SouthGobi Resources Ltd.

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

June 30, 2024

(Expressed in U.S. dollars)

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 2024 March Deferral Agreement (as defined below) and the 2024 April Deferral Agreement (as defined below) as the same become due, the Company's ability to settle or appeal the tax penalty payable of $75.0 million imposed by the Mongolian Tax Authority ("MTA") and a provision of additional late tax penalty of $10.1 million;
- the Company's anticipated financing needs, operational and development plans and future production levels, including ramp up of the Company's mining operations and capacity in 2024;
- the results and impact of the Ontario class action (as described under Section 6 of this MD&A under the heading entitled "*Regulatory Issues and Contingencies – Lawsuit*");
- the estimates and assumptions included in the Company's impairment analysis and the possible impact of changes thereof;
- the construction and operation of the Dry Coal Separation System (as defined below) at the Company's Ovoot Tolgoi Mine;
- the agreement with Ejin Jinda and the payments thereunder (as described under Section 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 of the Company to enhance the product value by conducting coal processing and coal washing;
- the impact of the Company's activities on the environment and actions taken for the purpose of mitigation of potential environmental impacts and planned focus on health, safety and environmental performance;
- the future demand for coal in China;
- future trends in the Chinese coal industry;
- the Company's outlook and objectives for 2024 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.

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 2024 and beyond; currency exchange rates; operating, labour and fuel costs; the ability of the Company to raise additional financing; the anticipated royalties payable under Mongolia's royalty regime; the ability of the Company to settle or appeal the tax penalty payable of $75.0 million imposed by the MTA and a provision of additional late tax penalty of $10.1 million; the future coal market conditions in China and the related impact on the Company's margins and liquidity; the anticipated demand for the Company's coal products; future coal prices, and the level of worldwide coal production. While the Company considers these assumptions to be reasonable based on the information currently available to it, they may prove to be incorrect. Forward-looking statements are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These risks and uncertainties include, among other things: the uncertain nature of mining activities, actual capital and operating costs exceeding management's estimates; variations in mineral resource and mineral reserve estimates; failure of plant, equipment or processes to operate as anticipated; the possible impacts of changes in mine life, useful life or depreciation rates on depreciation expenses; risks associated with, or changes to regulatory requirements (including environmental regulations) and the ability to obtain all necessary regulatory approvals; the potential expansion of the list of licenses published by the Government of Mongolia covering areas in which exploration and mining are purportedly prohibited on certain of the Company's mining licenses; the Government of Mongolia designating any one or more of the Company's mineral projects in Mongolia as a Mineral Deposit of Strategic Importance; the risk that the Company is unable to successfully settle or appeal the tax penalty payable of $75.0 million imposed by the MTA and a provision of additional late tax penalty of $10.1 million (as described under Section 1 of this MD&A under the heading entitled "Significant Events and Highlights – Additional Tax and Tax Penalty Imposed by the MTA"); the risk that the import coal quality standards established by Chinese authorities will negatively impact the Company's operations; the risk that Mongolia's southern borders with China will be subject for further closure; the risk that the Company's existing coal inventories are unable to sufficiently satisfy expected sales demand; the possible impact of changes to the inputs to the valuation model used to value the embedded derivatives in the Convertible Debenture; the risk of the Company or its subsidiaries default under its existing debt obligations, including the Convertible Debenture, the deferral agreement signed on March 19, 2024 (the "2024 March Deferral Agreement") and the deferral agreement signed on April 30, 2024 (the "2024 April 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 – Lawsuit") and any damages payable by the Company as a result; the risk that the calculated sales price determined by the Company for the purposes of determining the amount of royalties payable to the Mongolian government is deemed as being "non-market" under Mongolian tax law; customer credit risk; cash flow and liquidity risks; risks relating to the Company's decision to suspend activities relating to the development of the Ceke Logistics Park project, including the risk that its investment partner may initiate legal action against the Company for failing to comply with the underlying agreements governing project development; risks relating to the ability of the Company to enhance the operational efficiency and the output throughput of the washing facilities at Ovoot Tolgoi and risks relating to the Company's ability to raise additional financing and to continue as a going concern. Please refer to Section 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.

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INTRODUCTION

This MD&A is dated as of August 14, 2024 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, 2024. 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 issued by the International Accounting Standards Board and Interpretations of the IFRS Interpretations Committee ("IFRS Accounting Standards").

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

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

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

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 was filed under the Company's profile on SEDAR+ at www.sedarplus.ca. DMCL has not reviewed or updated the Ovoot Tolgoi Technical Report since the date of publishing.

1. OVERVIEW

The Company is an integrated coal mining, development and exploration company with 675 employees as at June 30, 2024. The Company's common shares ("Common Shares") are listed for trading on the Hong Kong Stock Exchange ("HKEX") under the stock code symbol 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 Chinese-Mongolian border.

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

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

Significant Events and Highlights

The Company's significant events and highlights for the three months ended June 30, 2024 and the subsequent period to August 14, 2024 are as follows:

- ***Operating Results*** – The Company has been increasing the scale of its mining operations since 2023, as well as implementing various coal processing methods, including screening, wet washing and dry coal processing, which have resulted in improved coal quality and enhanced production volume and growth of coal export volume into China during the quarter.

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

  The Company recorded sales volume of 1.2 million tonnes for the second quarter of 2024 compared to 0.9 million tonnes for the second quarter of 2023, while the Company recorded an average realised selling price of $77.6 per tonne for the second quarter of 2024 compared to $95.3 per tonne for the second quarter of 2023. The decrease in the average realised selling price was mainly due to changes in the Company's product mix and decreased pricing for premium semi-soft coking coal and processed coal.

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

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

- ***Financial Results*** – The Company recorded a $15.0 million profit from operations for the second quarter of 2024 compared to $40.5 million loss from operations for the second quarter of 2023. The turnaround result was mainly due to an additional tax and tax penalty of $75.0 million imposed by the MTA, which was recorded in the second quarter of 2023.

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

  The effectiveness of the 2024 March Deferral Agreement and the respective covenants, agreements and obligations of each party under the 2024 March Deferral Agreement are subject to the Company obtaining the requisite approval of the 2024 March Deferral Agreement from shareholders in accordance with the requirements of applicable Canadian securities laws and Rule 14.33 and Rule 14A.36 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company will be seeking approval of the 2024 March Deferral Agreement from disinterested shareholders through a special meeting of shareholders, which is scheduled to be convened on August 28, 2024.

