



SouthGobi
RESOURCES

TSX: SGQ HKEX: 1878

SouthGobi Resources Ltd. 南戈壁资源有限公司



www.southgobi.com

Annual Report 2021

SouthGobi Resources Ltd.
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CONTENTS

4	Message from the CEO
8	Board of Directors and Senior Management
14	Directors' Report
26	Corporate Governance Report
56	Management's Discussion and Analysis of Financial Condition and Results of Operations
112	Environmental, Social and Governance Report
122	Consolidated Financial Statements
184	Corporate Information

SouthGobi Resources Ltd. (the “Company” or “SouthGobi”) is focused on the exploration, development and production of its coal deposits in Mongolia’s South Gobi Region. The Company has a 100% shareholding in SouthGobi Sands LLC, the Mongolian registered company that holds SouthGobi’s mining licenses in Mongolia and operates the flagship Ovoot Tolgoi coal mine. Ovoot Tolgoi produces and sells coal to customers in China.

English text of this Annual Report shall prevail over the Chinese text in case of inconsistencies.



俄罗斯
Russia

蒙古
Mongolia

■ 乌兰巴托
Ulaanbaatar

■ 达兰扎德嘎德
Dalanzadgad

敖包特陶勒盖煤矿
Ovoot Tolgoi Mine

■ 策克
Ceke

■ 额济纳旗
Ejinaqi

■ 酒泉
Jiuquan

■ 嘉峪关
Jiayuguan

■ 临河
Linhe

■ 乌海
Wuhai

■ 银川
Yinchuan

■ 呼和浩特
Hohhot

■ 包头
Baotou

■ 大同
Datong

■ 二连浩特
Erenhot

■ 乌兰察布
Ulanqab

■ 张家口
Zhangjiakou

■ 北京
Beijing

■ 天津
Tianjin

■ 秦皇岛
Qinhuangdao

中国
China

- 敖包特陶勒盖煤矿
Ovoot Tolgoi Mine
- 铁路 Railway



MESSAGE FROM THE CEO

Many countries around the world continued to combat the COVID-19 pandemic in 2021, which created unprecedented challenges and adversely affected the global economy. The Company's operational and financial results were negatively affected by the pandemic. As a result of the precautionary measures imposed by the Chinese authorities at the Chinese-Mongolian border, included restrictions on the number of trucks able to cross the border throughout the second quarter of 2021, and a temporary closure of the border in late October 2021, the Company's coal exports into China were suspended from November 2021 to May 2022. The above measures adversely affected the sales volume of the Company and the ability to export coal into China.

In response to the above challenges, the Company reacted proactively and cautiously strategized to ensure the Company persevered through the difficult times. The Company temporarily suspended mining operations beginning in early November 2021, in order to control the inventory level and preserve the Company's working capital. There is no material change of resources and reserves at the financial year end date. The Chinese-Mongolian border re-opened for coal export on a trial basis in May 2022, with a limited number of trucks permitted to cross the border during the trial period. The Company has been adjusting its sales strategy in response and exploring opportunities to expand its sales. The Company will follow closely on the border situation and will from time to time review the most suitable time for the resumption of its mining operation.

The Company will continue to closely monitor the impact of the COVID-19 pandemic and will manage its liquidity situation in order to ensure that it has sufficient working capital to operate efficiently and without interruption. In addition, the Company has adopted and will continue to implement strict COVID-19 preventative safety measures at the mine site as well as across all offices in order to maintain normal operations as practicable, while also complying with the advice or orders of local public health authorities.

Safety continues to be one of the Company's top priorities, and the Company remains fully committed to operating in a safe and socially responsible manner. The Company ended 2021 without a lost time injury, per 200,000 man-hours based on a rolling 12-month average. We are proud of our track record of low incident frequency rates that have been consistently maintained over the years and we will strive to uphold this trend going forward.



MESSAGE FROM THE CEO

Looking ahead, we will continue to utilize the flat management structure to implement various measures and strategies, which will enhance the Company's competitiveness and propel the Company forward. This will further advance the operational efficiencies of the Company's operations, sales, logistics, production processes and finances. The Company remains cautiously optimistic regarding the China coal market, as coal is still considered the primary energy source in China. Coal prices are expected to be volatile, and management will continue to closely monitor and react to the dynamic market. The Company will also aim to enhance product value and quality by increasing the volume of coal being washed in the coal wash plant, expand its customer base and sales network, improve logistics and optimize its operational cost structure, while most importantly, continuing to operate in a safe and socially responsible manner. We believe in our ability to create and maximize the Company's value by leveraging its key competitive strengths, maximizing profit and shareholders' value, while growing and shaping the future of the Company.

On behalf of the management team, I would like to thank all of SouthGobi's loyal employees, communities and the authorities of Mongolia, China and Canada, our customers, suppliers and shareholders for all your support throughout these difficult times.

Dalanguerban
CEO and Executive Director



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.



