Lease liabilities		956	1,342
Convertible debenture	18	222,399	84,267
Decommissioning liability		15,745	12,245
Long service payment liabilities	19	33	29
Total non-current liabilities		239,133	97,883
Total liabilities		519,089	479,696
Equity			
Common shares		1,102,053	1,102,053
Share option reserve		52,998	52,998
Capital reserve		536	533
Exchange fluctuation reserve		(65,757)	(56,205)
Accumulated deficit		(1,198,236)	(1,149,222)
Total deficiency in assets		(108,406)	(49,843)
Total equity and liabilities		\$ 410,683	\$ 429,853
Net current liabilities		\$ (147,962)	\$ (228,134)
Total assets less current liabilities		\$ 130,727	\$ 48,040

Corporate information and going concern (Note 1) and commitments for expenditure (Note 23)

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

APPROVED BY THE BOARD:

“Yingbin Ian He”

Director

“Ruibin Xu”

Director

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

(Unaudited) (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 period	–	–	–	–	–	10,167	10,167
Exchange differences on translation of foreign operations	–	–	–	–	2,006	–	2,006
Total comprehensive income attributable to equity holders of the Company	–	–	–	–	2,006	10,167	12,173
Shares issued for:							
Exercise of stock options	911	146	(48)	–	–	–	98
Share-based compensation charged to operations	–	–	63	–	–	–	63
Appropriation to capital reserve	–	–	–	3	–	(3)	–
Balances, June 30, 2024	296,189	\$ 1,101,917	\$ 53,045	\$ 502	\$ (52,941)	\$ (1,231,521)	\$ (128,998)
Balances, January 1, 2025	296,705	\$ 1,102,053	\$ 52,998	\$ 533	\$ (56,205)	\$ (1,149,222)	\$ (49,843)
Net loss for the period	–	–	–	–	–	(49,011)	(49,011)
Exchange differences on translation of foreign operations	–	–	–	–	(9,552)	–	(9,552)
Total comprehensive loss attributable to equity holders of the Company	–	–	–	–	(9,552)	(49,011)	(58,563)
Appropriation to capital reserve	–	–	–	3	–	(3)	–
Balances, June 30, 2025	296,705	\$ 1,102,053	\$ 52,998	\$ 536	\$ (65,757)	\$ (1,198,236)	\$ (108,406)

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

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

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

	Notes	Six months ended June 30,	
		2025	2024
Operating activities			
Profit/(loss) before tax		\$ (46,561)	\$ 28,543
Adjustments for:			
Depreciation and depletion	5	21,378	5,944
Share-based compensation	5	–	63
Interest expense on convertible debenture	9	17,536	18,929
Interest elements on leased assets	9	116	158
Accretion of decommissioning liability	9	300	177
Fair value loss/(gain) on embedded derivatives in convertible debenture	9	(55)	461
Interest income	9	(19)	(107)
Share of earnings of joint ventures		(1,624)	(1,888)
Share of earnings/(loss) of associates		307	(10)
Gain on disposal of items of property, plant and equipment, net	7	–	(262)
Reversal of provision for doubtful trade and other receivables	14	(56)	(23)
Provision for long service payments	19	4	4
Reversal of impairment loss on materials and supplies inventories	7	(70)	(74)
Impairment loss on coal stockpiles	7	12,348	–
Written off of other payables	7	(6,272)	–
Gain on contract offsetting arrangement	7	(338)	(397)
Operating cash flows before changes in working capital items		(3,006)	51,518
Net change in working capital items	22	53,903	5,805
Cash generated from operating activities		50,897	57,323
Income tax and additional tax penalty paid		(16,327)	(24,968)
Net cash flows from operating activities		34,570	32,355
Investing activities			
Expenditures on property, plant and equipment	16	(39,551)	(64,032)
Proceeds from disposal of items of property, plant and equipment	16	–	990
Interest received	9	19	107
Investment in an associate		(105)	(3,000)
Dividend from a joint venture		288	1,641
Net cash flows used in investing activities		(39,349)	(64,294)
Financing activities			
Interest payment of convertible debenture	18.4	–	(3,000)
Proceeds from exercise of share options		–	98
Capital elements of lease rental paid		(258)	(231)
Interest elements of lease rentals paid		(116)	(158)
Net cash flows used in financing activities		(374)	(3,291)
Effect of foreign exchange rate changes, net		(823)	(105)
Decrease in cash and cash equivalents		(5,976)	(35,335)
Cash and cash equivalents, beginning of period		8,590	47,993
Cash and cash equivalents, end of period		\$ 2,614	\$ 12,658

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited) (Expressed in thousands of U.S. dollars and shares 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 June 30, 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 condensed consolidated interim financial statements have been prepared on a going concern basis which assumes that the Company will continue to operate until at least June 30, 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 condensed consolidated interim financial statements. The Company had a deficiency in assets of \$108,406 as at June 30, 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 \$147,962 as at June 30, 2025 as compared to a working capital deficiency of \$228,134 as at December 31, 2024.