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

  - Payment of the 2024 March Deferred Amounts will be deferred until August 31, 2025 (the "2024 March Deferral Agreement Deferral Date").
  - As consideration for the deferral of the 2024 March Deferred Amounts which relate to the payment obligations arising from the Convertible Debenture, the Company agreed to pay JDZF a deferral fee equal to 6.4% per annum on the outstanding balance of such 2024 March Deferred Amounts, commencing on the date on which each such 2024 March Deferred Amounts would otherwise have been due and payable under the Convertible Debenture.

- As consideration for the deferral of the 2024 March Deferred Amounts which relate to payment obligations arising from the Amended and Restated Cooperation Agreement, the Company agreed to pay JDZF a deferral fee equal to 1.5% per annum on the outstanding balance of such 2024 March Deferred Amounts commencing on the date on which each such 2024 March Deferred Amounts would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.
- The 2024 March Deferral Agreement does not contemplate a fixed repayment schedule for the 2024 March Deferred Amounts or related deferral fees. Instead, the 2024 March Deferral Agreement requires the Company to use its best efforts to pay the 2024 March Deferred Amounts and related deferral fees due and payable under the 2024 March Deferral Agreement to JDZF. During the period beginning as of the effective date of the 2024 March Deferral Agreement and ending as of the 2024 March Deferral Agreement Deferral Date, the Company will provide JDZF with monthly updates of its financial status and business operations, and the Company and JDZF will on a monthly basis discuss and assess in good faith the amount (if any) of the 2024 March Deferred Amounts and related deferral fees that the Company may be able to repay to JDZF, having regard to the working capital requirements of the Company's operations and business at such time and with the view of ensuring that the Company's operations and business would not be materially prejudiced as a result of any repayment.
- If at any time before the 2024 March Deferred Amounts and related deferral fees are fully repaid, the Company proposes to appoint, replace or terminate one or more of its chief executive officer, its chief financial officer or any other senior executive(s) in charge of its principal business function or its principal subsidiary, the Company will first consult with, and obtain written consent (such consent shall not be unreasonably withheld) from JDZF prior to effecting such appointment, replacement or termination.

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

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

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

- Payment of the 2024 April Deferred Amounts will be deferred until August 31, 2025 (the "2024 April Deferral Agreement Deferral Date").
- As consideration for the deferral of the 2024 April Deferred Amounts, the Company agreed to pay JDZF a deferral fee equal to 6.4% per annum on the outstanding balance of such 2024 April Deferred Amounts, commencing on the date on which each such 2024 April Deferred Amounts would otherwise have been due and payable under the Convertible Debenture.
- The 2024 April Deferral Agreement does not contemplate a fixed repayment schedule for the 2024 April Deferred Amounts or related deferral fees. Instead, the 2024 April Deferral Agreement requires the Company to use its best efforts to pay the 2024 April Deferred Amounts and related deferral fees due and payable under the 2024 April Deferral Agreement to JDZF. During the period

beginning as of the effective date of the 2024 April Deferral Agreement and ending as of the 2024 April Deferral Agreement Deferral Date, the Company will provide JDZF with monthly updates of its financial status and business operations, and the Company and JDZF will on a monthly basis discuss and assess in good faith the amount (if any) of the 2024 April Deferred Amounts and related deferral fees that the Company may be able to repay to JDZF, having regard to the working capital requirements of the Company's operations and business at such time and with the view of ensuring that the Company's operations and business would not be materially prejudiced as a result of any repayment.

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

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

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

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

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

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

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

  The effectiveness of the Convertible Debenture Amendment is subject to the Company providing notice to, and obtaining acceptance (if required) from the TSX-V and requisite approval from disinterested shareholders of the Company in accordance with the requirements of applicable Canadian securities laws and Listing Rules. The Company must obtain the requisite approval from disinterested shareholders of the Company by August 30, 2024, or otherwise the Convertible Debenture Amendment shall automatically terminate and cease to be of any force and effect. The Company will be seeking approval of the Convertible Debenture Amendment from disinterested shareholders through a special meeting of shareholders, which is scheduled to be convened on August 28, 2024.

- ***Additional Tax and Tax Penalty Imposed by the MTA*** – On July 18, 2023, SGS received an official notice (the "Notice") issued by the MTA stating that the MTA had completed a periodic tax audit (the "Audit") on the financial information of SGS for the tax assessment years between 2017 and 2020, including transfer pricing, royalty, air-pollution fee and unpaid tax payables. As a result of the Audit, the MTA notified SGS that it is imposing a tax penalty against SGS in the amount of approximately $75.0

million. The penalty mainly relates to the different view on the interpretation of tax law between the Company and the MTA. Under Mongolian law, the Company had a period of 30 days from the date of receipt of the Notice to file an appeal in relation to the Audit. Subsequently the Company engaged an independent tax consultant in Mongolia to provide tax advice and support to the Company and filed an appeal letter in relation to the Audit with the MTA in accordance with Mongolian laws on August 17, 2023.

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

On February 22, 2024, SGS received another notice from the MTA stating that the MTA anticipates commencing the re-assessment process on or about March 7, 2024 and the duration of such process will be approximately 45 working days. Up to the date of this MD&A, the MTA is still reviewing the supplementary documents and information submitted by the Company and yet to have the re-assessment decision. Any decision of the MTA following the re-assessment process may not be conclusive as the Company retains the right to appeal such decision under Mongolian laws.

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

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

As at June 30, 2024, the Company recorded an additional tax and tax penalty in the amount of $85.1 million, which consists of a tax penalty payable of $75.0 million and a provision of additional late tax penalty of $10.1 million. To date, the Company has paid the MTA an aggregate of $1.7 million in relation to the aforementioned tax penalty. According to Mongolian tax law, the MTA has the legal authority to demand payment from the Company irrespective of any potential appeal process that may change the aforesaid tax penalty. Based on the advice from tax professionals and the best estimate from the management, in the event that the Company's appeal is to be successful in future, it is probable that the Company may recover approximately $46.0 million which represents a portion of the tax penalty payable to the MTA. However, there are inherent uncertainties surrounding the development and outcome of the appeal. The Company cannot determine with any virtual certainty the recoverability or exact recoverable amount of the tax penalty paid in future. If any subsequent event occurs that may impact the amount of the additional tax and tax penalty, an adjustment would be recognised in profit or loss and the carrying amount of the tax liabilities shall be adjusted.