BOARD OF DIRECTORS AND SENIOR MANAGEMENT



Dalanguerban
Executive Director and Chief Executive Officer

Mr. Dalanguerban, 64, was appointed as Chief Executive Officer and as the Company's Executive Director on March 31, 2020. Mr. Dalanguerban is also a Director of several of the Company's subsidiaries.

Mr. Dalanguerban is a seasoned mining professional, having accumulated over 35 years of international mining and operational experience including a number of mining projects in Mongolia. Mr. Dalanguerban spent the majority of his career working for China Nonferrous Metal Industry's Foreign Engineering and Construction Co., Ltd. ("NFC"), in a variety of roles in various countries. Throughout the 1980's, Mr. Dalanguerban worked in Jordan, Egypt, Yemen, and Iraq in a variety of mining. Between 1991 and 2017, Mr. Dalanguerban was the Chief Representative of NFC in Mongolia. During this time, Mr. Dalanguerban accomplished numerous achievements, and assisted various companies in succeeding in the Mongolian mining industry. These companies include an explosive plant, molybdenum oxide processing plant, and heap leaching copper hydrometallurgical production plant. Mr. Dalanguerban was involved in the development and commissioning of the Tumurtiin-Ovoo zinc mine, which is recognized as an "Exemplary Project of China-Mongolia Cooperation" and for which he was awarded the "Mining Contribution" prize by the Ministry of Mining and Heavy Industry of Mongolia. Mr. Dalanguerban served as a Director, Executive Deputy General Manager, and General Manager at Tsairt Minerals LLC (holding company of the Tumurtiin-Ovoo zinc mine) from its establishment in 1997 until 2005, when the Tumurtiin-Ovoo zinc mine was put into production.

Mr. Dalanguerban cofounded the Mongolian Chinese Chamber of Commerce in Mongolia in 2002, is a member of the President's Management Team and he now serves as its Executive Vice President. In 2016, Mr. Dalanguerban was awarded an honorary Doctorate Degree from the Mongolian University of Life Sciences and in 2016 he was recognized by the Mongolian government as a leading cultural contributor. Mr. Dalanguerban studied Arabic at the Shanghai International Studies University and graduated in 1980. He is a member of the Canadian Institute of Corporate Directors.



Jianmin Bao
Non-Executive Director

Mr. Bao, 54, joined the Board of Directors on March 18, 2020 as a Non-Executive Director.

Mr. Bao is currently a member of the Executive Committee of China Investment Corporation ("CIC"). He is responsible for overseeing investment projects in infrastructure, real estate, energy, oil and gas, minerals and related investment funds at CIC Capital Corporation, a wholly owned subsidiary of CIC. Mr. Bao joined CIC in 2011 when he managed its North American fund investments and private credit market investments in the Private Equity Department at CIC.

Prior to joining CIC, Mr. Bao held the position of Vice President at the Beijing branch of HSBC Bank (China) Company Limited ("HSBC China") and various senior positions in the Global Investment Banking Division of HSBC China during 2006 to 2010. Before joining HSBC China, Mr. Bao was the Head of the Export Credit Department of Export-Import Bank of China.

Mr. Bao joined the Board of Commissioners of PT Bumi Resources Tbk, a company listed on the Jakarta Stock Exchange (the "IDX"), in September 2020. Previously, Mr. Bao was a non-executive Director of Noble Group Limited, a company listed on the Singapore Stock Exchange.

Mr. Bao received his Bachelor's Degree in 1990 and a Master's Degree of Industry and Foreign Trade in 1994 from the Shanghai Jiao Tong University. Mr. Bao is a member of the Canadian Institute of Corporate Directors.



BOARD OF DIRECTORS AND SENIOR MANAGEMENT



Zhiwei Chen
Non-Executive Director

Mr. Chen, 38, joined the Board of Directors on April 13, 2018 as a Non-Executive Director.

Mr. Chen joined China Cinda (HK) Holdings Company Limited (“Cinda HK”) in 2010. He is currently the Deputy General Manager responsible for managing Cinda HK’s investment and financing businesses, leading a team that manages nearly US\$3.5 billion in investments.

Mr. Chen is the current Executive Director and Chairman of Zhongchang International Holdings Group Limited, a company listed on the Hong Kong Stock Exchange (“HKEX”). Mr. Chen is also a Non-Executive Director of China Fortune Financial Group and Silver Grant International Holdings Group Limited, each of which is listed on the HKEX. Mr. Chen has over 15 years’ of investment and research experience in the financial industry and, prior to joining Cinda HK, Mr. Chen was the Executive Assistant to the Chairman of TIG Group in Singapore from 2007 to 2010, was responsible for TIG Group’s private equity investment business in China.

Mr. Chen obtained his Bachelor’s Degree in Economics from Tsinghua University in China in 2004 and a Master’s Degree in Estate Management from National University of Singapore in 2009. Mr. Chen is a member of the Canadian Institute of Corporate Directors.



Ka Lee Ku
Non-Executive Director

Ms. Ka Lee Ku, 51, joined the Board of Directors on December 9, 2020 as a Non-Executive Director.

