



SouthGobi Resources Ltd.
**Management's Discussion and Analysis of Financial Condition and
Results of Operations**

September 30, 2021
(Expressed in U.S. dollars)

SouthGobi Resources Ltd.

Management's Discussion and Analysis

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 characterized 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 realize 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 China Investment Corporation (together with its wholly-owned subsidiaries and affiliates, "CIC") convertible debenture (the "CIC Convertible Debenture"), the 2020 November Deferral Agreement (as defined below), the Amended and Restated Cooperation Agreement (as defined below) and the 2021 July Deferral Agreement (as defined below) as the same become due;
- the Company's anticipated financing needs, development plans and future production levels;
- the Company entering into discussions with CIC regarding a potential debt restructuring plan with respect to the amounts owing to CIC;
- the results and impact of the Ontario class action (as described under Section 6 of this MD&A under the heading entitled "*Regulatory Issues and Contingencies – Class Action Lawsuit*");
- the estimates and assumptions included in the Company's impairment analysis and the possible impact of changes thereof;
- the agreement with Ejin Jinda and the payments thereunder (as described under Section 6 of this MD&A under the heading entitled "*Regulatory Issues and Contingencies – Toll Wash Plant Agreement with Ejin Jinda*");
- the ability of the Company to enhance the operational efficiency and output throughput of the washing facilities at Ovoot Tolgoi;
- the ability to enhance the product value by conducting coal processing and coal washing;
- the impact of the Company's activities on the environment and actions taken for the purpose of mitigation of potential environmental impacts and planned focus on health, safety and environmental performance;
- the impact of the restrictions on the number of trucks crossing the border at the Ceke port of entry and the import coal quality standards established by Chinese authorities on the Company's operations;
- the impact of the Coronavirus Disease 2019 ("COVID-19") pandemic and the further closure of Mongolia's southern border with China on the Company's business, financial condition and operations;
- the future demand for coal in China;
- future trends in the Chinese coal industry;
- the Company's outlook and objectives for 2021 and beyond (as more particularly described under Section 11 of this MD&A under the heading entitled "*Outlook*"); and
- other statements that are not historical facts.

SouthGobi Resources Ltd.

Management's Discussion and Analysis

Forward-looking information is based on certain factors and assumptions described below and elsewhere in this MD&A, including, among other things: the current mine plan for the Ovoot Tolgoi mine; mining, production, construction and exploration activities at the Company's mineral properties; the costs relating to anticipated capital expenditures; the capacity and future toll rate of the paved highway; plans for the progress of mining license application processes; mining methods; the Company's anticipated business activities, planned expenditures and corporate strategies; management's business outlook, including the outlook for 2021 and beyond; currency exchange rates; operating, labour and fuel costs; the ability of the Company to raise additional financing; the anticipated royalties payable under Mongolia's royalty regime; the future coal market conditions in China and the related impact on the Company's margins and liquidity; the anticipated impact of the COVID-19 pandemic; the assumption that the border crossings with China will remain open for coal exports; the anticipated demand for the Company's coal products; future coal prices, and the level of worldwide coal production. While the Company considers these assumptions to be reasonable based on the information currently available to it, they may prove to be incorrect. Forward-looking statements are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These risks and uncertainties include, among other things: the uncertain nature of mining activities, actual capital and operating costs exceeding management's estimates; variations in mineral resource and mineral reserve estimates; failure of plant, equipment or processes to operate as anticipated; the possible impacts of changes in mine life, useful life or depreciation rates on depreciation expenses; risks associated with, or changes to regulatory requirements (including environmental regulations) and the ability to obtain all necessary regulatory approvals; the potential expansion of the list of licenses published by the Government of Mongolia covering areas in which exploration and mining are purportedly prohibited on certain of the Company's mining licenses; the Government of Mongolia designating any one or more of the Company's mineral projects in Mongolia as a Mineral Deposit of Strategic Importance; the risk of continued restrictions on the number of trucks crossing the border at the Ceke port of entry; the risk that the import coal quality standards established by Chinese authorities will negatively impact the Company's operations; the risk that Mongolia's southern borders with China will be subject of closure; the negative impact of the COVID-19 pandemic on the demand for coal and the economy generally in China; the risk that the COVID-19 pandemic is not effectively controlled in China and Mongolia; the risk that the Company's existing coal inventories are unable to sufficiently satisfy expected sales demand; the possible impact of changes to the inputs to the valuation model used to value the embedded derivatives in the CIC Convertible Debenture; the risk of the Company failing to successfully negotiate favorable repayment terms on the TRQ Reimbursable Amount (as described under Section 5 of this MD&A under the heading entitled "Liquidity and Capital Management – Costs Reimbursable to Turquoise Hill Resources Limited ("Turquoise Hill")"); the risk of the Company or its subsidiaries defaulting under its existing debt obligations, including the CIC Convertible Debenture, the deferral agreement signed on November 19, 2020 (the "2020 November Deferral Agreement"), the amended and restated mutual cooperation agreement signed on April 23, 2019 (the "Amended and Restated Cooperation Agreement") and the deferral agreement signed on July 30, 2021 (the "2021 July Deferral Agreement"); the impact of amendments to, or the application of, the laws of Mongolia, China and other countries in which the Company carries on business; modifications to existing practices so as to comply with any future permit conditions that may be imposed by regulators; delays in obtaining approvals and lease renewals; the risk of fluctuations in coal prices and changes in China and world economic conditions; the outcome of the Class Action (as described under Section 6 of this MD&A under the heading entitled "*Regulatory Issues and Contingencies – Class Action Lawsuit*") and any damages payable by the Company as a result; the risk that the Company is unable to successfully negotiate a debt restructuring plan with respect to the amounts owing to CIC; the risk that the calculated sales price determined by the Company for the purposes of determining the amount of royalties payable to the Mongolian government is deemed as being "non-market" under Mongolian tax law; customer credit risk; cash flow and liquidity risks; risks relating to the Company's decision to suspend activities relating to the development of the Ceke Logistics Park project, including the risk that its investment partner may initiate legal action against the Company for failing to comply with the underlying agreements governing project development; risks relating to the ability of the Company to enhance the operational efficiency and the output throughput of the washing

SouthGobi Resources Ltd.

Management's Discussion and Analysis

facilities at Ovoot Tolgoi; the risk that the Company is unable to successfully negotiate an extension of the agreement with the third party contractor relating to the operation of the wash plant at the Ovoot Tolgoi mine site and risks relating to the Company's ability to raise additional financing and to continue as a going concern. Please refer to Section 10 of this MD&A under the heading entitled "*Risk Factors*" for a discussion of these and other risks and uncertainties relating to the Company and its operations. This list is not exhaustive of the factors that may affect any of the Company's forward-looking statements.

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.

SouthGobi Resources Ltd.