- ***Changes in Directors***

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

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

- ***Going Concern*** – Several adverse conditions and material uncertainties relating to the Company cast significant doubt upon the going concern assumption which includes the deficiencies in assets and working capital. Refer to Section 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,	
	2024	**2023**	**2024**	**2023**
Sales Volumes, Prices and Costs				
Premium semi-soft coking coal				
Coal sales *(millions of tonnes)*	**0.29**	0.57	**0.65**	0.90
Average realised selling price *(per tonne)*	**$ 102.61**	$ 103.33	**$ 107.22**	$ 111.19
Standard semi-soft coking coal/ premium thermal coal				
Coal sales *(millions of tonnes)*	**0.28**	0.05	**0.56**	0.06
Average realised selling price *(per tonne)*	**$ 77.04**	$ 67.09	**$ 76.56**	$ 67.77
Standard thermal coal				
Coal sales *(millions of tonnes)*	**0.12**	-	**0.24**	-
Average realised selling price *(per tonne)*	**$ 36.10**	$ -	**$ 41.93**	$ -
Processed coal				
Coal sales *(millions of tonnes)*	**0.51**	0.26	**0.80**	0.52
Average realised selling price *(per tonne)*	**$ 73.04**	$ 82.99	**$ 67.09**	$ 90.28
Total				
Coal sales *(millions of tonnes)*	**1.20**	0.88	**2.25**	1.48
Average realised selling price *(per tonne)*	**$ 77.55**	$ 95.34	**$ 78.47**	$ 98.88
Raw coal production *(millions of tonnes)*	**2.01**	0.97	**3.26**	1.53
Cost of sales of product sold *(per tonne)*	**$ 61.32**	$ 47.76	**$ 52.94**	$ 49.31
Direct cash costs of product sold *(per tonne)* [(i)]	**$ 47.15**	$ 33.79	**$ 39.48**	$ 31.83
Mine administration cash costs of product sold *(per tonne)* [(i)]	**$ 2.42**	$ 1.60	**$ 1.79**	$ 1.55
Total cash costs of product sold *(per tonne)* [(i)]	**$ 49.57**	$ 35.39	**$ 41.27**	$ 33.38
Other Operational Data				
Production waste material moved *(millions of bank cubic meters)*	**14.59**	7.73	**26.95**	10.56
Strip ratio *(bank cubic meters of waste material per tonne of coal produced)*	**7.27**	7.93	**8.27**	6.89
Lost time injury frequency rate [(ii)]	**0.00**	0.23	**0.11**	0.12

(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.

Overview of Operational Data

For the three months ended June 30, 2024

The Company recorded an average realised selling price of $77.6 per tonne in the second quarter of 2024 compared to $95.3 per tonne in the second quarter of 2023, the decrease was mainly due to changes in the Company's product mix and decreased pricing for premium semi-soft coking coal and processed coal. The product mix for the second quarter of 2024 consisted of approximately 25% of premium semi-soft coking coal, 23% of standard semi-soft coking coal/premium thermal coal, 10% of standard thermal coal and 42% of processed coal compared to approximately 65% of premium semi-soft coking coal, 5% of standard semi-soft coking coal/premium thermal coal and 30% of processed coal in 2023.

The Company's unit cost of sales of product sold was $61.3 per tonne in the second quarter of 2024 compared to $47.8 per tonne in the second quarter of 2023. The increase was due to the Company expanding into certain categories of processed coal with higher production costs.

For the six months ended June 30, 2024

The Company sold 2.3 million tonnes for the first six months of 2024 as compared to 1.5 million tonnes for the first six months of 2023. The Company recorded an average realised selling price of $78.5 per tonne for the first six months of 2024 compared to $98.9 per tonne for the first six months of 2023, the decrease was mainly due to changes in the Company's product mix and decreased pricing for premium semi-soft coking coal and processed coal.

The Company's unit cost of sales of product sold was $52.9 per tonne for the first six months of 2024 compared to $49.3 per tonne for the first six months of 2023. The increase was due to the Company expanding into certain categories of processed coal with higher production costs.

For the six months ended June 30, 2024, the Company had a lost time injury frequency rate of 0.11.

Summary of Financial Results

	Three months ended June 30,		Six months ended June 30,	
$ in thousands, except per share information	**2024**	**2023**	**2024**	**2023**
Revenue [(i)]	**$ 92,821**	$ 83,243	**$ 174,990**	$ 145,023
Cost of sales [(i)]	**(73,582)**	(42,027)	**(119,115)**	(72,981)
Gross profit excluding idled mine asset costs [(ii)]	**19,303**	41,227	**55,985**	72,088
Gross profit	**19,239**	41,216	**55,875**	72,042
Other operating expenses, net	**(1,157)**	(4,001)	**(2,210)**	(4,765)
Administration expenses	**(3,014)**	(2,656)	**(6,427)**	(4,712)
Evaluation and exploration expenses	**(23)**	(28)	**(45)**	(92)
Additional tax and tax penalty	**-**	(74,990)	**-**	(74,990)
Profit/(loss) from operations	**15,045**	(40,459)	**47,193**	(12,517)
Finance costs	**(10,322)**	(11,558)	**(20,655)**	(23,466)
Finance income	**722**	44	**107**	123
Share of earnings of joint ventures	**1,055**	428	**1,888**	930
Share of earning of an associate	**-**	-	**10**	-
Current income tax expenses	**(8,585)**	(9,087)	**(18,376)**	(17,847)
Net profit/(loss) attributable to equity holders of the Company	**(2,085)**	(60,632)	**10,167**	(52,777)
Basic and diluted earnings/(loss) per share	**$ (0.007)**	$ (0.205)	**$ 0.034**	$ (0.179)

(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, 2024

The Company recorded a $15.0 million profit from operations for the second quarter of 2024 compared to $40.5 million loss from operations for the second quarter of 2023. The turnaround result was mainly due to an additional tax and tax penalty of $75.0 million imposed by the MTA, which was recorded in the second quarter of 2023.

Revenue was $92.8 million for the second quarter of 2024 compared to $83.2 million for the second quarter of 2023. The financial results were impacted by increased sales volume, as a result of expansion of its sales network, diversification of its customer base and expansion of the categories of coal products in its portfolio.

Cost of sales was $73.6 million for the second quarter of 2024 compared to $42.0 million for the second quarter of 2023. The increase in cost of sales was mainly due to increased sales and the Company expanding into certain categories of processed coal with higher production costs.