Ms. Ku is currently the Managing Director of the Investment Department in China Cinda (HK) Holdings Company Limited (“Cinda HK”), responsible for sourcing and execution of private and secondary market transactions valuing in excess of HK\$10 billion. Ms. Ku has over 25 years’ experience in the management and finance sectors and is an executive Director and Chief Executive Officer of Zhongchang International Holdings Group Limited, a company listed on the HKEX. She joined China Cinda Asset Management Co., Ltd. (“China Cinda”) in 1996 and, throughout her career at China Cinda she has worked in a variety of roles and positions. Prior to her appointment in 2018 as the Managing Director of the Investment Department in Cinda HK, Ms. Ku was an Executive Director of the Investment Department in Cinda HK from March 2017 to March 2018, and a Senior Manager Assistant of the Investment Department in Cinda HK from March 2016 to March 2017. While at Cinda HK, Ms. Ku has provided corporations with financial support through loans, equity investments, mezzanine investments, bond investments, initial public offerings, and additional investment opportunities at every stage of corporate growth.

Ms. Ku studied international trade at the Hubei University in China. She obtained a diploma in Business Management from The Hong Kong Management Association and completed the Licensing Examination for Securities and Futures Intermediaries from the Hong Kong Securities and Investment Institute. Ms. Ku is a member of the Canadian Institute of Corporate Directors.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT



Ben Niu
Non-Executive Director

Mr. Niu, 36, joined the Board of Directors on May 30, 2019 as a Non-Executive Director.

Mr. Niu is currently a Vice President of CIC Capital and is responsible for evaluating investment opportunities in the metals and mining industry and management of CIC Capital's existing portfolio assets in the same sector. Prior to joining CIC Capital in 2019, he was a Senior Manager at China Minmetals Corporation, responsible for its overseas mining strategy, commodity analysis and M&A in the mining sector. Through his experience at China Minmetals Corporation and its subsidiaries, Mr. Niu has developed an extensive understanding of global mining development trends, commodity attractiveness and investment opportunity selection.

Mr. Niu received his Bachelor's and Master's Degrees from Tsinghua University in China in 2012, majoring in Electronic Engineering. Mr. Niu is a member of the Canadian Institute of Corporate Directors and is a Chartered Financial Analyst (CFA).



Yingbin Ian He
Independent Non-Executive Director

Mr. He, 60, joined the Board of Directors on May 16, 2017 as an Independent Non-Executive Director.

Mr. He's career in the mining industry has spanned over 30 years', with extensive senior executive and board experience. Mr. He is the Lead Independent Director of China Gold International Resources Corp. Ltd., a company dually listed on the Toronto Stock Exchange ("TSX") and the HKEX; Director of Tri-River Ventures Inc., a company listed on the TSX Venture Exchange ("TSX-V"); Director of PT Bumi Resources Tbk listed on the Indonesia Stock Exchange, and Director and Chairman of Vatukoula Gold Mines. Throughout his career, Mr. He has served as director of several public companies and was the President and Director of Spur Ventures Inc. (TSX-V) (1995 to 2006), and the General Manager of its operating subsidiary Yichang Mapleleaf Chemicals Inc. (2003 to 2006 and 2011 to 2017). In his early career, Mr. He worked as senior metallurgical engineer with Process Research Associates (now Bureau Veritas) (1992 to 1995) and mineral process engineer (1990 and 1992) with Teck Resources.

Mr. He obtained his PhD (1994) and Master of Applied Science (1990) degrees in Mineral Process Engineering from the University of British Columbia in Canada and his Bachelor of Engineering Degree (1982) in Coal Preparation and Utilization from Heilongjiang Institute of Mining and Technology (now Heilongjiang University of Science and Technology) in China. Mr. He is a member of the Canadian Institute of Mining, Metallurgy and Petroleum and the Canadian Institute of Corporate Directors.



BOARD OF DIRECTORS AND SENIOR MANAGEMENT



Jin Lan Quan

Independent Non-Executive Director

Ms. Quan, 59, joined the Board of Directors on August 6, 2015 as an Independent Non-Executive Director.

Ms. Quan is an independent financial planner and business consultant based in Sydney, Australia. Ms. Quan has accumulated extensive and diverse finance and audit experience during her time as an audit partner with one of the big four international accounting firms in Sydney, Australia. She has wide-ranging experience in financial consulting services with skills in external auditing, internal audit structuring, corporate financing, risk management and business acquisition. Ms. Quan was previously a director of Kresta Holdings Ltd., a company listed on the Australian Stock Exchange.

Ms. Quan is a Fellow of the Association of Chartered Certified Accountants United Kingdom (ACCA UK), a P.R.C. Certified Public Accountant (CICPA), a member of the Chartered Accountants Australia & New Zealand (CA ANZ), and a member of the Canadian Institute of Corporate Directors.



Mao Sun

Independent Non-Executive Director and Lead Director

Mr. Sun, 45, joined the Board of Directors on November 5, 2015 as an Independent Non-Executive Director, he was the Company's Interim Lead Director from August 16, 2016 to May 30, 2019 and was appointed as the Lead Director on May 30, 2019.

