SouthGobi Resources Ltd.

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

June 30, 2026
(Expressed in U.S. dollars)

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

Forward-Looking Statements

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

- the Company continuing as a going concern and its ability to realise its assets and discharge its liabilities in the normal course of operations as they become due;
- adjustments to the amounts and classifications of assets and liabilities in the Company's condensed consolidated interim financial statements and the impact thereof;
- the Company's expectations of sufficient liquidity and capital resources to meet its ongoing obligations and future contractual commitments, including the Company's ability to settle its trade payables, to secure additional funding and to meet its obligations under each of the JD Zhixing Fund L.P. ("JDZF") convertible debenture (the "Convertible Debenture"), the 2026 March Deferral Agreement (as defined below) and the 2025 Bank Loan (as defined below), as the same become due;
- the Company's discussions with the Plenipotentiary Representative of the Mongolian Government (as defined below) in relation to determining the Mongolian state's ownership interest in SGS (as defined below);
- the Company's anticipated financing needs, operational and development plans and future production levels, including ramp up of the Company's mining operations and capacity in 2026;
- the estimates and assumptions included in the Company's impairment analysis and the possible impact of changes thereof;
- the ability of the Company to enhance the operational efficiency and output throughput of the washing facilities at Ovoot Tolgoi;
- the ability of the Company to enhance the product value by conducting coal processing and coal washing;
- convening a special shareholders' meeting to seek disinterested shareholder approval of the 2026 March Deferral Agreement;
- the impact of the Company's activities on the environment and actions taken for the purpose of mitigation of potential environmental impacts and planned focus on health, safety and environmental performance;
- the future demand for coal in China;
- future trends in the Chinese coal industry;
- the Company's plans to scale up mining operations and enhance coal processing capabilities;
- the Company's initiatives to strengthen spare parts management to improve maintenance efficiency;
- the Company's plans to deploy advanced remote-control systems, optimise transport routes and further expand the use of electric locomotives;
- the Company's plans to develop markets for both its Premium and Standard semi-soft coking coal brands and pursuit of long-term supply offtake agreements with end users in China;

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

Forward-Looking Statements continued

- the Company's expectations regarding the competitiveness of Mongolian coking coal in the Chinese market as a result of cross-border infrastructure improvements;
- the construction and operation of the Dry Coal Separation System (as defined below) at the Company's Ovoot Tolgoi Mine;
- the Company's outlook and objectives for 2026 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.

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; the Company's ability to obtain requisite shareholder approval of the 2026 March Deferral Agreement; the construction and operation of the Dry Coal Separation System; management's business outlook, including the outlook for 2026 and beyond; currency exchange rates; operating, labour and fuel costs; the ability of the Company to raise additional financing; negotiating a constructive understanding and agreement with the Plenipotentiary Representative of the Mongolian Government; the anticipated royalties payable under Mongolia's royalty regime; the future coal market conditions in China and the related impact on the Company's margins and liquidity; geopolitical developments, including the Iran-US conflict, and their impact on energy and coal prices; supplier and contractor relationships and their willingness to continue providing services; and 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; possible impact of changes to the inputs to the valuation model used to value the embedded derivatives in the Convertible Debenture; the risk of the Company or its subsidiaries default under its existing debt obligations, including the Convertible Debenture, the 2026 March Deferral Agreement and the 2025 Bank Loan; the impact of amendments to, or the application of, the laws of Mongolia, China and other countries in which the Company carries on business; modifications to existing practices so as to comply with any future permit conditions that may be imposed by regulators; delays in obtaining approvals and lease renewals; the risk of fluctuations in coal prices and changes in China and world economic conditions; customer credit risk; cash flow and liquidity risks; risks relating to the Company's decision to suspend activities relating to the development of the Ceke Logistics Park project, including the risk that its investment partner may initiate legal action against the Company for failing to comply with the underlying agreements governing project development; risks relating to the ability of the Company to enhance the operational efficiency and the output throughput of the washing facilities at Ovoot Tolgoi Mine 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.

Table of Contents

Introduction

This MD&A is dated as of August 14, 2026 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, 2026. 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., Wuhai SouthGobi Mining Resources Co., Ltd. and Alxa League SouthGobi Coal Industry Co., Ltd.) was Renminbi ("RMB") and the functional currency of the Company's Mongolian operations (Southgobi Sands LLC ("SGS"), Mazaalai Resources LLC, TST Coal Trans LLC, RDCC LLC, Nariinsukhait Railway LLC, Shiveekhuren Terminal LLC and Umniin Gobiin Els 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 874 employees as at June 30, 2026. 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, 2026 and the subsequent period to August 14, 2026 are as follows:

- ***Operating Results*** – The Company continues to expand the scale of mining operations in 2026, 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. In addition, the Company also continues to expand the categories of coal products in its portfolio, including mixed coal, wet washed coal and dry processed coal, which further increases the Company's coal export volume.

  The Company recorded sales volume of 3.5 million tonnes for the second quarter of 2026 compared to 3.0 million tonnes for the second quarter of 2025, while the Company recorded an average realised selling price of $60.6 per tonne for the second quarter of 2026 compared to $52.6 per tonne for the second quarter of 2025. The increase in the average realised selling price was primarily attributable to a greater proportion of premium semi-soft coking coal was sold with an increased average realised selling price during the second quarter of 2026.

- ***Financial Results*** – The Company recorded a $14.1 million profit from operations for the second quarter of 2026, compared to a $14.3 million loss from operations for the second quarter of 2025. The financial results were impacted by the increased sales volume, as well as improved average realised selling price per tonne during this period.

- ***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. The Company also understands that any legal person holding a special licence for a Mineral Deposit of Strategic Importance shall not, individually or jointly with other entities having a common interest, hold more than 34% of the total issued and outstanding shares of such legal person. However, there is uncertainty as to how these regulations will be interpreted and applied to a publicly-listed company which is the beneficial owner of a Mineral Deposit of Strategic Importance. The Company's Mongolian legal counsel has advised that, while there is no clarity as to how the aforementioned ownership restriction will be interpreted and applied in practice to a publicly-listed company, they are of the view that the ownership restriction is likely to be determined with reference to the beneficial shareholders of the publicly-listed company. In the event that the aforementioned ownership restriction is not complied with, the Government of Mongolia shall have the right to appoint a Plenipotentiary Representative to take charge of managing such legal person to ensure legal compliance.

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

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

- ***2026 March Deferral Agreement*** – On March 23, 2026, the Company and JDZF entered into an agreement (the "2026 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", including the Assigned PIK Interest (as defined below)), management fees, and related deferral fees in the aggregate amount of approximately $140.5 million (now $123.5 million following the satisfaction of $17 million of the Assigned PIK Interest, as further described below) which will be due and payable to JDZF on or before August 31, 2026 pursuant to the deferral agreement dated March 20, 2025; (ii) semi-annual cash interest payment of approximately $7.9 million payable to JDZF on May 19, 2026 under the Convertible Debenture; (iii) semi-annual cash interest payments of approximately $8.1 million payable to JDZF on November 19, 2026 and the $4.0 million in PIK Interest payable to JDZF on November 19, 2026 under the Convertible Debenture; and (iv) management fees in the aggregate amount of approximately $7.6 million payable to JDZF on May 16, 2026, August 15, 2026, November 15, 2026 and February 15, 2027, respectively, under the Amended and Restated Cooperation Agreement (collectively, the "2026 March Deferred Amounts").

1. Overview continued

Significant Events and Highlights continued

- ***2026 March Deferral Agreement*** continued

  The effectiveness of the 2026 March Deferral Agreement and the respective covenants, agreements and obligations of each party under the 2026 March Deferral Agreement are subject to the Company obtaining the requisite approval of the 2026 March Deferral Agreement from shareholders in accordance with the requirements of applicable Canadian securities laws and Rule 14.33 and Rule 14A.36 of the rules governing the listing of securities on the Stock Exchange of Hong Kong (the "Listing Rules"). The Company will be seeking approval of the 2026 March Deferral Agreement from disinterested shareholders at the Company's upcoming special meeting of shareholders, which will be held at a future date to be set by the board of directors of the Company (the "Board").

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

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

  - As consideration for the deferral of the 2026 March Deferred Amounts which relate to the payment obligations arising from the Convertible Debenture, the Company agreed to pay JDZF a deferral fee equal to 6.4% per annum on the outstanding balance of such 2026 March Deferred Amounts, commencing on the date on which each such 2026 March Deferred Amounts would otherwise have been due and payable under the Convertible Debenture.

  - As consideration for the deferral of the 2026 March Deferred Amounts which relate to payment obligations arising from the Amended and Restated Cooperation Agreement, the Company agreed to pay JDZF a deferral fee equal to 1.5% per annum on the outstanding balance of such 2026 March Deferred Amounts commencing on the date on which each such 2026 March Deferred Amounts would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.

  - The 2026 March Deferral Agreement does not contemplate a fixed repayment schedule for the 2026 March Deferred Amounts or related deferral fees. Instead, the 2026 March Deferral Agreement requires the Company to use its best efforts to pay the 2026 March Deferred Amounts and related deferral fees due and payable under the 2026 March Deferral Agreement to JDZF. During the period beginning as of the effective date of the 2026 March Deferral Agreement and ending as of the 2026 March Deferral Agreement Deferral Date, the Company will provide JDZF with monthly updates of its financial status and business operations, and the Company and JDZF will on a monthly basis discuss and assess in good faith the amount (if any) of the 2026 March Deferred Amounts and related deferral fees that the Company may be able to repay to JDZF, having regard to the working capital requirements of the Company's operations and business at such time and with the view of ensuring that the Company's operations and business would not be materially prejudiced as a result of any repayment.

  - If at any time before the 2026 March Deferred Amounts and related deferral fees are fully repaid, the Company proposes to appoint, replace or terminate one or more of its chief executive officer, its chief financial officer or any other senior executive(s) in charge of its principal business function or its principal subsidiary, the Company will first consult with, and obtain written consent (such consent shall not be unreasonably withheld) from JDZF prior to effecting such appointment, replacement or termination.

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

1. Overview continued

Significant Events and Highlights continued

- ***Build-Transfer Agreement*** – On April 22, 2026, the Company's wholly-owned Mongolian subsidiary, SGS entered into a Build-Transfer agreement (the "BT Agreement") with Tangshan Shenzhou Manufacturing Group Co., Ltd ("Tangshan"), pursuant to which Tangshan will be responsible for the construction of a new dry coal separation system (the "Dry Coal Separation System") at the Company's Ovoot Tolgoi Mine in Mongolia, which will be a stand-alone plant separate from the Company's existing dry processing plants. Tangshan will also be responsible for the construction of all related facilities for the Dry Coal Separation System. Tangshan shall transfer the ownership and relevant intellectual property rights of the Dry Coal Separation System and the related facilities to SGS upon the satisfaction of the conditions for transfer under the BT Agreement. Under the BT Agreement, SGS has the right to supervise and inspect Tangshan's construction progress and safety management.

  The total consideration payable by the Company over the term of the BT Agreement is approximately $7.8 million. Subject to the terms as set out therein, the BT Agreement is effective from April 22, 2026 until the consideration has been fully paid by SGS, which is expected to take place on or around April 22, 2031.

