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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)

(Toronto Stock Code: SGQ)

**SouthGobi announces first quarter 2021  
financial and operating results**

SouthGobi Resources Ltd. (the “**Company**” or “**SouthGobi**”) today announces its financial and operating results for the quarter ended March 31, 2021.

Please refer to the attached announcement for more details. The information per the attached announcement is available on the SEDAR website at [www.sedar.com](http://www.sedar.com) and the website of the Hong Kong Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

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

Vancouver, May 14, 2021  
Hong Kong, May 14, 2021

*As at the date of this announcement, the executive director of the Company is Mr. Dalanguerban; the independent non-executive directors are Messrs. Yingbin Ian He, Mao Sun and Ms. Jin Lan Quan; and the non-executive directors are Messrs. Jianmin Bao, Zhiwei Chen, Ben Niu and Ms. Ka Lee Ku.*

\* *For identification purpose only*



May 14, 2021

## **SOUTHGobi RESOURCES ANNOUNCES FIRST QUARTER 2021 FINANCIAL AND OPERATING RESULTS**

**HONG KONG** – SouthGobi Resources Ltd. (Toronto Stock Exchange (“TSX”): **SGQ**, Hong Kong Stock Exchange (“HKEX”): **1878**) (the “Company” or “SouthGobi”) today announces its financial and operating results for the three months ended March 31, 2021. 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, 2021 and the subsequent period to May 14, 2021 are as follows:

- **Operating Results** – The Company’s sales volume increased from 0.2 million tonnes in the first quarter of 2020 to 0.6 million tonnes in the first quarter of 2021. The increase in sales volume was mainly attributable to the Company suspending coal exports to China during the first quarter of 2020 as a result of the closure of the Mongolia-Chinese border during the period between February 11, 2020 and March 27, 2020 in order to prevent the spread of the Coronavirus Disease 2019 (“COVID-19”). The Company experienced an increase in the average selling price of coal from \$31.2 per tonne in the first quarter of 2020 to \$43.5 per tonne in the first quarter of 2021, as a result of improved market conditions, higher coal prices in China as well as a higher portion of sales made through the Company’s Inner Mongolia subsidiary.
- **Financial Results** – The Company recorded a \$7.5 million profit from operations in the first quarter of 2021 compared to a \$1.3 million loss from operations in the first quarter of 2020. The improvement was principally attributable to (i) the higher selling price achieved by the Company during the quarter (\$43.5 per tonne in the first quarter of 2021 versus \$31.2 per tonne in the first quarter of 2020); and (ii) the increase in sales volume from 0.2 million tonnes in the first quarter of 2020 to 0.6 million tonnes in the first quarter of 2021.
- **Impact of the COVID-19 Pandemic** – Since the onset of the COVID-19 pandemic which began in early 2020, the Mongolian local authorities have taken certain precautionary steps to minimize further transmission of COVID-19 in Mongolia and announced several lockdown measures in Ulaanbaatar. Although the export of coal from Mongolia to China continues as of the date hereof, there can be no guarantee that the Company will be able to continue exporting coal to China, or that the border crossings would not be the subject of additional closures as a result of COVID-19 or any variants thereof in the future. The Company will continue to closely monitor the development of the COVID-19 pandemic and the impact it has on coal exports to China and will react promptly to preserve the working capital of the Company and mitigate any negative impacts on the business and operations of the Company.

In the event that the Company's ability to export coal into the Chinese market becomes restricted or limited again as a result of any future restrictions which may be implemented at the Mongolia-China border crossing, this is expected to have a material adverse effect on the business and operations of the Company and may negatively affect the price and volatility of the Common Shares and any investment in such shares could suffer a significant decline or total loss in value.

- ***China Investment Corporation ("CIC") convertible debenture ("CIC Convertible Debenture")*** – On November 19, 2020, the Company and CIC entered into an agreement (the "2020 November Deferral Agreement") pursuant to which CIC agreed to grant the Company a deferral of: (i) deferred cash interest and deferral fees of approximately \$75.2 million which were due and payable to CIC on or before September 14, 2020, under the deferral agreement signed on June 19, 2020 (the "2020 June Deferral Agreement"); (ii) semi-annual cash interest payments in the aggregate amount of \$16.0 million payable to CIC on November 19, 2020 and May 19, 2021; (iii) \$4.0 million worth of payment in kind interest ("PIK Interest") shares ("2020 November PIK Interest") issuable to CIC on November 19, 2020 under the CIC Convertible Debenture; and (iv) the Management Fee that were due and payable to CIC on November 14, 2020 and February 14, 2021, and that will be due and payable to CIC on May 15, 2021, August 14, 2021 and November 14, 2021 under the Amended and Restated Cooperation Agreement (collectively, the "2020 November Deferral Amounts"). On October 29, 2020, the Company obtained an order from the British Columbia Securities Commission (the "BCSC"), the Company's principal securities regulator in Canada, which partially revoked the CTO (as defined below) to, amongst other things, permit the Company to execute the 2020 November Deferral Agreement.

The 2020 November Deferral Agreement became effective on January 21, 2021, being the date on which the 2020 November Deferral Agreement was approved by shareholders at the Company's annual and special meeting of shareholders.

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

- Payment of the 2020 November Deferral Amounts will be deferred until August 31, 2023.
- CIC agreed to waive its rights arising from any default or event default under the CIC Convertible Debenture as a result of trading in the Common Shares being halted on the TSX beginning as of June 19, 2020 and suspended on the HKEX beginning as of August 17, 2020, in each case for a period of more than five trading days.
- As consideration for the deferral of the 2020 November Deferral Amounts, the Company agreed to pay CIC: (i) a deferral fee equal to 6.4% per annum on the 2020 November Deferral Amounts payable under the CIC Convertible Debenture and the 2020 June Deferral Agreement, commencing on the date on which each such 2020 November Deferral Amounts would otherwise have been due and payable under the CIC Convertible Debenture or the 2020 June Deferral Agreement, as applicable; and (ii) a deferral fee equal to 2.5% per annum on the 2020 November Deferral Amounts payable under the Amended and Restated Cooperation Agreement, commencing on the date on which the Management Fee would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.