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

	Three months ended June 30,	
$ in thousands	**2024**	**2023**
Operating expenses	**$ 59,483**	$ 31,139
Share-based compensation expense	**18**	4
Depreciation and depletion	**3,355**	1,191
Royalties	**10,662**	9,682
Cost of sales from mine operations	**$ 73,518**	$ 42,016
Cost of sales related to idled mine assets	**64**	11
Cost of sales	**$ 73,582**	$ 42,027

Operating expenses in cost of sales were $59.5 million for the second quarter of 2024 compared to $31.1 million for the second quarter of 2023. The overall increase in operating expenses was due to the increased sales and the Company expanding into certain categories of processed coal with higher production costs.

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

Other operating expenses were $1.2 million for the second quarter of 2024 (second quarter of 2023: $4.0 million). The change was mainly due to decreased net foreign exchange loss.

	Three months ended June 30,	
$ in thousands	**2024**	**2023**
Management fee	**$ 1,268**	$ 1,124
Provision/(Reversal of provision) for doubtful trade and other receivables	**(4)**	97
Foreign exchange loss, net	**382**	2,890
Gain on disposal of items of property, plant and equipment, net	**(262)**	-
Reversal of impairment loss on materials and supplies inventories	**(67)**	(96)
Rental income from short term leases	**-**	(14)
Gain on contract offsetting arrangement	**(160)**	-
Other operating expenses, net	**$ 1,157**	$ 4,001

Administration expenses were $3.0 million for the second quarter of 2024 (second quarter of 2023: $2.7 million). The change was mainly due to increase in legal and professional fees and salaries and benefits as a result of expansion of operations.

$ in thousands	Three months ended June 30, 2024		Three months ended June 30, 2023	
Corporate administration	**$**	**921**	$	820
Legal and professional fees		**741**		622
Salaries and benefits		**1,172**		1,063
Share-based compensation expense		**44**		10
Depreciation		**136**		141
Administration expenses	**$**	**3,014**	$	2,656

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

Finance costs were $10.3 million and $11.6 million for the second quarter of 2024 and 2023 respectively, which primarily consisted of interest expense on the $250.0 million Convertible Debenture.

<u>For the six months ended June 30, 2024</u>

The Company recorded a $47.2 million profit from operations in the first six months of 2024 compared to a $12.5 million loss from operations in the first six months of 2023. The turnaround result was mainly due to an additional tax and tax penalty of $75.0 million imposed by MTA was recorded in the second quarter of 2023.

Revenue was $175.0 million in the first six months of 2024 compared to $145.0 million in the first six months of 2023. The financial results were impacted by increased sales volume, as a result of expansion of its sales network, diversification of its customer base and expansion of the categories of coal products in its portfolio.

Cost of sales were $119.1 million in the first six months of 2024 compared to $73.0 million in the first six months of 2023, as follows:

$ in thousands	Six months ended June 30, 2024		Six months ended June 30, 2023	
Operating expenses	**$**	**92,854**	$	49,396
Share-based compensation expense		**18**		3
Depreciation and depletion		**5,565**		2,368
Royalties		**20,568**		21,168
Cost of sales from mine operations	**$**	**119,005**	$	72,935
Cost of sales related to idled mine assets		**110**		46
Cost of sales	**$**	**119,115**	$	72,981

Operating expenses in cost of sales were $92.9 million in the first six months of 2024 compared to $49.4 million in the first six months of 2023. The overall increase in operating expenses was due to the increased sales and the Company expanding into certain categories of processed coal with higher production costs.

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

Other operating expenses were $2.2 million in the first six months of 2024 (first six months of 2023: $4.8 million). The change was mainly due to decreased net foreign exchange loss.

	Six months ended June 30,	
$ in thousands	**2024**	**2023**
Management fee	**$ 2,384**	$ 1,896
Provision/(reversal of provision) for doubtful trade and other receivables	**(23)**	180
Foreign exchange loss, net	**582**	2,457
Gain on disposal of items of property, plant and equipment, net	**(262)**	-
Reversal of impairment loss on materials and supplies inventories	**(74)**	(181)
Rental income from short term leases	**-**	(41)
Penalty on late settlement of trade payables	**-**	454
Gain on contract offsetting arrangement	**(397)**	-
Other operating expenses, net	**$ 2,210**	$ 4,765

Administration expenses were $6.4 million in the first six months of 2024 (first six months of 2023: $4.7 million). The change was mainly due to increase in legal and professional fees and salaries and benefits as a result of expansion of operations.

	Six months ended June 30,	
$ in thousands	**2024**	**2023**
Corporate administration	**$ 1,625**	$ 1,277
Legal and professional fees	**1,590**	1,011
Salaries and benefits	**2,898**	2,152
Share-based compensation expense	**45**	8
Depreciation	**269**	264
Administration expenses	**$ 6,427**	$ 4,712

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

Finance costs were $20.7 million and $23.5 million in the first six months of 2024 and 2023 respectively, which primarily consisted of interest expense on the $250.0 million Convertible Debenture.

Summary of Quarterly Operational Data

	2024		2023				2022	
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)*	**0.29**	0.36	0.54	0.64	0.57	0.33	0.06	0.17
Average realised selling price (per tonne)	**$ 102.61**	$ 111.01	$ 107.59	$ 100.33	$ 103.33	$ 124.72	$ 65.82	$ 71.01
Standard semi-soft coking coal/ premium thermal coal								
Coal sales *(millions of tonnes)*	**0.28**	0.28	0.29	0.18	0.05	0.01	0.01	0.03
Average realised selling price (per tonne)	**$ 77.04**	$ 76.07	$ 72.41	$ 68.43	$ 67.09	$ 73.52	$ 64.69	$ 43.34
Standard thermal coal								
Coal sales *(millions of tonnes)*	**0.12**	0.12	-	-	-	-	-	-
Average realized selling price (per tonne)	**$ 36.10**	$ 47.91	$ -	$ -	$ -	$ -	$ -	$ -
Processed coal								
Coal sales *(millions of tonnes)*	**0.51**	0.29	0.13	0.33	0.26	0.26	0.40	0.35
Average realised selling price (per tonne)	**$ 73.04**	$ 56.65	$ 77.23	$ 66.03	$ 82.99	$ 78.19	$ 65.94	$ 64.57
Total								
Coal sales *(millions of tonnes)*	**1.20**	1.05	0.96	1.15	0.88	0.60	0.47	0.55
Average realised selling price (per tonne)	**$ 77.55**	$ 79.52	$ 92.93	$ 85.57	$ 95.34	$ 104.11	$ 65.90	$ 65.37
Raw coal production *(millions of tonnes)*	**2.01**	1.25	1.34	1.18	0.97	0.56	0.57	0.12
Cost of sales of product sold *(per tonne)*	**$ 61.32**	$ 43.36	$ 38.17	$ 42.23	$ 47.76	$ 51.59	$ 41.81	$ 58.25
Direct cash costs of product sold *(per tonne)* [(i)]	**$ 47.15**	$ 30.70	$ 26.20	$ 32.26	$ 33.79	$ 28.95	$ 25.65	$ 41.44
Mine administration cash costs of product sold *(per tonne)* [(i)]	**$ 2.42**	$ 1.08	$ 1.83	$ 0.82	$ 1.60	$ 1.48	$ 1.86	$ 1.47
Total cash costs of product sold (*per tonne)* [(i)]	**$ 49.57**	$ 31.78	$ 28.03	$ 33.08	$ 35.39	$ 30.43	$ 27.51	$ 42.91
Other Operational Data								
Production waste material moved *(millions of bank cubic meters)*	**14.59**	12.36	7.81	7.34	7.73	2.83	2.68	0.91
Strip ratio *(bank cubic meters of waste material per tonne of coal produced)*	**7.27**	9.87	5.85	6.24	7.93	5.07	4.67	7.33
Lost time injury frequency rate [(ii)]	**0.00**	0.22	0.22	0.21	0.23	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.