- ***Issue of PIK interest shares under convertible debenture*** – On July 10, 2026, JDZF, the Company's largest shareholder and registered holder of the Convertible Debenture, assigned to Od Sar Trading Co. Limited (the "Assignee") the right to receive $19 million of PIK Interest accrued under the Convertible Debenture and related deferral agreements (the "Assigned PIK Interest"). The payment date of the Assigned PIK Interest was deferred to August 31, 2027 (the "Deferral Date") pursuant to the terms of the 2026 March Deferral Agreement. The assignment of the Assigned PIK Interest does not have any impact on the Deferral Date nor does it amend or result in a deviation of the terms of the 2026 March Deferral Agreement.

  On July 12, 2026, the Company received from the Assignee a notice to exercise its right to require settlement of $17 million of the Assigned PIK Interest through the issuance of Common Shares, with a requested payment date of July 13, 2026. Pursuant to the terms of the Convertible Debenture and related deferral agreements, the Assignee may, at its discretion, require the Company to satisfy the Assigned PIK Interest by issuing fully paid and non-assessable Common Shares in an amount equal to the Assigned PIK Interest divided by the 50-day volume weighted average price ("VWAP") of the Common Shares as of the requested payment date of the Assigned PIK Interest.

  On July 15, 2026 the Company issued 73,497,622 Common Shares to the Assignee, representing approximately 19.83% of the issued and outstanding Common Shares, calculated based on the 50-day VWAP of approximately CA$0.3272 (equivalent to $0.2313) per Common Share. The remaining $2 million of the Assigned PIK Interest remains outstanding and subject to the terms of the Convertible Debenture and related deferral agreements, the Assignee may, at its discretion, require the Company to satisfy the remaining Assigned PIK Interest by issuing Common Shares based on the prevailing 50-day VWAP of the Common Shares at the time of request.

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

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

2. Overview of Operational Data and Financial Results

Summary of Operational Data

	Three months ended June 30,		Six months ended June 30,	
	2026	2025	**2026**	2025
Sales Volumes, Prices and Costs				
Premium semi-soft coking coal				
Coal sales *(millions of tonnes)*				
– Run-of-mine	**0.22**	0.17	**0.48**	0.21
– Processed	**1.51**	0.26	**2.46**	0.34
Average realised selling price *(per tonne)*				
– Run-of-mine	**$ 81.77**	$ 59.84	**$ 78.25**	$ 65.57
– Processed	**$ 76.88**	$ 59.06	**$ 73.49**	$ 66.19
Standard semi-soft coking coal				
Coal sales *(millions of tonnes)*				
– Run-of-mine	**0.82**	1.65	**1.88**	2.60
– Processed	**–**	0.13	**0.01**	0.35
Average realised selling price *(per tonne)*				
– Run-of-mine	**$ 63.39**	$ 60.07	**$ 57.48**	$ 63.88
– Processed	**$ –**	$ 56.83	**$ 58.03**	$ 70.5
Premium thermal coal				
Coal sales *(millions of tonnes)*				
– Processed	**0.63**	0.67	**1.26**	1.30
Average realised selling price *(per tonne)*				
– Processed	**$ 36.88**	$ 33.36	**$ 40.00**	$ 34.54
Standard thermal coal				
Coal sales *(millions of tonnes)*				
– Run-of-mine	**–**	0.04	**–**	0.16
Average realised selling price *(per tonne)*				
– Run-of-mine	**$ –**	$ 32.55	**$ –**	$ 36.54
Coal by-products				
Coal sales *(millions of tonnes)*	**0.32**	0.04	**0.52**	0.06
Average realised selling price *(per tonne)*	**$ 9.73**	$ 13.31	**$ 8.22**	$ 9.67
Total				
Coal sales *(millions of tonnes)*	**3.50**	2.96	**6.61**	5.02
Average realised selling price *(per tonne)*	**$ 60.62**	$ 52.55	**$ 57.69**	$ 55.41
Run-of-mine production *(millions of tonnes)*	**5.12**	3.91	**10.10**	7.83
Cost of sales of product sold *(per tonne)*	**$ 54.43**	$ 53.87	**$ 53.04**	$ 58.39
Direct cash costs of product sold *(per tonne)* (i)	**$ 42.07**	$ 44.92	**$ 41.35**	$ 48.63
Mine administration cash costs of product sold *(per tonne)* (i)	**$ 1.80**	$ 1.28	**$ 1.62**	$ 1.45
Total cash costs of product sold *(per tonne)* (i)	**$ 43.87**	$ 46.20	**$ 42.97**	$ 50.08
Other Operational Data				
Overburden stripped *(millions of bank cubic meters)*	**21.60**	19.86	**44.07**	39.22
Strip ratio *(bank cubic meters of overburden per tonne of coal produced)*	**4.22**	5.08	**4.36**	5.01
Lost time injury frequency rate (ii)	**0.00**	0.00	**0.00**	0.00

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

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

2. Overview of Operational Data and Financial Results continued

Overview of Operational Data

For the three months ended June 30, 2026

The Company recorded an average realised selling price of $60.6 per tonne for the second quarter of 2026 compared to $52.6 per tonne for the second quarter of 2025. The increase in the average realised selling price was primarily attributable to a greater portion of premium semi-soft coking coal was sold with an increased average realised selling price during the second quarter of 2026. The product mix for the second quarter of 2026 consisted of approximately 49% of premium semi-soft coking coal, 24% of standard semi-soft coking coal, 18% of premium thermal coal, and 9% of coal by-products compared to approximately 15% of premium semi-soft coking coal, 60% of standard semi-soft coking coal, 22% of premium thermal coal, 1% of standard thermal coal and 2% of coal by-products for the second quarter of 2025.

The Company's unit cost of sales of product sold was $54.4 per tonne for the second quarter of 2026 compared to $53.9 per tonne for the second quarter of 2025.The increase was mainly due to the Company expanding into certain categories of processed coal with higher production costs.

The Company ended the second quarter of both 2026 and 2025 without any lost time injury.

For the six months ended June 30, 2026

The Company sold 6.6 million tonnes for the first six months of 2026 as compared to 5.0 million tonnes for the first six months of 2025. The Company recorded an average realised selling price of $57.7 per tonne for the first six months of 2026 compared to $55.4 per tonne for the first six months of 2025.

The Company's unit cost of sales of product sold was $53.0 per tonne for the first six months of 2026 compared to $58.4 per tonne for the first six months of 2025. The decrease was due to the improvement of output efficiency and unit production economics of processed premium semi-soft coking coal by adjusting the coal processing mix, while more sales were made to closer destinations with lower transportation costs for all coal products.

There was no lost time injury recorded for the first six months of both 2026 and 2025.

2. Overview of Operational Data and Financial Results continued

Summary of Financial Results

$ in thousands, except per share information	Three months ended June 30, 2026	Three months ended June 30, 2025	Six months ended June 30, 2026	Six months ended June 30, 2025
Revenue [i]	**$ 211,672**	$ 155,289	**$ 381,037**	$ 278,156
Cost of sales [i]	**(190,502)**	(159,452)	**(350,611)**	(293,141)
Gross profit/(loss) excluding idled mine asset costs [ii]	**21,793**	(3,852)	**31,621**	(14,423)
Gross profit/(loss)	**21,170**	(4,163)	**30,426**	(14,985)
Other operating expenses, net	**(3,277)**	(7,013)	**(4,753)**	(8,584)
Administration expenses	**(3,749)**	(3,128)	**(6,920)**	(6,377)
Evaluation and exploration expenses	**(22)**	(22)	**(43)**	(54)
Profit/(loss) from operations	**14,122**	(14,326)	**18,710**	(30,000)
Finance costs	**(10,710)**	(9,140)	**(21,212)**	(17,952)
Finance income	**2**	53	**24**	74
Share of earning of a joint venture	**1,391**	1,011	**2,728**	1,624
Share of losses of associates	**(225)**	(120)	**(217)**	(307)
Current income tax expenses	**(9,904)**	(284)	**(13,393)**	(2,450)
Net loss attributable to equity holders of the Company	**(5,324)**	(22,806)	**(13,360)**	(49,011)
Basic and diluted loss per share	**$ (0.018)**	$ (0.077)	**$ (0.045)**	$ (0.165)

(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, 2026

The Company recorded a $14.1 million profit from operations for the second quarter of 2026 compared to a $14.3 million loss from operations for the second quarter of 2025. The turnaround from loss to profit was mainly due to the increased sales volume, as well as improved average realised selling price per tonne during this period.

Revenue was $211.7 million for the second quarter of 2026 compared to $155.3 million for the second quarter of 2025. The financial results were impacted by increased sales volume year-over-year, as a result of an expansion of the Company's sales network, diversification of its customer base and expansion of the categories of coal products in its portfolio.

Cost of sales was $190.5 million for the second quarter of 2026 compared to $159.5 million for the second quarter of 2025. The increase in cost of sales was mainly due to increased sales volume year-over-year.

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 this 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, 2026 continued

	Three months ended June 30,	
$ in thousands	**2026**	**2025**
Operating expenses	**$ 153,552**	$ 136,759
Depreciation and depletion	**19,620**	11,842
Royalties	**16,707**	10,540
Cost of sales from mine operations	**$ 189,879**	$ 159,141
Cost of sales related to idled mine assets	**623**	311
Cost of sales	**$ 190,502**	$ 159,452

Operating expenses in cost of sales were $153.6 million for the second quarter of 2026 compared to $136.8 million for the second quarter of 2025. The overall increase in operating expenses was due to increased sales volume year-over-year.

Cost of sales related to idled mine assets for the second quarter of 2026 included $0.6 million related to depreciation expenses for idled equipment (second quarter of 2025: $0.3 million).

Other operating expenses were $3.3 million for the second quarter of 2026 compared to $7.0 million for the second quarter of 2025. The decrease was mainly due to an impairment loss on coal stockpiles of $12.3 million and a write-off of other payables of $6.3 million was recorded for the second quarter of 2025, while the Company recorded an increased management fee compared with the second quarter of 2025.

	Three months ended June 30,	
$ in thousands	**2026**	**2025**
Management fee	**$ 3,018**	$ 2,229
Provision for doubtful trade and other receivables	**1**	–
Foreign exchange loss/(gain), net	**268**	(914)
Reversal of impairment loss on materials and supplies inventories	**(10)**	(40)
Impairment loss on coal stockpiles	**–**	12,348
Written off of other payables	**–**	(6,272)
Gain on contract offsetting arrangement	**–**	(338)
Other operating expenses, net	**$ 3,277**	$ 7,013

Administration expenses were $3.7 million for the second quarter of 2026 as compared to $3.1 million for the second quarter of 2025.