Mr. Sun is the founding partner of Mao & Ying LLP, a private accounting firm offering tax, assurance and management consulting services.

Mr. Sun has over 15 years' experience in the accounting sector and has extensive knowledge of Canadian accounting standards, International Financial Reporting Standards and Canadian taxation laws. Mr. Sun has extensive experience with Canadian listed companies. He was appointed as the Chief Financial Officer of HFX Holding Corp. (TSX-V) in June 2014 and the Chief Financial Officer of Euro Asia Pay Holdings Inc., listed on the Canadian Securities Exchange, in June 2020. Mr. Sun was a Director and Chairman of the audit committee for Yalian Steel Corporation (TSX-V) from 2012 to 2013, and a Director and member of the audit committee for Wildsky Resources Inc. (TSX-V) from 2017 to February 2020. Prior to founding Mao & Ying LLP, Mr. Sun was the audit manager in the Vancouver office of KPMG, an internationally recognized accounting firm.

Mr. Sun graduated from Columbia University in New York with a Master's Degree in International Affairs, International Finance and Business, and a Bachelor's Degree in Computer Science from Nanjing University, China. Mr. Sun is a member of the Institute of Chartered Accountants of British Columbia, the Canadian Tax Foundation and the Canadian Institute of Corporate Directors.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT



Alan Ho
Acting Chief Financial Officer

Mr. Ho, 38, was appointed as the Company's acting Chief Financial Officer on February 10, 2021, and was the Company's Controller between July 2015 and February 2021. Mr. Ho is also a Director of several of the Company's subsidiaries.

Mr. Ho has over 15 years' of financial accounting, auditing and corporate finance experience. Prior to joining the Company in 2013, Mr. Ho was an audit manager at Ernst & Young, overseeing the audits of numerous public companies in diverse industries.

Mr. Ho holds a Bachelor's Degree in Economics and Finance from the University of Hong Kong and is a member of the Hong Kong Institute of Certified Public Accountants and the Canadian Institute of Corporate Directors. He is also a Chartered Financial Analyst (CFA) and a Certified Financial Risk Manager (FRM).



Tao Zhang
Vice President of Sales

Mr. Zhang, 40, was appointed as the Company's Vice President of Sales on February 10, 2021 and was the Company's Vice President between July 2018 to February 2021. Mr. Zhang is also a Director of several of the Company's subsidiaries.

Mr. Zhang has more than 15 years' of experience in corporate operations and international management in the mining industry. Prior to joining the Company, Mr. Zhang was the Senior Supervisor of the Corporate Development (Investment) Department of NFC from June 2016 to May 2018. He joined NFC in March 2007 and from November 2007 to December 2012, he held various managerial positions in international trade and human resources at Tsairt Mineral LLC, the parent company of the Tumurtiin-Ovoo zinc mine in Mongolia.

Mr. Zhang is a certified safety engineer in China. Mr. Zhang graduated from the Central South University in China, where he obtained his Bachelor's Degree in Mining and Geotechnical in 2004 and a Master's Degree in Mining and Safety Engineering Management in 2006.



BOARD OF DIRECTORS AND SENIOR MANAGEMENT



Munkhbat Chuluun

Vice President of Public Relations

Mr. Chuluun, 62, was appointed as Vice President of Public Relations on February 10, 2021 and was the President and Executive Director of the Company's wholly-owned subsidiary SouthGobi Sands LLC ("SGS") between September 2015 and February 2021. Mr. Chuluun is also a Director of one of the Company's subsidiaries.

Mr. Chuluun joined SGS as an advisor in 2012 and held the positions of interim President and Executive Director, and General Manager of Government Relations and Compliance. Prior to joining SGS, Mr. Chuluun was the Project Director of Asia Development Bank, the Coordinator of The World Bank and the Deputy of Prosecutors of Mongolia. Mr. Chuluun is the New Zealand Honorary Consul-General in Mongolia and serves on the Board of AmCham Mongolia (American Chamber of Commerce), and Public Administration magazine, and is the President of the Mongolian Rugby Football Union.

Mr. Chuluun holds a Master's Degree of Social Sciences in Public Administration and Public Policy from the University of Waikato, Hamilton, New Zealand, a postgraduate Diploma in Public Administration from the Academy of Management, Ulaanbaatar, Mongolia and a Bachelor of Law from the Institute of the Ministry of Internal Affairs, Leningrad, Russia.

DIRECTORS' REPORT

The board of directors (the “Directors” and the “Board”, respectively) of SouthGobi Resources Ltd. (“SGQ”) is pleased to present its report along with the audited consolidated financial statements (the “Financial Statements”) of SGQ together with its subsidiaries (collectively the “Company”) for the financial year ended December 31, 2021 (the “Financial Year”).