Management's Discussion and Analysis

TABLE OF CONTENTS

	Page
1. Overview.....	7
Significant Events and Highlights.....	7
2. Overview of Operational Data and Financial Results.....	9
3. Non-IFRS Financial Measures.....	16
4. Properties.....	17
Operating Mine.....	17
Mining Operations.....	18
5. Liquidity and Capital Resources.....	18
6. Regulatory Issues and Contingencies.....	24
7. Outstanding Share Data.....	26
8. Disclosure Controls and Procedures and Internal Controls Over Financial Reporting.....	26
9. Critical Accounting Estimates and Judgments.....	26
10. Risk Factors.....	26
11. Outlook.....	27

SouthGobi Resources Ltd.

Management's Discussion and Analysis

INTRODUCTION

This MD&A is dated as of November 12, 2021 and should be read in conjunction with the condensed consolidated interim financial statements of the Company and the notes thereto for the three and nine months ended September 30, 2021. The Company's condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 - "Interim Financial Reporting" using accounting policies in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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

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

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

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

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

Disclosure of a scientific or technical nature relating to the Ovoot Tolgoi Mine contained in this MD&A is derived from a technical report (the "Ovoot Tolgoi Technical Report") prepared in accordance with NI 43-101 on the Ovoot Tolgoi Mine dated May 15, 2017, prepared by Dr. Weiliang Wang, Mr. Vincent Li and Mr. Larry Li of Dragon Mining Consulting Limited ("DMCL"). A copy of the Ovoot Tolgoi Technical Report is available under the Company's profile on SEDAR at www.sedar.com. DMCL has not reviewed or updated the Ovoot Tolgoi Technical Report since the date of publishing.

SouthGobi Resources Ltd.

Management's Discussion and Analysis

1. OVERVIEW

The Company is an integrated coal mining, development and exploration company with 273 employees as at September 30, 2021. The Company's common shares ("Common Shares") are listed for trading on the Toronto Stock Exchange ("TSX") under the symbol SGQ and on the Hong Kong Stock Exchange ("HKEX") under the stock code symbol 1878.

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

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

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

Significant Events and Highlights

The Company's significant events and highlights for the three months ended September 30, 2021 and the subsequent period to November 12, 2021 are as follows:

- **Operating Results** – In response to the increase in COVID-19 case numbers in Mongolia, the Chinese authorities has been restricting the number of trucks permitted to cross the Ceke port of entry, and such restriction has severely impacted the sales volume of the Company in the third quarter of 2021. As a result, the Company's sales volume decreased from 1.0 million tonnes in the third quarter of 2020 to 0.2 million tonnes in the third quarter of 2021.

In response to the restrictions on the number of trucks crossing the Mongolian border into China, the Company temporarily suspended its major mining operations (including coal mining) in the second quarter of 2021 in order to control the inventory level and preserve the Company's working capital. Mining operations (including coal mining) resumed in the third quarter of 2021 and 0.3 million tonnes were produced during the quarter. However, mining operations were temporarily suspended again by the Company beginning in November 2021 in response to the temporary closure of the Ceke Port of Entry. See "*Impact of the COVID-19 Pandemic*" below.

The Company experienced an increase in the average selling price of coal from \$31.6 per tonne in the third quarter of 2020 to \$53.5 per tonne in the third quarter of 2021, as a result of improved market conditions in China and an improvement of the overall product mix.

- **Financial Results** – The Company recorded a \$1.0 million profit from operations in the third quarter of 2021 compared to a \$8.5 million profit from operations in the third quarter of 2020. The financial results for the third quarter of 2021 were impacted by the decreased sales resulting from the export volume limitations experienced by the Company during the quarter.

SouthGobi Resources Ltd.

Management's Discussion and Analysis

- **Impact of the COVID-19 Pandemic** – Since the second quarter of 2021, additional precautionary measures were imposed by the Chinese authorities at the Ceke port of entry in response to the increase of COVID-19 cases in Mongolia, which included restricting the number of trucks crossing the Mongolian border into China. The restrictions on trucking volume have had an adverse impact on the Company's ability to import its coal products into China in the third quarter of 2021.

In response to the increase in the number of COVID-19 cases in Ejinaqi, a region in China's Inner Mongolia Autonomous Region, reported in late October 2021, the local government authorities have imposed stringent preventive measures throughout the region, including the temporary closure of the Ceke port of entry located at the border of Mongolia and China. Accordingly, the Company's coal exports into China have been suspended and such suspension remains in effect as of the date hereof. The Company anticipates the temporary closure of the Ceke port of entry will have a material adverse impact on the Company's sales and cash flow until such time as coal exports into China are allowed to resume. In order to control the inventory level and preserve the Company's working capital, the Company decided to temporarily suspend mining operations (including coal mining) beginning as of early November 2021.

The Company will continue to closely monitor the development of the COVID-19 pandemic and the impact it has on coal exports to China and will continue to react promptly to preserve the working capital of the Company and mitigate any negative impacts on the business and operations of the Company.

In the event that the Company's ability to export coal into the Chinese market continues to be restricted or limited, this is expected to have a material adverse effect on the business and operations of the Company and may negatively affect the price and volatility of the Common Shares and any investment in such shares could suffer a significant decline or total loss in value.

- **CIC Convertible Debenture** – On July 30, 2021, the Company and CIC entered into the 2021 July Deferral Agreement pursuant to which CIC agreed to grant the Company a deferral of: (i) semi-annual cash interest payments of \$8.1 million payable to CIC on November 19, 2021; and (ii) \$4.0 million worth of payment in kind interest ("PIK Interest") shares (collectively, the "2021 Deferral Amounts") issuable to CIC on November 19, 2021 under the CIC Convertible Debenture.

The principal terms of the 2021 July Deferral Agreement are as follows:

- Payment of the 2021 Deferral Amounts will be deferred until August 31, 2023.
- As consideration for the deferral of the 2021 Deferral Amounts, the Company agreed to pay CIC a deferral fee equal to 6.4% per annum on the 2021 Deferral Amounts payable under the CIC Convertible Debenture, commencing on November 19, 2021.
- **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.

SouthGobi Resources Ltd.