Included in the working capital deficiency as at June 30, 2025 are significant obligations, represented by trade and other payables of \$212,289 and an additional tax and tax penalty of \$28,184.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

1. CORPORATE INFORMATION AND GOING CONCERN continued

Going concern assumption continued

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 condensed consolidated interim financial statements, no such lawsuits or proceedings were pending as at August 14, 2025. However, there can be no assurance that no such lawsuits or proceedings will be filed by the Company's creditors in the future and the Company's suppliers and contractors will continue to supply and provide services to the Company uninterrupted.

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

For the purpose of assessing the appropriateness of the use of the going concern basis to prepare the financial statements, management of the Company has prepared a cash flow projection covering a period of 12 months from June 30, 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 2025 March Deferral Agreement (as defined in Note 18.5) on March 20, 2025 for a deferral of the 2025 March Deferred Amounts (as defined in Note 18.5); (b) communicating with vendors in agreeing repayment plans of the outstanding payable; and (c) obtaining an avenue of financial support from an affiliate of the Company's major shareholder for a maximum amount of \$127,000 (equivalent to RMB900 million) during the period covered in the cash flow projection. Regarding these plans and measures, there is no guarantee that the suppliers would agree the settlement plan as communicated by the Company. Nevertheless, after considering the above, the directors of the Company believe that there will be sufficient financial resources to continue its operations and to meet its financial obligations as and when they fall due in the next 12 months from June 30, 2025 and therefore are satisfied that it is appropriate to prepare the condensed consolidated interim financial statements on a going concern basis.

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

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

1. CORPORATE INFORMATION AND GOING CONCERN continued

Going concern assumption continued

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

As at June 30, 2025 and December 31, 2024, the Company was not subject to any externally imposed capital requirements.

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

The condensed consolidated interim financial statements of the Company for the six months ended June 30, 2025 were approved and authorised for issue by the Board of Directors of the Company (the “Board”) on August 14, 2025.

2.2 Basis of presentation

These condensed consolidated interim financial statements have been prepared using accounting policies and methods of computation consistent with those applied in the Company's December 31, 2024 consolidated annual financial statements. These condensed consolidated interim financial statements do not include all the information and note disclosures required by IFRS for annual financial statements and therefore should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2024.

2.3 Significant accounting judgments and estimates

Information about judgments and estimates in applying accounting policies that have the most significant effect on the amounts recognised in the Company's condensed consolidated interim financial statements are included in Note 3.19 to the Company's December 31, 2024 consolidated annual financial statements. The significant accounting judgments and estimates remain substantially unchanged from December 31, 2024.

Review of carrying value of assets and impairment charges

In the determination of carrying values and impairment charges, management of the Company reviews the recoverable amount (the higher of the fair value less costs of disposal or the value in use) in the case of non-financial assets. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period. Changes in these assumptions may alter the results of non-financial asset and financial asset impairment testing, impairment charges recognised in profit or loss and the resulting carrying amounts of assets.

Ovoot Tolgoi Mine cash generating unit

The Company determined that an indicator of impairment existed for its Ovoot Tolgoi Mine cash generating unit as at June 30, 2025. The impairment indicator was the uncertainty of future coal price in China. Since the recoverable amount was higher than carrying value of the Ovoot Tolgoi Mine cash generating unit, there was no impairment of non-financial asset recognised during the six months ended June 30, 2025.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

2. BASIS OF PREPARATION continued

2.3 Significant accounting judgments and estimates continued

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 \$21,876 as at June 30, 2025 (December 31, 2024: \$22,348).

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.

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.

Useful lives and depreciation rates for property, plant and equipment

Depreciation expense is allocated based on estimated property, plant and equipment useful lives and depreciation rates except the mineral properties are depreciated on unit-of production basis based on proven and probable reserves. Therefore, changes in the useful life or depreciation rates from the initial estimate could impact the carrying value of property, plant and equipment and an adjustment would be recognised in profit or loss.

3. SEGMENT INFORMATION

The Company's Chief Executive Officer (chief operating decision maker) reviews the financial information in order to make decisions about resources to be allocated to the segment and to assess its performance. No operating segment identified by the Board has been aggregated in arriving at the reporting segments of the Company. For management's purpose, the Company has only one reportable operating segment, which is the coal division. The division is principally engaged in coal mining, development and exploration in Mongolia, and logistics and trading of coal in Mongolia and China for the six months ended June 30, 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 six months ended June 30, 2025 and 2024.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

3. SEGMENT INFORMATION continued

3.1 Information about major customers

During the six months ended June 30, 2025 and 2024, the Coal Division had 70 and 50 active customers, respectively. 2 and 2 customers with respective revenue contributed over 10% of the total revenue during the six months ended June 30, 2025 and 2024, with the largest customer accounting for 20% of revenue (June 30, 2024: 15%) and the second largest customer accounting for 12% of revenue (June 30, 2024: 12%).

