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SouthGobi
R E S O U R C E S

SOUTHGOBI RESOURCES LTD.

南戈壁資源有限公司*

(A company continued under the laws of British Columbia, Canada with limited liability)

(Hong Kong Stock Code: 1878)

(TSX Venture Exchange Stock Code: SGQ)

SOUTHGOBI ANNOUNCES UNAUDITED FIRST QUARTER 2024 FINANCIAL AND OPERATING RESULTS

SouthGobi Resources Ltd. (the “**Company**” or “**SouthGobi**”) today announces its unaudited financial and operating results for the three months ended March 31, 2024.

Please see the attached announcement for more details. The information per the attached announcement is available on the SEDAR+ website at www.sedarplus.ca and the website of the Hong Kong Stock Exchange at www.hkexnews.hk.

By order of the Board
SouthGobi Resources Ltd.
Mao Sun
Lead Director

Vancouver, May 14, 2024
Hong Kong, May 14, 2024

As at the date of this announcement, the executive directors of the Company are Mr. Ruibin Xu, Ms. Chonglin Zhu and Mr. Chen Shen; the independent non-executive directors of the Company are Mr. Yingbin Ian He, Mr. Mao Sun and Ms. Jin Lan Quan; and the non-executive directors of the Company are Mr. Zhu Gao and Mr. Zaixiang Wen.

* *For identification purpose only*



May 14, 2024

SOUTHGOBI ANNOUNCES FIRST QUARTER 2024 FINANCIAL AND OPERATING RESULTS

HONG KONG – SouthGobi Resources Ltd. (Hong Kong Stock Exchange (“HKEX”): 1878, TSX Venture Exchange (“TSX-V”): SGQ) (the “Company” or “SouthGobi”) today announces its financial and operating results for the three months ended March 31, 2024. All figures are in U.S. dollars (“USD”) unless otherwise stated.

SIGNIFICANT EVENTS AND HIGHLIGHTS

The Company’s significant events and highlights for the three months ended March 31, 2024 and the subsequent period to May 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 export this product into China for sale in the first quarter of 2024, which further enhanced the Company’s coal export volume.

The Company recorded sales volume of 1.1 million tonnes for the first quarter of 2024 compared to 0.6 million tonnes for the first quarter of 2023, while the Company recorded an average realised selling price of \$79.5 per tonne for the first quarter of 2024 compared to \$104.1 per tonne for the first 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.

- **Financial Results** – The Company recorded a \$32.1 million profit from operations for the first quarter of 2024 compared to \$27.9 million for the first quarter of 2023. The financial results were impacted by increased sales volume, as a result of expansion of its sales network and diversification of its customer base.
- **Deferral Agreements** – On March 19, 2024, the Company and JD Zhixing Fund L.P. (“JDZF”) entered into an agreement (the “2024 March Deferral Agreement”) pursuant to which JDZF agreed to grant the Company a deferral of (i) the cash and payment-in-kind interest (“PIK Interest”), management fees, and related deferral fees in the aggregate amount of approximately \$96.5 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 Company’s convertible debenture (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 to be announced in due course.

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 an agreement (the "2024 April Deferral Agreement") pursuant to which JDZF agreed to grant the Company a deferral of the remaining US\$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 to be announced in due course.

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 US\$500,000 and (b) if in excess of US\$500,000, an integral multiple of US\$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.

- ***Additional Tax and Tax Penalty Imposed by the Mongolian Tax Authority (“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 press release, 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.

As at March 31, 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. 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 virtually certainty the exact recoverability or 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** – 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.

See section "Liquidity and Capital Resources" of this press release for details.