Principal activities, business review and geographical analysis of operations

The Company is an integrated coal mining, development and trading company. The Company’s significant subsidiaries are set out in Note 29 to the Financial Statements and the activities of all major subsidiaries of the Company as at December 31, 2021 are set out in the table below:

Name	Country of incorporation	Issued and fully paid share capital/paid-in capital/registered capital	Principal activities
SGQ Coal Investment Pte. Ltd.	Singapore	US\$1	Investment holding
SouthGobi Sands LLC	Mongolia	MNT1,116,039,871,410.50	Coal mining, development and exploration of properties in Mongolia
Mazaalai Resources LLC	Mongolia	MNT1,000,000	Investment holding
SouthGobi Resources (Hong Kong) Limited	Hong Kong	HK\$1	Business services and investment holding
SouthGobi Trading (Beijing) Co., Ltd.	China	US\$400,000	Investment holding
Inner Mongolia SouthGobi Energy Co., Ltd.	China	CNY100,000,000	Import agency and trading of coal
Chongqing SouthGobi Energy Ltd.	China	HK\$10,000,000	Coal trading
Inner Mongolia SouthGobi Enterprise Co., Ltd.	China	CNY142,857,143	Storage and warehouse service, customs clearance service and transportation for imported goods
Inner Mongolia SouthGobi Mining Development Co., Ltd.	China	CNY50,000,000	Transportation of imported goods, import and export agent for goods and technology, wholesale of coal and other mining products, coal processing, warehouse and storage, and information technology consultation services
TST Holdings Limited	Hong Kong	US\$110,000	Investment holding
TST Coal Trans LLC	Mongolia	US\$100,000	Foreign trading activities, including purchase, sale, import and export of merchandise and commodities, domestic and international transportation services

The analysis of the principal activities by geographical location of the operations of the Company for the Financial Year is set out in Note 4 to the Financial Statements.

A review of the business of the Company during the Financial Year and a further discussion and analysis of these activities, including a description of the principal risks and uncertainties the Company may be facing and an indication of likely future development in the Company’s business, can be found in Management’s Discussion and Analysis set out on pages 56 to 111 of this Annual Report. The discussion forms part of this directors’ report.

Results

The results of the Company for the Financial Year are set out in the Consolidated Statement of Comprehensive Income on page 127 of this Annual Report.



DIRECTORS' REPORT

Dividends

The Company has adopted a Dividend Policy which sets out guidelines for the Board to consider in determining if and when dividends should be declared and paid in the future. Under the Dividend Policy, the Board will make all decisions with respect to dividends on the Company's common shares, and the Board shall consider the following factors in determining if and when dividends should be declared and paid in the future based on, amongst other things:

- the actual and expected financial results of the Company at the relevant time (including whether the Company has adequate retained earnings);
- economic conditions and other internal or external factors that may have an impact on the business or financial performance and position of the Company;
- the Company's business strategy and operational plans, including future cash commitments and investment needs to sustain the long-term growth of the Company;
- the current and expected liquidity position and capital requirements of the Company; and
- any other factors that the Board deems appropriate.

The Board reviews the Dividend Policy from time to time and has the right to amend, suspend or terminate this Dividend Policy at any time in its sole and absolute discretion. There is no assurance that dividends will be paid in any particular amount for any given period. If a dividend is declared by the Board, all of the Company's common shares are entitled to an equal share in any dividends declared and paid. Please refer to the Company's website (www.southgobi.com) to obtain further details on the Dividend Policy.

Since its incorporation, the Company has not paid any dividends on its common shares and the Board does not anticipate that any dividends will be declared on the Company's common shares in the immediate or foreseeable future.

The Board does not recommend the payment of any final dividend for the Financial Year (2020: Nil). No interim dividend was declared or paid during the Financial Year (2020: Nil).

Property, plant and equipment

Details of the movements in the property, plant and equipment of the Company during the Financial Year are set out in Note 16 to the Financial Statements.

Share capital

Details of the movements in the share capital of the Company during the Financial Year are set out in Note 24 to the Financial Statements and in the Consolidated Statement of Changes in Equity on page 129 of this Annual Report.

The Company did not enter into any private placements for equity or debt securities during the Financial Year.

Purchase, sale or redemption of listed securities

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Financial Year.

DIRECTORS' REPORT

Reserves

Details of the reserves available for distribution to the shareholders of the Company (the "Shareholders") as at December 31, 2021 are set out in the Consolidated Statement of Changes in Equity on page 129 of this Annual Report.

Directors

The Directors during the Financial Year and up to the date of this report are as follows:

DIRECTORS

Executive Director

Mr. Dalanguerban (Chief Executive Officer)

Non-Executive Directors

Mr. Jianmin Bao

Mr. Zhiwei Chen

Ms. Ka Lee Ku

Mr. Ben Niu

Independent Non-Executive Directors ("INEDs")

Mr. Yingbin Ian He

Ms. Jin Lan Quan

Mr. Mao Sun (Independent Lead Director)

Except where such Director has already resigned from the Board, the term of office for each of the Directors will end at the conclusion of the forthcoming annual general meeting (the "2022 AGM"). In accordance with article 14.1 of the articles of continuation of the Company (the "Articles of Continuation"), all of the Directors, including the INEDs and the Non-Executive Directors, would retire and, being eligible, may offer themselves for re-election at the 2022 AGM.