Summary of Quarterly Financial Results

The Company's condensed consolidated interim financial statements are reported under IFRS Accounting Standards. 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	2024		2023				2022	
Quarter Ended	**30-Jun**	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep
Financial Results								
Revenue [(i)]	**$ 92,821**	$ 82,169	$ 88,504	$ 97,979	$ 83,243	$ 61,780	$ 30,487	$ 36,807
Cost of sales [(i)]	**(73,582)**	(45,533)	(36,645)	(48,569)	(42,027)	(30,954)	(19,652)	(32,036)
Gross profit excluding idled mine asset costs [(ii)]	**19,303**	36,682	51,908	49,491	41,227	30,861	10,891	4,982
Gross profit including idled mine asset costs	**19,239**	36,636	51,859	49,410	41,216	30,826	10,835	4,771
Other operating income/(expenses), net	**(1,157)**	(1,053)	4,308	(413)	(4,001)	(764)	(1,066)	546
Administration expenses	**(3,014)**	(3,413)	(3,879)	(1,846)	(2,656)	(2,056)	(2,111)	(1,830)
Evaluation and exploration expenses	**(23)**	(22)	(91)	(808)	(28)	(64)	(26)	(31)
Additional tax and tax penalty	**-**	-	(10,153)	-	(74,990)	-	-	-
Profit/(loss) from operations	**15,045**	32,148	42,044	46,343	(40,459)	27,942	7,632	3,456
Finance costs	**(10,322)**	(11,021)	(12,334)	(13,266)	(11,558)	(11,914)	(11,190)	(10,800)
Finance income	**722**	73	40	4,915	44	85	1,589	69
Share of earnings of joint ventures	**1,055**	833	1,101	809	428	502	143	237
Share of earning of an associate	**-**	10	4	-	-	-	-	-
Current income tax expenses	**(8,585)**	(9,791)	(6,519)	(9,452)	(9,087)	(8,760)	(2,751)	(979)
Net profit/(loss)	**(2,085)**	12,252	24,336	29,349	(60,632)	7,855	(4,577)	(8,017)
Basic and diluted earnings/(loss) per share	**$ (0.007)**	$ 0.041	$ 0.082	$ 0.099	$ (0.205)	$ 0.027	$ (0.016)	$ (0.029)

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

3. NON-IFRS FINANCIAL MEASURES

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

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

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, 2024 and June 30, 2023. The cash costs of product sold presented below may differ from cash costs of product produced depending on the timing of coal stockpile inventory turnover and impairment of coal stockpile inventories from prior periods.

	Three months ended June 30,		Six months ended June 30,	
$ in thousands, except per tonne information	**2024**	**2023**	**2024**	**2023**
Cash costs				
Cost of sales determined in accordance with IFRS	**$ 73,582**	$ 42,027	**$ 119,115**	$ 72,981
Less royalties	**(10,662)**	(9,682)	**(20,568)**	(21,168)
Less non-cash expenses	**(3,373)**	(1,195)	**(5,583)**	(2,371)
Less non-cash idled mine asset costs	**(64)**	(11)	**(110)**	(46)
Total cash costs	**59,483**	31,139	**92,854**	49,396
Less idled mine asset cash costs	**-**	-	**-**	-
Total cash costs excluding idled mine asset cash costs	**59,483**	31,139	**92,854**	49,396
Coal sales *(millions of tonnes)*	**1.20**	0.88	**2.25**	1.48
Total cash costs of product sold *(per tonne)*	**$ 49.57**	$ 35.39	**$ 41.27**	$ 33.38

	Three months ended June 30,		Six months ended June 30,	
$ in thousands, except per tonne information	**2024**	**2023**	**2024**	**2023**
Cash costs				
Direct cash costs of product sold *(per tonne)*	**$ 47.15**	$ 33.79	**$ 39.48**	$ 31.83
Mine administration cash costs of product sold *(per tonne)*	**2.42**	1.60	**1.79**	1.55
Total cash costs of product sold *(per tonne)*	**$ 49.57**	$ 35.39	**$ 41.27**	$ 33.38

The cash cost of product sold per tonne was $49.6 for the second quarter of 2024 compared to $35.4 for the second quarter of 2023. The reason for the increase was due to the Company expanding into certain categories of processed coal with higher production costs.

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 Accounting Standards do not fully illustrate the ability of its mining operations to generate cash flows. This performance measure is commonly utilised in the mining industry.

The following table provides a reconciliation of the gross profit disclosed for the three and six months ended June 30, 2024 and June 30, 2023.

	Three months ended June 30,		Six months ended June 30,	
$ in thousands, except per tonne information	**2024**	**2023**	**2024**	**2023**
Idled mine asset costs				
Gross profit excluding idled mine asset costs	**$ 19,303**	$ 41,227	**$ 55,985**	$ 72,088
Less non-cash idled mine asset costs	**(64)**	(11)	**(110)**	(46)
Gross profit including idled mine asset costs	**$ 19,239**	$ 41,216	**$ 55,875**	$ 72,042

4. PROPERTIES

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

Operating Mine

Ovoot Tolgoi Mine

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

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

Resources

A resource estimate for the Ovoot Tolgoi deposit is set out in the Ovoot Tolgoi Technical Report, which was prepared by 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.sedarplus.ca 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.sedarplus.ca 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 utilising large scale hydraulic excavators and shovels and trucks. Terrace mining is utilised where coal seams dip steeply and operating machinery on the coal seam roof and floor is not possible, due to the steep seam dips. Terraces, or benches, are excavated along fixed horizontal horizons and these benches intersect both coal and waste. Coal and waste are mined separately on each bench with dozers being used, as needed, to push coal or waste down to the excavator for loading onto trucks. This mining method allows large scale open pit mining to occur productively in steeply dipping coal seam environments. All waste is dumped ex-pit, as the steep dips preclude in-pit dumping.