	Three months ended June 30,	
$ in thousands	**2026**	**2025**
Corporate administration	**$ 1,074**	$ 1,052
Legal and professional fees	**472**	607
Salaries and benefits	**1,992**	1,369
Depreciation	**211**	100
Administration expenses	**$ 3,749**	$ 3,128

2. Overview of Operational Data and Financial Results continued

Overview of Financial Results continued

For the three months ended June 30, 2026 continued

The Company continued to minimise evaluation and exploration expenditures in the second quarter of 2026 in order to preserve the Company's financial resources. Evaluation and exploration activities and expenditures in the second quarter of 2026 were limited to ensuring that the Company met the Mongolian Minerals Law requirements in respect of its mining licenses.

Finance costs were $10.7 million and $9.1 million for the second quarter of 2026 and 2025 respectively, which primarily consisted of interest expense on the $250.0 million Convertible Debenture.

For the six months ended June 30, 2026

The Company recorded a $18.7 million profit from operations in the first six months of 2026 compared to a $30.0 million loss from operations in the first six months of 2025. The turnaround from loss to profit was mainly due to the increased sales volume, as well as improved average realised selling price per tonne during this period.

Revenue was $381.0 million in the first six months of 2026 compared to $278.2 million in the first six months of 2025. 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 $350.6 million in the first six months of 2026 compared to $293.1 million in the first six months of 2025, as follows:

	Six months ended June 30,	
$ in thousands	**2026**	**2025**
Operating expenses	**$ 284,032**	$ 251,441
Depreciation and depletion	**35,785**	20,617
Royalties	**29,599**	20,521
Cost of sales from mine operations	**$ 349,416**	$ 292,579
Cost of sales related to idled mine assets	**1,195**	562
Cost of sales	**$ 350,611**	$ 293,141

Operating expenses in cost of sales were $284.0 million in the first six months of 2026 compared to $251.4 million in the first six months of 2025. The increase in cost of sales was mainly due to increased sales volume year-over-year.

Cost of sales related to idled mine assets in the first six months of 2026 included $1.2 million related to depreciation expenses for idled equipment (first six months of 2025: $0.6 million).

2. Overview of Operational Data and Financial Results continued

Overview of Financial Results continued

For the six months ended June 30, 2026 continued

Other operating expenses were $4.8 million in the first six months of 2026 (first six months of 2025: $8.6 million). The decrease was mainly due to an impairment loss on coal stockpiles of $12.3 million and write-off of other payables of $6.3 million was recorded for the second quarter of 2025, while the Company recorded an increased management fee in the first six months of 2026.

	Six months ended June 30,	
$ in thousands	**2026**	**2025**
Management fee	**$ 5,448**	$ 3,917
Reversal of provision for doubtful trade and other receivables	**(10)**	(56)
Foreign exchange gain, net	**(564)**	(945)
Loss on disposal of items of property, plant and equipment, net	**1**	–
Reversal of impairment loss on materials and supplies inventories	**(122)**	(70)
Impairment loss on coal stockpiles	**–**	12,348
Written off of other payables	**–**	(6,272)
Gain on contract offsetting arrangement	**–**	(338)
Other operating expenses, net	**$ 4,753**	$ 8,584

Administration expenses were $6.9 million in the first six months of 2026 (first six months of 2025: $6.4 million).

	Six months ended June 30,	
$ in thousands	**2026**	**2025**
Corporate administration	**$ 2,129**	$ 2,094
Legal and professional fees	**863**	1,148
Salaries and benefits	**3,502**	2,936
Depreciation	**426**	199
Administration expenses	**$ 6,920**	$ 6,377

The Company continued to minimise evaluation and exploration expenditures in the first six months of 2026 in order to preserve the Company's financial resources. Evaluation and exploration activities and expenditures in the first six months of 2026 were limited to ensuring that the Company met the Mongolian Minerals Law requirements in respect of its mining licenses.

Finance costs were $21.2 million and $18.0 million in the first six months of 2026 and 2025 respectively, which primarily consisted of interest expense on the $250.0 million Convertible Debenture.

2. Overview of Operational Data and Financial Results continued

Summary of Quarterly Operational Data

	2026	2025				2024	
Quarter Ended	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep
Sales Volumes, Prices and Costs								
Premium semi-soft coking coal								
Coal sales *(millions of tonnes)*								
– Run-of-mine	**0.22**	0.26	0.38	0.30	0.17	0.04	0.16	0.10
– Processed	**1.51**	0.95	0.97	0.82	0.26	0.08	0.12	0.02
Average realised selling price *(per tonne)*								
– Run-of-mine	**$ 81.77**	$ 75.38	$ 68.76	$ 63.37	$ 59.84	$ 90.75	$ 89.56	$ 116.48
– Processed	**$ 76.88**	$ 68.11	$ 66.22	$ 62.48	$ 59.06	$ 87.91	$ 98.02	$ 90.64
Standard semi-soft coking coal								
Coal sales *(millions of tonnes)*								
– Run-of-mine	**0.82**	1.06	1.13	1.25	1.65	0.95	1.31	1.09
– Processed	**–**	0.01	0.01	0.12	0.13	0.22	0.25	0.14
Average realised selling price *(per tonne)*								
– Run-of-mine	**$ 63.39**	$ 52.90	$ 55.58	$ 48.03	$ 60.07	$ 70.46	$ 69.30	$ 72.54
– Processed	**$ –**	$ 58.03	$ 64.54	$ 42.11	$ 56.83	$ 78.34	$ 100.36	$ 93.38
Premium thermal coal								
Coal sales *(millions of tonnes)*								
– Processed	**0.63**	0.63	0.37	0.12	0.67	0.63	0.44	0.52
Average realised selling price *(per tonne)*								
– Processed	**$ 36.88**	$ 43.14	$ 39.92	$ 33.44	$ 33.36	$ 35.79	$ 42.54	$ 43.74
Standard thermal coal								
Coal sales *(millions of tonnes)*								
– Run-of-mine	**–**	–	0.10	0.28	0.04	0.12	0.37	0.23
Average realised selling price *(per tonne)*								
– Run-of-mine	**$ –**	$ –	$ 34.15	$ 32.76	$ 32.55	$ 37.81	$ 37.45	$ 38.60
Coal by-products								
Coal sales *(millions of tonnes)*	**0.32**	0.20	0.18	0.15	0.04	0.02	0.01	0.01
Average realised selling price *(per tonne)*	**$ 9.73**	$ 5.85	$ 2.28	$ 14.94	$ 13.31	$ 13.91	$ 18.43	$ 2.47
Total								
Coal sales *(millions of tonnes)*	**3.50**	3.11	3.14	3.04	2.96	2.06	2.66	2.11
Average realised selling price *(per tonne)*	**$ 60.62**	$ 54.40	$ 54.46	$ 48.99	$ 52.55	$ 59.51	$ 65.72	$ 67.77
Run-of-mine coal production *(millions of tonnes)*	**5.12**	4.98	4.37	4.43	3.91	3.92	4.19	2.75
Cost of sales of product sold *(per tonne)*	**$ 54.43**	$ 51.48	$ 51.60	$ 47.22	$ 53.87	$ 64.90	$ 48.92	$ 52.77
Direct cash costs of product sold *(per tonne)* (i)	**$ 42.07**	$ 40.51	$ 41.27	$ 39.39	$ 44.92	$ 53.97	$ 37.92	$ 41.74
Mine administration cash costs of product sold *(per tonne)* (i)	**$ 1.80**	$ 1.44	$ 1.34	$ 0.97	$ 1.28	$ 1.70	$ 1.88	$ 0.94
Total cash costs of product sold *(per tonne)* (i)	**$ 43.87**	$ 41.95	$ 42.61	$ 40.36	$ 46.20	$ 55.67	$ 39.80	$ 42.68
Other Operational Data								
Overburden stripped *(millions of bank cubic meters)*	**21.60**	22.47	21.91	19.48	19.86	19.36	17.48	15.04
Strip ratio *(bank cubic meters of overburden per tonne of coal produced)*	**4.22**	4.51	5.02	4.39	5.08	4.93	4.17	5.48
Lost time injury frequency rate (ii)	**0.00**	0.00	0.00	0.00	0.00	0.00	0.00	0.00

(i) A non-IFRS financial measure, refer to Section 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:

$ in thousands, except per share information	2026		2025				2024	
Quarter Ended	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep
Financial Results								
Revenue (i)	**$ 211,672**	$ 169,365	$ 171,861	$ 148,802	$ 155,289	$ 122,867	$ 174,640	$ 143,748
Cost of sales (i)	**(190,502)**	(160,109)	(162,036)	(143,542)	(159,452)	(133,689)	(130,119)	(111,354)
Gross profit/(loss) excluding idled mine asset costs (ii)	**21,793**	9,828	10,135	5,627	(3,852)	(10,571)	44,757	32,544
Gross profit/(loss) including idled mine asset costs	**21,170**	9,256	9,825	5,260	(4,163)	(10,822)	44,521	32,394
Other operating income/(expenses), net	**(3,277)**	(1,476)	(2,027)	(699)	5,335	(1,571)	(1,194)	(294)
Administration expenses	**(3,749)**	(3,171)	(5,074)	(3,273)	(3,128)	(3,249)	(3,627)	(3,400)
Evaluation and exploration expenses	**(22)**	(21)	(49)	(234)	(22)	(32)	(314)	(1,003)
Impairment loss on coal stockpiles	**–**	–	(64,986)	–	(12,348)	–	–	–
Impairment loss on items of property, plant and equipment	**–**	–	(41,960)	–	–	–	–	–
Reversal of additional tax and tax penalty	**–**	–	–	–	–	–	39,666	–
Profit/(loss) from operations	**14,122**	4,588	(104,271)	1,054	(14,326)	(15,674)	79,052	27,697
Finance costs	**(10,710)**	(10,502)	(10,471)	(9,422)	(9,140)	(8,812)	(6,893)	(10,679)
Finance income	**2**	22	19	1,908	53	21	3,247	733
Share of earning of a joint venture	**1,391**	1,337	1,258	1,100	1,011	613	1,206	133
Share of earnings/(losses) of associates	**(225)**	8	606	257	(120)	(187)	578	(1)
Current income tax credit/(expenses)	**(9,904)**	(3,489)	147	(1,940)	(284)	(2,166)	(4,899)	(7,844)
Net profit/(loss)	**(5,324)**	(8,036)	(112,712)	(7,043)	(22,806)	(26,205)	72,291	10,039
Basic earnings/(loss) per share	**$ (0.018)**	$ (0.027)	$ (0.380)	$ (0.024)	$ (0.077)	$(0.088)	$ 0.244	$ 0.034
Diluted earnings/(loss) per share	**$ (0.018)**	$ (0.027)	$ (0.380)	$ (0.024)	$ (0.077)	$(0.088)	$ 0.228	$ 0.034

(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-IFRSs 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.

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, 2026 and June 30, 2025. The cash costs of product sold presented below may differ from cash costs of product produced depending on the timing of coal stockpile inventory turnover and impairment of coal stockpile inventories from prior periods.