- The 2020 November Deferral Agreement does not contemplate a fixed repayment schedule for the 2020 November Deferral Amounts and related deferral fees. Instead, the Company and CIC would agree to assess in good faith the Company's financial condition and working capital position on a monthly basis and determine the amount, if any, of the 2020 November Deferral Amounts and related deferral fees that the Company is able to repay under the CIC Convertible Debenture, the 2020 June Deferral Agreement or the Amended and Restated Cooperation Agreement, having regard to the working capital requirements of the Company's operations and business at such time and with the view of ensuring that the Company's operations and business would not be materially prejudiced as a result of any repayment.
- Commencing as of November 19, 2020 and until such time as the November 2020 PIK Interest is fully repaid, CIC reserves the right to require the Company to pay and satisfy the amount of the November 2020 PIK Interest, either in full or in part, by way of issuing and delivering PIK interest shares in accordance with the CIC Convertible Debenture provided that, on the date of issuance of such shares, the Common Shares are listed and trading on at least one stock exchange.
- If at any time before the 2020 November Deferral Amounts and related deferral fees are fully repaid, the Company proposes to appoint, replace or terminate one or more of its Chief Executive Officer, its Chief Financial Officer or any other senior executive(s) in charge of its principal business function or its principal subsidiary, then the Company must first consult with, and obtain written consent from CIC prior to effecting such appointment, replacement or termination.
- ***Cease Trade Order and Halt Trading on TSX*** – On June 19, 2020, the BCSC issued a general "failure to file" cease trade order ("CTO"), to prohibit the trading by any person of any securities of the Company in Canada. Trading in the Common Shares on the TSX was halted as a result of the CTO. The CTO was issued as a result of the Company's failure to file: (i) its annual consolidated financial statements for the year ended December 31, 2019 and the accompanying Management Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"); (ii) its Annual Information Form for the year ended December 31, 2019; and (iii) its condensed consolidated interim financial statements for the three-month period ended March 31, 2020 and accompanying MD&A, in each case prior to the filing deadline of June 15, 2020.

On February 5, 2021, the BCSC and the Ontario Securities Commission granted a full revocation of the CTO. Trading in the Common Shares resumed on the TSX on February 8, 2021.

- ***Suspension of Trading on HKEX*** – At the request of the Company, trading in the shares of the Company on the HKEX was suspended with effect as of August 17, 2020 pending the publication of the audited annual results of the Company for the year ended December 31, 2019.

On February 9, 2021, the Company confirmed that it has fulfilled all the conditions stated in the resumption guidance to the satisfaction of the HKEX. Trading in the Common Shares resumed on the HKEX on February 10, 2021.

- **TSX Delisting Review** – On September 11, 2020, the TSX notified the Company that it is reviewing the eligibility for continued listing of the Common Shares on the TSX pursuant to the TSX’s Remedial Review Process (“TSX Delisting Review”). On December 16, 2020, the TSX accepted the Company’s request for a 60 day extension of the TSX Delisting Review process and the Company has been granted until February 16, 2021 to remedy the following delisting criteria, as well as any other delisting criteria that become applicable during the Remedial Review Process: (i) financial condition and/or operating results; (ii) adequate working capital and appropriate capital structure; and (iii) disclosure issues.

On February 15, 2021, the Company announced that the TSX Continued Listing Committee determined that the Company satisfies the TSX’s applicable requirements for continued listing.

- **Restoration of Soumber Deposit Mining Licenses** – On August 26, 2019, SGS received a letter (the “Notice Letter”) from the Mineral Resource Authority of Mongolia (“MRAM”) notifying that the Company’s three mining licenses (MV-016869, MV-020436 and MV-020451) (the “Soumber Mining Licenses”) for the Soumber Deposit have been terminated by the Head of Cadastre Division of MRAM effective as of August 21, 2019.

On March 2, 2021, SGS received a notice from the Mongolian governmental authority that the Soumber Mining Licenses have been reinstated effective as of March 2, 2021.

- **Changes in Management**

**Mr. Weiguo Zhang:** Mr. Zhang resigned as Chief Financial Officer on February 10, 2021.

**Mr. Alan Ho:** Mr. Ho was appointed as acting Chief Financial Officer on February 10, 2021.

**Mr. Aiming Guo:** Mr. Guo resigned as Chief Operating Officer on February 10, 2021.

**Mr. Tao Zhang:** Mr. Zhang has been re-designated from Vice President to Vice President of Sales on February 10, 2021.

**Mr. Munkhbat Chuluun:** Mr. Chuluun was appointed as Vice President of Public Relations on February 10, 2021.

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

Refer to section “Liquidity and Capital Resources” of this press release for details.

## OVERVIEW OF OPERATIONAL DATA AND FINANCIAL RESULTS

### Summary of Operational Data

|                                                                                    | Three months ended<br>March 31, |           |       |
|------------------------------------------------------------------------------------|---------------------------------|-----------|-------|
|                                                                                    | 2021                            |           | 2020  |
| <b>Sales Volumes, Prices and Costs</b>                                             |                                 |           |       |
| Premium semi-soft coking coal                                                      |                                 |           |       |
| Coal sales ( <i>millions of tonnes</i> )                                           | <b>0.40</b>                     |           | 0.07  |
| Average realized selling price ( <i>per tonne</i> )                                | <b>\$ 47.88</b>                 | <b>\$</b> | 28.46 |
| Standard semi-soft coking coal/premium thermal coal                                |                                 |           |       |
| Coal sales ( <i>millions of tonnes</i> )                                           | <b>0.23</b>                     |           | 0.13  |
| Average realized selling price ( <i>per tonne</i> )                                | <b>\$ 35.17</b>                 | <b>\$</b> | 32.71 |
| Standard thermal coal                                                              |                                 |           |       |
| Coal sales ( <i>millions of tonnes</i> )                                           | <b>—</b>                        |           | —     |
| Average realized selling price ( <i>per tonne</i> )                                | <b>\$ —</b>                     | <b>\$</b> | —     |
| Washed coal                                                                        |                                 |           |       |
| Coal sales ( <i>millions of tonnes</i> )                                           | <b>0.01</b>                     |           | —     |
| Average realized selling price ( <i>per tonne</i> )                                | <b>\$ 49.62</b>                 | <b>\$</b> | —     |
| Total                                                                              |                                 |           |       |
| Coal sales ( <i>millions of tonnes</i> )                                           | <b>0.64</b>                     |           | 0.20  |
| Average realized selling price ( <i>per tonne</i> )                                | <b>\$ 43.46</b>                 | <b>\$</b> | 31.18 |
| Raw coal production ( <i>millions of tonnes</i> )                                  | <b>1.04</b>                     |           | 0.01  |
| Cost of sales of product sold ( <i>per tonne</i> )                                 | <b>\$ 28.67</b>                 | <b>\$</b> | 30.36 |
| Direct cash costs of product sold ( <i>per tonne</i> ) <sup>(i)</sup>              | <b>\$ 18.15</b>                 | <b>\$</b> | 11.69 |
| Mine administration cash costs of product sold ( <i>per tonne</i> ) <sup>(i)</sup> | <b>\$ 1.04</b>                  | <b>\$</b> | 2.50  |
| Total cash costs of product sold ( <i>per tonne</i> ) <sup>(i)</sup>               | <b>\$ 19.19</b>                 | <b>\$</b> | 14.19 |

### Other Operational Data

|                                                                                       |             |  |       |
|---------------------------------------------------------------------------------------|-------------|--|-------|
| Production waste material moved ( <i>millions of bank cubic meters</i> )              | <b>5.04</b> |  | 0.57  |
| Strip ratio ( <i>bank cubic meters of waste material per tonne of coal produced</i> ) | <b>4.83</b> |  | 85.08 |
| Lost time injury frequency rate <sup>(ii)</sup>                                       | <b>0.00</b> |  | 0.09  |

<sup>(i)</sup> 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.