Mining Equipment

The key elements of the currently commissioned mining fleet include: one Liebherr 996 ($34m^3$) hydraulic excavators, three Liebherr R9250 ($15m^3$) hydraulic excavators and nineteen MT4400AC (240 tonne capacity) haul trucks, together with various pieces of ancillary equipment.

Workforce

As at June 30, 2024, SGS employed 577 employees in Mongolia. Of the 577 employees, 43 are employed in the Ulaanbaatar office and 534 at the Ovoot Tolgoi Mine site. Of the 577 employees based in Mongolia, 574 (99%) are Mongolian nationals and of those, 214 (37%) are residents of the local Gurvantes, Dalanzadgad, Sevrei and Noyon Soums.

5. LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Capital Management

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

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

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

Rio Tinto in relation to the Company's prior internal investigation and Rio Tinto's participation in the tripartite committee. Subsequently Rio Tinto transferred and assigned to Turquoise Hill its right to seek reimbursement for these costs and fees from the Company.

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

As at June 30, 2024, the amount of reimbursable costs and fees claimed by Turquoise Hill (the "TRQ Reimbursable Amount") amounted to $6.3 million (such amount is included in the trade and other payables).

Additional tax and tax penalty imposed by the MTA

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

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

On February 22, 2024, SGS received another notice from the MTA stating that the MTA anticipates commencing the re-assessment process on or about March 7, 2024 and the duration of such process will be approximately 45 working days. Up to the date of this MD&A, the MTA is still reviewing the supplementary documents and information submitted by the Company and yet to have the re-assessment decision. Any decision of the MTA following the re-assessment process may not be conclusive as the Company retains the right to appeal such decision under Mongolian laws.

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

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

As at June 30, 2024, the Company recorded an additional tax and tax penalty in the amount of $85.1 million, which consists of a tax penalty payable of $75.0 million and a provision of additional late tax penalty of $10.1 million. To date, the Company has paid the MTA an aggregate of $1.7 million in relation to the aforementioned tax penalty. According to Mongolian tax law, the MTA has a legal authority to demand payment from the Company irrespective of any potential appeal process that may change the aforesaid tax penalty. Based on the advice from tax professionals and the best estimate from the management, in the event that the Company's appeal is to be successful in future, it is probable that the Company may recover approximately $46.0 million which represents a portion of the tax penalty payable to the MTA. However, there are inherent uncertainties surrounding the development and outcome of the appeal. The Company cannot determine with any virtual certainty the recoverability or exact recoverable amount of the tax penalty paid in future. If any subsequent event occurs that may impact the amount of the additional tax and tax penalty, an adjustment would be recognised in profit or loss and the carrying amount of the tax liabilities shall be adjusted.

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, 2025 and will be able to realise its assets and discharge its liabilities in the normal course of operations as they come due. However, in order to continue as a going concern, the Company must generate sufficient operating cash flows, secure additional capital or otherwise pursue a strategic restructuring, refinancing or other transactions to provide it with sufficient liquidity.

Several adverse conditions and material uncertainties cast significant doubt upon the Company's ability to continue as a going concern and the going concern assumption used in the preparation of the Company's condensed consolidated interim financial statements. The Company had a deficiency in assets of $129.0 million as at June 30, 2024 as compared to a deficiency in assets of $141.3 million as at December 31, 2023 while the working capital deficiency (excess current liabilities over current assets) reached $274.7 million as at June 30, 2024 compared to a working capital deficiency of $218.8 million as at December 31, 2023.

Included in the working capital deficiency as at June 30, 2024 are significant obligations, represented by trade and other payables of $95.0 million and an additional tax and tax penalty of $83.5 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. Furthermore, there is no guarantee that the Company will be successful in its negotiations with the MTA, or any appeal, in relation to the Audit. Except as disclosed elsewhere in this MD&A, no such lawsuits or proceedings were pending as at August 14, 2024. 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 the past, the Company has customarily entered into cooperation agreements with the local custom office in Mongolia on an annual basis to facilitate the Company's export of coal into China. The Company's most recently executed cooperation agreement expired on November 23, 2023. While the Company has applied with the local Mongolian custom office to renew its cooperation agreement. In May 2024, the Company has successfully renewed the cooperation agreement.

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

For the purpose of assessing the appropriateness of the use of the going concern basis to prepare the financial statements, management of the Company has prepared a cash flow projection covering a period of 12 months from June 30, 2024. The cash flow projection has considered the anticipated cash flows to be generated from the Company's business during the period under projection including cost saving measures. In particular, the Company has taken into account the following measures for improvement of the Company's liquidity and financial position, which include: (a) entering into the 2024 March Deferral Agreement and the 2024 April Deferral Agreement with JDZF on March 19, 2024 and April 30, 2024, respectively for a deferral of the 2024 March Deferred Amounts and 2024 April Deferred Amounts; (b) communicating with vendors in agreeing repayment plans of the outstanding payable; and (c) obtaining an avenue of financial support from an affiliate of the Company's major shareholder for a maximum amount of $127.0 million (equivalent to RMB 900 million) during the period covered in the cash flow projection. Regarding these plans and measures, there is no guarantee that the suppliers would agree the settlement plan as communicated by the Company. Nevertheless, after considering the above, the directors of the Company believe that there will be sufficient financial resources to continue its operations and to meet its financial obligations as and when they fall due in the next 12 months from June 30, 2024 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, 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, 2024 and December 31, 2023, the Company was not subject to any externally imposed capital requirements.

Convertible Debenture

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

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

Deferral Agreements

On March 19, 2024, the Company and JDZF entered into the 2024 March Deferral Agreement pursuant to which JDZF agreed to grant the Company a deferral of the 2024 March Deferred Amounts.

The effectiveness of the 2024 March Deferral Agreement and the respective covenants, agreements and obligations of each party under the 2024 March Deferral Agreement are subject to the Company obtaining the requisite approval of the 2024 March Deferral Agreement from shareholders in accordance with the requirements of applicable Canadian securities laws and Rule 14.33 and Rule 14A.36 of the Listing Rules.