	Three months ended June 30,		Six months ended June 30,	
$ in thousands, except per tonne information	**2026**	**2025**	**2026**	**2025**
Cash costs				
Cost of sales determined in accordance with IFRS	**$ 190,502**	$ 159,452	**$ 350,611**	$ 293,141
Less royalties	**(16,707)**	(10,540)	**(29,599)**	(20,521)
Less non-cash expenses	**(19,620)**	(11,842)	**(35,785)**	(20,617)
Less non-cash idled mine asset costs	**(623)**	(311)	**(1,195)**	(562)
Total cash costs	**153,552**	136,759	**284,032**	251,441
Less idled mine asset cash costs	**–**	–	**–**	–
Total cash costs excluding idled mine asset cash costs	**153,552**	136,759	**284,032**	251,441
Coal sales *(millions of tonnes)*	**3.50**	2.96	**6.61**	5.02
Total cash costs of product sold *(per tonne)*	**$ 43.87**	$ 46.20	**$ 42.97**	$ 50.08

	Three months ended June 30,		Six months ended June 30,	
$ in thousands, except per tonne information	**2026**	**2025**	**2026**	**2025**
Cash costs				
Direct cash costs of product sold *(per tonne)*	**$ 42.07**	$ 44.92	**$ 41.35**	$ 48.63
Mine administration cash costs of product sold *(per tonne)*	**1.80**	1.28	**1.62**	1.45
Total cash costs of product sold *(per tonne)*	**$ 43.87**	$ 46.20	**$ 42.97**	$ 50.08

The cash cost of product sold per tonne decreased from $46.2 for the second quarter of 2025 to $43.9 for the second quarter of 2026. The decrease was due to the economies of scale.

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, 2026 and June 30, 2025.

	Three months ended June 30,		Six months ended June 30,	
$ in thousands, except per tonne information	2026	2025	2026	2025
Idled mine asset costs				
Gross profit/(loss) excluding idled mine asset costs	**$ 21,793**	$ (3,852)	**$ 31,621**	$ (14,423)
Less non-cash idled mine asset costs	**(623)**	(311)	**(1,195)**	(562)
Gross profit/(loss) including idled mine asset costs	**$ 21,170**	$ (4,163)	**$ 30,426**	$ (14,985)

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. 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.

4. Properties continued

Mining Operations

Mining Method

The mining method employed at the Ovoot Tolgoi deposit could be described as open pit mining utilising large scale hydraulic excavators and shovels and trucks. Open pit mining is utilised where coal seams dip steeply and operating machinery on the coal seam hanging wall and foot wall 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, 2026, SGS employed 758 employees in Mongolia. Of the 758 employees, 45 are employed in the Ulaanbaatar office, 2 are employed in the Dalanzadgad representative office, 1 is employed in Gurvantes representative office and 710 at the Ovoot Tolgoi Mine site. Of the 758 employees based in Mongolia, 756 (99%) are Mongolian nationals and of those, 250 (33%) are residents of the local Gurvantes, Dalanzadgad, Sevrei, Noyon Soums and Mandalgobi.

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.

Bank Loan

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

- Maturity date set at 18 months from drawdown;
- Interest rate of 10% per annum on the outstanding principal and interest is calculated on a 365-day year basis;
- Loan repayments will consist of interest-only payments during the initial 12 months of the term, followed by principal amortisation payments during months 13 to 18 of the term;
- Certain items of property, plant and equipment with a carrying amount of $1.9 million, land-use rights and intangible assets were pledged as security for the 2025 Bank Loan; and
- The Company intends to use the proceeds of the 2025 Bank Loan to support working capital, operating expenses, taxes and the settlement of accounts payable of SGS.

5. Liquidity and Capital Resources continued

Liquidity and Capital Management continued

Additional tax and tax penalty imposed by the MTA

On July 18, 2023, SGS received the Notice 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 was imposing a tax penalty against SGS in the amount of approximately $75.0 million. Subsequently, the Company filed an appeal letter in relation to the Audit with the MTA on August 17, 2023.

On February 8, 2024, SGS received notice from the TDRC which stated that, following the TDRC's review, the TDRC ordered that the audit assessments set forth in the Notice be returned 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.

On May 15, 2024, SGS received the Revised Notice from the MTA regarding the Re-assessment Result, which amounted to a tax penalty of approximately $80.0 million.

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

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. As set forth in the Resolution, the TDRC reduced the Re-assessment Result from approximately $80.0 million to approximately $26.5 million. The Company decided not to pursue a further appeal of the Revised Re-assessment Result.

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. 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 Revised Re-assessment Result.

On April 25, 2025, SGS obtained the Latest Court Order dismissing the Proposed Case. The Company understood that the MTA Officials subsequently filed an appeal.

On June 9, 2025, SGS obtained the Appellate Court Judgement issued by the Appellate Court, pursuant to which the Appellate Court upheld the Latest Court Order. As a result, the Proposed Case was dismissed and rejected. According to applicable Mongolian law, the Appellate Court Judgement is not subject to further appeal.

In the prior year, the Company recorded an additional tax and tax penalty in the amount of $45.5 million, which consists of a tax penalty payable of $26.5 million and a provision for additional late tax penalty of $19.0 million. As a result of the Revised Re-assessment Result, the Company recorded a reversal of additional tax and tax penalty of $48.5 million in 2024. To date, the Company has fully settled the aforementioned tax penalty in February 2026. As at June 30, 2026, the provision for additional late tax penalty of $18.5 million refers to potential penalty chargeable by the MTA for future tax audit periods. It is an estimated amount which will be adjusted when the tax audit is finalised.

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, 2027 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 $243.3 million as at June 30, 2026 as compared to a deficiency in assets of $227.2 million as at December 31, 2025 while the working capital deficiency (excess current liabilities over current assets) reached $375.0 million as at June 30, 2026 as compared to a working capital deficiency of $337.0 million as at December 31, 2025.

Included in the working capital deficiency as at June 30, 2026 are significant obligations, represented by trade and other payables of $195.1 million, provision for additional late tax penalty of $18.5 million and interest-bearing borrowing of $34.6 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, 2026. However, there can be no assurance that no such lawsuits or proceedings will be filed by the Company's creditors in the future and the Company's suppliers and contractors will continue to supply and provide services to the Company uninterrupted.

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

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

5. Liquidity and Capital Resources continued

Liquidity and Capital Management continued

Going concern considerations continued

For the purpose of assessing the appropriateness of the use of the going concern basis to prepare the condensed consolidated interim financial statements, the management of the Company has prepared a cash flow projection covering a period of 12 months from June 30, 2026. The cash flow projection has considered the anticipated cash flows to be generated from the Company's business during the period under projection, including cost saving measures. In particular, the Company has taken into account the following measures for improvement of the Company's liquidity and financial position, which include: (a) entering into the 2026 March Deferral Agreement on March 23, 2026 for a deferral of the 2026 March Deferred Amounts; (b) communicating with vendors in agreeing repayment plans of the outstanding payable; (c) considering geopolitical tensions, specifically the Iran-US conflict, which is expected to create a favourable pricing environment during the forecast period; and (d) obtaining financial support from an affiliate of the Company's major shareholder. With respect to these plans and measures, there is no guarantee that the suppliers will agree to the settlement plan as proposed 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 come due during the 12 months following June 30, 2026 and are therefore satisfied that the condensed consolidated interim financial statements may be prepared 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 two key factors: the fluctuations in international coal prices, which are subject to the developments in geopolitical tensions and the financial ability of an affiliate of the Company's major shareholder to provide financial support to the Company in a timely manner.

The outcome of these 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, 2026, 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 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).

5. Liquidity and Capital Resources continued

Liquidity and Capital Management continued

Deferral Agreements

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

The effectiveness of the 2026 March Deferral Agreement and the respective covenants, agreements and obligations of each party under the 2026 March Deferral Agreement are subject to the Company obtaining the requisite approval of the 2026 March Deferral Agreement from shareholders in accordance with the requirements of applicable Canadian securities laws and Rule 14.33 and Rule 14A.36 of the Listing Rules. The Company will be seeking approval of the 2026 March Deferral Agreement from disinterested shareholders at the Company's upcoming special meeting of shareholders, which will be held at a future date to be set by the Board.

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

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

- As consideration for the deferral of the 2026 March Deferred Amounts which relate to the payment obligations arising from the Convertible Debenture, the Company agreed to pay JDZF a deferral fee equal to 6.4% per annum on the outstanding balance of such 2026 March Deferred Amounts, commencing on the date on which each such 2026 March Deferred Amounts would otherwise have been due and payable under the Convertible Debenture.

- As consideration for the deferral of the 2026 March Deferred Amounts which relate to payment obligations arising from the Amended and Restated Cooperation Agreement, the Company agreed to pay JDZF a deferral fee equal to 1.5% per annum on the outstanding balance of such 2026 March Deferred Amounts commencing on the date on which each such 2026 March Deferred Amounts would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.

- The 2026 March Deferral Agreement does not contemplate a fixed repayment schedule for the 2026 March Deferred Amounts or related deferral fees. Instead, the 2026 March Deferral Agreement requires the Company to use its best efforts to pay the 2026 March Deferred Amounts and related deferral fees due and payable under the 2026 March Deferral Agreement to JDZF. During the period beginning as of the effective date of the 2026 March Deferral Agreement and ending as of the 2026 March Deferral Agreement Deferral Date, the Company will provide JDZF with monthly updates of its financial status and business operations, and the Company and JDZF will on a monthly basis discuss and assess in good faith the amount (if any) of the 2026 March Deferred Amounts and related deferral fees that the Company may be able to repay to JDZF, having regard to the working capital requirements of the Company's operations and business at such time and with the view of ensuring that the Company's operations and business would not be materially prejudiced as a result of any repayment.

- If at any time before the 2026 March Deferred Amounts and related deferral fees are fully repaid, the Company proposes to appoint, replace or terminate one or more of its chief executive officer, its chief financial officer or any other senior executive(s) in charge of its principal business function or its principal subsidiary, the Company will first consult with, and obtain written consent (such consent shall not be unreasonably withheld) from JDZF prior to effecting such appointment, replacement or termination.

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, interest-bearing borrowing and lease liabilities of the Company. The net debt to equity ratio as at June 30, 2026 was -248% (December 31, 2025: -251%).

Cash Flow Highlights

	Six months ended June 30,	
$ in thousands	**2026**	**2025**
Net cash flows from operating activities	**$ 67,532**	$ 34,570
Cash used in investing activities	**(46,990)**	(39,349)
Cash used in financing activities	**(14,333)**	(374)
Effect of foreign exchange rate changes on cash	**(152)**	(823)
Increase/(decrease) in cash for the period	**6,057**	(5,976)
Cash balance, beginning of period	**12,375**	8,590
Cash balance, end of period	**$ 18,432**	$ 2,614

Net cash flows from Operating Activities

The Company generated $67.5 million of cash from operating activities in the first six months of 2026 compared to $34.6 million in the first six months of 2025. This is primarily due to the increased sales volume, as well as improved average realised selling price per tonne during this period.

Cash used in Investing Activities

The Company used $47.0 million of cash in the first six months of 2026 on investing activities compared to $39.3 million in the first six months of 2025. In the first six months of 2026, expenditures on property, plant and equipment totaled $47.4 million compared to $39.6 million in the first six months of 2025.