3.2 Geographical information

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

	Mongolia	Hong Kong	China	Consolidated Total
Revenue ⁽ⁱ⁾				
For the three months ended June 30, 2025	\$ –	\$ –	\$ 155,289	\$ 155,289
For the three months ended June 30, 2024	–	–	92,821	92,821
For the six months ended June 30, 2025	\$ 4	\$ –	\$ 287,152	\$ 278,156
For the six months ended June 30, 2024	–	–	174,990	174,990
Non-current assets				
As at June 30, 2025	\$ 277,183	\$ 357	\$ 1,149	\$ 278,689
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.

4. REVENUE

Revenue represents the value of goods sold which arises from the trading of coal. The Company recognises all revenue from the trading of coal at a point in time when the customer obtains control of the goods or services.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

5. EXPENSES BY NATURE

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

	Three months ended June 30,		Six months ended June 30,	
	2025	2024	2025	2024
Depreciation	\$ 12,254	\$ 3,555	\$ 21,378	\$ 5,944
Auditors' remuneration	20	20	40	40
Employee benefit expense (including directors' remuneration)				
Wages and salaries	\$ 3,834	\$ 2,992	\$ 8,542	\$ 6,881
Equity-settled share option expense	–	62	–	63
Pension scheme contributions	626	479	1,332	971
Provision for long service payment (Note 19)	–	2	4	4
	\$ 4,460	\$ 3,535	\$ 9,878	\$ 7,919
Lease payments under operating leases	\$ 27	\$ 198	\$ 182	\$ 321
Foreign exchange loss/(gain), net (Note 7)	(914)	382	(945)	582
Reversal of impairment loss on materials and supplies inventories (Note 7)	(40)	(67)	(70)	(74)
Impairment loss on coal stockpiles (Note 7)	12,348	–	12,348	–
Royalties (Note 6)	10,540	10,662	20,521	20,568
Management fee (Note 7)	2,229	1,268	3,917	2,384
Reversal of provision for doubtful trade and other receivables (Note 7)	–	(4)	(56)	(23)
Gain on disposal of items of property, plant and equipment, net (Note 7)	–	(262)	–	(262)
Written off of other payables (Note 7)	(6,272)	–	(6,272)	–
Gain on contract offsetting arrangement (Note 7)	(338)	(160)	(338)	(397)
Mine operating costs and others	135,301	58,649	247,573	90,795
Total operating expenses	\$ 169,615	\$ 77,776	\$ 308,156	\$ 127,797

6. COST OF SALES

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

	Three months ended June 30,		Six months ended June 30,	
	2025	2024	2025	2024
Operating expenses	\$ 136,759	\$ 59,483	\$ 251,441	\$ 92,854
Share-based compensation expense	–	18	–	18
Depreciation and depletion	11,842	3,355	20,617	5,565
Royalties	10,540	10,662	20,521	20,568
Cost of sales from mine operations	\$ 159,141	\$ 73,518	\$ 292,579	\$ 119,005
Cost of sales related to idled mine assets ⁽ⁱ⁾	311	64	562	110
Cost of sales	\$ 159,452	\$ 73,582	\$ 293,141	\$ 119,115

(i) Cost of sales related to idled mine assets for the six months ended June 30, 2025 includes depreciation expense of \$562 (June 30, 2024: \$110). The depreciation expense relates to the Company's idled plant and equipment.

Cost of inventories recognised as expense in cost of sales for the three months ended June 30, 2025 totaled \$119,692 (June 30, 2024: \$44,596). Cost of inventories recognised as expense in cost of sales for the six months ended June 30, 2025 totaled \$221,516 (June 30, 2024: \$68,767).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

7. OTHER OPERATING EXPENSES, NET

The Company's other operating expenses, net consist of the following amounts:

	Three months ended June 30,		Six months ended June 30,	
	2025	2024	2025	2024
Management fee (Note 21.1)	\$ 2,229	\$ 1,268	\$ 3,917	\$ 2,384
Reversal of provision for doubtful trade and other receivables (Note 14)	–	(4)	(56)	(23)
Foreign exchange loss/(gain), net	(914)	382	(945)	582
Gain on disposal of items of property, plant and equipment, net (Note 16)	–	(262)	–	(262)
Reversal of impairment loss on materials and supplies inventories (Note 15)	(40)	(67)	(70)	(74)
Impairment loss on coal stockpiles (Note 15)	12,348	–	12,348	–
Written off of other payables	(6,272)	–	(6,272)	–
Gain on contract offsetting arrangement	(338)	(160)	(338)	(397)
Other operating expenses, net	\$ 7,013	\$ 1,157	\$ 8,584	\$ 2,210

8. ADDITIONAL TAX AND TAX PENALTY

On July 18, 2023, Southgobi Sands LLC (“SGS”) a wholly-owned subsidiary of the Company, received an official notice (the “Notice”) issued by the Mongolian Tax Authority (“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 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 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

8. ADDITIONAL TAX AND TAX PENALTY continued

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 (“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 (“Proposed Case”).