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

## Overview of Operational Data

The Company ended the first quarter of 2021 without a lost time injury. As at March 31, 2020, the Company had a lost time injury frequency rate of 0.09 per 200,000 man hours based on a rolling 12-month average.

As a result of improved market conditions, higher coal prices in China as well as a higher portion of sales made through the Company's Inner Mongolia subsidiary, the average realized selling price of our coal increased from \$31.2 per tonne in the first quarter of 2020 to \$43.5 per tonne in the first quarter of 2021. The product mix for the first quarter of 2021 consisted of approximately 63% of premium semi-soft coking coal, 35% of standard semi-soft coking coal/premium thermal coal and 2% of washed coal compared to approximately 36% of premium semi-soft coking coal and 64% of standard semi-soft coking coal/premium thermal coal in the first quarter of 2020.

The Company's sales volume increased from 0.2 million tonnes in the first quarter of 2020 to 0.6 million tonnes in the first quarter of 2021. The lower sales volume in the first quarter of 2020 was mainly attributable to the closure of Mongolia's southern border with China during the period between February 11, 2020 and March 27, 2020 in order to prevent the spread of COVID-19.

The Company's production in the first quarter of 2020 was much lower than in the first quarter of 2021 as a result of the temporary cessation of the Company's major mining operations (including coal mining) which took effect in February 2020 for the purpose of mitigating the financial impact of the border closures and preserving the Company's working capital.

The Company's unit cost of sales of product sold decreased from \$30.4 per tonne in the first quarter of 2020 to \$28.7 per tonne in the first quarter of 2021. The decrease was mainly driven by increased sales and the related economies of scale.



## Summary of Financial Results

| \$ in thousands, except per share information                   | Three months ended |           |
|-----------------------------------------------------------------|--------------------|-----------|
|                                                                 | March 31,          | 2020      |
|                                                                 | 2021               |           |
| Revenue <sup>(i)</sup>                                          | \$ 28,064          | \$ 6,137  |
| Cost of sales <sup>(i)</sup>                                    | (18,347)           | (6,071)   |
| Gross profit excluding idled mine asset costs <sup>(ii)</sup>   | 10,228             | 1,462     |
| Gross profit                                                    | 9,717              | 66        |
| Other operating income/(expenses)                               | (335)              | 470       |
| Administration expenses                                         | (1,781)            | (1,771)   |
| Evaluation and exploration expenses                             | (65)               | (56)      |
| Profit/(loss) from operations                                   | 7,536              | (1,291)   |
| Finance costs                                                   | (14,637)           | (7,135)   |
| Finance income                                                  | 21,001             | 43        |
| Share of earnings/(loss) of a joint venture                     | 274                | (46)      |
| Current income tax expense                                      | (1,120)            | (732)     |
| Net profit/(loss) attributable to equity holders of the Company | 13,054             | (9,161)   |
| Basic earnings/(loss) per share                                 | \$ 0.05            | \$ (0.03) |
| Diluted earnings/(loss) per share                               | \$ 0.02            | \$ (0.03) |

<sup>(i)</sup> 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.

<sup>(ii)</sup> 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 \$7.5 million profit from operations in the first quarter of 2021 compared to a \$1.3 million loss from operations in the first quarter of 2020. The improvement was principally attributable to (i) the higher selling price achieved by the Company during the quarter (\$43.5 per tonne in the first quarter of 2021 versus \$31.2 per tonne in the first quarter of 2020); and (ii) the increase in sales volume from 0.2 million tonnes in the first quarter of 2020 to 0.6 million tonnes in the first quarter of 2021.

Revenue was \$28.1 million in the first quarter of 2021 compared to \$6.1 million in the first quarter of 2020. The Company's effective royalty rate for the first quarter of 2021, based on the Company's average realized selling price of \$43.5 per tonne, was 15.0% or \$6.5 per tonne, compared to 20.1% or \$6.3 per tonne in the first quarter of 2020 (based on the average realized selling price of \$31.2 per tonne in the first quarter of 2020).



## Royalty regime in Mongolia

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

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

Cost of sales was \$18.3 million in the first quarter of 2021 compared to \$6.1 million in the first quarter of 2020. The increase in cost of sales was mainly due to the increased sales during the quarter. Cost of sales consists of operating expenses, share-based compensation expense/recovery, 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 "*Non-IFRS Financial Measures*" of this press release for further analysis) during the quarter.

| \$ in thousands                             | Three months ended<br>March 31, |                 |
|---------------------------------------------|---------------------------------|-----------------|
|                                             | 2021                            | 2020            |
| Operating expenses                          | \$ 12,280                       | \$ 2,838        |
| Share-based compensation expense/(recovery) | (2)                             | 2               |
| Depreciation and depletion                  | 1,358                           | 578             |
| Royalties                                   | 4,200                           | 1,257           |
|                                             | <hr/>                           | <hr/>           |
| Cost of sales from mine operations          | 17,836                          | 4,675           |
| Cost of sales related to idled mine assets  | 511                             | 1,396           |
|                                             | <hr/>                           | <hr/>           |
| Cost of sales                               | <u>\$ 18,347</u>                | <u>\$ 6,071</u> |

Operating expenses in cost of sales were \$12.3 million in the first quarter of 2021 compared to \$2.8 million in the first quarter of 2020. The overall increase in operating expenses was primarily due to the increased sales volume from 0.2 million tonnes in the first quarter of 2020 to 0.6 million tonnes in the first quarter of 2021.

Cost of sales related to idled mine assets in the first quarter of 2021 included \$0.5 million related to depreciation expenses for idled equipment (first quarter of 2020: \$1.4 million).