Cash used in Financing Activities

Cash used in financing activities was $14.3 million in the first six months of 2026 compared to $0.4 million in the first six months of 2025. This is primarily due to the repayment of interest on Convertible Debenture and interest on bank borrowing of $12 million and $1.7 million respectively during the period.

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, 2026, the Company's operating and capital commitments were:

	Within 1 year	2-3 years	Over 3 years	Total
As at June 30, 2026				
Capital expenditure commitments	**$ 2,576**	**$ 3,928**	**$ 3,070**	**$ 9,574**
Operating expenditure commitments	**77**	**37**	**160**	**274**
Commitments	**$ 2,653**	**$ 3,965**	**$ 3,230**	**$ 9,848**

5. Liquidity and Capital Resources continued

Ovoot Tolgoi Mine Impairment Analysis

The Company determined that an indicator of impairment exists for its Ovoot Tolgoi Mine cash generating unit ("CGU") as at June 30, 2026. The impairment indicator was the uncertainty of future coal price in China. In 2025, the CGU was impacted from the decline of coal selling price, which had an adverse impact on the projected value in use of the operation concerned and consequently resulted in an impairment loss of $42.0 million on the CGU. The Company will continue to monitor and assess whether any subsequent event may impact the amount of the impairment loss, in which case an adjustment would be recognised in profit or loss, and the carrying amount of the CGU shall be adjusted.

Financial Instruments

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

	As at	
$ in thousands	**June 30, 2026**	**December 31, 2025**
Financial assets		
Cash	**$ 18,432**	$ 12,375
Restricted cash	**587**	853
Trade and other receivables	**34,213**	24,141
Total financial assets	**$ 53,232**	$ 37,369

	As at	
$ in thousands	**June 30, 2026**	**December 31, 2025**
Financial liabilities		
Fair value through profit or loss		
Convertible debenture – embedded derivatives	**$ 2**	$ 1
Other financial liabilities		
Trade and other payables	**195,078**	218,167
Interest-bearing borrowing	**34,593**	33,405
Lease liabilities	**8,298**	1,707
Convertible debenture – debt host and interest payable	**240,648**	233,706
Total financial liabilities	**$ 478,619**	$ 486,986

6. Regulatory Issues and Contingencies

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.

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.

The Company has recorded a provision for additional late tax penalty of $18.5 million in respect of potential penalty chargeable by the MTA for future tax audit periods. It is an estimated amount which will be adjusted when the tax audit is finalised.

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, 2026, approximately 370.5 million Common Shares were issued and outstanding. There are no incentive share options outstanding to acquire Common Shares. There are no preferred shares outstanding.

As at August 14, 2026, to the best of the Company's knowledge:

- JDZF holds a total of approximately 85.7 million Common Shares representing approximately 23.1% of the issued and outstanding Common Shares;

- Od Sar Trading Co. Limited holds a total of approximately 73.5 million Common Shares representing approximately 19.8 % of the issued and outstanding Common Shares;

- Land Grand International Holding Limited holds a total of approximately 46.4 million Common Shares representing approximately 12.5% of the issued and outstanding Common Shares; and

- Voyage Wisdom Limited holds a total of approximately 25.8 million Common Shares representing approximately 7.0% 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 are 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, 2025.

Refer to Note 2.3 of the Company's condensed consolidated interim financial statements of the quarter ended June 30, 2026 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, 2025, which is available under the Company's profile on SEDAR+ at www.sedarplus.ca.

11. Hong Kong Listing Rules Requirements

Significant Investments

Except for investments in a joint venture and associates, the Company had no significant investments held as at June 30, 2026.

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, 2026.

Future Plans for Material Investments or Capital Assets

There was no specific plan for material investments or capital assets as at June 30, 2026.

Employees

The total number of employees of the Company as at June 30, 2026 was 874. The Company offers competitive compensation and remuneration packages to attract and retain talented employees. Directors are entitled to salaries, directors' 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 a 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

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

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

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

In addition, the recent global geopolitical events, particularly the escalation of tensions involving Iran and the US, have increased energy prices and demand for coal as a substitute for natural gas. As such, international coal prices have increased, at least in the short term. However, management notes that coal price trends remain subject to uncertainties related to the conflicts and broader geopolitical developments.

Should the conflict ease or cease, the price momentum driven by supply risk premiums and energy substitution may weaken or even reverse, thereby exposing coal prices to considerable downside uncertainty. Such volatility may affect the Company's operations, including the selling price of its coal product and its production costs.

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

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

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

In the medium term, the Company will gradually equip mining operations with remote-control functionality, progressively advancing toward unmanned work sites. This transformation will raise safety standards while addressing labor shortages that constrain capacity expansion. In addition, the Company will continue to adopt various strategies to enhance its product mix in order to maximise revenue, expand its customer base and sales network, improve logistics, optimise its operational cost structure and, most importantly, operate in a safe and socially responsible manner.

12. Outlook continued

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 and Soumber Deposit have mineral reserves of at least 80.57 million tonnes.

- **Several growth options** – The Company has several growth options including the Soumber Deposit and Zag Suuj Deposit, located approximately 20km east and approximately 150km east of the Ovoot Tolgoi Mine, respectively.

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

August 14, 2026

SouthGobi Resources Ltd.

Condensed Consolidated Interim Financial Statements

June 30, 2026

(Expressed in U.S. dollars)

(Unaudited)

TABLE OF CONTENTS

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME

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

		Three months ended June 30,		Six months ended June 30,	
	Notes	2026	2025	2026	2025
Revenue	4	**$ 211,672**	$ 155,289	**$ 381,037**	$ 278,156
Cost of sales	6	**(190,502)**	(159,452)	**(350,611)**	(293,141)
Gross profit/(loss)		**21,170**	(4,163)	**30,426**	(14,985)
Other operating expenses, net	7	**(3,277)**	(7,013)	**(4,753)**	(8,584)
Administration expenses		**(3,749)**	(3,128)	**(6,920)**	(6,377)
Evaluation and exploration expenses		**(22)**	(22)	**(43)**	(54)
Profit/(loss) from operations		**14,122**	(14,326)	**18,710**	(30,000)
Finance costs	9	**(10,710)**	(9,140)	**(21,212)**	(17,952)
Finance income	9	**2**	53	**24**	74
Share of earning of a joint venture		**1,391**	1,011	**2,728**	1,624
Share of losses of associates		**(225)**	(120)	**(217)**	(307)
Profit/(loss) before tax		**4,580**	(22,522)	**33**	(46,561)
Current income tax expenses	10	**(9,904)**	(284)	**(13,393)**	(2,450)
Net loss attributable to equity holders of the Company		**(5,324)**	(22,806)	**(13,360)**	(49,011)
Other comprehensive loss to be reclassified to profit or loss in subsequent periods					
Exchange difference on translation of foreign operation		**(1,229)**	(5,324)	**(2,720)**	(9,552)
Net comprehensive loss attributable to equity holders of the Company		**$ (6,553)**	$ (28,130)	**$ (16,080)**	$ (58,563)
Basic and diluted loss per share	11	**$ (0.018)**	$ (0.077)	**$ (0.045)**	$ (0.165)

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)

	Notes	As at June 30, 2026	As at December 31, 2025
ASSETS			
Current assets			
Cash and cash equivalents	13	**$ 18,432**	$ 12,375
Restricted cash	13	**587**	853
Trade and other receivables	14	**34,213**	24,141
Inventories	15	**73,135**	68,600
Prepaid expenses		**8,068**	5,741
Total current assets		**134,435**	111,710
Non-current assets			
Property, plant and equipment	16	**206,025**	206,883
Investment in a joint venture		**18,259**	15,632
Investments in associates		**20,580**	21,352
Total non-current assets		**244,864**	243,867
TOTAL ASSETS		**$ 379,299**	$ 355,577
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other payables	17	**$ 195,078**	$ 218,167
Additional tax and tax penalty	8	**18,505**	23,276
Deferred revenue		**92,279**	52,583
Interest-bearing borrowing	18	**34,593**	11,136
Lease liabilities		**2,112**	819
Income tax payable		**12,685**	2,362
Current portion of convertible debenture	19	**154,189**	140,328
Total current liabilities		**509,441**	448,671
Non-current liabilities			
Interest-bearing borrowing	18	**–**	22,269
Lease liabilities		**6,186**	888
Convertible debenture	19	**86,461**	93,379
Decommissioning liability		**20,429**	17,568
Long service payment liabilities	20	**35**	37
Total non-current liabilities		**113,111**	134,141
TOTAL LIABILITIES		**622,552**	582,812
Equity			
Common shares		**1,102,148**	1,102,053
Share option reserve		**52,965**	52,998
Capital reserve		**572**	536
Exchange fluctuation reserve		**(67,551)**	(64,831)
Accumulated deficit		**(1,331,387)**	(1,317,991)
Total deficiency in assets		**(243,253)**	(227,235)
TOTAL EQUITY AND LIABILITIES		**$ 379,299**	$ 355,577
Net current liabilities		**$ (375,006)**	$ (336,961)
Total assets less current liabilities		**$ (130,142)**	$ (93,094)

Corporate information and going concern (Note 1) and commitments for expenditure (Note 24)

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, 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)
Balances, January 1, 2026	**296,705**	**$**	**1,102,053**	**$**	**52,998**	**$**	**536**	**$**	**(64,831)**	**$**	**(1,317,991)**	**$**	**(227,235)**
Net loss for the period	**–**		**–**		**–**		**–**		**–**		**(13,360)**		**(13,360)**
Exchange differences on translation of foreign operations	**–**		**–**		**–**		**–**		**(2,720)**		**–**		**(2,720)**
Total comprehensive loss attributable to equity holders of the Company	**–**		**–**		**–**		**–**		**(2,720)**		**(13,360)**		**(16,080)**
Shares issued for:													
Exercise of stock options	**347**		**95**		**(33)**		**–**		**–**		**–**		**62**
Appropriation to capital reserve	**–**		**–**		**–**		**36**		**–**		**(36)**		**–**
Balances, June 30, 2026	**297,052**	**$**	**1,102,148**	**$**	**52,965**	**$**	**572**	**$**	**(67,551)**	**$**	**(1,331,387)**	**$**	**(243,253)**