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

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 (“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 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 \$17,293 in relation to the aforementioned tax penalty. The Company anticipates paying down the outstanding amount of the tax and tax penalty from cash generated from operations in the normal course. According to Mongolian tax law, the Mongolian tax authority has a legal authority to demand payment of the outstanding amount of the Revised Re-assessment Result from the Company at its discretion.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

9. FINANCE COSTS AND INCOME

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

	Three months ended June 30,		Six months ended June 30,	
	2025	2024	2025	2024
Interest expense on convertible debenture (Note 18.4)	\$ 8,915	\$ 9,686	\$ 17,536	\$ 18,929
Fair value loss on embedded derivatives in convertible debenture (Note 18.4)	–	–	–	461
Value added tax on interest from intercompany loan	–	472	–	930
Interest elements on leased assets	60	73	116	158
Accretion of decommissioning liability	165	91	300	177
Finance costs	\$ 9,140	\$ 10,322	\$ 17,952	\$ 20,655

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

	Three months ended June 30,		Six months ended June 30,	
	2025	2024	2025	2024
Fair value gain on embedded derivatives in convertible debenture (Note 18.4)	\$ 40	\$ 688	\$ 55	\$ –
Interest income	13	34	19	107
Finance income	\$ 53	\$ 722	\$ 74	\$ 107

10. TAXES

The Canadian statutory tax rate was 27% (2024: 27%). The Company's tax expense is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2025	2024	2025	2024
Current – Canada				
Charge for the period	\$ –	\$ –	\$ –	\$ –
Current – elsewhere				
Charge for the period	284	8,585	2,450	18,376
Total tax charge for the period	\$ 284	\$ 8,585	\$ 2,450	\$ 18,376

11. EARNINGS/(LOSS) PER SHARE

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

	Three months ended June 30,		Six months ended June 30,	
	2025	2024	2025	2024
Net profit/(loss)	\$ (22,806)	\$ (2,085)	\$ (49,011)	\$ 10,167
Weighted average number of shares	296,705	295,844	296,705	295,987
Basic and diluted earnings/(loss) per share	\$ (0.077)	\$ (0.007)	\$ (0.165)	\$ 0.034

Potentially dilutive items not included in the calculation of diluted loss per share for the period ended June 30, 2025 include the underlying shares comprised in the convertible debenture (Note 18) and stock options (Note 20) that were anti-dilutive.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

12. INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended June 30, 2025 and 2024.

13. CASH AND CASH EQUIVALENTS

	As at	
	June 30, 2025	December 31, 2024
Cash and bank balances	\$ 3,452	\$ 8,864
Less: Restricted cash ⁽ⁱ⁾	(838)	(274)
Cash and cash equivalents	\$ 2,614	\$ 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.

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

	As at	
	June 30, 2025	December 31, 2024
Denominated in U.S. Dollars	\$ 122	\$ 99
Denominated in Chinese Renminbi	1,826	6,271
Denominated in Mongolian Tugriks	439	1,962
Denominated in Canadian Dollars	89	25
Denominated in Hong Kong Dollars	138	233
Cash	\$ 2,614	\$ 8,590

Exposure to fluctuations in foreign exchange rates

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

	As at	
	June 30, 2025	December 31, 2024
Increase/decrease in foreign exchange rate against respective functional currency		
+5%	\$ 422	\$ 273
-5%	\$ (422)	\$ (273)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

14. TRADE AND OTHER RECEIVABLES

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

	As at	
	June 30, 2025	December 31, 2024
Trade receivables	\$ 15,710	\$ 25,418
Other receivables	1,523	6,068
Total trade and other receivables	\$ 17,233	\$ 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	
	June 30, 2025	December 31, 2024
Less than 1 month	\$ 16,358	\$ 28,630
1 to 3 months	875	2,856
Total trade and other receivables	\$ 17,233	\$ 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 \$21,876 as at June 30, 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 June 30, 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 period (note 7)	(56)
Exchange realignment	(416)
Closing loss allowance as at June 30, 2025	\$ 21,876
Opening loss allowance as at January 1, 2024	
Decrease in loss allowance recognised in profit or loss during the period (note 7)	(23)
Exchange realignment	522
Closing loss allowance as at June 30, 2024	\$ 22,986

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

15. INVENTORIES

The Company's inventories consist of the following amounts:

	As at	
	June 30, 2025	December 31, 2024
Current inventories		
Coal stockpiles	\$ 92,981	\$ 90,390
Materials and supplies	13,567	16,856
Total inventories	\$ 106,548	\$ 107,246

Other operating expenses for the six months ended June 30, 2025 includes an impairment loss on coal stockpiles of \$12,348 and reversal of impairment loss on materials and supplies of \$70 (June 30, 2024: reversal of impairment on materials and supplies of \$74).