Other operating expenses were \$0.3 million in the first quarter of 2021 (first quarter of 2020: other operating income of \$0.5 million).

| <i>\$ in thousands</i>                                          | <b>Three months ended</b> |                   |
|-----------------------------------------------------------------|---------------------------|-------------------|
|                                                                 | <b>March 31,</b>          |                   |
|                                                                 | <b>2021</b>               | <b>2020</b>       |
| CIC management fee                                              | \$ (613)                  | \$ (122)          |
| Provision for doubtful trade and other receivables              | (191)                     | (138)             |
| Foreign exchange gain, net                                      | 18                        | 772               |
| Gain on disposal of items of property, plant and equipment, net | 270                       | 39                |
| Discount on settlement of trade payables                        | 156                       | —                 |
| Reversal of impairment on materials and supplies inventories    | 25                        | —                 |
| Provision for commercial arbitration                            | —                         | (81)              |
|                                                                 | <u>          </u>         | <u>          </u> |
| Other operating income/(expenses)                               | <u>\$ (335)</u>           | <u>\$ 470</u>     |

Administration expenses in the first quarter of 2021 and the first quarter of 2020 were both \$1.8 million, as follows:

| <i>\$ in thousands</i>                      | <b>Three months ended</b> |                   |
|---------------------------------------------|---------------------------|-------------------|
|                                             | <b>March 31,</b>          |                   |
|                                             | <b>2021</b>               | <b>2020</b>       |
| Corporate administration                    | \$ 415                    | \$ 305            |
| Legal and professional fees                 | 543                       | 387               |
| Salaries and benefits                       | 633                       | 910               |
| Share-based compensation expense/(recovery) | (6)                       | 12                |
| Depreciation                                | 196                       | 157               |
|                                             | <u>          </u>         | <u>          </u> |
| Administration expenses                     | <u>\$ 1,781</u>           | <u>\$ 1,771</u>   |

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

Finance costs were \$14.6 million and \$7.1 million in the first quarter of 2021 and 2020 respectively, which primarily consisted of interest expense on the \$250.0 million CIC Convertible Debenture. The increase was mainly due to the Company recording a loss of \$3.3 million on the fair value of the embedded derivatives relating to the Convertible Debenture and the associated increase in interest expenses following the recording of gain on extinguishment of Convertible Debenture.

## Summary of Quarterly Operational Data

| Quarter Ended                                                                             | 2021<br>31-Mar | 31-Dec   | 2020<br>30-Sep | 30-Jun   | 31-Mar   | 31-Dec   | 2019<br>30-Sep | 30-Jun   |
|-------------------------------------------------------------------------------------------|----------------|----------|----------------|----------|----------|----------|----------------|----------|
| <b>Sales Volumes, Prices and Costs</b>                                                    |                |          |                |          |          |          |                |          |
| Premium semi-soft coking coal                                                             |                |          |                |          |          |          |                |          |
| Coal sales ( <i>millions of tonnes</i> )                                                  | 0.40           | 0.38     | 0.35           | 0.21     | 0.07     | 0.39     | 0.05           | 0.12     |
| Average realized selling price<br>( <i>per tonne</i> )                                    | \$ 47.88       | \$ 39.34 | \$ 30.17       | \$ 28.69 | \$ 28.46 | \$ 29.18 | \$ 31.49       | \$ 32.72 |
| Standard semi-soft coking coal/premium<br>thermal coal                                    |                |          |                |          |          |          |                |          |
| Coal sales ( <i>millions of tonnes</i> )                                                  | 0.23           | 0.50     | 0.54           | 0.26     | 0.13     | 0.40     | 0.51           | 0.59     |
| Average realized selling price<br>( <i>per tonne</i> )                                    | \$ 35.17       | \$ 31.66 | \$ 30.80       | \$ 33.12 | \$ 32.71 | \$ 31.88 | \$ 31.67       | \$ 35.67 |
| Standard thermal coal                                                                     |                |          |                |          |          |          |                |          |
| Coal sales ( <i>millions of tonnes</i> )                                                  | –              | –        | –              | –        | –        | –        | –              | –        |
| Average realized selling price<br>( <i>per tonne</i> )                                    | \$ –           | \$ –     | \$ –           | \$ –     | \$ –     | \$ –     | \$ –           | \$ –     |
| Washed coal                                                                               |                |          |                |          |          |          |                |          |
| Coal sales ( <i>millions of tonnes</i> )                                                  | 0.01           | 0.07     | 0.10           | 0.02     | –        | 0.20     | 0.25           | 0.17     |
| Average realized selling price<br>( <i>per tonne</i> )                                    | \$ 49.62       | \$ 42.51 | \$ 41.30       | \$ 43.26 | \$ –     | \$ 42.95 | \$ 42.37       | \$ 44.20 |
| Total                                                                                     |                |          |                |          |          |          |                |          |
| Coal sales ( <i>millions of tonnes</i> )                                                  | 0.64           | 0.95     | 0.99           | 0.49     | 0.20     | 0.99     | 0.81           | 0.88     |
| Average realized selling price<br>( <i>per tonne</i> )                                    | \$ 43.46       | \$ 35.53 | \$ 31.63       | \$ 31.66 | \$ 31.18 | \$ 33.04 | \$ 34.98       | \$ 36.80 |
| Raw coal production ( <i>millions of tonnes</i> )                                         | 1.04           | 0.96     | 0.52           | –        | 0.01     | 1.48     | 1.21           | 1.33     |
| Cost of sales of product sold ( <i>per tonne</i> )                                        | \$ 28.67       | \$ 23.36 | \$ 20.23       | \$ 21.16 | \$ 30.36 | \$ 23.68 | \$ 19.16       | \$ 25.04 |
| Direct cash costs of product sold<br>( <i>per tonne</i> ) <sup>(i)</sup>                  | \$ 18.15       | \$ 14.78 | \$ 12.38       | \$ 9.90  | \$ 11.69 | \$ 13.61 | \$ 18.03       | \$ 17.18 |
| Mine administration cash costs of<br>product sold ( <i>per tonne</i> ) <sup>(i)</sup>     | \$ 1.04        | \$ 1.07  | \$ 1.15        | \$ 1.70  | \$ 2.50  | \$ 1.29  | \$ 1.09        | \$ 1.39  |
| Total cash costs of product sold<br>( <i>per tonne</i> ) <sup>(i)</sup>                   | \$ 19.19       | \$ 15.85 | \$ 13.53       | \$ 11.60 | \$ 14.19 | \$ 14.90 | \$ 19.12       | \$ 18.57 |
| <b>Other Operational Data</b>                                                             |                |          |                |          |          |          |                |          |
| Production waste material moved<br>( <i>millions of bank cubic meters</i> )               | 5.04           | 3.10     | 1.67           | –        | 0.57     | 3.61     | 4.36           | 5.34     |
| Strip ratio ( <i>bank cubic meters of waste<br/>material per tonne of coal produced</i> ) | 4.83           | 3.24     | 3.20           | –        | 85.08    | 2.44     | 3.61           | 4.01     |
| Lost time injury frequency rate <sup>(ii)</sup>                                           | 0.00           | 0.00     | 0.00           | 0.04     | 0.09     | 0.08     | 0.08           | 0.06     |

<sup>(i)</sup> A non-IFRS financial measure. Refer to section “Non-IFRS Financial Measures”. Cash costs of product sold exclude idled mine asset cash costs.