Management's Discussion and Analysis

2. OVERVIEW OF OPERATIONAL DATA AND FINANCIAL RESULTS

Summary of Operational Data

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Sales Volumes, Prices and Costs				
Premium semi-soft coking coal				
Coal sales (<i>millions of tonnes</i>)	0.11	0.35	0.59	0.63
Average realized selling price (<i>per tonne</i>)	\$ 64.25	\$ 30.17	\$ 51.53	\$ 29.48
Standard semi-soft coking coal/ premium thermal coal				
Coal sales (<i>millions of tonnes</i>)	0.06	0.54	0.32	0.93
Average realized selling price (<i>per tonne</i>)	\$ 33.56	\$ 30.80	\$ 35.01	\$ 31.71
Washed coal				
Coal sales (<i>millions of tonnes</i>)	-	0.10	0.01	0.12
Average realized selling price (<i>per tonne</i>)	\$ -	\$ 41.30	\$ 48.53	\$ 41.64
Total				
Coal sales (<i>millions of tonnes</i>)	0.17	0.99	0.92	1.68
Average realized selling price (<i>per tonne</i>)	\$ 53.52	\$ 31.63	\$ 45.87	\$ 31.58
Raw coal production (<i>millions of tonnes</i>)	0.26	0.52	1.30	0.53
Cost of sales of product sold (<i>per tonne</i>)	\$ 40.39	\$ 20.23	\$ 32.35	\$ 21.70
Direct cash costs of product sold (<i>per tonne</i>) ⁽ⁱ⁾	\$ 17.50	\$ 12.38	\$ 17.82	\$ 11.57
Mine administration cash costs of product sold (<i>per tonne</i>) ⁽ⁱ⁾	\$ 1.62	\$ 1.15	\$ 1.53	\$ 1.47
Total cash costs of product sold (<i>per tonne</i>) ⁽ⁱ⁾	\$ 19.12	\$ 13.53	\$ 19.35	\$ 13.04
Other Operational Data				
Production waste material moved (<i>millions of bank cubic meters</i>)	0.59	1.67	5.63	2.24
Strip ratio (<i>bank cubic meters of waste material per tonne of coal produced</i>)	2.23	3.20	4.31	4.24
Lost time injury frequency rate ⁽ⁱⁱ⁾	0.00	0.00	0.00	0.04

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

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

Overview of Operational Data

For the three months ended September 30, 2021

The Company experienced an increase in the average selling price of coal from \$31.6 per tonne in the third quarter of 2020 to \$53.5 per tonne in the third quarter of 2021, as a result of improved market conditions in China and an improvement of the overall product mix. The product mix for the third quarter of 2021 consisted of approximately 65% premium semi-soft coking coal and 35% standard semi-soft coking coal/premium thermal coal compared to approximately 35% premium semi-soft coking coal, 55% standard semi-soft coking coal/premium thermal coal and 10% washed coal in the third quarter of 2020.

In response to the increase in COVID-19 case numbers in Mongolia in the third quarter of 2021, the Chinese authorities has been restricting the number of trucks permitted to cross the Ceke port of entry, and such restriction has severely impacted the sales volume of the Company in the third quarter of 2021. As a result, the Company's sales volume decreased from 1.0 million tonnes in the third quarter of 2020 to 0.2 million tonnes in the third quarter of 2021.

SouthGobi Resources Ltd.

Management's Discussion and Analysis

In response to the restrictions on the number of trucks crossing the Mongolian border into China, the Company temporarily suspended its major mining operations (including coal mining) in the second quarter of 2021 in order to control the inventory level and preserve the Company's working capital. Mining operations (including coal mining) resumed in the third quarter of 2021 and 0.3 million tonnes were produced during the quarter. However, mining operations were temporarily suspended again by the Company beginning in November 2021 in response to the temporary closure of the Ceke Port of Entry. See *"Significant Events and Highlights - Impact of the COVID-19 Pandemic"* above.

The Company's unit cost of sales of product sold increased from \$20.2 per tonne in the third quarter of 2020 to \$40.4 per tonne in the third quarter of 2021. The increase was mainly driven by the diseconomies of scale due to decreased sales as well as the increase in the effective royalty rate.

For the nine months ended September 30, 2021

The Company sold 0.9 million tonnes for the first nine months of 2021 as compared to 1.7 million tonnes for the first nine months of 2020. The average selling price increased from \$31.6 per tonne for the first nine months of 2020 to \$45.9 per tonne for the first nine months of 2021, as a result of improved market conditions in China and an improvement of the overall product mix.

The Company's production in the first nine months of 2021 was higher than the first nine months of 2020 as a result of the Company's major mining operations (including coal mining) being temporarily suspended for a relatively longer period in 2020 in order to mitigate the financial impact of the border closures and to preserve the Company's working capital.

The Company's unit cost of sales of product sold increased from \$21.7 per tonne for the first nine months of 2020 to \$32.4 per tonne in the first nine months of 2021. The increase was mainly driven by the increase in the effective royalty rate.

SouthGobi Resources Ltd.

Management's Discussion and Analysis

Summary of Financial Results

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
\$ in thousands, except per share information				
Revenue ⁽ⁱ⁾	\$ 9,295	\$ 30,960	\$ 42,550	\$ 52,072
Cost of sales ⁽ⁱ⁾	(6,866)	(20,027)	(29,765)	(36,464)
Gross profit excluding idled mine asset costs ⁽ⁱⁱ⁾	3,269	11,789	15,062	19,537
Gross profit	2,429	10,933	12,785	15,608
Other operating income/(expenses), net	100	(575)	(348)	(5,255)
Administration expenses	(1,467)	(1,789)	(4,733)	(4,851)
Evaluation and exploration expenses	(36)	(63)	(148)	(171)
Profit from operations	1,026	8,506	7,556	5,331
Finance costs	(11,457)	(9,885)	(32,484)	(24,250)
Finance income	2,040	2,583	23,055	2,600
Share of earnings/(loss) of a joint venture	(261)	660	(22)	882
Current income tax expenses	(78)	(793)	(1,059)	(2,425)
Net profit/(loss) attributable to equity holders of the Company	(8,730)	1,071	(2,954)	(17,862)
Basic and diluted earnings/(loss) per share	\$ (0.03)	\$ -	\$ (0.01)	\$ (0.07)

(i) Revenue and cost of sales related to the Company's Ovoot Tolgoi Mine within the Coal Division operating segment. Refer to note 3 of the condensed consolidated interim financial statements for further analysis regarding the Company's reportable operating segments.

Overview of Financial Results

For the three months ended September 30, 2021

The Company recorded a \$1.0 million profit from operations in the third quarter of 2021 compared to an \$8.5 million profit from operations in the third quarter of 2020. The financial results for the third quarter of 2021 were impacted by the decreased sales resulting from the export volume limitations experienced by the Company during the quarter.

Revenue was \$9.3 million in the third quarter of 2021 compared to \$31.0 million in the third quarter of 2020. The Company's effective royalty rate for the third quarter of 2021, based on the Company's average realized selling price of \$53.5 per tonne, was 25.5% or \$13.7 per tonne, compared to 11.1% or \$3.5 per tonne in the third quarter of 2020 (based on the average realized selling price of \$31.6 per tonne).

Royalty regime in Mongolia

The royalty regime in Mongolia is evolving and has been subject to change since 2012.

On September 4, 2019, the Government of Mongolia issued a resolution in connection with the royalty regime. From September 1, 2019 onwards, in the event that the contract sales price is less than the reference price as determined by the Government of Mongolia by more than 30%, then the royalty payable will be calculated based on the Mongolian government's reference price instead of the contract sales price.

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

Cost of sales was \$6.9 million in the third quarter of 2021 compared to \$20.0 million in the third quarter of 2020. The decrease in cost of sales was mainly due to the decreased sales during the quarter. Cost of sales consists of operating expenses, share-based compensation expense, equipment depreciation,

SouthGobi Resources Ltd.

Management's Discussion and Analysis

depletion of mineral properties, royalties and idled mine asset costs. Operating expenses in cost of sales reflect the total cash costs of product sold (a Non-IFRS financial measure, refer to Section 3 of this MD&A for further analysis) during the quarter.