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, 2026	2025
Operating activities			
Profit/(loss) before tax		**$ 33**	$ (46,561)
Adjustments for:			
Depreciation and depletion	5	**37,406**	21,378
Interest expense on convertible debenture	9	**18,942**	17,536
Interest expense on interest-bearing borrowing	9	**1,509**	–
Interest elements on leased assets	9	**348**	116
Accretion of decommissioning liability	9	**412**	300
Fair value loss/(gain) on embedded derivatives in convertible debenture	9	**1**	(55)
Interest income	9	**(24)**	(19)
Share of earning of a joint venture		**(2,728)**	(1,624)
Share of losses of associates		**217**	307
Loss on disposal of items of property, plant and equipment, net	7	**1**	–
Reversal of provision for doubtful trade and other receivables	14	**(10)**	(56)
Provision/(reversal of provision) for long service payments	20	**(2)**	4
Reversal of impairment loss on materials and supplies inventories	7	**(122)**	(70)
Impairment loss on coal stockpiles	7	**–**	12,348
Written off of other payables	7	**–**	(6,272)
Gain on contract offsetting arrangement	7	**–**	(338)
Operating cash flows before changes in working capital items		**55,983**	(3,006)
Net change in working capital items	23.2	**18,485**	53,903
Cash generated from operating activities		**74,468**	50,897
Income tax and additional tax penalty paid		**(6,936)**	(16,327)
Net cash flows from operating activities		**67,532**	34,570
Investing activities			
Expenditures on property, plant and equipment	16	**(47,447)**	(39,551)
Interest received	9	**24**	19
Investment in an associate		**(5)**	(105)
Dividend from a joint venture		**–**	288
Dividend from an associate		**438**	–
Net cash flows used in investing activities		**(46,990)**	(39,349)
Financing activities			
Interest payment of convertible debenture	19.4	**(12,000)**	–
Repayment of interest-bearing borrowing		**(1,706)**	–
Proceed from exercise of share options		**62**	–
Capital elements of lease rental paid		**(341)**	(258)
Interest elements of lease rentals paid		**(348)**	(116)
Net cash flows used in financing activities		**(14,333)**	(374)
Effect of foreign exchange rate changes, net		**(152)**	(823)
Increase/(decrease) in cash and cash equivalents		**6,057**	(5,976)
Cash and cash equivalents, beginning of period		**12,375**	8,590
Cash and cash equivalents, end of period		**$ 18,432**	$ 2,614

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, 2026, 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, 2027 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 $243,253 as at June 30, 2026 as compared to a deficiency in assets of $227,235 as at December 31, 2025 while the working capital deficiency (excess current liabilities over current assets) reached $375,006 as at June 30, 2026 as compared to a working capital deficiency of $336,961 as at December 31, 2025.

Included in the working capital deficiency as at June 30, 2026 are significant obligations, represented by trade and other payables of $195,078, provision for additional late tax penalty of $18,505 and interest-bearing borrowing of $34,593.

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, 2026. However, there can be no assurance that no such lawsuits or proceedings will be filed by the Company's creditors in the future and the Company's suppliers and contractors will continue to supply and provide services to the Company uninterrupted.

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

There are significant uncertainties as to the outcomes of the above events or conditions that may cast significant doubt on the Company's ability to continue as a going concern and, therefore, the Company may be unable to realise its assets and discharge its liabilities in the normal course of business. Should the use of the going concern basis in preparation of the condensed consolidated interim financial statements be determined to be inappropriate, adjustments would be required to: (a) write down the carrying amounts of the Company's assets to their realisable values; and (b) 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 condensed consolidated interim financial statements, the management of the Company has prepared a cash flow projection covering a period of 12 months from June 30, 2026. The cash flow projection has considered the anticipated cash flows to be generated from the Company's business during the period under projection including cost saving measures. In particular, the Company has taken into account the following measures for improvement of the Company's liquidity and financial position, which include: (a) entering into the 2026 March Deferral Agreement (as defined in Note 19.5) on March 23, 2026 for a deferral of the 2026 March Deferred Amounts (as defined in Note 19.5); (b) communicating with vendors in agreeing repayment plans of the outstanding payable; (c) considering geopolitical tensions, specifically the Iran-US conflict, which is expected to create a favourable pricing environment during the forecast period; and (d) obtaining financial support from an affiliate of the Company's major shareholder. 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 come due during the 12 months following June 30, 2026 and are therefore satisfied that the condensed consolidated interim financial statements may be prepared 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 two key factors: the fluctuations in international coal prices, which are subject to the developments in geopolitical tensions, and the financial ability of an affiliate of the Company's major shareholder to provide financial support to the Company in a timely manner.

1. CORPORATE INFORMATION AND GOING CONCERN continued

Going concern assumption continued

The outcome of these factors 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, 2026, 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, 2026 were approved and authorised for issue by the Board of Directors of the Company (the "Board") on August 14, 2026.

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, 2025 annual consolidated financial statements, except as disclosed below. These condensed consolidated interim financial statements do not include all the information and note disclosures required by IFRS Accounting Standards 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, 2025.

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 3.20 to the Company's December 31, 2025 annual consolidated financial statements. The significant accounting judgments and estimates remain substantially unchanged from December 31, 2025.

Going concern assumption

The directors of the Company consider that the Company has the ability to continue as a going concern. The assessment of the going concern assumption, as disclosed in Note 1, involves making judgements by the directors of the Company, at a particular point of the time, about the future outcome of events or conditions which are inherently uncertain. These include the fluctuations in international coal prices, which are subject to the developments in geopolitical tensions, and the financial ability of the affiliate of the Company's major shareholder to provide financial support to the Company in a timely manner.

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

Review of carrying value of assets and impairment charges

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

Ovoot Tolgoi Mine cash generating unit ("CGU")

The Company determined that an indicator of impairment exists for its Ovoot Tolgoi Mine CGU as at June 30, 2026. The impairment indicator was the uncertainty of future coal price in China. In 2025, the CGU was impacted from the decline of coal selling price, which had an adverse impact on the projected value in use of the operation concerned and consequently resulted in an impairment loss of $41,960 on the CGU. The Company will continue to monitor and assess whether any subsequent event may impact the amount of the impairment loss, in which case an adjustment would be recognised in profit or loss, and the carrying amount of the CGU shall be adjusted.

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 $21,784 as at June 30, 2026 (December 31, 2025: $22,488).

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.

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

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 China and Mongolia for the six months ended June 30, 2026 and 2025.

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 March 31, 2026 and 2025.

3.1 Information about major customers

During the six months ended June 30, 2026 and 2025, the Coal Division had 100 and 70 active customers, respectively. 3 and 2 customers with respective revenue contributed over 10% of the total revenue during the six months ended June 30, 2026 and 2025, with the largest customer accounting for 12% of the total revenue (June 30, 2025: 20%), the second largest customer accounting for 11% of the total revenue (June 30, 2025: 12%) and the third largest customer accounting for 10% of the total revenue (June 30, 2025: 9%).

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, 2026	**$ 4**	**$ –**	**$ 211,668**	**$ 211,672**
For the three months ended June 30, 2025	–	–	155,289	155,289
For the six months ended June 30, 2026	**$ 18**	**$ –**	**$ 381,019**	**$ 381,037**
For the six months ended June 30, 2025	4	–	278,152	278,156
Non-current assets				
As at June 30, 2026	**$ 244,087**	**$ 151**	**$ 626**	**$ 244,864**
As at December 31, 2025	242,703	254	910	243,867

(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,	
	2026	2025	**2026**	2025
Depreciation	**$ 20,454**	$ 12,254	**$ 37,406**	$ 21,378
Auditors' remuneration	**20**	20	**40**	40
Employee benefit expense (including directors' remuneration)				
Wages and salaries	**$ 5,296**	$ 3,834	**$ 10,320**	$ 8,542
Pension scheme contributions	**740**	626	**1,529**	1,332
Provision/(reversal of provision) for long service payment (Note 20)	**(5)**	–	**(2)**	4
	$ 6,031	$ 4,460	**$ 11,847**	$ 9,878
Short-term lease payments under operating leases	**$ 12**	$ 27	**$ 174**	$ 182
Foreign exchange loss/(gain), net (Note 7)	**268**	(914)	**(564)**	(945)
Reversal of impairment loss on materials and supplies inventories (Note 15)	**(10)**	(40)	**(122)**	(70)
Impairment loss on coal stockpiles (Note 15)	**–**	12,348	**–**	12,348
Royalties (Note 6)	**16,707**	10,540	**29,599**	20,521
Management fee (Note 22.1)	**3,018**	2,229	**5,448**	3,917
Provision/(reversal of provision) for doubtful trade and other receivables (Note 14)	**1**	–	**(10)**	(56)
Loss on disposal of items of property, plant and equipment, net (Note 16)	**–**	–	**1**	–
Written off of other payables (Note 7)	**–**	(6,272)	**–**	(6,272)
Gain on contract offsetting arrangement (Note 7)	**–**	(338)	**–**	(338)
Mine operating costs and others	**151,048**	135,301	**278,507**	247,573
Total operating expenses	**$ 197,549**	$ 169,615	**$ 362,326**	$ 308,156

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,	
	2026	2025	**2026**	2025
Operating expenses	**$ 153,552**	$ 136,759	**$ 284,032**	$ 251,441
Depreciation and depletion	**19,620**	11,842	**35,785**	20,617
Royalties	**16,707**	10,540	**29,599**	20,521
Cost of sales from mine operations	**$ 189,879**	$ 159,141	**$ 349,416**	$ 292,579
Cost of sales related to idled mine assets (i)	**623**	311	**1,195**	562
Cost of sales	**$ 190,502**	$ 159,452	**$ 350,611**	$ 293,141

(i) Cost of sales related to idled mine assets for the six months ended June 30, 2026 includes $1,195 of depreciation expense (June 30, 2025: $562). 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, 2026 totaled $142,736 (three months ended June 30, 2025: $119,692). Cost of inventories recognised as expense in cost of sales for the six months ended June 30, 2026 totaled $264,318 (six months ended June 30, 2025: $221,516).

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,	
	2026	2025	2026	2025
Management fee (Note 22.1)	**$ 3,018**	$ 2,229	**$ 5,448**	$ 3,917
Provision/(reversal of provision) for doubtful trade and other receivables (Note 14)	**1**	–	**(10)**	(56)
Foreign exchange loss/(gain), net	**268**	(914)	**(564)**	(945)
Loss on disposal of items of property, plant and equipment, net (Note 16)	**–**	–	**1**	–
Reversal of impairment loss on materials and supplies inventories (Note 15)	**(10)**	(40)	**(122)**	(70)
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)	**–**	(338)
Other operating expenses, net	**$ 3,277**	$ 7,013	**$ 4,753**	$ 8,584

8. ADDITIONAL TAX AND TAX PENALTY

On July 18, 2023, SGS received an official notice (the "Notice") 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. Subsequently, the Company filed an appeal letter in relation to the Audit with the MTA on August 17, 2023.

On February 8, 2024, SGS received notice from the Tax Dispute Resolution Council ("TDRC") which stated that, following the TDRC's review, the TDRC ordered that the audit assessments set forth in the Notice be returned 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.

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"), which amounted to a tax penalty of approximately $80,000.

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

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. As set forth in the Resolution, the TDRC reduced the re-assessment result from approximately $80,000 to approximately $26,500 (the "Revised Re-assessment Result"). The Company decided not to pursue a further appeal of the Revised Re-assessment Result.

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. SGS obtained a copy of an order dated March 7, 2025 issued by the Administrative Court of First Instance in Ulaanbaatar, Mongolia (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 Revised Re-assessment Result (the "Proposed Case").

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 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 dismissing the Proposed Case. The Company understood that the MTA Officials subsequently filed an appeal.

On June 9, 2025, SGS obtained a copy of a judgement dated May 27, 2025 (the "Appellate Court Judgement") issued by the Appellate Court for Administrative in Ulaanbaatar, Mongolia (the "Appellate Court"), pursuant to which the Appellate Court upheld the Latest Court Order. As a result, the Proposed Case was dismissed and rejected. According to applicable Mongolian law, the Appellate Court Judgement is not subject to further appeal.