OVERVIEW OF OPERATIONAL DATA AND FINANCIAL RESULTS

Summary of Operational Data

	Three months ended March 31,	
	2024	2023
Sales Volumes, Prices and Costs		
Premium semi-soft coking coal		
Coal sales (<i>millions of tonnes</i>)	0.36	0.33
Average realised selling price (<i>per tonne</i>)	\$ 111.01	\$ 124.72
Standard semi-soft coking coal/premium thermal coal		
Coal sales (<i>millions of tonnes</i>)	0.28	0.01
Average realised selling price (<i>per tonne</i>)	\$ 76.07	\$ 73.52
Standard thermal coal		
Coal sales (<i>millions of tonnes</i>)	0.12	–
Average realised selling price (<i>per tonne</i>)	\$ 47.91	\$ –
Processed coal		
Coal sales (<i>millions of tonnes</i>)	0.29	0.26
Average realised selling price (<i>per tonne</i>)	\$ 56.65	\$ 78.19
Total		
Coal sales (<i>millions of tonnes</i>)	1.05	0.60
Average realised selling price (<i>per tonne</i>)	\$ 79.52	\$ 104.11
Raw coal production (<i>millions of tonnes</i>)	1.25	0.56
Cost of sales of product sold (<i>per tonne</i>)	\$ 43.36	\$ 51.59
Direct cash costs of product sold (<i>per tonne</i>) ⁽ⁱ⁾	\$ 30.70	\$ 28.95
Mine administration cash costs of product sold (<i>per tonne</i>) ⁽ⁱ⁾	\$ 1.08	\$ 1.48
Total cash costs of product sold (<i>per tonne</i>) ⁽ⁱ⁾	\$ 31.78	\$ 30.43

Other Operational Data

Production waste material moved (<i>millions of bank cubic meters</i>)	12.36	2.83
Strip ratio (<i>bank cubic meters of waste material per tonne of coal produced</i>)	9.87	5.07
Lost time injury frequency rate ⁽ⁱⁱ⁾	0.22	0.00

⁽ⁱ⁾ A Non-International Financial Reporting Standards (“non-IFRS”) financial measure. Refer to “Non-IFRS Financial Measures” section. 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

As at March 31, 2024, the Company had a lost time injury frequency rate of 0.22 per 200,000 man hours based on a rolling 12-month average.

The Company recorded an average realised selling price of \$79.5 per tonne in the first quarter of 2024 compared to \$104.1 per tonne in the first 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 first quarter of 2024 consisted of approximately 34% of premium semi-soft coking coal, 27% of standard semi-soft coking coal/premium thermal coal, 11% of standard thermal coal and 28% of processed coal compared to approximately 55% of premium semi-soft coking coal, 2% of standard semi-soft coking coal/premium thermal coal and 43% of processed coal in 2023.

The Company's unit cost of sales of product sold was \$43.4 per tonne in the first quarter of 2024 compared to \$51.6 per tonne in the first quarter of 2023. The decrease was mainly driven by the economies of scale due to increased sales.

Summary of Financial Results

<i>\$ in thousands, except per share information</i>	Three months ended	
	March 31,	
	2024	2023
Revenue ⁽ⁱ⁾	\$ 82,169	\$ 61,780
Cost of sales ⁽ⁱ⁾	(45,533)	(30,954)
Gross profit excluding idled mine asset costs ⁽ⁱⁱ⁾	36,682	30,861
Gross profit	36,636	30,826
Other operating expenses, net	(1,053)	(764)
Administration expenses	(3,413)	(2,056)
Evaluation and exploration expenses	(22)	(64)
Profit from operations	32,148	27,942
Finance costs	(11,021)	(11,914)
Finance income	73	85
Share of earnings of joint ventures	833	502
Share of earning of an associate	10	–
Current income tax expenses	(9,791)	(8,760)
Net profit attributable to equity holders of the Company	12,252	7,855
Basic and diluted earnings per share	\$ 0.041	\$ 0.027

⁽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

The Company recorded a \$32.1 million profit from operations for the first quarter of 2024 compared to \$27.9 million for the first quarter of 2023. Revenue was \$82.2 million for the first quarter of 2024 compared to \$61.8 million for the first quarter of 2023. The financial results were impacted by increased sales volume, as a result of expansion of its sales network and diversification of its customer base.

Cost of sales was \$45.5 million for the first quarter of 2024 compared to \$31.0 million for the first 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 during the quarter. 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.