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

Due to the weakened market condition and demand in China since the second half of 2024, the Company has been encountering a prolonged decline of its coal products price. As a result, the Company performed an impairment loss assessment on its coal products and an impairment loss on coal stockpiles of \$12,348 was recorded during the six months ended June 30, 2025 (June 30, 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.

16. PROPERTY, PLANT AND EQUIPMENT

During the six months ended June 30, 2025, the Company acquired items of plant and equipment with a cost including mineral properties of approximately \$39,551 (June 30, 2024: \$64,032). Items of fully depreciated plant and equipment with costs of approximately \$5,463 were disposed during the six months ended June 30, 2025 without any sales proceeds, resulting in no gain or loss on disposal during the six months ended June 30, 2025, while items of depreciated plant and equipment with costs of approximately \$2,119 and carrying value of approximately \$728 were disposed during the six months ended June 30, 2024 with sales proceeds of \$990, resulting in a gain on disposal of \$262 during the six months ended June 30, 2024.

16.1 Non-depreciable assets

The non-depreciable assets mainly include the construction in progress. Depreciation on these assets will commence once they are ready for their intended use.

16.2 Pledge on items of property, plant and equipment

As at June 30, 2025, most of the Company's mobile equipment and other operating equipment with carrying value of \$12,570 (December 31, 2024: \$11,350) were pledged as security of convertible debenture.

16.3 Right-of-use assets

The right-of-use assets relate to the buildings, plant and equipment as at June 30, 2025 and December 31, 2024.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

16. PROPERTY, PLANT AND EQUIPMENT continued

16.4 Impairment charges

During the six months ended June 30, 2025, the Company reviewed the recoverable amount of non-financial assets which was higher than its carrying amount as of the reporting date. The Company will continue to closely monitor the coal price fluctuation and market condition subsequently. Based on the current assessment, no impairment nor reversal of impairment on property, plant and equipment was made during the six months ended June 30, 2025 (June 30, 2024: nil).

17. TRADE AND OTHER PAYABLES

Trade and other payables of the Company primarily consist of amounts outstanding for trade purchases relating to coal mining, development and exploration activities and mining royalties payable. The usual credit period taken for trade purchases is between 30 to 90 days.

The aging of the Company's trade and other payables, based on invoice date, is as follows:

	As at	
	June 30, 2025	December 31, 2024
Less than 1 month	\$ 49,885	\$ 53,646
1 to 3 months	52,930	50,936
3 to 6 months	25,064	18,205
Over 6 months	84,410	46,494
Total trade and other payables	\$ 212,289	\$ 169,281

The trade and other payables of \$212,289 (December 31, 2024: \$169,281) included other tax payables of \$52,249 (December 31, 2024: \$55,225).

18. CONVERTIBLE DEBENTURE

18.1 Key commercial terms

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

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

18. CONVERTIBLE DEBENTURE continued

18.1 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 HKEX and the TSX-V have occurred.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

18. CONVERTIBLE DEBENTURE continued

18.2 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.

18.3 Valuation assumptions

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

	As at	
	June 30, 2025	December 31, 2024
Floor conversion price	CA\$8.88	CA\$8.88
Ceiling conversion price	CA\$11.88	CA\$11.88
Common share price	CA\$0.34	CA\$0.56
Historical volatility	24%	25%
Risk free rate of return	3.57%	3.48%
Foreign exchange spot rate (CA\$ to U.S. Dollar)	0.735	0.695
Forward foreign exchange rate curve (CA\$ to U.S. Dollar)	0.735 to 0.937	0.695 to 0.930

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

18. CONVERTIBLE DEBENTURE continued

18.4 Presentation

Based on the Company's valuation as at June 30, 2025, the fair value of the embedded derivatives decreased by \$55 (June 30, 2024: increased by \$461) compared to December 31, 2024. The decrease was recorded as finance income for the six months ended June 30, 2025.

For the six months ended June 30, 2025, the Company recorded interest expense of \$17,536 related to the convertible debenture as a finance cost (six months ended June 30, 2024: \$18,929). 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%.

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

	Three months ended June 30,		Six months ended June 30,	
	2025	2024	2025	2024
Balance, beginning of period	\$ 213,524	\$ 201,692	\$ 204,918	\$ 194,300
Interest expense on convertible debenture (Note 9)	8,915	9,686	17,536	18,929
Increase/(decrease) in fair value of embedded derivatives (Note 9)	(40)	(688)	(55)	461
Interest paid	—	—	—	(3,000)
Balance, end of period	\$ 222,399	\$ 210,690	\$ 222,399	\$ 210,690

The convertible debenture balance consists of the following amounts:

	As at	
	June 30, 2025	December 31, 2024
Current convertible debenture		
Interest payable	\$ —	\$ 120,651
	—	120,651
Non-current convertible debenture		
Debt host and interest payable	\$ 222,392	\$ 84,204
Fair value of embedded derivatives	7	63
	222,399	84,267
Total convertible debenture	\$ 222,399	\$ 204,918

18.5 Interest deferral and settlement

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 deferral agreement dated March 19, 2024 and the deferral agreement dated April 30, 2024; (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").