The Company will be seeking approval of the 2024 March Deferral Agreement from disinterested shareholders through a special meeting of shareholders, which is scheduled to be convened on August 28, 2024.

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

- Payment of the 2024 March Deferred Amounts will be deferred until 2024 March Deferral Agreement Deferral Date.
- As consideration for the deferral of the 2024 March Deferred Amounts which relate to the payment obligations arising from the Convertible Debenture, the Company agreed to pay JDZF a deferral fee equal to 6.4% per annum on the outstanding balance of such 2024 March Deferred Amounts, commencing on the date on which each such 2024 March Deferred Amounts would otherwise have been due and payable under the Convertible Debenture.
- As consideration for the deferral of the 2024 March Deferred Amounts which relate to payment obligations arising from the Amended and Restated Cooperation Agreement, the Company agreed to pay JDZF a deferral fee equal to 1.5% per annum on the outstanding balance of such 2024 March Deferred Amounts commencing on the date on which each such 2024 March Deferred Amounts would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.
- The 2024 March Deferral Agreement does not contemplate a fixed repayment schedule for the 2024 March Deferred Amounts or related deferral fees. Instead, the 2024 March Deferral Agreement requires the Company to use its best efforts to pay the 2024 March Deferred Amounts and related deferral fees due and payable under the 2024 March Deferral Agreement to JDZF. During the period beginning as of the effective date of the 2024 March Deferral Agreement and ending as of the 2024 March Deferral Agreement Deferral Date, the Company will provide JDZF with monthly updates of its financial status and business operations, and the Company and JDZF will on a monthly basis discuss and assess in good faith the amount (if any) of the 2024 March Deferred Amounts and related deferral fees that the Company may be able to repay to JDZF, having regard to the working capital requirements of the Company's operations and business at such time and with the view of ensuring that the Company's operations and business would not be materially prejudiced as a result of any repayment.
- If at any time before the 2024 March Deferred Amounts and related deferral fees are fully repaid, the Company proposes to appoint, replace or terminate one or more of its chief executive officer, its chief financial officer or any other senior executive(s) in charge of its principal business function or its principal subsidiary, the Company will first consult with, and obtain written consent (such consent shall not be unreasonably withheld) from JDZF prior to effecting such appointment, replacement or termination.

On April 30, 2024, the Company and JDZF entered into the 2024 April Deferral Agreement pursuant to which JDZF agreed to grant the Company a deferral of the remaining $1.1 million of PIK interest which was payable on November 19, 2022 under the Convertible Debenture, he payment of which was deferred pursuant to the November 2022 Deferral Agreement until November 19, 2023, as well as related deferral fees under the November 2022 Deferral Agreement.

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

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

- Payment of the 2024 April Deferred Amounts will be deferred until the 2024 April Deferral Agreement Deferral Date.
- As consideration for the deferral of the 2024 April Deferred Amounts, the Company agreed to pay JDZF a deferral fee equal to 6.4% per annum on the outstanding balance of such 2024 April Deferred Amounts, commencing on the date on which each such 2024 April Deferred Amounts would otherwise have been due and payable under the Convertible Debenture.
- The 2024 April Deferral Agreement does not contemplate a fixed repayment schedule for the 2024 April Deferred Amounts or related deferral fees. Instead, the 2024 April Deferral Agreement requires the Company to use its best efforts to pay the 2024 April Deferred Amounts and related deferral fees due and payable under the 2024 April Deferral Agreement to JDZF. During the period beginning as of the effective date of the 2024 April Deferral Agreement and ending as of the 2024 April Deferral Agreement Deferral Date, the Company will provide JDZF with monthly updates of its financial status and business operations, and the Company and JDZF will on a monthly basis discuss and assess in good faith the amount (if any) of the 2024 April Deferred Amounts and related deferral fees that the Company may be able to repay to JDZF, having regard to the working capital requirements of the Company's operations and business at such time and with the view of ensuring that the Company's operations and business would not be materially prejudiced as a result of any repayment.
- If at any time before the 2024 April Deferred Amounts and related deferral fees are fully repaid, the Company proposes to appoint, replace or terminate one or more of its chief executive officer, its chief financial officer or any other senior executive(s) in charge of its principal business function or its principal subsidiary, the Company will first consult with, and obtain written consent (such consent shall not be unreasonably withheld) from JDZF prior to effecting such appointment, replacement or termination.

Amendment of Convertible Debenture

On May 13, 2024, the Company and JDZF entered into the Convertible Debenture Amendment to amend certain terms of the Convertible Debenture.

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

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

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

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

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

The effectiveness of the Convertible Debenture Amendment is subject to the Company providing notice to, and obtaining acceptance (if required) from the TSX-V and requisite approval from disinterested shareholders of the Company in accordance with the requirements of applicable Canadian securities laws and Listing Rules. The Company must obtain the requisite approval from disinterested shareholders of the Company by August 30, 2024, or otherwise the Convertible Debenture Amendment shall automatically terminate and cease to be of any force and effect. The Company will be seeking approval of the Convertible Debenture Amendment from disinterested shareholders through a special meeting of shareholders which is scheduled to be convened on August 28, 2024.

Cash Flow Highlights

	Six months ended June 30,	
$ in thousands	**2024**	**2023**
Net cash flows from operating activities	**$ 32,355**	$ 28,997
Cash used in investing activities	**(64,294)**	(12,868)
Cash used in financing activities	**(3,291)**	(10,172)
Effect of foreign exchange rate changes on cash	**(105)**	631
Increase/(decrease) in cash for the period	**(35,335)**	6,588
Cash balance, beginning of period	**47,993**	9,255
Cash balance, end of period	**$ 12,658**	$ 15,843

Net cash flows from Operating Activities

The Company generated $32.4 million of cash from operating activities in the first six months of 2024 compared to $29.0 million in the first six months of 2023. This is primarily due to the improvement of business operation when compared with 2023.

Cash used in Investing Activities

The Company used $64.3 million of cash in the first six months of 2024 in investing activities compared to used $12.9 million in the first six months of 2023. In the first six months of 2024, expenditures on property, plant and equipment totaled $64.0 million (2023: $13.7 million).

Cash used in Financing Activities

Cash used in financing activities was $3.3 million in the first six months of 2024 (2023: $10.2 million). This is primarily due to Convertible Debenture interest repayment of $3.0 million was made in the first quarter of 2024.