<i>\$ in thousands</i>	Three months ended	
	March 31,	
	2024	2023
Operating expenses	\$ 33,371	\$ 18,257
Share-based compensation recovery	-	(1)
Depreciation and depletion	2,210	1,177
Royalties	9,906	11,486
	<hr/>	<hr/>
Cost of sales from mine operations	45,487	30,919
Cost of sales related to idled mine assets	46	35
	<hr/>	<hr/>
Cost of sales	<u>\$ 45,533</u>	<u>\$ 30,954</u>

Operating expenses in cost of sales were \$33.4 million for the first quarter of 2024 compared to \$18.3 million for the first 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 during the quarter.

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

Other operating expenses were \$1.1 million for the first quarter of 2024 (first quarter of 2023: \$0.8 million). The change was mainly due to increased management fee.

<i>\$ in thousands</i>	Three months ended	
	March 31,	
	2024	2023
Management fee	\$ 1,116	\$ 772
Provision/(reversal of provision) for doubtful trade and other receivables	(19)	83
Foreign exchange loss/(gain), net	200	(433)
Reversal of impairment loss on materials and supplies inventories	(7)	(85)
Penalty on late settlement of trade payables	-	454
Rental income from short term leases	-	(27)
Gain on contract offsetting arrangement	(237)	-
	<u>1,053</u>	<u>764</u>
Other operating expenses, net	<u>\$ 1,053</u>	<u>\$ 764</u>

Administration expenses were \$3.4 million for the first quarter of 2024 (first quarter of 2023: \$2.1 million). The change was mainly due to increase in legal and professional fees and salaries and benefits as a result of expansion of operations.

<i>\$ in thousands</i>	Three months ended	
	March 31,	
	2024	2023
Corporate administration	\$ 704	\$ 457
Legal and professional fees	849	389
Salaries and benefits	1,726	1,089
Share-based compensation expense/(recovery)	1	(2)
Depreciation	133	123
	<u>3,413</u>	<u>2,056</u>
Administration expenses	<u>\$ 3,413</u>	<u>\$ 2,056</u>

The Company continued to minimise evaluation and exploration expenditures in the first quarter of 2024 in order to preserve the Company's financial resources. Evaluation and exploration activities and expenditures in the first 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 \$11.0 million and \$11.9 million for the first quarter of 2024 and 2023 respectively, which primarily consisted of interest expense on the \$250.0 million Convertible Debenture.

Summary of Quarterly Operational Data

Quarter Ended	2024		2023			2022		
	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun
Sales Volumes, Prices and Costs								
Premium semi-soft coking coal								
Coal sales (<i>millions of tonnes</i>)	0.36	0.54	0.64	0.57	0.33	0.06	0.17	0.04
Average realised selling price (<i>per tonne</i>) \$	111.01	107.59	100.33	103.33	124.72	65.82	71.01	92.87
Standard semi-soft coking coal/premium thermal coal								
Coal sales (<i>millions of tonnes</i>)	0.28	0.29	0.18	0.05	0.01	0.01	0.03	0.04
Average realised selling price (<i>per tonne</i>) \$	76.07	72.41	68.43	67.09	73.52	64.69	43.34	30.41
Standard thermal coal								
Coal sales (<i>millions of tonnes</i>)	0.12	–	–	–	–	–	–	–
Average realised selling price (<i>per tonne</i>) \$	47.91	–	–	–	–	–	–	–
Processed coal								
Coal sales (<i>millions of tonnes</i>)	0.29	0.13	0.33	0.26	0.26	0.40	0.35	0.01
Average realised selling price (<i>per tonne</i>) \$	56.65	77.23	66.03	82.99	78.19	65.94	64.57	79.02
Total								
Coal sales (<i>millions of tonnes</i>)	1.05	0.96	1.15	0.88	0.60	0.47	0.55	0.09
Average realised selling price (<i>per tonne</i>) \$	79.52	92.93	85.57	95.34	104.11	65.90	65.37	66.55
Raw coal production (<i>millions of tonnes</i>)	1.25	1.34	1.18	0.97	0.56	0.57	0.12	–
Cost of sales of product sold (<i>per tonne</i>) \$	43.36	38.17	42.23	47.76	51.59	41.81	58.25	56.32
Direct cash costs of product sold (<i>per tonne</i>) ⁽ⁱ⁾	30.70	26.20	32.26	33.79	28.95	25.65	41.44	33.10
Mine administration cash costs of product sold (<i>per tonne</i>) ⁽ⁱ⁾	1.08	1.83	0.82	1.60	1.48	1.86	1.47	1.20
Total cash costs of product sold (<i>per tonne</i>) ⁽ⁱ⁾	31.78	28.03	33.08	35.39	30.43	27.51	42.91	34.30
Other Operational Data								
Production waste material moved (<i>millions of bank cubic meters</i>)	12.36	7.81	7.34	7.73	2.83	2.68	0.91	–
Strip ratio (<i>bank cubic meters of waste material per tonne of coal produced</i>)	9.87	5.85	6.24	7.93	5.07	4.67	7.33	–
Lost time injury frequency rate ⁽ⁱⁱ⁾	0.22	0.22	0.21	0.23	0.00	0.00	0.00	0.00