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

18. CONVERTIBLE DEBENTURE continued

18.5 Interest deferral and settlement continued

The effectiveness of the 2025 March Deferral Agreement and the respective covenants, agreements and obligations of each party under the 2025 March Deferral Agreement are subject to the Company obtaining the requisite approval of the 2025 March Deferral Agreement from shareholders in accordance with the requirements of applicable Canadian securities laws and Rule 14.33 and Rule 14A.36 of the 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.

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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

19. 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	
	June 30, 2025	December 31, 2024
Total long service payment liabilities	\$ 33	\$ 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 the 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.

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 June 30, 2025, the Company employed 10 permanent employees in Hong Kong that are subject to LSP consideration (December 31, 2024: 9).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

19. LONG SERVICE PAYMENT LIABILITIES continued

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

	Six months ended June 30,	
	2025	2024
Balance, beginning of period	\$ 29	\$ 26
Current service cost	4	4
Balance, end of period	\$ 33	\$ 30

The principal actuarial assumptions used are as follows:

	Six months ended June 30,	
	2025	2024
Discount rate	2.02% p.a.	2.02% p.a.
Expected rate of future salary increase	3%	3%

Expected contributions to the long service payment obligation by the Company for the period ended June 30, 2025 after the offset the accrued MPF account balance is approximately \$405 (December 31, 2024: \$405).

20. SHARE-BASED PAYMENTS

Equity Incentive Plan

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

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

Under the terms of the Share Option Plan, the Stock Options are priced using the volume weighted average closing price for the five days preceding the date of grant. The Share Option Plan permits the Board to set the terms for each Stock Option grant; however, the general terms of the Stock Option granted under the Share Option Plan to eligible employees include a maximum exercise period of 5 years and a vesting period of 3 years with 33% of the grant vesting on the first anniversary of the grant, 33% vesting on the second anniversary of the grant and 34% vesting on the third anniversary of the grant. The general terms of Stock Option granted under the plan to independent non-executive directors include a maximum exercise period of 5 years and a vesting period of 100% of the grant vesting on the first anniversary of the date of grant.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

20. SHARE-BASED PAYMENTS continued

Equity Incentive Plan continued

The Share Purchase Plan allows participants (the “SPP Participants”) to contribute up to 10% of their basic annual salary to purchase Common Shares. The Company contributes 50% of each SPP Participant's contribution and at the end of each calendar quarter, Common Shares are issued by the Company on behalf of the SPP Participants. Upon the conversion to primary listing on the Hong Kong Stock Exchange, the Company has undertaken not to issue any further shares under the Share Purchase Plan.

The stock options outstanding and exercisable as at June 30, 2025 are as follows:

As at June 30, 2025						
Exercise price (HK\$)	Options Outstanding			Options Exercisable		
	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	1.00	1,207	\$ 1.41	1.00
Total	1,207		1.00	1,207		1.00

The following table discuss movements in the Company's share options during the six months ended June 30, 2025.

Names	Number of share options					At June 30, 2025	Date of grant of share options	Exercise period of share options	Exercise price per share
	At January 1, 2025	Granted during the period	Exercised during the period	Forfeited during the period	Expired during the period				
Directors									
Jin Lan Quan	150	–	–	–	–	150	June 29, 2021	June 29, 2022 – June 29, 2026	HK\$1.41
Yingbin Ian He	150	–	–	–	–	150	June 29, 2021	June 29, 2022 – June 29, 2026	HK\$1.41
Total for directors	300	–	–	–	–	300			
Other share option holders	907	–	–	–	–	907	June 29, 2021	June 29, 2022 – June 29, 2026	HK\$1.41
Total	1,207	–	–	–	–	1,207			

21. RELATED PARTY TRANSACTIONS

The condensed consolidated interim financial statements include the financial statements of SouthGobi Resources Ltd. and its significant subsidiaries listed in the following table:

Name	Country of incorporation	% equity interest as at	
		June 30, 2025	December 31, 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%