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

## Summary of Quarterly Financial Results

The Company's consolidated financial statements are reported under IFRS issued by the 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> | <b>2021</b>   |           |           | <b>2020</b> |           |           |           | <b>2019</b> |  |
|------------------------------------------------------|---------------|-----------|-----------|-------------|-----------|-----------|-----------|-------------|--|
| <b>Quarter Ended</b>                                 | <b>31-Mar</b> | 31-Dec    | 30-Sep    | 30-Jun      | 31-Mar    | 31-Dec    | 30-Sep    | 30-Jun      |  |
| <b>Financial Results</b>                             |               |           |           |             |           |           |           |             |  |
| Revenue <sup>(i)</sup>                               | \$ 28,064     | \$ 33,879 | \$ 30,960 | \$ 14,975   | \$ 6,137  | \$ 32,113 | \$ 28,309 | \$ 32,479   |  |
| Cost of sales <sup>(i)</sup>                         | (18,347)      | (22,193)  | (20,027)  | (10,366)    | (6,071)   | (23,446)  | (15,518)  | (22,031)    |  |
| Gross profit excluding idled mine asset costs        | 10,228        | 12,610    | 11,789    | 6,286       | 1,462     | 9,971     | 13,664    | 11,318      |  |
| Gross profit including idled mine asset costs        | 9,717         | 11,686    | 10,933    | 4,609       | 66        | 8,667     | 12,791    | 10,448      |  |
| Other operating income/(expenses)                    | (335)         | 434       | (575)     | (5,150)     | 470       | (1,589)   | (1,245)   | (2,333)     |  |
| Administration expenses                              | (1,781)       | (2,120)   | (1,789)   | (1,291)     | (1,771)   | (1,386)   | (2,074)   | (2,878)     |  |
| Evaluation and exploration expenses                  | (65)          | (55)      | (63)      | (52)        | (56)      | (382)     | (22)      | (23)        |  |
| Profit/(loss) from operations                        | 7,536         | 9,945     | 8,506     | (1,884)     | (1,291)   | 5,310     | 9,450     | 5,214       |  |
| Finance costs                                        | (14,637)      | (7,442)   | (9,885)   | (7,258)     | (7,135)   | (7,095)   | (7,184)   | (7,001)     |  |
| Finance income                                       | 21,001        | 13        | 2,583     | 2           | 43        | 36        | 68        | 4,305       |  |
| Share of earnings/(loss) of a joint venture          | 274           | 431       | 660       | 268         | (46)      | 225       | 277       | 375         |  |
| Current income tax expense                           | (1,120)       | (5,174)   | (793)     | (900)       | (732)     | (659)     | (468)     | (801)       |  |
| Net profit/(loss)                                    | 13,054        | (2,227)   | 1,071     | (9,772)     | (9,161)   | (2,183)   | 2,143     | 2,092       |  |
| Basic earnings/(loss) per share                      | \$ 0.05       | \$ (0.01) | \$ –      | \$ (0.04)   | \$ (0.03) | \$ (0.01) | \$ 0.01   | \$ 0.01     |  |
| Diluted earnings/(loss) per share                    | \$ 0.02       | \$ (0.01) | \$ –      | \$ (0.04)   | \$ (0.03) | \$ (0.01) | \$ 0.01   | \$ 0.01     |  |

<sup>(i)</sup> 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.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Liquidity and Capital Management**

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

#### ***Bank Loan***

On May 15, 2018, SGS obtained a bank loan (the "2018 Bank Loan") in the principal amount of \$2.8 million from a Mongolian bank (the "Bank") with the key commercial terms as follows:

- Maturity date set at 24 months from drawdown (subsequently extended for 12 months on May 18, 2020);
- Interest rate of 15% per annum and interest is payable monthly; and
- Certain items of property, plant and equipment were pledged as security for the 2018 Bank Loan. As at December 31, 2020, the net carrying amount of the pledged items of property, plant and equipment was \$0.1 million.

As at December 31, 2020, the outstanding principal balance of the 2018 Bank Loan was \$2.8 million and the accrued interest owed by the Company was negligible.

In February 2021, \$2.8 million was repaid to the Bank by the Company in full settlement of the outstanding principal balance of the 2018 Bank Loan and the accrued interest thereon.

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

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

As at December 31, 2020, the amount of reimbursable costs and fees claimed by Turquoise Hill (the "TRQ Reimbursable Amount") amounted to \$8.1 million (such amount is included in the trade and other payables). No agreement on repayment had been reached between the Company and Turquoise Hill as at December 31, 2020.

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 TRQ in the amount of \$0.1 million per month from January 2021 to June 2022. The Company is contesting the validity of the remaining balance of the TRQ Reimbursable Amount claimed by Turquoise Hill.

### ***Going concern considerations***

The Company's condensed consolidated interim financial statements have been prepared on a going concern basis which assumes that the Company will continue operating until at least March 31, 2022 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. However, in order to continue as a going concern, the Company must generate sufficient operating cash flow, secure additional capital or otherwise pursue a strategic restructuring, refinancing or other transactions to provide it with additional liquidity.

Several adverse conditions and material uncertainties cast significant doubt upon the Company's ability to continue as a going concern and the going concern assumption used in the preparation of the Company's consolidated financial statements. The Company had a deficiency in assets of \$63.5 million as at March 31, 2021 as compared to a deficiency in assets of \$76.2 million as at December 31, 2020 while the working capital deficiency (excess current liabilities over current assets) was \$33.8 million compared to a working capital deficiency of \$217.6 million as at December 31, 2020.

Included in the working capital deficiency as at March 31, 2021 are significant obligations, mainly comprising of trade and other payables of \$79.5 million, which includes the unpaid taxes of \$28.6 million that are repayable on demand to the Mongolian Tax Authority ("MTA").

The Company may not be able to settle all trade and other payables on a timely basis, while continuing postponement in settling certain trade payables owed to suppliers and creditors may impact the mining operations of the Company and may result in potential lawsuits and/or bankruptcy proceedings being filed against the Company. Except as disclosed elsewhere in this press release, no such lawsuits or proceedings are pending as at May 14, 2021. However, there can be no assurance that no such lawsuits or proceedings will be filed by the Company's creditors in the future and the Company's suppliers and contractors will continue to supply and provide services to the Company uninterrupted.