⁽ⁱ⁾ A non-IFRS financial measure. Refer to section “Non-IFRS Financial Measures”. 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 issued by the International Accounting Standards Board. The following table provides highlights, extracted from the Company's annual and interim consolidated financial statements, of quarterly results for the past eight quarters.

<i>\$ in thousands, except per share information</i>	2024		2023				2022	
Quarter Ended	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun
Financial Results								
Revenue ⁽ⁱ⁾	\$ 82,169	\$ 88,504	\$ 97,979	\$ 83,243	\$ 61,780	\$ 30,487	\$ 36,807	\$ 5,790
Cost of sales ⁽ⁱ⁾	(45,533)	(36,645)	(48,569)	(42,027)	(30,954)	(19,652)	(32,036)	(5,069)
Gross profit excluding idled mine asset costs ⁽ⁱⁱ⁾	36,682	51,908	49,491	41,227	30,861	10,891	4,982	940
Gross profit including idled mine asset costs	36,636	51,859	49,410	41,216	30,826	10,835	4,771	721
Other operating income/(expenses), net	(1,053)	4,308	(413)	(4,001)	(764)	(1,066)	546	3,778
Administration expenses	(3,413)	(3,879)	(1,846)	(2,656)	(2,056)	(2,111)	(1,830)	(1,772)
Evaluation and exploration expenses	(22)	(91)	(808)	(28)	(64)	(26)	(31)	(66)
Additional tax and tax penalty	–	(10,153)	–	(74,990)	–	–	–	–
Profit/(loss) from operations	32,148	42,044	46,343	(40,459)	27,942	7,632	3,456	2,661
Finance costs	(11,021)	(12,334)	(13,266)	(11,558)	(11,914)	(11,190)	(10,800)	(10,247)
Finance income	73	40	4,915	44	85	1,589	69	1,160
Share of earnings/(loss) of joint ventures	833	1,101	809	428	502	143	237	(109)
Share of earning of an associate	10	4	–	–	–	–	–	–
Current income tax expenses	(9,791)	(6,519)	(9,452)	(9,087)	(8,760)	(2,751)	(979)	(518)
Net profit/(loss)	12,252	24,336	29,349	(60,632)	7,855	(4,577)	(8,017)	(7,053)
Basic earnings/(loss) per share	\$ 0.041	\$ 0.082	\$ 0.099	\$ (0.205)	\$ 0.027	\$ (0.016)	\$ (0.029)	\$ (0.026)
Diluted earnings/(loss) per share	\$ 0.041	\$ 0.082	\$ 0.099	\$ (0.205)	\$ 0.027	\$ (0.016)	\$ (0.029)	\$ (0.026)

⁽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.

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 March 31, 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 press release, 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.

As at March 31, 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. 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 virtually certainty the exact recoverability or 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 March 31, 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 \$126.8 million as at March 31, 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 \$240.8 million as at March 31, 2024 compared to a working capital deficiency of \$218.8 million as at December 31, 2023.