The Company has received written annual confirmations of independence from each of Messrs. Yingbin Ian He, Mao Sun and Ms. Jin Lan Quan, the Company's INEDs. The Board and Nominating and Corporate Governance Committee have assessed the independence of each INED and, as at the date of this report, considers each of them to be independent in accordance with the applicable listing rules and, having regard to (i) their annual confirmation on independence as required under the Listing Rules, (ii) the absence of involvement in the daily management of the Company and (iii) the absence of any relationships or circumstances which would interfere with the exercise of their independent judgement.

Directors' service contracts

None of the Directors proposed for re-election at the 2022 AGM have a service contract with the Company, which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

Directors' interests in transactions, arrangements or contracts of significance

No transactions, arrangements or contracts of significance in relation to the Company's business to which the Company or any of its subsidiaries was a party and in which a Director or a connected entity of a Director had a material interest, whether directly or indirectly, subsisted at the end of the Financial Year or at any time during the Financial Year.



DIRECTORS' REPORT

Directors' interests in competing businesses

During the Financial Year and up to the date of this report, to the best knowledge of the Directors, none of the Directors and the controlling Shareholders had any interests in businesses that compete or are likely to compete, either directly or indirectly, with the Company's business.

Directors' and chief executive's interests and short positions in shares, underlying shares and debentures

As at December 31, 2021, or in the case of a departed Director as at his resignation/retirement date, the interests of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)) were as follows:

Interests in common shares of SGQ (the "Shares"):

Name of Directors	Number of Shares interested				Number of underlying Shares interested		Approximate percentage of SGQ's issued Shares ⁽⁴⁾
	Directly beneficially owned	Through spouse or minor children	Through controlled company	Beneficiary of a trust	Directly beneficially owned	Total ⁽³⁾	
Directors							
Dalanguerban	21,184	–	–	–	450,000 ⁽²⁾	471,184	0.17%
Yingbin lan He	27,000	–	–	–	550,000 ⁽²⁾	577,000	0.21%
Jin Lan Quan	–	–	–	–	600,000 ⁽²⁾	600,000	0.22%
Mao Sun	–	–	–	–	800,000 ⁽²⁾	800,000	0.29%
Senior Management							
Alan Ho	114,638	–	–	–	451,000 ⁽²⁾	565,638	0.21%
Tao Zhang	–	–	–	–	360,000 ⁽²⁾	360,000	0.13%
Munkhbat Chuluun	–	–	–	–	550,000 ⁽²⁾	550,000	0.20%

Notes:

- (1) The information as to the Shares beneficially owned or controlled or directed that is not within the knowledge of the Company, its Directors or its officers has been furnished by the applicable Shareholders or has been extracted from the public filings.
- (2) These interests represented the underlying Shares comprised in the share options granted by the Company.
- (3) All interests stated above are long positions.
- (4) The percentage represents the total number of the Shares and the underlying Shares interested divided by the number of issued Shares as at December 31, 2021 (274,115,544 Shares).

Other than the shareholdings disclosed in the preceding table, none of the Directors of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at December 31, 2021.

DIRECTORS' REPORT

Share option plan

The particulars of the Company's share option plan (the "Share Option Plan") are set out in Note 25 to the Financial Statements. The following table discloses movements in the Company's share options for the Financial Year:

Name	Number of share options					At December 31, 2021	Date of grant of share options ⁽¹⁾	Exercise period of share options	Exercise price per share ⁽²⁾
	At January 1, 2021	Granted during the period	Exercised during the period	Forfeited during the period	Expired during the period				
Directors									
Mao Sun	100,000	-	-	-	(100,000)	-	Nov. 16, 2016	Nov. 16, 2017 – Nov. 16, 2021	CAD\$0.33
	100,000	-	-	-	(100,000)	-	Nov. 16, 2016	Nov. 16, 2018 – Nov. 16, 2021	CAD\$0.33
	200,000	-	-	-	-	200,000	June 30, 2017	June 30, 2018 – June 30, 2022	CAD\$0.33
	200,000	-	-	-	-	200,000	July 03, 2018	July 03, 2019 – July 03, 2023	CAD\$0.13
	200,000	-	-	-	-	200,000	Sept. 11, 2019	Sept. 11, 2020 – Sept. 11, 2024	CAD\$0.11
	-	200,000	-	-	-	200,000	June 29, 2021	June 29, 2022 – June 29, 2026	HK\$1.41
	800,000	200,000	-	-	(200,000)	800,000			
Jin Lan Quan	75,000	-	-	-	(75,000)	-	Nov. 16, 2016	Nov. 16, 2017 – Nov. 16, 2021	CAD\$0.33
	75,000	-	-	-	(75,000)	-	Nov. 16, 2016	Nov. 16, 2018 – Nov. 16, 2021	CAD\$0.33
	150,000	-	-	-	-	150,000	June 30, 2017	June 30, 2018 – June 30, 2022	CAD\$0.33
	150,000	-	-	-	-	150,000	July 03, 2018	July 03, 2019 – July 03, 2023	CAD\$0.13
	150,000	-	-	-	-	150,000	Sept. 11, 2019	Sept. 11, 2020 – Sept. 11, 2024	CAD\$0.11
	-	150,000	-	-	-	150,000	June 29, 2021	June 29, 2022 – June 29, 2026	HK\$1.41
	600,000	150,000	-	-	(150,000)	600,000			
Yingbin Ian He	100,000	-	-	-	-	100,000	June 5, 2017	June 5, 2018 – June 5, 2022	CAD\$0.39
	150,000	-	-	-	-	150,000	June 30, 2017	June 30, 2018 – June 30, 2022	CAD\$0.33
	150,000	-	(150,000)	-	-	-	July 03, 2018	July 03, 2019 – July 03, 2023	CAD\$0.13
	150,000	-	-	-	-	150,000	Sept. 11, 2019	Sept. 11, 2020 – Sept. 11, 2024	CAD\$0.11
	-	150,000	-	-	-	150,000	June 29, 2021	June 29, 2022 – June 29, 2026	HK\$1.41
	550,000	150,000	(150,000)	-	-	550,000			
Dalangerban	-	450,000	-	-	-	450,000	June 29, 2021	June 29, 2022 – June 29, 2026	HK\$1.41
	0	450,000	-	-	-	450,000			
Jianmin Bao	-	-	-	-	-	-			
Ben Niu	-	-	-	-	-	-			
Zhiwei Chen	-	-	-	-	-	-			
Ka Lee Ku	-	-	-	-	-	-			
Total for Directors	1,950,000	950,000	(150,000)	-	(350,000)	2,400,000			
Other share option holders	2,024,500	-	(788,500)	(777,000)	-	459,000	Aug. 16, 2018	August 16, 2019 – August 16, 2023	CAD\$0.13
	2,324,750	-	(429,000)	(993,000)	-	902,750	Nov. 15, 2019	Nov. 15, 2020 – Nov. 15, 2024	CAD\$0.13
	-	2,592,500	-	(105,000)	-	2,487,500	June 29, 2021	June 29, 2022 – June 29, 2026	HK\$1.41
Total for other share option holders	4,349,250	2,592,500	(1,217,500)	(1,875,000)	-	3,849,250			
Total	6,299,250	3,542,500	(1,367,500)	(1,875,000)	(350,000)	6,249,250			

Notes:

- The vesting period of the share options is from the date of grant until the commencement of the exercise period.
- The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.



DIRECTORS' REPORT

The directors have estimated the values of the share options granted to Messrs. Dalanguerban, Yingbin Ian He, Mao Sun, and Ms. Jin Lan Quan were US\$42,101, US\$13,695, US\$18,260, and US\$13,695, respectively, during the year, calculated using Black-Scholes option pricing model as at the date of grant of the share options.

The Black-Scholes option pricing model is a generally accepted method of valuing options. The significant assumptions used in the calculation of the values of the share options were expected life of the options, risk-free interest rate, expected volatility and expected dividend yield of the shares of the Company. The measurement dates used in the valuation calculations were the dates on which the options were granted.

The value of the share options calculated using the Black-Scholes option pricing model are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of assumptions of the expected future performance input to the model, and certain inherent limitations of the model itself. The value of an option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an option.

Details of the accounting policy for the Share Option Plan are set out in Note 3.12 to the Financial Statements.

Arrangement to purchase shares and debentures

Eligible employees are able to participate in the Company's share purchase plan (the "Share Purchase Plan"), which allows participants to contribute up to 7% of their basic annual salary to purchase shares in the Company. The Company contributes 50% of the participant's contribution and at the end of each calendar quarter, Shares are issued by the Company on behalf of the participants.

Save as disclosed above, at no time during the financial year was the Company, or any of its subsidiaries or fellow subsidiaries, or the holding company a party to any arrangements to enable the directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Substantial shareholders

The register of interests and short positions in Shares required to be kept by the Company (the "Register of Interests") showed that as at December 31, 2021, the Company has been notified of the following interests in the Shares and underlying Shares (other than those of a Director or the chief executive of the Company) representing 5% or more of the Company's issued Shares:

Name of substantial shareholders	Nature of interest	Number of Shares held ^{(a)(d)}	Approximate percentage of issued Shares ^(e)
Land Breeze II S.à.r.l. ^(b)	Beneficial	64,766,591	23.63%
Fullbloom Investment Corporation ^(b)	Interest of a controlled corporation	64,766,591	23.63%
China Investment Corporation ("CIC") ^(b)	Interest of controlled corporations	64,766,591	23.63%
Novel Sunrise Investments Limited ("Novel Sunrise") ^(c)	Beneficial	46,358,978	16.91%
Hope Rosy Limited ^(c)	Interest of a controlled corporation	46,358,978	16.91%
China Cinda (HK) Investments Management Company Limited ^(c)	Interest of controlled corporations	46,358,978	16.91%
China Cinda (HK) Holdings Company Limited ^(c)	Interest of controlled corporations	46,358,978	16.91%
China Cinda Asset Management Co., Limited ^(c)	Interest of controlled corporations	46,358,978	16.91%
The Ministry of Finance of the People's Republic of China ("MOF") ^(c)	Interest of controlled corporations	46,358,978	16.91%
Voyage Wisdom Limited	Beneficial	25,768,162	9.40%