In the prior year, the Company has recorded an additional tax and tax penalty in the amount of $45,477, which consists of a tax penalty payable of $26,527 and a provision for additional late tax penalty of $18,950. As a result of the Revised Re-assessment Result, the Company recorded a reversal of additional tax and tax penalty of $48,463 in 2024. As of the date hereof, the Company has fully settled the aforementioned tax penalty in February 2026. As at June 30, 2026, the provision for additional late tax penalty of $18,505 refers to potential penalty chargeable by the MTA for future tax audit periods, it is an estimated amount which will be adjusted when the tax audit is finalised.

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,	
	2026	2025	**2026**	2025
Interest expense on convertible debenture (Note 19.4)	**$ 9,338**	$ 8,915	**$ 18,942**	$ 17,536
Fair value loss on embedded derivatives in convertible debenture (Note 19.4)	**–**	–	**1**	–
Interest expense on interest-bearing borrowing	**867**	–	**1,509**	–
Interest elements on leased assets	**296**	60	**348**	116
Accretion of decommissioning liability	**209**	165	**412**	300
Finance costs	**$ 10,710**	$ 9,140	**$ 21,212**	$ 17,952

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

	Three months ended June 30,		Six months ended June 30,	
	2026	2025	**2026**	2025
Fair value gain on embedded derivatives in convertible debenture (Note 19.4)	**$ –**	$ 40	**$ –**	$ 55
Interest income	**2**	13	**24**	19
Finance income	**$ 2**	$ 53	**$ 24**	$ 74

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)

10. TAXES

The Canadian statutory tax rate was 27% (2025: 27%). The Company's tax expense is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2026	**2025**	**2026**	**2025**
Current – Canada				
Charge for the period	**$ –**	$ –	**$ –**	$ –
Current – elsewhere				
Charge for the period	**9,904**	284	**13,393**	2,450
Total tax charge for the period	**$ 9,904**	$ 284	**$ 13,393**	$ 2,450

11. LOSS PER SHARE

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

	Three months ended June 30,		Six months ended June 30,	
	2026	**2025**	**2026**	**2025**
Net loss	**$ (5,324)**	$ (22,806)	**$ (13,360)**	$ (49,011)
Weighted average number of shares	**296,953**	296,705	**296,991**	296,705
Basic and diluted loss per share	**$ (0.018)**	$ (0.077)	**$ (0.045)**	$ (0.165)

Potentially dilutive items not included in the calculation of diluted loss per share for the period ended June 30, 2026 include the underlying shares comprised in the convertible debenture (Note 19) and stock options (Note 21) that were anti-dilutive.

12. INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended June 30, 2026 and 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)

13. CASH AND CASH EQUIVALENTS

	As at	
	June 30, 2026	**December 31, 2025**
Cash and bank balances	**$ 19,019**	$ 13,228
Less: Restricted cash [(i)]	**(587)**	(853)
Cash and cash equivalents	**$ 18,432**	$ 12,375

(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, 2026	**December 31, 2025**
Denominated in U.S. Dollars	**$ 77**	$ 55
Denominated in Chinese Renminbi	**17,738**	10,197
Denominated in Mongolian Tugriks	**491**	1,809
Denominated in Canadian Dollars	**54**	97
Denominated in Hong Kong Dollars	**72**	217
Cash	**$ 18,432**	$ 12,375

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, 2026	**December 31, 2025**
Increase/decrease in foreign exchange rate against respective functional currency		
+5%	**$ (360)**	$ 422
–5%	**360**	(422)

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, 2026	As at December 31, 2025
Trade receivables	**$ 20,047**	$ 19,714
Other receivables	**10,826**	3,986
Bills receivable	**3,340**	441
Total trade and other receivables	**$ 34,213**	$ 24,141

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, 2026	As at December 31, 2025
Less than 1 month	**$ 29,120**	$ 22,710
1 to 3 months	**5,089**	1,413
3 to 6 months	**4**	18
Total trade and other receivables	**$ 34,213**	$ 24,141

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 $21,784 as at June 30, 2026 (December 31, 2025: $22,488), 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, 2026 reconcile to the opening loss allowances as follows:

Loss allowance for trade and other receivables	
Opening loss allowance as at January 1, 2026	**$ 22,488**
Decrease in loss allowance recognised in profit or loss during the period (Note 7)	**(10)**
Exchange realignment	**(694)**
Closing loss allowance as at June 30, 2026	**$ 21,784**
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

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, 2026	**December 31, 2025**
Current inventories		
Coal stockpiles	**$ 61,520**	$ 53,501
Materials and supplies	**11,615**	15,099
Total inventories	**$ 73,135**	$ 68,600

Other operating expenses for the six months ended June 30, 2026 includes reversal of impairment loss on materials and supplies of $122 (June 30, 2025: impairment loss on coal stockpiles of $12,348 and reversal of impairment loss on materials and supplies of $70).

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 at December 31, 2025, provision for impairment of $77,334 was made on coal stockpiles of the Company. No further impairment nor reversal of impairment was made during the six months ended June 30, 2026.

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, 2026, the Company acquired items of plant and equipment with a cost including mineral properties of approximately $47,447 (June 30, 2025: $39,551). Items of plant and equipment with costs of approximately $11,495 and accumulated depreciation of approximately $11,494 were disposed during the six months ended June 30, 2026 without any sales proceeds, resulting in loss on disposal of $1 during the six months ended June 30, 2026, while 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.

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, 2026, most of the Company's mobile equipment, buildings and other operating equipment with carrying amount of $21,801 (December 31, 2025: $12,071) were pledged as securities of convertible debenture, and buildings with carrying amount of $1,603 (December 31, 2025: $2,244) were pledged as securities of interest-bearing borrowing.

16.3 Right-of-use assets

The right-of-use assets relate to the buildings, plant and equipment as at June 30, 2026 and December 31, 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)

16. PROPERTY, PLANT AND EQUIPMENT continued

16.4 Impairment charges

As at December 31, 2025, provision for impairment of $41,960 was made on property, plant and equipment of the Company. No further impairment nor reversal of impairment was made during the six months ended June 30, 2026.

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, 2026	**December 31, 2025**
Less than 1 month	**$ 107,944**	$ 63,802
1 to 3 months	**57,324**	45,091
3 to 6 months	**7,935**	19,530
Over 6 months	**21,875**	89,744
Total trade and other payables	**$ 195,078**	$ 218,167

The trade and other payables of $195,078 (December 31, 2025: $218,167) included other tax payables of $19,705 (December 31, 2025: $35,641).

18. INTEREST-BEARING BORROWING

	As at	
	June 30, 2026	**December 31, 2025**
Current interest-bearing borrowing		
Bank loan (i)	**$ 34,593**	$ 11,136
Non-current interest-bearing borrowing		
Bank loan (i)	**–**	22,269
Total interest-bearing borrowing	**$ 34,593**	$ 33,405

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. INTEREST-BEARING BORROWING continued

(i) Bank Loan

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

- Maturity date set at 18 months from drawdown;
- Interest rate of 10% per annum on the outstanding principal and interest is calculated on a 365-day year basis;
- Loan repayments will consist of interest-only payments during the initial 12 months of the term, followed by principal amortisation payments during months 13 to 18 of the term;
- Certain items of property, plant and equipment with a carrying amount of $1,603, land-use rights and intangible assets were pledged as security for the 2025 Bank Loan; and
- The Company intends to use the proceeds of the 2025 Bank Loan to support working capital, operating expenses, taxes and the settlement of accounts payable of SGS.

19. CONVERTIBLE DEBENTURE

19.1 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, 2026.

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.

19. CONVERTIBLE DEBENTURE continued

19.1 Key commercial terms continued

The key commercial terms of the financing include:

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

- Term – Maximum of 30 years.

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

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

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

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

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

- Registration rights – JDZF has registration rights under applicable Canadian provincial securities laws in connection with the common shares issuable upon conversion of the convertible debenture.

- Event of default – JDZF could demand for the principal and corresponding interest from the Company immediately when certain events, including default of interest payment, suspension of trading and delisting of its shares from the TSX-V and the HKEX have occurred.

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. CONVERTIBLE DEBENTURE continued

19.2 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.

19.3 Valuation assumptions

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

	As at	
	June 30, 2026	**December 31, 2025**
Floor conversion price	**CA$8.88**	CA$8.88
Ceiling conversion price	**CA$11.88**	CA$11.88
Common share price	**CA$0.30**	CA$0.21
Historical volatility	**20.52%**	20.48%
Risk free rate of return	**3.67%**	3.79%
Foreign exchange spot rate (CA$ to U.S. Dollar)	**0.704**	0.729
Forward foreign exchange rate curve (CA$ to U.S. Dollar)	**0.704 to 0.892**	0.729 to 0.893

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. CONVERTIBLE DEBENTURE continued

19.4 Presentation

Based on the Company's valuation as at June 30, 2026, the fair value of the embedded derivatives increased by $1 (June 30, 2025: decreased by $55) compared to December 31, 2025. The increase was recorded as finance costs for the six months ended June 30, 2026.

For the six months ended June 30, 2026, the Company recorded interest expense of $18,942 related to the convertible debenture as finance cost (six months ended June 30, 2025: $17,536). 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,	
	2026	**2025**	**2026**	**2025**
Balance, beginning of period	**$ 241,312**	$ 213,524	**$ 233,707**	$ 204,918
Interest expense on convertible debenture (Note 9)	**9,338**	8,915	**18,942**	17,536
Increase/(decrease) in fair value of embedded derivatives (Note 9)	**–**	(40)	**1**	(55)
Interest paid	**(10,000)**	–	**(12,000)**	–
Balance, end of period	**$ 240,650**	$ 222,399	**$ 240,650**	$ 222,399

The convertible debenture balance consists of the following amounts:

	As at	
	June 30, 2026	**December 31, 2025**
Current convertible debenture		
Interest payable	**$ 154,189**	$ 140,328
	154,189	140,328
Non-current convertible debenture		
Debt host and interest payable	**$ 86,459**	$ 93,378
Fair value of embedded derivatives	**2**	1
	86,461	93,379
Total convertible debenture	**$ 240,650**	$ 233,707

19.5 Interest deferral and settlement

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

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. CONVERTIBLE DEBENTURE continued

19.5 Interest deferral and settlement continued

The effectiveness of the 2026 March Deferral Agreement and the respective covenants, agreements and obligations of each party under the 2026 March Deferral Agreement are subject to the Company obtaining the requisite approval of the 2026 March Deferral Agreement from shareholders in accordance with the requirements of applicable Canadian securities laws and Rule 14.33 and Rule 14A.36 of the Listing Rules. The Company will be seeking approval of the 2026 March Deferral Agreement from disinterested shareholders at the Company's upcoming special meeting of shareholders, which will be held at a future date to be set by the Board.

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

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

- As consideration for the deferral of the 2026 March Deferred Amounts which relate to the payment obligations arising from the Convertible Debenture, the Company agreed to pay JDZF a deferral fee equal to 6.4% per annum on the outstanding balance of such 2026 March Deferred Amounts, commencing on the date on which each such 2026 March Deferred Amounts would otherwise have been due and payable under the Convertible Debenture.