\$ in thousands	Three months ended September 30,	
	2021	2020
Operating expenses	\$ 3,251	\$ 13,390
Share-based compensation expense	38	4
Depreciation and depletion	366	2,297
Royalties	2,371	3,480
Cost of sales from mine operations	6,026	19,171
Cost of sales related to idled mine assets	840	856
Cost of sales	\$ 6,866	\$ 20,027

Operating expenses in cost of sales were \$3.3 million in the third quarter of 2021 compared to \$13.4 million in the third quarter of 2020. The overall decrease in operating expenses was primarily due to the decreased sales volume from 1.0 million tonnes in the third quarter of 2020 to 0.2 million tonnes in the third quarter of 2021.

Cost of sales related to idled mine assets in the third quarter of 2021 included \$0.8 million related to depreciation expenses for idled equipment (third quarter of 2020: \$0.9 million).

Other operating income were \$0.1 million in the third quarter of 2021 (third quarter of 2020: other operating expenses of \$0.6 million).

\$ in thousands	Three months ended September 30,	
	2021	2020
CIC management fee	\$ 199	\$ 864
Reversal of provision for doubtful trade and other receivables	(16)	(482)
Foreign exchange loss, net	13	113
Discount on settlement of trade payables	(127)	-
Loss on disposal of items of property, plant and equipment, net	-	80
Written off of other payables	(169)	-
Other operating expenses/(income), net	\$ (100)	\$ 575

Administration expenses were \$1.5 million in the third quarter of 2021 compared to \$1.8 million in the third quarter of 2020 as follows:

\$ in thousands	Three months ended September 30,	
	2021	2020
Corporate administration	\$ 186	\$ 394
Legal and professional fees	294	395
Salaries and benefits	685	781
Share-based compensation expense	137	15
Depreciation	165	204
Administration expenses	\$ 1,467	\$ 1,789

The Company continued to minimize evaluation and exploration expenditures in the third quarter of 2021 in order to preserve the Company's financial resources. Evaluation and exploration activities and

SouthGobi Resources Ltd.

Management's Discussion and Analysis

expenditures in the third quarter of 2021 were limited to ensuring that the Company met the Mongolian Minerals Law requirements in respect of its mining licenses.

Finance costs were \$11.5 million and \$9.9 million in the third quarter of 2021 and 2020 respectively, which primarily consisted of interest expense on the \$250.0 million CIC Convertible Debenture.

For the nine months ended September 30, 2021

The Company recorded a \$7.6 million profit from operations in the first nine months of 2021 compared to a \$5.3 million profit from operations in the first nine months of 2020. The financial results were impacted by (i) the higher selling price achieved by the Company; (ii) the decreased sales resulting from the export volume limitations and (iii) a provision for commercial arbitration of \$4.6 million recorded for the first nine months of 2020 in connection with the settlement agreement entered into with First Concept Industrial Group Limited ("First Concept").

Revenue was \$42.6 million in the first nine months of 2021 compared to \$52.1 million in the first nine months of 2020. The Company's effective royalty rate for the first nine months of 2021, based on the Company's average realized selling price of \$45.9 per tonne, was 18.1% or \$8.3 per tonne, compared to 12.2% or \$3.9 per tonne in the first nine months of 2020 (based on the average realized selling price of \$31.6 per tonne).

Cost of sales were \$29.8 million in the first nine months of 2021 compared to \$36.5 million in the first nine months of 2020, as follows:

<i>\$ in thousands</i>	Nine months ended September 30,	
	2021	2020
Operating expenses	\$ 17,802	\$ 21,912
Share-based compensation expense	37	23
Depreciation and depletion	1,943	4,163
Royalties	7,706	6,437
Cost of sales from mine operations	27,488	32,535
Cost of sales related to idled mine assets	2,277	3,929
Cost of sales	\$ 29,765	\$ 36,464

Operating expenses in cost of sales were \$17.8 million in the first nine months of 2021 compared to \$21.9 million in the first nine months of 2020. The overall decrease in operating expenses was primarily due to the decreased sales volume.

Cost of sales related to idled mine assets in the first nine months of 2021 included \$2.3 million related to depreciation expenses for idled equipment (first nine months of 2020: \$3.9 million).

Other operating expenses were \$0.3 million in the first nine months of 2021 (first nine months of 2020: \$5.3 million). A provision for commercial arbitration of \$4.6 million recorded for the first nine months of 2020 in connection with the settlement agreement entered into with First Concept.

SouthGobi Resources Ltd.

Management's Discussion and Analysis

\$ in thousands	Nine months ended September 30,	
	2021	2020
CIC management fee	\$ 932	\$ 1,399
Provision/(reversal of provision) for doubtful trade and other receivables	204	(200)
Foreign exchange loss/(gain), net	184	(639)
Loss/(gain) on disposal of items of property, plant and equipment, net	(270)	61
Written off of other payables	(169)	-
Reversal of impairment on materials and supplies inventories	(25)	-
Discount on settlement of trade payables	(508)	-
Provision for commercial arbitration	-	4,634
Other operating expenses	\$ 348	\$ 5,255

Administration expenses were \$4.7 million in the first nine months of 2021 compared to \$4.9 million in the first nine months of 2020, as follows:

\$ in thousands	Nine months ended September 30,	
	2021	2020
Corporate administration	\$ 1,135	\$ 842
Legal and professional fees	853	944
Salaries and benefits	2,083	2,448
Share-based compensation expense	133	84
Depreciation	529	533
Administration expenses	\$ 4,733	\$ 4,851

The Company continued to minimize evaluation and exploration expenditures in the first nine months of 2021 in order to preserve the Company's financial resources. Evaluation and exploration activities and expenditures in the first nine months of 2021 were limited to ensuring that the Company met the Mongolian Minerals Law requirements in respect of its mining licenses.

Finance costs were \$32.5 million and \$24.3 million in the first nine months of 2021 and 2020 respectively, which primarily consisted of interest expense on the \$250.0 million CIC Convertible Debenture. The increase was mainly due to the associated increase in interest expenses following the recording of a gain on extinguishment of the CIC Convertible Debenture.

SouthGobi Resources Ltd.