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

21. RELATED PARTY TRANSACTIONS continued

The register of interests and short positions in Shares required to be kept by the Company (the “Register of Interests”) showed that as at June 30, 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 shareholders	Nature of interest	Number of Shares held ^(a)	Approximate percentage of issued Shares ^(d)
JD Zhixing Fund L.P. ^(d)	Beneficial	85,714 ^(e)	28.89%
JD Dingxing Limited ^(d)	Interest of controlled corporation	85,714 ^(e)	28.89%
Chonglin Zhu ^(d)	Interest of controlled corporation	85,714 ^(e)	28.89%
Inner Mongolia Tianyu Trading Limited* (内蒙古天宇创新商贸有限公司) (“IMTT”) ^(d)	Interest of controlled corporation	85,714	28.89%
Inner Mongolia Yuxinsheng Technology Co., Ltd.* (内蒙古宇鑫盛科技有限公司) (“IMYTC”) ^(d)	Interest of controlled corporation	85,714	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”) ^(d)	Interest of controlled corporation	85,714	28.89%
Yong An ^(d)	Interest of controlled corporation	85,714	28.89%
Land Grand International Holding Limited ^(f)	Beneficial	46,359	15.62%
Mengfa Energy Holding Group Co., Ltd. (“Mengfa”) ^(f)	Interest of controlled corporation	46,359	15.62%
Zhu Gao ^(f)	Interest of controlled corporation	46,359	15.62%
Voyage Wisdom Limited ^(g)	Beneficial	25,768	8.68%
Aminbuhe ^(g)	Interest of controlled corporation	25,768	8.68%
Ningqiao Li ^(g)	Interest of controlled corporation	25,768	8.68%

* English names are for identification purpose only.

Notes:

- (a) The information as to the Shares beneficially owned or controlled or directed that is not within the knowledge of the Company, its Directors or its officers has been furnished by the applicable Shareholders or has been extracted from the public filings.
- (b) All interests stated above are long positions.
- (c) The percentage represents the total number of the Shares and the underlying Shares interested divided by the number of issued Shares as at June 30, 2025 (296,705 Shares).
- (d) To the best knowledge of the Company, JD Dingxing Limited and IMTT are the general partner and limited partner of JD Zhixing Fund L.P., respectively. IMTT is a wholly-owned subsidiary of IMYTC, which is owned as to 80% of its issued share capital by IMTIIG. Mr. Yong An owns 75% of the issued share capital of IMTIIG. Ms. Chonglin Zhu, a director nominee, holds 90% of the shares in JD Dingxing Limited.
- (e) As at June 30, 2025, JDZF is the beneficial owner of 85,714 Shares and 113,939 underlying Shares pursuant to the \$250.0 million Convertible Debenture issued by the Company.
- (f) To the best knowledge of the Company, Mengfa owns 100% of the issued share capital of Land Grand and Mr. Zhu Gao owns 80% of the issued share capital of Mengfa as at June 30, 2025.
- (g) To the best of the Company’s knowledge, Messrs. Yulan Guo, Aminbuhe and Ningqiao Li are directors and shareholders of Voyage Wisdom Limited, a private company which owned 8.7% of the Company’s issued and outstanding common shares at June 30, 2025. Each of Messrs. Aminbuhe and Ningqiao Li each own 45% of the issued share capital of Voyage Wisdom Limited, respectively, as at June 30, 2025.

Other than as disclosed above, the Company has not been notified of any relevant interests or short positions in the issued share capital of the Company as at June 30, 2025.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

21. 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 six months ended June 30, 2025:

- The management fee shall be calculated based on 1.5% of the Company's revenue, after deducting royalties and to be paid to JDZF on a quarterly basis.

During the six months ended June 30, 2025, management fee of \$3,917 was recorded in profit or loss (June 30, 2024: \$2,384).

21.1 Related party expenses

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

	Three months ended June 30,		Six months ended June 30,	
	2025	2024	2025	2024
Finance costs	\$ 8,915	\$ 9,686	\$ 17,536	\$ 18,929
Management fee	2,229	1,268	3,917	2,384
Rental expenses ⁽ⁱ⁾	20	20	40	41
Related party expenses	\$ 11,164	\$ 10,974	\$ 21,493	\$ 21,354

- (i) Rental expenses payment to a related company for the six months ended June 30, 2025 were \$40, 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 (six months ended June 30, 2024: \$41).

21.2 Directors' interests and short positions in shares, underlying shares and debentures

As at June 30, 2025, the interests of the Company's directors in the shares, underlying shares and debentures of the Company and its associated corporations were as follows:

Name of directors/officers	Number of Shares and underlying Shares held, capacity and nature of interest ⁽¹⁾						Percentage interest in the company ⁽³⁾
	Number of Shares interested				Number of underlying Shares interested	Total ⁽²⁾	
	Directly beneficially owned	Through spouse or minor children	Through controlled company	Beneficiary of a trust			
Current Directors							
Chonglin Zhu ⁽⁴⁾	—	—	85,714	—	—	85,714 ⁽⁵⁾	28.89%
Zhu Gao ⁽⁶⁾	—	—	46,359	—	—	46,359	15.62%
Yingbin Ian He	177	—	—	—	150	327	0.11%
Jin Lan Quan	—	—	—	—	150	150	0.05%
Officers							
Allison Snetsinger	4	2	—	—	100	106	0.04%

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

21. RELATED PARTY TRANSACTIONS continued

21.2 Directors' interests and short positions in shares, underlying shares and debentures continued

Notes:

- (1) The information as to the Shares beneficially owned or controlled or directed that is not within the knowledge of the Company, its Directors or its officers has been furnished by the applicable Shareholders or has been extracted from the public filings.
- (2) All interests stated above are long positions.
- (3) The percentage represents the total number of the Shares and the underlying Shares interested divided by the number of Shares issued and outstanding as at June 30, 2025 (i.e. 296,705 Shares).
- (4) JD Dingxing Limited and IMTT are the general partner and limited partner of JD Zhixing Fund L.P., respectively. Ms. Chonglin Zhu holds 90% of the shares of JD Dingxing Limited as at June 30, 2025.
- (5) As at June 30, 2025, JDZF is the beneficial owner of 85,714 Shares and 113,939 underlying Shares pursuant to the \$250.0 million Convertible Debenture issued by the Company.
- (6) Land Grand is the registered and beneficial owner of 46,359 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, none of the Directors of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at June 30, 2025.