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

Management of the Company has prepared a cash flow projection covering a period of 12 months from March 31, 2021. The cash flow projection has taken into account the anticipated cash flows to be generated from the Company's business during the period under projection including cost saving measures. In particular, the Company has taken into account the following measures for improvement of the Company's liquidity and financial position, which include: (i) entering into the 2020 November Deferral Agreement with CIC for a deferral of the 2020 November Deferral Amounts until August 31, 2023; (ii) agreeing to deferral arrangements and improved payment terms with certain vendors; (iii) reducing the outstanding tax payable by making monthly payments to MTA beginning as of June 2020; and (iv) reducing the inventory of low quality coal by wet washing and coal blending. After considering the above, and given the re-opening of the Mongolia-China border since March 28, 2020, the Directors 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, 2021 and therefore are satisfied that it is appropriate to prepare the condensed consolidated interim financial statements on a going concern basis.

Factors that impact the Company's liquidity are being closely monitored and include, but are not limited to, impact of the COVID-19 pandemic, 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, 2021 and December 31, 2020, the Company was not subject to any externally imposed capital requirements.

### ***Impact of the COVID-19 Pandemic***

Since the onset of the COVID-19 pandemic which began in early 2020, the Mongolian local authorities have taken certain precautionary steps to minimize further transmission of COVID-19 in Mongolia and announced several lockdown measures in Ulaanbaatar. Although the export of coal from Mongolia to China continues as of the date hereof, there can be no guarantee that the Company will be able to continue exporting coal to China, or that the border crossings would not be the subject of additional closures as a result of COVID-19 or any variants thereof in the future. The Company will continue to closely monitor the development of the COVID-19 pandemic and the impact it has on coal exports to China and will react promptly to preserve the working capital of the Company and mitigate any negative impacts on the business and operations of the Company.

### **CIC Convertible Debenture**

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



On March 29, 2010, the Company exercised its right to call for the conversion of up to \$250.0 million of the CIC Convertible Debenture into approximately 21.5 million shares at a conversion price of \$11.64 (CAD\$11.88). As at March 31, 2021, CIC owned approximately 23.7% of the issued and outstanding Common Shares of the Company.

On November 19, 2020, the Company and CIC entered into the 2020 November Deferral Agreement pursuant to which CIC agreed to grant the Company a deferral of the 2020 November Deferral Amounts. On October 29, 2020, the Company obtained an order from the BCSC which partially revoked the CTO to, amongst other things, permit the Company to execute the 2020 November Deferral Agreement. The 2020 November Deferral Agreement became effective on January 21, 2021, being the date on which the 2020 November Deferral Agreement was approved by shareholders at the Company's annual and special meeting of shareholders.

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

- Payment of the 2020 November Deferral Amounts will be deferred until August 31, 2023.
- CIC agreed to waive its rights arising from any default or event of default under the CIC Convertible Debenture as a result of trading in the Common Shares being halted on the TSX beginning as of June 19, 2020 and suspended on the HKEX beginning as of August 17, 2020, in each case for a period of more than five trading days.
- As consideration for the deferral of the 2020 November Deferral Amounts, the Company agreed to pay CIC: (i) a deferral fee equal to 6.4% per annum on the 2020 November Deferral Amounts payable under the CIC Convertible Debenture and the 2020 June Deferral Agreement, commencing on the date on which each such 2020 November Deferral Amounts would otherwise have been due and payable under the CIC Convertible Debenture or the 2020 June Deferral Agreement, as applicable; and (ii) a deferral fee equal to 2.5% per annum on the 2020 November Deferral Amounts payable under the Amended and Restated Cooperation Agreement, commencing on the date on which the Management Fee would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.
- The 2020 November Deferral Agreement does not contemplate a fixed repayment schedule for the 2020 November Deferral Amounts and related deferral fees. Instead, the Company and CIC would agree to assess in good faith the Company's financial condition and working capital position on a monthly basis and determine the amount, if any, of the 2020 November Deferral Amounts and related deferral fees that the Company is able to repay under the CIC Convertible Debenture, the 2020 June Deferral Agreement or the Amended and Restated Cooperation Agreement, having regard to the working capital requirements of the Company's operations and business at such time and with the view of ensuring that the Company's operations and business would not be materially prejudiced as a result of any repayment.

- Commencing as of November 19, 2020 and until such time as the November 2020 PIK Interest is fully repaid, CIC reserves the right to require the Company to pay and satisfy the amount of the November 2020 PIK Interest, either in full or in part, by way of issuing and delivering PIK interest shares in accordance with the CIC Convertible Debenture provided that, on the date of issuance of such shares, the Common Shares are listed and trading on at least one stock exchange.
- If at any time before the 2020 November Deferral Amounts and related deferral fees are fully repaid, the Company proposes to appoint, replace or terminate one or more of its Chief Executive Officer, its Chief Financial Officer or any other senior executive(s) in charge of its principal business function or its principal subsidiary, then the Company must first consult with, and obtain written consent from CIC prior to effecting such appointment, replacement or termination.

### **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, 2021. The impairment indicator was the potential closures of the border crossings as a result of COVID-19 in the future. Since the recoverable amount was higher than carrying value of the Ovoot Tolgoi Mine cash generating unit, there was no impairment of non-financial asset recognized during the three months ended March 31, 2021.

## **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 (“Certification Motion”). 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 plaintiffs 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.

Since December 2018, counsels for the parties have proceeded with the action as follows: (1) two case conferences before the motions judge; (2) production of certain documents by the Company to the plaintiffs; (3) review of those documents by plaintiffs' counsel from May 2020 to November 2020; and (4) setting down examinations for discovery for February and March 2021. The Company is urging an early trial.

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 a provision for this matter as at March 31, 2021 was not required.

#### **Toll Wash Plant Agreement with Ejin Jinda**

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

Under the original 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 these \$18.5 million will be required to be paid. Accordingly, the Company has determined a provision for this matter as at March 31, 2021 was not required.

#### **Special Needs Territory in Umnugobi**

On February 13, 2015, the entire Soumber mining license and a portion of SGS' exploration license 9443X (9443X was converted to mining license MV-020436 in January 2016) (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 Licenses (as defined below) and until the License Areas are removed from the SNT.

On June 29, 2016, the Mongolian Parliament and CRKh election was held. As a result, the Company was aware that additional action may be taken in respect of the SNT; however, the Company has not yet received any indication on the timing of the next session of the CRKh.

### **Restoration of Soumber Deposit Mining Licenses**

On August 26, 2019, SGS received the Notice Letter from MRAM notifying that the Company's three mining licenses (MV-016869, MV-020436 and MV-020451) for the Soumber Deposit have been terminated by the Head of Cadastre Division of MRAM effective as of August 21, 2019.

On March 2, 2021, SGS received a notice from the Mongolian governmental authority that the Soumber Mining Licenses have been reinstated effective as of March 2, 2021.