Management's Discussion and Analysis

Summary of Quarterly Operational Data

Quarter Ended	2021			2020				2019
	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec
Sales Volumes, Prices and Costs								
Premium semi-soft coking coal								
Coal sales (millions of tonnes)	0.11	0.08	0.40	0.38	0.35	0.21	0.07	0.39
Average realized selling price (per tonne)	\$ 64.25	\$ 52.11	\$ 47.88	\$ 39.34	\$ 30.17	\$ 28.69	\$ 28.46	\$ 29.18
Standard semi-soft coking coal/ premium thermal coal								
Coal sales (millions of tonnes)	0.06	0.03	0.23	0.50	0.54	0.26	0.13	0.40
Average realized selling price (per tonne)	\$ 33.56	\$ 36.71	\$ 35.17	\$ 31.66	\$ 30.80	\$ 33.12	\$ 32.71	\$ 31.88
Washed coal								
Coal sales (millions of tonnes)	-	-	0.01	0.07	0.10	0.02	-	0.20
Average realized selling price (per tonne)	\$ -	\$ -	\$ 49.62	\$ 42.51	\$ 41.30	\$ 43.26	\$ -	\$ 42.95
Total								
Coal sales (millions of tonnes)	0.17	0.11	0.64	0.95	0.99	0.49	0.20	0.99
Average realized selling price (per tonne)	\$ 53.52	\$ 47.93	\$ 43.46	\$ 35.53	\$ 31.63	\$ 31.66	\$ 31.18	\$ 33.04
Raw coal production (millions of tonnes)	0.26	-	1.04	0.96	0.52	-	0.01	1.48
Cost of sales of product sold (per tonne)	\$ 40.39	\$ 41.38	\$ 28.67	\$ 23.36	\$ 20.23	\$ 21.16	\$ 30.36	\$ 23.68
Direct cash costs of product sold (per tonne) ⁽ⁱ⁾	\$ 17.50	\$ 16.39	\$ 18.15	\$ 14.78	\$ 12.38	\$ 9.90	\$ 11.69	\$ 13.61
Mine administration cash costs of product sold (per tonne) ⁽ⁱ⁾	\$ 1.62	\$ 4.26	\$ 1.04	\$ 1.07	\$ 1.15	\$ 1.70	\$ 2.50	\$ 1.29
Total cash costs of product sold (per tonne) ⁽ⁱ⁾	\$ 19.12	\$ 20.65	\$ 19.19	\$ 15.85	\$ 13.53	\$ 11.60	\$ 14.19	\$ 14.90
Other Operational Data								
Production waste material moved (millions of bank cubic meters)	0.59	-	5.04	3.10	1.67	-	0.57	3.61
Strip ratio (bank cubic meters of waste material per tonne of coal produced)	2.23	-	4.83	3.24	3.20	-	85.08	2.44
Lost time injury frequency rate ⁽ⁱⁱ⁾	0.00	0.00	0.00	0.00	0.00	0.04	0.09	0.08

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

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

Summary of Quarterly Financial Results

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

Quarter Ended	2021			2020				2019
	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec
Financial Results								
Revenue ⁽ⁱ⁾	\$ 9,295	\$ 5,191	\$ 28,064	\$ 33,879	\$ 30,960	\$ 14,975	\$ 6,137	\$ 32,113
Cost of sales ⁽ⁱ⁾	(6,866)	(4,552)	(18,347)	(22,193)	(20,027)	(10,366)	(6,071)	(23,446)
Gross profit excluding idled mine asset costs	3,269	1,565	10,228	12,610	11,789	6,286	1,462	9,971
Gross profit including idled mine asset costs	2,429	639	9,717	11,686	10,933	4,609	66	8,667
Other operating income/(expenses), net	100	(113)	(335)	434	(575)	(5,150)	470	(1,589)
Administration expenses	(1,467)	(1,484)	(1,781)	(2,120)	(1,789)	(1,291)	(1,771)	(1,386)
Evaluation and exploration expenses	(36)	(47)	(65)	(55)	(63)	(52)	(56)	(382)
Profit/(loss) from operations	1,026	(1,005)	7,536	9,945	8,506	(1,884)	(1,291)	5,310
Finance costs	(11,457)	(8,870)	(14,637)	(7,442)	(9,885)	(7,258)	(7,135)	(7,095)
Finance income	2,040	2,494	21,001	13	2,583	2	43	36
Share of earnings/(loss) of a joint venture	(261)	(35)	274	431	660	268	(46)	225
Current income tax credit/(expenses)	(78)	139	(1,120)	(5,174)	(793)	(900)	(732)	(659)
Net profit/(loss)	(8,730)	(7,277)	13,054	(2,227)	1,071	(9,772)	(9,161)	(2,183)
Basic earnings/(loss) per share	\$ (0.03)	\$ (0.03)	\$ 0.05	\$ (0.01)	\$ -	\$ (0.04)	\$ (0.03)	\$ (0.01)
Diluted earnings/(loss) per share	\$ (0.03)	\$ (0.03)	\$ 0.02	\$ (0.01)	\$ -	\$ (0.04)	\$ (0.03)	\$ (0.01)

(i) Revenue and cost of sales relate to the Company's Ovoot Tolgoi Mine within the Mongolian Coal Division operating segment. Refer to note 3 of the condensed consolidated financial statements for further analysis regarding the Company's reportable operating segments.

SouthGobi Resources Ltd.

Management's Discussion and Analysis

3. NON-IFRS FINANCIAL MEASURES

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

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

Cash Costs

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

The following table provides a reconciliation of the cash costs of product sold disclosed for the three and nine months ended September 30, 2021 and September 30, 2020. 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 September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
<i>\$ in thousands, except per tonne information</i>				
Cash costs				
Cost of sales determined in accordance with IFRS	\$ 6,866	\$ 20,027	\$ 29,765	\$ 36,464
Less royalties	(2,371)	(3,480)	(7,706)	(6,437)
Less non-cash expenses	(404)	(2,301)	(1,980)	(4,186)
Less non-cash idled mine asset costs	(840)	(856)	(2,277)	(3,929)
Total cash costs	3,251	13,390	17,802	21,912
Less idled mine asset cash costs	-	-	-	-
Total cash costs excluding idled mine asset cash costs	3,251	13,390	17,802	21,912
Coal sales (millions of tonnes)	0.17	0.99	0.92	1.68
Total cash costs of product sold (per tonne)	\$ 19.12	\$ 13.53	\$ 19.35	\$ 13.04

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
<i>\$ in thousands, except per tonne information</i>				
Cash costs				
Direct cash costs of product sold (per tonne)	\$ 17.50	\$ 12.38	\$ 17.82	\$ 11.57
Mine administration cash costs of product sold (per tonne)	1.62	1.15	1.53	1.47
Total cash costs of product sold (per tonne)	\$ 19.12	\$ 13.53	\$ 19.35	\$ 13.04

SouthGobi Resources Ltd.

Management's Discussion and Analysis

The cash cost of product sold per tonne was \$19.1 for the third quarter of 2021, which increased from \$13.5 per tonne for the third quarter of 2020. The reason for the increase is primarily related to (i) diseconomies of scale given the decreased sales; and (ii) a higher portion of coal was transported to the Company's Inner Mongolia subsidiary and sold to third party customers within China instead of selling at the mine gate during the quarter.

Idle Mine Asset Costs

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

The following table provides a reconciliation of the gross profit disclosed for the three and nine months ended September 30, 2021 and September 30, 2020.

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
<i>\$ in thousands, except per tonne information</i>				
Idled mine asset costs				
Gross profit excluding idled mine asset costs	\$ 3,269	\$ 11,789	\$ 15,062	\$ 19,537
Less non-cash idled mine asset costs	\$ (840)	\$ (856)	\$ (2,277)	\$ (3,929)
Gross profit including idled mine asset costs	\$ 2,429	\$ 10,933	\$ 12,785	\$ 15,608

4. PROPERTIES

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

Operating Mine

Ovoot Tolgoi Mine

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

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

SouthGobi Resources Ltd.