22. SUPPLEMENTAL CASH FLOW INFORMATION

22.1 Non-cash financing and investing activities

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

	Six months ended June 30,	
	2025	2024
Depreciation and amortisation capitalised in mineral properties	\$ 2,683	\$ 1,504
Increase in decommissioning liability	3,827	818

22.2 Net change in working capital items

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

	Six months ended June 30,	
	2025	2024
Decrease/(increase) in inventories	\$ 820	\$ (21,731)
Decrease/(increase) in trade and other receivables	14,489	(3,145)
Decrease/(increase) in prepaid expenses and deposits	1,630	(1,148)
Increase in trade and other payables	45,909	36,371
Decrease in deferred revenue	(8,945)	(4,542)
Net change in working capital items	\$ 53,903	\$ 5,805

Depreciation and depletion capitalised in inventories for the six months ended June 30, 2025 totaled \$3,177 (June 30, 2024: capitalised in \$456).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

23. COMMITMENTS FOR EXPENDITURE

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

	Within 1 year	2-3 years	Over 3 years	Total
As at June 30, 2025				
Capital expenditure commitments	\$ 1,964	\$ 3,848	\$ 3,815	\$ 9,627
Operating expenditure commitments	1,216	38	159	1,413
Commitments	\$ 3,180	\$ 3,886	\$ 3,974	\$ 11,040
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

24. CONTINGENCIES

24.1 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 filings (the "Restatement").

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

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

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

In December 2018, the parties agreed to a consent Certification Order, whereby the action against the former senior officers and directors was withdrawn and the Class Action would only proceed against the Company, creating the class plaintiffs ("Class Plaintiffs") and permitting the Class Plaintiffs to proceed with the Class Action against only the Company.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

24. CONTINGENCIES continued

24.1 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 finalized, 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 is conditional upon the approval of a judge of the Superior Court of Justice of Ontario (the "Court"), expected to be presented to the Court by the Class Plaintiffs with the support of the Company on or before December 31, 2025.

The Company continues to believe that it has a strong defence on the merits. No provision for this matter is required as at June 30, 2025.

24.2 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

25. OTHER LISTING RULES DISCLOSURES

25.1 Compliance with the code on corporate governance practices

The Company has, throughout the six months ended June 30, 2025, applied the principles and complied with the requirements of its corporate governance practices as defined by the Board and all applicable statutory, regulatory and stock exchange listings standards, which include the code provisions set out in the Corporate Governance Code (the “Corporate Governance Code”) contained in Appendix C1 to the Listing Rules, except for the following:

1. Pursuant to Section C.2 under Part 2 of the Corporate Governance Code, the chairmen of the Board (the “Chairman”) should be responsible for the overall management of the Board. The Company has not had a Chairman since November 2017. The Board has appointed an Independent Lead Director, who is fulfilling the duties of the Chairman;
2. Pursuant to code provision C.2.7 of the Corporate Governance Code, the Chairman should at least annually hold meetings with the non-executive directors (including independent non-executive directors) without the executive directors present. During the period of January 1, 2025 to June 30, 2025, there were two meetings between the Independent Lead Director, who is fulfilling the duties of the Chairman, and the non-executive directors without the presence of the executive directors. The opportunity for such communication channel is offered at the end of each Board meeting;
3. Pursuant to code provision F.1.3 under Part 2 of the Corporate Governance Code, the Chairman of the Board should attend the AGM. Mr. Yingbin Ian He, an independent non-executive director and the Independent Lead Director, attended and acted as Chairman of the Company’s AGM held on June 27, 2025 (Hong Kong) to ensure effective communication with shareholders of the Company.

25.2 Compliance with model code

The Company has adopted policies regarding directors’ securities transactions in its Corporate Disclosure, Confidentiality and Securities Trading policy on terms that are similar in all material respects to the terms set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix C3 to the Listing Rules.

Having made specific enquiry with all directors, the Board confirms that all of the directors of the Company have complied with the required policies in the Company’s Corporate Disclosure, Confidentiality and Securities Trading policy throughout the six months ended June 30, 2025.

25.3 Purchase, sale or redemption of listed securities of the Company

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 six months ended June 30, 2025. The Company did not hold any treasury shares as at June 30, 2025.