### **Mongolian royalties**

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

### **Restrictions on Importing F-Grade Coal into China**

As a result of import restrictions established by Chinese authorities at the Ceke border, the Company has been barred from transporting its F-grade coal products into China for sale since December 15, 2018.

## OUTLOOK

The Company anticipates that 2021 will be a year of both opportunities and difficulties for SouthGobi. The COVID-19 pandemic has caused unprecedented challenges around the world and adversely impacted the global economy. In Mongolia, the Mongolian State Emergency Commission closed Mongolia's southern border with China between February 11, 2020 and March 27, 2020 in order to prevent the spread of COVID-19, which forced the Company to suspend all coal transport into China during this period. Even though the Mongolia-China border has re-opened and the Company's mining operations resumed on August 2, 2020, the Company anticipates that it will continue to be negatively impacted by the COVID-19 pandemic for the foreseeable future, which will have an adverse effect on the Company's sales, production, logistics and financials. The Company has adopted and will continue to implement strict COVID-19 precautionary measures at the mine site as well as in all of its offices in order to maintain operations in the normal course, while also complying with the advice or orders of local public health authorities. In order to further enhance its operational efficiencies, the Company has recently adopted a new flat management structure and has undertaken various improvements to its sales, logistics and production processes. The Company's Management is confident that these changes will allow the Company to operate successfully during these difficult times and drive the Company forward.

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

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

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

- **Enhance product mix** – The Company will focus on improving the product mix and increasing the production of higher quality coal by: (i) improving mining operations; (ii) washing lower quality coal in the Company's coal wash plant and partnering with other nearby coal wash plant(s); (iii) resuming the construction and operation of the Company's dry coal processing plant; and (iv) trading and blending different types of coal to produce blended coal products that are economical to the Company.
- **Expand customer base** – The Company will 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 maximize profit while maintaining sustainable long-term business relationships with customers.

- **Optimize cost structure** – The Company will aim to reduce its production costs and optimize its cost structure through engaging third party contract mining companies to enhance its operation efficiency, strengthening procurement management, ongoing training and productivity enhancement.
- **Operate in a safe and socially responsible manner** – The Company will continue to maintain the highest standards in health, safety and environmental performance and operate in a corporate socially responsible manner, and continue to strictly implement its COVID-19 precautionary measures at the mine site and across all offices.

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

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

## 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 utilized in the mining industry.

**SUMMARIZED COMPREHENSIVE INCOME INFORMATION***(Expressed in thousands of USD, except for share and per share amounts)*

|                                                                                            | <b>Three months ended</b> |                    |
|--------------------------------------------------------------------------------------------|---------------------------|--------------------|
|                                                                                            | <b>March 31,</b>          |                    |
|                                                                                            | <b>2021</b>               | <b>2020</b>        |
| Revenue                                                                                    | \$ 28,064                 | \$ 6,137           |
| Cost of sales                                                                              | (18,347)                  | (6,071)            |
| <b>Gross profit</b>                                                                        | <b>9,717</b>              | <b>66</b>          |
| Other operating income/(expenses)                                                          | (335)                     | 470                |
| Administration expenses                                                                    | (1,781)                   | (1,771)            |
| Evaluation and exploration expenses                                                        | (65)                      | (56)               |
| <b>Profit/(loss) from operations</b>                                                       | <b>7,536</b>              | <b>(1,291)</b>     |
| Finance costs                                                                              | (14,637)                  | (7,135)            |
| Finance income                                                                             | 21,001                    | 43                 |
| Share of earnings/(loss) of a joint venture                                                | 274                       | (46)               |
| <b>Profit/(loss) before tax</b>                                                            | <b>14,174</b>             | <b>(8,429)</b>     |
| Current income tax expense                                                                 | (1,120)                   | (732)              |
| <b>Net profit/(loss) attributable to equity holders of the Company</b>                     | <b>13,054</b>             | <b>(9,161)</b>     |
| <b>Other comprehensive loss to be reclassified to profit or loss in subsequent periods</b> |                           |                    |
| Exchange differences on translation of foreign operation                                   | (318)                     | (2,437)            |
| <b>Net comprehensive income/(loss) attributable to equity holders of the Company</b>       | <b>\$ 12,736</b>          | <b>\$ (11,598)</b> |
| Basic earnings/(loss) per share                                                            | \$ 0.05                   | \$ (0.03)          |
| Diluted earnings/(loss) per share                                                          | \$ 0.02                   | \$ (0.03)          |



## SUMMARIZED FINANCIAL POSITION INFORMATION

(Expressed in thousands of USD)

|                                          | As at             |                      |
|------------------------------------------|-------------------|----------------------|
|                                          | March 31,<br>2021 | December 31,<br>2020 |
| <b>Assets</b>                            |                   |                      |
| <b>Current assets</b>                    |                   |                      |
| Cash and cash equivalents                | \$ 13,622         | \$ 20,121            |
| Restricted cash                          | 1,217             | 918                  |
| Trade and other receivables              | 677               | 1,305                |
| Inventories                              | 48,733            | 42,383               |
| Prepaid expenses                         | 3,284             | 1,666                |
| <b>Total current assets</b>              | <b>67,533</b>     | <b>66,393</b>        |
| <b>Non-current assets</b>                |                   |                      |
| Property, plant and equipment            | 134,862           | 131,425              |
| Inventories                              | 471               | 680                  |
| Investment in a joint venture            | 16,112            | 16,134               |
| <b>Total non-current assets</b>          | <b>151,445</b>    | <b>148,239</b>       |
| <b>Total assets</b>                      | <b>\$ 218,978</b> | <b>\$ 214,632</b>    |
| <b>Equity and liabilities</b>            |                   |                      |
| <b>Current liabilities</b>               |                   |                      |
| Trade and other payables                 | \$ 79,453         | \$ 74,365            |
| Deferred revenue                         | 16,592            | 20,831               |
| Interest-bearing borrowing               | –                 | 2,826                |
| Lease liabilities                        | 124               | 202                  |
| Income tax payable                       | 5,156             | 4,365                |
| Current portion of convertible debenture | –                 | 181,411              |
| <b>Total current liabilities</b>         | <b>101,325</b>    | <b>284,000</b>       |