Management's Discussion and Analysis

Resources

A resource estimate for the Ovoot Tolgoi deposit is set out in the Ovoot Tolgoi Technical Report, which was prepared by DMCL on behalf of the Company. A copy of the Ovoot Tolgoi Technical Report was filed under the Company's profile on SEDAR at www.sedar.com on May 15, 2017.

Reserves

A reserve estimate for the Ovoot Tolgoi deposit is set out in the Ovoot Tolgoi Technical Report, which was prepared by DMCL on behalf of the Company. A copy of the Ovoot Tolgoi Technical Report was filed under the Company's profile on SEDAR at www.sedar.com on May 15, 2017.

Mining Operations

Mining Method

The mining method employed at the Ovoot Tolgoi deposit could be described as open pit terrace mining utilizing large scale hydraulic excavators and shovels and trucks. Terrace mining is utilized where coal seams dip steeply and operating machinery on the coal seam roof and floor is not possible, due to the steep seam dips. Terraces, or benches, are excavated along fixed horizontal horizons and these benches intersect both coal and waste. Coal and waste are mined separately on each bench with dozers being used, as needed, to push coal or waste down to the excavator for loading onto trucks. This mining method allows large scale open pit mining to occur productively in steeply dipping coal seam environments. All waste is dumped ex-pit, as the steep dips preclude in-pit dumping.

Mining Equipment

The key elements of the currently commissioned mining fleet include: two Liebherr 996 (33m³ & 36m³) hydraulic excavators, three Liebherr R9250 (15m³) hydraulic excavators and 19 MT4400AC (218 tonne capacity) haul trucks, together with various pieces of ancillary equipment.

Workforce

As at September 30, 2021, SGS employed 235 employees in Mongolia. Of the 235 employees, 29 are employed in the Ulaanbaatar office and 206 at the Ovoot Tolgoi Mine site. Of the 235 employees based in Mongolia, all of them are Mongolian nationals, in which 116 (49%) are residents of the local Gurvantes, Dalanzadgad, Sevrei and Noyon Souns.

5. LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Capital Management

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

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

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

SouthGobi Resources Ltd.

Management's Discussion and Analysis

in the tripartite committee. Subsequently Rio Tinto transferred and assigned to Turquoise Hill its right to seek reimbursement for these costs and fees from the Company.

As at December 31, 2020, the amount of reimbursable costs and fees claimed by Turquoise Hill (the "TRQ Reimbursable Amount") amounted to \$8.1 million (such amount is included in the trade and other payables).

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

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 operating until at least September 30, 2022 and will be able to realize 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 flow, secure additional capital or otherwise pursue a strategic restructuring, refinancing or other transactions to provide it with additional liquidity.

Several adverse conditions and material uncertainties cast significant doubt upon the Company's ability to continue as a going concern and the going concern assumption used in the preparation of the Company's consolidated financial statements. The Company had a deficiency in assets of \$79.1 million as at September 30, 2021 as compared to a deficiency in assets of \$76.2 million as at December 31, 2020 while the working capital deficiency (excess current liabilities over current assets) was \$36.5 million as at September 30, 2021 compared to a working capital deficiency of \$217.6 million as at December 31, 2020.

Included in the working capital deficiency as at September 30, 2021 are significant obligations, mainly comprised of trade and other payables of \$68.7 million, which includes the unpaid taxes of \$22.2 million that are repayable on demand to the Mongolian Tax Authority ("MTA").

The Company may not be able to settle all trade and other payables on a timely basis, while continuing to postpone the settlement of certain trade payables owed to suppliers and creditors may impact the mining operations of the Company and 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 are pending as at November 12, 2021. However, there can be no assurance that no such lawsuits or proceedings will be filed by the Company's creditors in the future and the Company's suppliers and contractors will continue to supply and provide services to the Company uninterrupted.

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

SouthGobi Resources Ltd.

Management's Discussion and Analysis

Management of the Company has prepared a cash flow projection covering a period of 12 months from September 30, 2021. The cash flow projection has taken into account 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 2020 November Deferral Agreement and the 2021 July Deferral Agreement with CIC for a deferral of (i) deferred cash interest and deferral fees of \$75.2 million which were due and payable to CIC on or before September 14, 2020, under the deferral agreement signed on June 19, 2020 (the "2020 June Deferral Agreement"); (ii) semi-annual cash interest payments in the aggregate amount of \$16.0 million payable to CIC on November 19, 2020 and May 19, 2021; (iii) \$4.0 million worth of PIK Interest shares ("2020 November PIK Interest") issuable to CIC on November 19, 2020 under the CIC Convertible Debenture; and (iv) the management fee which payable to CIC on November 14, 2020, February 14, 2021, May 15, 2021, August 14, 2021 and November 14, 2021 under the Amended and Restated Cooperation Agreement (collectively, the "2020 November Deferral Amounts") and the 2021 Deferral Amounts respectively until August 31, 2023; (b) agreeing to deferral arrangements and improved payment terms with certain vendors; (c) reducing the outstanding tax payable by making monthly payments to the MTA beginning as of June 2020; and (d) reducing the inventory of low quality coal by wet washing. After considering the above, the directors of the Company believe that there will be sufficient financial resources to continue its operations and to meet its financial obligations as and when they fall due in the next 12 months from September 30, 2021 and therefore are satisfied that it is appropriate to prepare the condensed consolidated interim financial statements on a going concern basis.

Factors that impact the Company's liquidity are being closely monitored and include, but are not limited to, impact of the COVID-19 pandemic, restrictions on the Company's ability to import its coal products for sale in China, China's 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 September 30, 2021 and December 31, 2020, the Company was not subject to any externally imposed capital requirements.

Impact of the COVID-19 Pandemic

Since the second quarter of 2021, additional precautionary measures were imposed by the Chinese authorities at the Ceke port of entry in response to the increase of COVID-19 cases in Mongolia, which included restricting the number of trucks crossing the Mongolian border into China. The restrictions on trucking volume have had an adverse impact on the Company's ability to import its coal products into China in the third quarter of 2021.

In response to the increase in the number of COVID-19 cases in Ejinaqi, a region in China's Inner Mongolia Autonomous Region, reported in late October 2021, the local government authorities have imposed stringent preventive measures throughout the region, including the temporary closure of the Ceke Port of Entry located at the border of Mongolia and China. Accordingly, the Company's coal exports into China have been suspended and such suspension remains in effect as of the date hereof. The Company anticipates the temporary closure of the Ceke Port of Entry will have a material adverse impact on the Company's sales and cash flow until such time as coal exports into China are allowed to resume. In order to control the inventory level and preserve the Company's working capital, the Company decided to temporarily suspend mining operations (including coal mining) beginning as of early November 2021.