Included in the working capital deficiency as at March 31, 2024 are significant obligations, represented by trade and other payables of \$87.2 million and 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 May 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, the Company has not yet been able to renew its cooperation agreement as of the date hereof due to administrative delay on the part of the local Mongolian custom office. Consistent with prior years when there has been a temporary lapse under the cooperation agreement, the Company has continued to be able to export its coal products into China in the normal course without any negative impact on its operations since November 23, 2023. While the Company expects the renewal of the cooperation agreement to be approved by the second quarter of 2024, there can be no certainty that the renewal will be approved within such timeframe or at all.

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 March 31, 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 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; (c) obtaining an avenue of financial support from an affiliate of the Company's major shareholder for a maximum amount of \$127.0 million (equivalent to RMB900 million) during the period covered in the cash flow projection; and (d) entered into a new terminal agreement with Shiveekhuren Terminal LLC in March 2024, providing the Company an alternative transportation channel for coal export into China in the event the Company experience any export issues as a result of the expired cooperation agreement with the local custom office. 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 March 31, 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 March 31, 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 to be announced in due course.

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 US\$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 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 to be announced in due course.

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 US\$500,000 and (b) if in excess of US\$500,000, an integral multiple of US\$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.

Ovoot Tolgoi Mine Impairment Analysis

The Company determined that an indicator of impairment existed for its Ovoot Tolgoi Mine cash generating unit as at March 31, 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 three months ended March 31, 2024.

REGULATORY ISSUES AND CONTINGENCIES

Class Action Lawsuit

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

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

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

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

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

To date, counsel for the plaintiffs and defendant have completed: (i) all document production; (ii) oral examinations for discovery; and (iii) counsel for the plaintiffs have served their expert reports on liability and damages. Counsel for the plaintiffs and defendant have agreed on the case management judge, who has ordered certain motions brought by the defendant and the plaintiffs to commence on May 13 and 14, 2024. Further discovery motions before an Associate Justice has been scheduled for August 7-9, and September 17, 2024.

Following the determination of the motions and any subsequent order to re-attend examinations, counsel for the defendant will serve responding expert reports on liability and damages approximately one month following any re-examinations/further examinations are completed. Counsel for the plaintiff and defendant have requested a further case conference to set a new trial date following the undertakings motion and serving of expert reports. The Company has urged 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 March 31, 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 March 31, 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 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.

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 export this product into China for sale in the first quarter of 2024, which further enhanced 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.

NON-IFRS FINANCIAL MEASURES

Cash Costs

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

SUMMARISED COMPREHENSIVE INCOME INFORMATION

(Expressed in thousands of USD, except for share and per share amounts)

	Three months ended	
	March 31,	
	2024	2023
Revenue	\$ 82,169	\$ 61,780
Cost of sales	<u>(45,533)</u>	<u>(30,954)</u>
Gross profit	36,636	30,826
Other operating expenses, net	(1,053)	(764)
Administration expenses	(3,413)	(2,056)
Evaluation and exploration expenses	<u>(22)</u>	<u>(64)</u>
Profit from operations	32,148	27,942
Finance costs	(11,021)	(11,914)
Finance income	73	85
Share of earnings of joint ventures	833	502
Share of earning of an associate	<u>10</u>	<u>—</u>
Profit before tax	22,043	16,615
Current income tax expenses	<u>(9,791)</u>	<u>(8,760)</u>
Net profit attributable to equity holders of the Company	<u>12,252</u>	<u>7,855</u>
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		
Exchange difference on translation of foreign operation	<u>2,202</u>	<u>(2,677)</u>
Net comprehensive income attributable to equity holders of the Company	<u>\$ 14,454</u>	<u>\$ 5,178</u>
Basic and diluted earnings per share	\$ 0.041	\$ 0.027

SUMMARISED FINANCIAL POSITION INFORMATION

(Expressed in thousands of USD)

	As at	
	March 31, 2024	December 31, 2023
Assets		
Current assets		
Cash and cash equivalents	\$ 15,368	\$ 47,993
Restricted cash	554	423
Trade and other receivables	25,045	7,541
Inventories	57,052	52,927
Prepaid expenses	11,509	6,471
Total current assets	109,528	115,355
Non-current assets		
Property, plant and equipment	185,248	157,119
Investments in joint ventures	15,472	15,178
Investment in an associate	9,996	8,086
Total non-current assets	210,716	180,383
Total assets	\$ 320,244	\$ 295,738
Equity and liabilities		
Current liabilities		
Trade and other payables	\$ 87,211	\$ 60,192
Additional tax and tax penalty	83,457	83,897
Deferred revenue	49,515	65,670
Lease liabilities	1,157	1,206
Income tax payable	11,928	20,055
Convertible debenture	117,037	103,150
Total current liabilities	350,305	334,170