|                                              | <b>As at</b>              |                              |
|----------------------------------------------|---------------------------|------------------------------|
|                                              | <b>March 31,<br/>2021</b> | <b>December 31,<br/>2020</b> |
| <b>Non-current liabilities</b>               |                           |                              |
| Lease liabilities                            | <b>376</b>                | 424                          |
| Convertible debenture                        | <b>174,207</b>            | —                            |
| Decommissioning liability                    | <b>6,571</b>              | 6,445                        |
|                                              | <hr/>                     | <hr/>                        |
| <b>Total non-current liabilities</b>         | <b>181,154</b>            | 6,869                        |
|                                              | <hr/>                     | <hr/>                        |
| <b>Total liabilities</b>                     | <b>282,479</b>            | 290,869                      |
|                                              | <hr/>                     | <hr/>                        |
| <b>Equity</b>                                |                           |                              |
| Common shares                                | <b>1,098,644</b>          | 1,098,634                    |
| Share option reserve                         | <b>52,692</b>             | 52,702                       |
| Capital reserve                              | <b>396</b>                | 396                          |
| Exchange reserve                             | <b>(30,589)</b>           | (30,271)                     |
| Accumulated deficit                          | <b>(1,184,644)</b>        | (1,197,698)                  |
|                                              | <hr/>                     | <hr/>                        |
| <b>Total deficiency in assets</b>            | <b>(63,501)</b>           | (76,237)                     |
|                                              | <hr/>                     | <hr/>                        |
| <b>Total equity and liabilities</b>          | <b>\$ 218,978</b>         | <b>\$ 214,632</b>            |
|                                              | <hr/>                     | <hr/>                        |
| <b>Net current liabilities</b>               | <b>\$ (33,792)</b>        | <b>\$ (217,607)</b>          |
| <b>Total assets less current liabilities</b> | <b>\$ 117,653</b>         | <b>\$ (69,368)</b>           |

## REVIEW OF INTERIM RESULTS

The condensed consolidated interim financial statements for the Company for the three months ended March 31, 2021, were reviewed by the Audit Committee of the Company.

The Company's results for the quarter ended March 31, 2021, are contained in the unaudited Condensed Consolidated Interim Financial Statements and MD&A, available on the SEDAR website at [www.sedar.com](http://www.sedar.com) and the Company's website at [www.southgobi.com](http://www.southgobi.com).

## ABOUT SOUTHGObI

SouthGobi, listed on the Toronto and Hong Kong stock exchanges, 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.

### Contact:

### Investor Relations

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Forward-Looking Statements: Except for statements of fact relating to the Company, certain information contained herein constitutes forward-looking statements. Forward-looking statements are frequently characterized by words such as "plan", "expect", "project", "intend", "believe", "anticipate", "could", "should", "seek", "likely", "estimate" and other similar words or statements that certain events or conditions "may" or "will" occur. Forward-looking statements relate to management's future outlook and anticipated events or results and are based on the opinions and estimates of management at the time the statements are made. Forward-looking statements in this press release include, but are not limited to, statements regarding:

- the Company continuing as a going concern and its ability to realize its assets and discharge its liabilities in the normal course of operations as they become due;
- adjustments to the amounts and classifications of assets and liabilities in the Company's condensed consolidated interim financial statements and the impact thereof;
- the Company's expectations of sufficient liquidity and capital resources to meet its ongoing obligations and future contractual commitments, including the Company's ability to settle its trade payables, to secure additional funding and to meet its obligations under each of the CIC Convertible Debenture, the 2020 November Deferral Agreement, and the Amended and Restated Cooperation Agreement, as the same become due;

- the Company's anticipated financing needs, development plans and future production levels;
- the Company entering into discussions with CIC regarding a potential debt restructuring plan with respect to the amounts owing to CIC;
- the results and impact of the Ontario class action (as described under section "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;
- 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 to enhance the product value by conducting coal processing and coal washing;
- the impact of the Company's activities on the environment and actions taken for the purpose of mitigation of potential environmental impacts and planned focus on health, safety and environmental performance;
- the impact of the delays in the custom clearance process at the Ceke border on the Company's operations and the restrictions established by Chinese authorities on the import of F-grade coal into China;
- the impact of the COVID-19 pandemic and the potential closure of Mongolia's southern border with China on the Company's business, financial condition and operations;
- the future demand for coal in China;
- future trends in the Chinese coal industry;
- the Company's outlook and objectives for 2021 and beyond (as more particularly described under section "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 2021 and beyond; currency exchange rates; operating, labour and fuel costs; the ability of the Company to raise additional financing; the anticipated royalties payable under Mongolia's royalty regime; the future coal market conditions in China and the related impact on the Company's margins and liquidity; the anticipated impact of the COVID-19 pandemic; the assumption that the border crossings with China will remain open for coal exports; the anticipated demand for the Company's coal products; future coal prices, and the level of worldwide coal production. While the Company considers these assumptions to be reasonable based on the information currently available to it, they may prove to be incorrect. Forward-looking statements are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These risks and uncertainties include, among other things: the uncertain nature of mining activities, actual capital and operating costs exceeding management's estimates; variations in mineral resource and mineral reserve estimates; failure of plant, equipment or processes to operate as anticipated; the possible impacts of changes in mine life, useful life or depreciation rates on depreciation expenses; risks associated with, or changes to regulatory requirements (including environmental regulations) and the ability to obtain all necessary regulatory approvals; the potential expansion of the list of licenses published by the Government of Mongolia covering areas in which exploration and mining are purportedly prohibited on certain of the Company's mining licenses; the Government of Mongolia designating any one or more of the Company's mineral projects in Mongolia as a Mineral Deposit of Strategic Importance; the risk of continued delays in the custom clearance process at the Ceke border; the restrictions established by Chinese authorities on the import of F-grade coal into China; the risk that Mongolia's southern borders with China will be subject of further closure; the negative impact of the COVID-19 pandemic on the demand for coal and the economy generally in China; the risk that the COVID-19 pandemic is not effectively controlled in China and Mongolia; the risk that the Company's existing coal inventories are unable to sufficiently satisfy expected sales demand; the possible impact of changes to the inputs to the valuation model used to value the embedded derivatives in the CIC Convertible Debenture; the risk of the Company failing to successfully negotiate favorable repayment terms on the TRQ Reimbursable Amount (as described under section "Liquidity and Capital Resources" of this press release under the heading entitled "*Liquidity and Capital Management – Costs Reimbursable to Turquoise Hill*"); the risk of the Company or its subsidiaries defaulting under its existing debt obligations, including the CIC Convertible Debenture, 2020 November Deferral Agreement and the Amended and Restated 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 Company is unable to successfully negotiate a debt restructuring plan with respect to the amounts owing to CIC; the risk that the calculated sales price determined by

the Company for the purposes of determining the amount of royalties payable to the Mongolian government is deemed as being “non-market” under Mongolian tax law; customer credit risk; cash flow and liquidity risks; risks relating to the Company’s decision to suspend activities relating to the development of the Ceke Logistics Park project, including the risk that its investment partner may initiate legal action against the Company for failing to comply with the underlying agreements governing project development; risks relating to the ability of the Company to enhance the operational efficiency and the output throughput of the washing 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.