The Company will continue to closely monitor the development of the COVID-19 pandemic and the impact it has on coal exports to China and will continue to react promptly to preserve the working capital of the Company and mitigate any negative impacts on the business and operations of the Company.

SouthGobi Resources Ltd.

Management's Discussion and Analysis

CIC Convertible Debenture

In November 2009, the Company entered into a financing agreement with CIC for \$500 million in the form of a secured, convertible debenture bearing interest at 8.0% (6.4% payable semi-annually in cash and 1.6% payable annually in the Company's shares) with a maximum term of 30 years. The CIC Convertible Debenture is secured by a first ranking charge over the Company's assets and certain 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 CIC Convertible Debenture into approximately 21.5 million shares at a conversion price of \$11.64 (CAD\$11.88). As at June 30, 2021, CIC owned approximately 23.7% of the issued and outstanding Common Shares of the Company.

On November 19, 2020, the Company and CIC entered into the 2020 November Deferral Agreement pursuant to which CIC agreed to grant the Company a deferral of the 2020 November Deferral Amounts. The 2020 November Deferral Agreement became effective on January 21, 2021, being the date on which the 2020 November Deferral Agreement was approved by shareholders at the Company's annual and special meeting of shareholders.

The principal terms of the 2020 November Deferral Agreement are as follows:

- Payment of the 2020 November Deferral Amounts will be deferred until August 31, 2023.
- CIC agreed to waive its rights arising from any default or event of default under the CIC Convertible Debenture as a result of trading in the Common Shares being halted on the TSX beginning as of June 19, 2020 and suspended on the HKEX beginning as of August 17, 2020, in each case for a period of more than five trading days.
- As consideration for the deferral of the 2020 November Deferral Amounts, the Company agreed to pay CIC: (i) a deferral fee equal to 6.4% per annum on the 2020 November Deferral Amounts payable under the CIC Convertible Debenture and the 2020 June Deferral Agreement, commencing on the date on which each such 2020 November Deferral Amounts would otherwise have been due and payable under the CIC Convertible Debenture or the 2020 June Deferral Agreement, as applicable; and (ii) a deferral fee equal to 2.5% per annum on the 2020 November Deferral Amounts payable under the Amended and Restated Cooperation Agreement, commencing on the date on which the management fee would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.
- The 2020 November Deferral Agreement does not contemplate a fixed repayment schedule for the 2020 November Deferral Amounts and related deferral fees. Instead, the Company and CIC would agree to assess in good faith the Company's financial condition and working capital position on a monthly basis and determine the amount, if any, of the 2020 November Deferral Amounts and related deferral fees that the Company is able to repay under the CIC Convertible Debenture, the 2020 June Deferral Agreement or the Amended and Restated Cooperation Agreement, 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.
- Commencing as of November 19, 2020 and until such time as the November 2020 PIK Interest is fully repaid, CIC reserves the right to require the Company to pay and satisfy the amount of the November 2020 PIK Interest, either in full or in part, by way of issuing and delivering PIK interest shares in accordance with the CIC Convertible Debenture provided that, on the date of issuance of such shares, the Common Shares are listed and trading on at least one stock exchange.
- If at any time before the 2020 November Deferral 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

SouthGobi Resources Ltd.

Management's Discussion and Analysis

principal subsidiary, then the Company must first consult with, and obtain written consent from CIC prior to effecting such appointment, replacement or termination.

On July 30, 2021, the Company and CIC entered into the 2021 July Deferral Agreement pursuant to which CIC agreed to grant the Company a deferral of: (i) semi-annual cash interest payments of \$8.1 million payable to CIC on November 19, 2021; and (ii) \$4.0 million worth of PIK Interest issuable to CIC on November 19, 2021 under the CIC Convertible Debenture. The effectiveness of the 2021 July Deferral Agreement and the respective covenants, agreements and obligations of each party under the 2021 July Deferral Agreement are subject to the Company obtaining the requisite approval from the TSX on or before August 22, 2021, in accordance with applicable TSX rules.

The principal terms of the 2021 July Deferral Agreement are as follows:

- Payment of the 2021 Deferral Amounts will be deferred until August 31, 2023.
- As consideration for the deferral of the 2021 Deferral Amounts, the Company agreed to pay CIC a deferral fee equal to 6.4% per annum on the 2021 Deferral Amounts payable under the CIC Convertible Debenture, commencing on November 19, 2021.

Cash Flow Highlights

<i>\$ in thousands</i>	Nine months ended September 30,	
	2021	2020
Net cash flows from/(used in) operating activities	\$ (3,332)	\$ 7,271
Cash used in investing activities	(7,147)	(5,996)
Cash used in financing activities	(5,970)	(4,900)
Effect of foreign exchange rate changes on cash	(328)	51
Decrease in cash for the period	(16,777)	(3,574)
Cash balance, beginning of period	20,121	7,164
Cash balance, end of period	\$ 3,344	\$ 3,590

Net cash flows from/(used in) operating activities

The Company's net cash flows used in operating activities was an outflow of \$3.3 million in the first nine months of 2021 compared to an inflow of \$7.3 million in the first nine months of 2020. This is primarily due to the sales proceeds collected from coal sales, net settlement of trade and other payables and the interest paid during the first nine months of 2021.

Cash used in Investing Activities

The Company used \$7.1 million of cash during the first nine months of 2021 in investing activities compared to \$6.0 million during the first nine months of 2020. In the first nine months of 2021, expenditures on property, plant and equipment totaled \$7.8 million (first nine months of 2020: \$7.2 million).

Cash used in Financing Activities

Cash used in financing activities was \$6.0 million in the first nine months of 2021 (first nine months of 2020: \$4.9 million), which was principally attributable to the repayment of an interest-bearing loan of \$2.8 million and the interest payment of convertible debenture of \$3 million during the first nine months of 2021.

SouthGobi Resources Ltd.

Management's Discussion and Analysis

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 September 30, 2021, the Company's operating and capital commitments were:

	Within 1 year	2-3 years	Over 3 years	Total
As at September 30, 2021				
Capital expenditure commitments	\$ -	\$ -	\$ -	\$ -
Operating expenditure commitments	2,038	47	283	2,368
Commitments	\$ 2,038	\$ 47	\$ 283	\$ 2,368

Ovoot Tolgoi Mine Impairment Analysis

The Company determined that an indicator of impairment existed for its Ovoot Tolgoi Mine cash generating unit as at September 30, 2021. The impairment indicator was the potential closures of the border crossings as a result of COVID-19 in the future. Since the recoverable amount was higher than carrying value of the Ovoot Tolgoi Mine cash generating unit, there was no impairment of non-financial asset recognized during the three months ended September 30, 2021.

Financial Instruments

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

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

	As at	
	September 30, 2021	December 31, 2020
<i>\$ in thousands</i>		
Financial assets		
Cash	\$ 3,344	\$ 20,121
Restricted cash	1,237	918
Trade and other receivables	79	1,305
Total financial assets	\$ 4,660	\$ 22,344

SouthGobi Resources Ltd.