Contractual Obligations and Guarantees

Day-to-day mining, expansionary and sustaining capital expenditures as well as administrative operations give rise to commitments for future minimum payments. As at June 30, 2024, the Company's operating and capital commitments were:

	Within 1 year	2-3 years	Over 3 years	Total
As at June 30, 2024				
Capital expenditure commitments	**$ -**	**$ -**	**$ -**	**$ -**
Operating expenditure commitments	**1,052**	**40**	**184**	**1,276**
Commitments	**$ 1,052**	**$ 40**	**$ 184**	**$ 1,276**

Ovoot Tolgoi Mine Impairment Analysis

The Company determined that an indicator of impairment existed for its Ovoot Tolgoi Mine cash generating unit as at June 30, 2024. The impairment indicator was the potential closure of border crossings 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 recognised during the six months ended June 30, 2024.

Financial Instruments

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

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

$ in thousands **Financial assets**	As at June 30, 2024	As at December 31, 2023
Cash	**$ 12,658**	$ 47,993
Restricted cash	**275**	423
Trade and other receivables	**10,222**	7,541
Total financial assets	**$ 23,155**	$ 55,957

$ in thousands **Financial liabilities**	As at June 30, 2024	As at December 31, 2023
Fair value through profit or loss		
Convertible debenture - embedded derivatives	**$ 822**	$ 361
Other financial liabilities		
Trade and other payables	**94,998**	60,192
Lease liabilities	**2,899**	2,991
Convertible debenture - debt host and interest payable	**209,868**	193,939
Total financial liabilities	**$ 308,587**	$ 257,483

6. REGULATORY ISSUES AND CONTINGENCIES

Lawsuit

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

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

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

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

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

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

Counsel for the plaintiffs and defendant have entered into a good faith procedural agreement (the "Procedural Agreement") telescoping all remaining pre-trial steps into a period that is expected to end on December 31, 2024 including oral examinations for discovery of the plaintiffs by the defendant and, subject to the parties signing and delivering individual commitments that all discovery processes have been completed by December 31, 2024, subsequent delivery of the defendant's expert reports in January 2025. The parties have engaged the services of an experienced neutral former Chief Justice of Ontario (the "Mediator") to act as a mediator to assist the parties in resolving all pre-trial matters as set out in the Procedural Agreement. The parties have agreed to a pre-trial mediation before the Mediator scheduled in April 2025 with an intention to have the entire case ready for trial by April 25, 2025. The Court has not yet scheduled trial dates. The Company continues to urge a trial as early as possible.

The Company firmly believes that it has a strong defense on the merits and will continue to vigorously defend itself against the Class Action through independent Canadian litigation counsel retained by the Company for this purpose. Due to the inherent uncertainties of litigation, it is not possible to predict the final outcome of the Class Action or determine the amount of potential losses, if any. However, the Company has determined that a provision for this matter as at June 30, 2024 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 June 30, 2024 was not required.

Special Needs Territory in Umnugobi

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

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

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

On December 7, 2023, the Citizen representative Khural of Gurvantes soum held a meeting and passed a resolution (the "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 which SGS acts as the plaintiff and Citizen's Representative Meetings of Gurvantes soum acts as the defendant. The Court of First Instance determined that the claims made by Citizen's Representative Meetings of Gurvantes soum relating to the License Areas as set forth in the Resolution passed on December 7, 2023 were invalid. Citizen's Representative Meetings of Gurvantes soum has applied to the Court of Appeals for an appeal of the Court of First Instance's decision. The date of the Court of Appeals' review decision is yet to be confirmed as of the date here.

Tax Legislation

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

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

As of June 30, 2024, the Company has recorded an additional tax and tax penalty in the amount of $85.1 million and the Company has paid the MTA an aggregate of $1.7 million in relation to the aforementioned tax penalty, as more particularly detailed under section 5 "Liquidity and Capital Resources" of this MD&A under the heading entitled "Additional tax and tax penalty imposed by the MTA". Management will continue to assess whether any subsequent event may impact the amount of the additional tax and tax penalty, in which case an adjustment would be recognised in profit or loss and the carrying amount of the tax liabilities shall be adjusted.

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, 2024, approximately 296.3 million Common Shares were issued and outstanding. There are also incentive share options outstanding to acquire approximately 2.1 million unissued Common Shares with exercise prices ranging from CA$0.11 to CA$0.13, and HK$1.41. There are no preferred shares outstanding.

As at August 14, 2024, to the best of the Company's knowledge:

- JDZF holds a total of approximately 85.7 million Common Shares representing approximately 29.0% of the issued and outstanding Common Shares;
- Land Grand International Holding Limited holds a total of approximately 46.4 million Common Shares representing approximately 15.7% of the issued and outstanding Common Shares; and
- Voyage Wisdom Limited holds a total of approximately 25.8 million Common Shares representing approximately 8.7% of the issued and outstanding Common Shares.

8. DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

9. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

There have been no other new IFRS Accounting Standards or IFRIC interpretations that is not yet effective that would be expected to have a material impact on the Company, except those disclosed in the Company's annual consolidated financial statements for the year ended December 31, 2023.

Refer to Note 2.3 of the Company's condensed consolidated interim financial statements of the quarter ended June 30, 2024 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, 2023, which is available under the Company's profile on SEDAR+ at www.sedarplus.ca.

11. OUTLOOK

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

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

Both Chinese and Mongolian governments played a significant role in strengthening their ties on coal trade. The development of new cross-border railways, expansion of road infrastructure, deployment of automated technologies in export operations and streamlined customs clearances underscore the collaborative efforts to facilitate cross-border trade. These strategic initiatives position Mongolian coal favourably in the evolving dynamics of China's coal imports.

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 2024, the Company will continue to ramp up its mining operations and production capacity to capitalise on the anticipated increase in sales volume.

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 maximise revenue, expand its customer base and sales network, improve logistics, optimise its operational cost structure and, most importantly, operate in a safe and socially responsible manner.

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

- **Enhance product mix** – The Company will focus on improving the product mix by: (i) improving mining operations; (ii) utilising the Company's wet coal processing plant; 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 to reduce its production costs and optimise its cost structure through engaging sizable third-party contract mining companies to enhance its operation efficiency, strengthening procurement management, ongoing training and productivity enhancement.

- **Operate in a safe and socially responsible manner** – The Company will continue to maintain the highest standards in health, safety and environmental performance and operate in a corporate socially responsible manner.

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

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

- **A large reserves base** – The Ovoot Tolgoi Deposit has mineral reserves of more than 90 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. The Company will seek assistance and support from its two largest shareholders, which are both experienced coal mining enterprises in China, and have a strong operational record for the past decade in Mongolia.

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