SUMMARISED FINANCIAL POSITION INFORMATION (CONTINUED)*(Expressed in thousands of USD)*

	As at	
	March 31, 2024	December 31, 2023
Non-current liabilities		
Lease liabilities	1,548	1,785
Convertible debenture	84,655	91,150
Decommissioning liability	10,543	9,939
Provision for long service payments	28	26
	<hr/>	<hr/>
Total non-current liabilities	96,774	102,900
	<hr/>	<hr/>
Total liabilities	447,079	437,070
	<hr/>	<hr/>
Equity		
Common shares	1,101,830	1,101,771
Share option reserve	53,014	53,030
Capital reserve	499	499
Exchange fluctuation reserve	(52,745)	(54,947)
Accumulated deficit	(1,229,433)	(1,241,685)
	<hr/>	<hr/>
Total deficiency in assets	(126,835)	(141,332)
	<hr/>	<hr/>
Total equity and liabilities	\$ 320,244	\$ 295,738
	<hr/> <hr/>	<hr/> <hr/>
Net current liabilities	\$ (240,777)	\$ (218,815)
Total assets less current liabilities	\$ (30,061)	\$ (38,432)

REVIEW OF INTERIM RESULTS

The condensed consolidated interim financial statements for the Company for the three months ended March 31, 2024, which are unaudited but have been reviewed by the audit committee of the Company.

The Company's results for the quarter ended March 31, 2024, are contained in the unaudited condensed consolidated interim financial statements and Management Discussion and Analysis of Financial Condition and Results of Operations, available on the SEDAR+ website at www.sedarplus.ca and the Company's website at www.southgobi.com.

ABOUT SOUTHGObI

SouthGobi, listed on the HKEX and TSX-V, owns and operates its flagship Ovoot Tolgoi coal mine in Mongolia. It also holds the mining licenses of its other metallurgical and thermal coal deposits in South Gobi Region of Mongolia. SouthGobi produces and sells coal to customers in China.

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Except for statements of fact relating to 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 press release 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 Convertible Debenture, the 2024 March Deferral Agreement and the 2024 April Deferral Agreement as the same become due, the Company's ability 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 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 Regulatory Issues and Contingencies of this press release under the heading entitled "*Class Action Lawsuit*");
- the estimates and assumptions included in the Company's impairment analysis and the possible impact of changes thereof;
- renewal of the Company's cooperation agreement with the local Mongolian custom office by the second quarter of 2024;
- the agreement with Ejin Jinda and the payments thereunder (as described under section Regulatory Issues and Contingencies of this press release under the heading entitled "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 Outlook of this press release); and
- other statements that are not historical facts.

Forward-looking information is based on certain factors and assumptions described below and elsewhere in this press release, 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; there being no impediment to the Company renewing its cooperation agreement with the local Mongolian custom office; 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 "Significant Events and Highlights" of this press release under the heading entitled "Additional Tax and Tax Penalty Imposed by 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 2024 March Deferral Agreement and the 2024 April Deferral Agreement; the risk that the local Mongolian custom fails denies the Company's application to renew its cooperation 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 "Regulatory Issues and Contingencies" of this press release under the heading entitled "Class Action 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; the risk that the Company is unable to successfully negotiate an extension of the agreement with the third party contractor relating to the operation of the wash plant at the Ovoot Tolgoi mine site and risks relating to the Company’s ability to raise additional financing and to continue as a going concern. 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 press release, 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 press release; they should not rely upon this information as of any other date.

The English text of this press release shall prevail over the Chinese text in case of inconsistencies.

Neither the TSX-V nor its Regulation Services Provider (as that term is defined in the policies of the TSX-V) accepts responsibility for the adequacy or accuracy of this release.