Management's Discussion and Analysis

<i>\$ in thousands</i>	As at	
	September 30, 2021	December 31, 2020
Financial liabilities		
Fair value through profit or loss		
Convertible debenture - embedded derivatives	\$ 3,221	\$ 152
Other financial liabilities		
Trade and other payables	68,651	74,365
Interest-bearing borrowings	-	2,826
Convertible debenture - debt host and interest payable	182,633	181,259
Total financial liabilities	\$ 254,505	\$ 258,602

6. REGULATORY ISSUES AND CONTINGENCIES

Class Action Lawsuit

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

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

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

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

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

Counsel for the plaintiff and defendants have agreed on and the case management judge has ordered a trial to commence in December 2022 (subject to Court availability). To accomplish all steps necessary for trial preparation, counsels have agreed to the following proposed schedule under the case management of the judge: (i) document production and pleading amendments by October 31, 2021; (ii) oral examinations for discovery ending by December 31, 2022; (iii) expert reports of plaintiff by March 31, 2022 and by defendants July 31, 2022; and (iv) pre-trial filings and motions by August 31, 2022. The Company has urged a trial as early as possible.

SouthGobi Resources Ltd.

Management's Discussion and Analysis

The Company firmly believes that it has a strong defense on the merits and will continue to vigorously defend itself against the Class Action through independent Canadian litigation counsel retained by the Company for this purpose. Due to the inherent uncertainties of litigation, it is not possible to predict the final outcome of the Class Action or determine the amount of potential losses, if any. However, the Company has determined that a provision for this matter as at September 30, 2021 was not required.

Toll Wash Plant Agreement with Ejin Jinda

In 2011, the Company entered into an agreement with Ejin Jinda, a subsidiary of China Mongolia Coal Co. Ltd., to toll-wash coal from the Ovoot Tolgoi Mine. The agreement had a duration of five years from the commencement of the contract and provided for an annual washing capacity of approximately 3.5 million tonnes of input coal.

Under the agreement with Ejin Jinda, which required the commercial operation of the wet washing facility to commence on October 1, 2011, the additional fees payable by the Company under the wet washing contract would have been \$18.5 million. At each reporting date, the Company assesses the agreement with Ejin Jinda and has determined it is not probable that this \$18.5 million will be required to be paid. Accordingly, the Company has determined that a provision for this matter as at September 30, 2021 was not required.

Special Needs Territory in Umnugobi

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

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

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

Mongolian Royalties

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

SouthGobi Resources Ltd.

Management's Discussion and Analysis

Importing F-Grade Coal into China

As a result of import coal quality standards established by Chinese authorities, the Company has not been able to export its F-grade coal products into China since December 15, 2018 as the F-grade coal products do not meet the quality requirement.

7. OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of Common Shares without par value and an unlimited number of preferred shares without par value. As at November 12, 2021, approximately 274.0 million Common Shares were issued and outstanding. There are also incentive share options outstanding to acquire approximately 7.7 million unissued Common Shares with exercise prices ranging from CAD\$0.11 to CAD\$0.39, and HK\$1.41. There are no preferred shares outstanding.

As at November 12, 2021, to the best of the Company's knowledge:

- CIC holds a total of approximately 64.8 million Common Shares representing approximately 23.6% of the issued and outstanding Common Shares;
- Novel Sunrise holds a total of approximately 46.4 million Common Shares representing approximately 17.0% of the issued and outstanding Common Shares; and
- Voyage Wisdom Limited ("Voyage Wisdom") holds a total of approximately 25.8 million Common Shares representing approximately 9.4% of the issued and outstanding Common Shares.

8. DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING ("ICFR")

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

9. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

There have been no other new IFRSs or IFRIC interpretations that is not yet effective that would be expected to have a material impact on the Company, except those disclosed in the Company's annual consolidated financial statements for the year ended December 31, 2020.

Refer to Note 2.4 of the Company's condensed consolidated interim financial statements of the quarter ended September 30, 2021 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, 2020, which is available under the Company's profile on SEDAR at www.sedar.com.

SouthGobi Resources Ltd.

Management's Discussion and Analysis

11. OUTLOOK

The COVID-19 pandemic has caused unprecedented challenges around the world and adversely impacted the global economy. The Company has adopted, and will continue to implement, strict COVID-19 precautionary measures at the mine site as well as in all of its offices in order to maintain operations in the normal course, while also complying with the advice or orders of local public health authorities.

As a result of the restrictions on trucking volume crossing the Mongolian border into China imposed by Chinese Authorities at the Ceke port of entry, the Company anticipates that it will continue to be negatively impacted by the COVID-19 pandemic for the foreseeable future, which will have an adverse effect on the Company's sales, production, logistics and financials. In particular, the restriction of the number of trucks for crossing the Mongolian border into China by the Chinese authorities will limit the Company's ability to increase revenue despite the improved market conditions in China.

Following the recent temporary closure of the Ceke border, there will be a material adverse impact on the Company's sales and cash flow until such time as coal exports into China are allowed to resume. In order to control the inventory level and preserve the Company's working capital, the Company decided to temporarily suspend mining operations (including coal mining) beginning as of early November 2021. The Company will continue to closely monitor the development of the COVID-19 pandemic and the impact it has on coal exports to China, and will continue to react promptly to preserve the working capital of the Company and mitigate any negative impacts on the business and operations of the Company.

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

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

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

- **Enhance product mix** – The Company will focus on improving the product mix and increasing the production of higher quality coal by: (i) improving mining operations; (ii) washing lower quality coal in the Company's coal wash plant and partnering with other nearby coal wash plant(s); (iii) resuming the construction and operation of the Company's dry coal processing plant; and (iv) trading and blending different types of coal to produce blended coal products that are economical to the Company.
- **Expand customer base** – The Company will endeavour 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 maximize profit while maintaining sustainable long-term business relationships with customers.
- **Optimize cost structure** – The Company will aim to reduce its production costs and optimize its cost structure through engaging third party contract mining companies to enhance its operation efficiency, strengthening procurement management, ongoing training and productivity enhancement.

SouthGobi Resources Ltd.

Management's Discussion and Analysis

- **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, and continue to strictly implement its COVID-19 precautionary measures at the mine site and across all offices.

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

- **Strategic location** – The Ovoot Tolgoi Mine is located approximately 40km from China, which represents the Company's main coal market. The Company has an infrastructure advantage, being approximately 50km from a major Chinese coal distribution terminal with rail connections to key coal markets in China.
- **A large reserves base** – The Ovoot Tolgoi Deposit has mineral reserves of more than 100 million tonnes. The Company also has several development options in its Zag Suuj coal deposit and Soumber coal deposit.
- **Bridge between Mongolia and China** – The Company is well-positioned to capture the resulting business opportunities between China and Mongolia under the Belt and Road Initiative. The Company will seek potential strategic support from its two largest shareholders, which are both state-owned-enterprises in China, and its strong operational record for the past decade in Mongolia, being one of the largest enterprises and taxpayers in Mongolia.

November 12, 2021