- As consideration for the deferral of the 2026 March Deferred Amounts which relate to payment obligations arising from the Amended and Restated Cooperation Agreement, the Company agreed to pay JDZF a deferral fee equal to 1.5% per annum on the outstanding balance of such 2026 March Deferred Amounts commencing on the date on which each such 2026 March Deferred Amounts would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.

- The 2026 March Deferral Agreement does not contemplate a fixed repayment schedule for the 2026 March Deferred Amounts or related deferral fees. Instead, the 2026 March Deferral Agreement requires the Company to use its best efforts to pay the 2026 March Deferred Amounts and related deferral fees due and payable under the 2026 March Deferral Agreement to JDZF. During the period beginning as of the effective date of the 2026 March Deferral Agreement and ending as of the 2026 March Deferral Agreement Deferral Date, the Company will provide JDZF with monthly updates of its financial status and business operations, and the Company and JDZF will on a monthly basis discuss and assess in good faith the amount (if any) of the 2026 March Deferred Amounts and related deferral fees that the Company may be able to repay to JDZF, having regard to the working capital requirements of the Company's operations and business at such time and with the view of ensuring that the Company's operations and business would not be materially prejudiced as a result of any repayment.

- If at any time before the 2026 March Deferred Amounts and related deferral fees are fully repaid, the Company proposes to appoint, replace or terminate one or more of its chief executive officer, its chief financial officer or any other senior executive(s) in charge of its principal business function or its principal subsidiary, the Company will first consult with, and obtain written consent (such consent shall not be unreasonably withheld) from JDZF prior to effecting such appointment, replacement or termination.

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

20. LONG SERVICE PAYMENT LIABILITIES

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

	As at June 30, 2026	As at December 31, 2025
Total long service payment liabilities	**$ 35**	$ 37

21. 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)

21. 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.

There are no stock options outstanding and exercisable as at June 30, 2026.

The following table discusses movements in the Company's share options during the six months ended June 30, 2026.

	Number of share options								
Names	At January 1, 2026	Granted during the period	Exercised during the period	Forfeited during the period	Expired during the period	At June 30, 2026	Date of grant of share options	Exercise period of share options	Exercise price per share
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**	**–**	**(150)**	**–**	**(150)**	**–**			
Other share option holders	**657**	**–**	**(197)**	**–**	**(460)**	**–**	June 29, 2021	June 29 2022 – June 29 2026	HK$1.41
Total	**957**	**–**	**(347)**	**–**	**(610)**	**–**			

22. 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:

		% equity interest as at	
Name	**Place of incorporation**	**June 30, 2026**	**December 31, 2025**
SouthGobi Resources (Hong Kong) Limited	Hong Kong	**100%**	100%
Southgobi Sands LLC	Mongolia	**100%**	100%
SGQ Coal Investment Pte. Ltd.	Singapore	**100%**	100%
SouthGobi Trading (Beijing) Co., Ltd. (i)	China	**100%**	100%
Inner Mongolia SouthGobi Energy Co., Ltd. (i)	China	**100%**	100%
Inner Mongolia SouthGobi Mining Development Co., Ltd.	China	**100%**	100%
Inner Mongolia SouthGobi Trading Co., Ltd.	China	**100%**	100%
Wuhai SouthGobi Mining Resources Co., Ltd.	China	**100%**	100%
Alxa League South Gobi Coal Industry Co., Ltd. (i)	China	**100%**	100%
Umniin Gobiin Els LLC	Mongolia	**100%**	N/A

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

22. 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, 2026, 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)]	28.85%
JD Dingxing Limited [(d)]	Interest of controlled corporation	85,714 [(e)]	28.85%
Chonglin Zhu [(d)]	Interest of controlled corporation	85,714 [(e)]	28.85%
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	28.85%
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	28.85%
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	28.85%
Yong An [(d)]	Interest of controlled corporation	85,714	28.85%
Land Grand International Holding Limited [(f)]	Beneficial	46,359	15.61%
Mengfa Energy Holding Group Co., Ltd. ("Mengfa") [(f)]	Interest of controlled corporation	46,359	15.61%
Zhu Gao [(f)]	Interest of controlled corporation	46,359	15.61%
Voyage Wisdom Limited [(g)]	Beneficial	25,768	8.67%
Aminbuhe [(g)]	Interest of controlled corporation	25,768	8.67%
Ningqiao Li, or his estate [(g)]	Interest of controlled corporation	25,768	8.67%

* 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, 2026 (297,052 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 92.8% 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 92.8% of the shares in JD Dingxing Limited.

(e) As at June 30, 2026, 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 90% of the issued share capital of Mengfa as at June 30, 2026.

(g) To the best of the Company's knowledge, Messrs. Yulan Guo, Aminbuhe and Ningqiao Li, or his estate are directors and shareholders of Voyage Wisdom Limited, a private company which owned 8.7% of the Company's issued and outstanding common shares at June 30, 2026. Each of Messrs. Aminbuhe and Ningqiao Li, or his estate each own 45% of the issued share capital of Voyage Wisdom Limited, respectively, as at June 30, 2026.

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, 2026.

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)

22. 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, 2026 and 2025:

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

During the six months ended June 30, 2026, management fee of $5,448 was recorded in profit or loss (June 30, 2025: $3,917).

22.1 Related party expenses

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

	Three months ended June 30,		Six months ended June 30,	
	2026	**2025**	**2026**	**2025**
Finance costs	**$ 9,338**	$ 8,915	**$ 18,942**	$ 17,536
Management fee	**3,018**	2,229	**5,448**	3,917
Rental expenses (i)	**20**	20	**40**	40
Related party expenses	**$ 12,376**	$ 11,164	**$ 24,430**	$ 21,493

(i) Rental expenses payment to a related company for the six months ended June 30, 2026 were $40 (June 30, 2025: $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.

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

As at June 30, 2026, the interests of the Company's directors in the shares, underlying shares and debentures of the Company and its associated corporations were as follows:

	Number of Shares and underlying Shares held, capacity and nature of interest (1)						
	Number of Shares interested				Number of underlying Shares interested		
Name of directors/officers	Directly beneficially owned	Through spouse or minor children	Through controlled company	Beneficiary of a trust	Directly beneficially owned (7)	Total (2)	Percentage interest in the company (3)
Current Directors							
Chonglin Zhu (4)	–	–	85,714	–	–	85,714 (5)	28.85%
Zhu Gao (6)	–	–	46,359	–	–	46,359	15.61%
Yingbin Ian He	327	–	–	–	–	327	0.11%
Officers							
Allison Snetsinger	35	3	–	–	–	38	0.01%

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)

22. RELATED PARTY TRANSACTIONS continued

22.2 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, 2026 (i.e. 297,052 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 92.8% of the shares of JD Dingxing Limited as at June 30, 2026.

(5) As at June 30, 2026, 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, 2026.

23. SUPPLEMENTAL CASH FLOW INFORMATION

23.1 Non-cash financing and investing activities

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

	Six months ended June 30,	
	2026	**2025**
Depreciation and amortisation capitalised in mineral properties	**$ 3,677**	$ 2,683
Increase in decommissioning liability	**2,559**	3,827

23.2 Net change in working capital items

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

	Six months ended June 30,	
	2026	**2025**
Decrease/(increase) in inventories	**$ (2,300)**	$ 820
Decrease/(increase) in trade and other receivables	**(5,354)**	14,489
Decrease/(increase) in prepaid expenses and deposits	**(1,569)**	1,630
Increase/(decrease) in trade and other payables	**(12,200)**	45,909
Increase/(decrease) in deferred revenue	**39,908**	(8,945)
Net change in working capital items	**$ 18,485**	$ 53,903

Depreciation and depletion capitalised in inventories for the six months ended June 30, 2026 totaled $6,517 (June 30, 2025: $3,177).

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. 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, 2026				
Capital expenditure commitments	**$ 2,576**	**$ 3,928**	**$ 3,070**	**$ 9,574**
Operating expenditure commitments	**77**	**37**	**160**	**274**
Commitments	**$ 2,653**	**$ 3,965**	**$ 3,230**	**$ 9,848**
As at December 31, 2025				
Capital expenditure commitments	$ 2,525	$ 3,862	$ 3,416	$ 9,803
Operating expenditure commitments	689	38	165	892
Commitments	$ 3,214	$ 3,900	$ 3,581	$ 10,695

25. CONTINGENCIES

25.1 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.

The Company has recorded a provision for additional late tax penalty of $18,505 in respect of potential penalty chargeable by the MTA for future tax audit periods. It is an estimated amount which will be adjusted when the tax audit is finalised.

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)

26. SUBSEQUENT EVENT DISCLOSURE

On July 10, 2026, JDZF, the Company's largest shareholder and registered holder of the Convertible Debenture, assigned to Od Sar Trading Co. Limited (the "Assignee") the right to receive $19,000 of PIK Interest accrued under the Convertible Debenture and related deferral agreements (the "Assigned PIK Interest"). The payment date of the Assigned PIK Interest was deferred to August 31, 2027 (the "Deferral Date") pursuant to the terms of the 2026 March Deferral Agreement. The assignment of the Assigned PIK Interest does not have any impact on the Deferral Date nor does it amend or result in a deviation of the terms of the 2026 March Deferral Agreement.

On July 12, 2026, the Company received from the Assignee a notice to exercise its right to require settlement of $17,000 of the Assigned PIK Interest through the issuance of Common Shares, with a requested payment date of July 13, 2026. Pursuant to the terms of the Convertible Debenture and related deferral agreements, the Assignee may, at its discretion, require the Company to satisfy the Assigned PIK Interest by issuing fully paid and non-assessable Common Shares in an amount equal to the Assigned PIK Interest divided by the 50-day volume weighted average price ("VWAP") of the Common Shares as of the requested payment date of the Assigned PIK Interest.

On July 15, 2026 the Company issued 73,498 Common Shares to the Assignee, representing approximately 19.83% of the issued and outstanding Common Shares, calculated based on the 50-day VWAP of approximately CA$0.3272 (equivalent to $0.2313) per Common Share. The remaining $2,000 of the Assigned PIK Interest remains outstanding and subject to the terms of the Convertible Debenture and related deferral agreements, the Assignee may, at its discretion, require the Company to satisfy the remaining Assigned PIK Interest by issuing Common Shares based on the prevailing 50-day VWAP of the Common Shares at the time of request.

27. OTHER LISTING RULES DISCLOSURES

27.1 Compliance with Corporate Governance Code

In the opinion of the directors, the Company has, throughout the six months ended June 30, 2026, 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 "CG Code") contained in Appendix C1 to the Listing Rules, except for the following:

1. Pursuant to Section C.2 under Part 2 of the CG 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 CG 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, 2026 to June 30, 2026, 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 CG 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 26, 2026 (Hong Kong) to ensure effective communication with shareholders of 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)

27. OTHER LISTING RULES DISCLOSURES continued

27.2 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, 2026.

27.3 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, 2026. The Company did not hold any treasury shares as at June 30, 2026.