DIRECTORS' REPORT

Notes:

- (a) The information as to the Shares beneficially owned or controlled or directed that is not within the knowledge of the Company, its Directors or its officers has been furnished by the applicable Shareholders or has been extracted from the public filings.
- (b) Land Breeze II S.à-r.l. is a wholly-owned subsidiary of Fullbloom Investment Corporation which is wholly owned by CIC. Accordingly, each of Fullbloom Investment Corporation and CIC was deemed to be interested in Shares held by Land Breeze II S.à-r.l.
- (c) Novel Sunrise is a wholly-owned subsidiary of Hope Rosy Limited, which is a wholly-owned subsidiary of China Cinda (HK) Investments Management Company Limited. China Cinda (HK) Investments Management Company Limited is a wholly-owned subsidiary of China Cinda (HK) Holdings Company Limited which is wholly owned by China Cinda Asset Management Co., Limited. China Cinda Asset Management Co., Limited is indirectly controlled by MOF. Accordingly, each of Hope Rosy Limited, China Cinda (HK) Investments Management Company Limited, China Cinda (HK) Holdings Company Limited, China Cinda Asset Management Co., Limited and MOF was deemed to be interested in Shares held by Novel Sunrise.
- (d) All interests stated above are long positions.
- (e) The percentage represents the total number of the Shares and the underlying Shares interested divided by the number of issued Shares as at December 31, 2021 (274,115,544 Shares).

Other than the interests as disclosed above, according to the Register of Interests, the Company has not been notified of any relevant interests or short positions in the Shares and underlying Shares as at December 31, 2021.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the Company's business were entered into or existed during the Financial Year.

Emolument policy

The emolument policy of the executives of the Company is administered by the Compensation and Benefits Committee on the basis of merit, qualifications and competence and approved by the Board. The emolument policy for the rest of the employees is determined on a department by department basis with the executive in charge of each department determining the emoluments for senior employees and managers in the department and the emoluments for non-senior employees being determined by an appropriately designated manager. The emolument policy for non-executives is administered in conjunction with the human resources department and is done on the basis of merit, qualifications and competence.

The emolument policy for the Directors is administered by the Compensation and Benefits Committee and approved by the Board, having regard to comparable market statistics.

The Company has also adopted the Share Option Plan to incentivize Directors and eligible employees. Details of the plan are set out in Note 25 to the Financial Statements.

Details of the emoluments of the Directors and five individuals with the highest emoluments for the Financial Year are set out in Note A1 to the Financial Statements.



DIRECTORS' REPORT

Pre-emptive rights

There are no provisions for pre-emptive rights under the Articles of Continuation or under the laws of Canada which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

Moreover, pursuant to the terms of a convertible debenture issued by the Company to CIC on October 26, 2009 and subsequently assigned by CIC to Land Breeze II S.à-r.l. (the "CIC Convertible Debenture"), and, subject to certain exceptions, while the CIC Convertible Debenture is outstanding or while Land Breeze II S.à-r.l. beneficially owns directly or indirectly 15% of the outstanding Shares, Land Breeze II S.à-r.l. has a pre-emptive right to subscribe for any new Common Shares offered by the Company (on a pro rata basis) while pursuant to the terms of a subscription agreement dated February 24, 2015 between the Company and Novel Sunrise, subject to certain exceptions, as long as Novel Sunrise and its affiliates own, directly or indirectly, 10% or more of the outstanding Shares, Novel Sunrise has a pre-emptive right to subscribe for any Common Shares, equity securities of the Company or securities convertible into Shares or equity securities of the Company, offered by the Company (on a pro rata basis).

Sufficiency of public float

Pursuant to the rules and regulations of the Toronto Stock Exchange, a company's securities may be delisted if the number of freely-tradable, publicly held securities is less than 500,000 or the number of public security holders, each holding a board lot consisting of 100 common shares or more, is less than 150. Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the amount of public float as approved by the Toronto Stock Exchange and The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange") as at the date of this report.

Major customers and suppliers

Details of the Company's transactions with its major suppliers and customers during the Financial Year are set out below:

Purchases

The largest supplier accounted for 20% of the Company's purchases.

The five largest suppliers accounted for 65% of the Company's purchases in aggregate.

Sales

The largest customer accounted for 35% of the Company's sales.

The five largest customers accounted for 74% of the Company's sales in aggregate.

At no time during the Financial Year did a Director, a close associate (as defined in the Rules Governing the Listing of Securities on The Hong Kong Stock Exchange (the "Listing Rules")) of a Director or a Shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in any of the Company's five largest suppliers or five largest customers.

DIRECTORS' REPORT

Charitable donations

During the Financial Year, the Company made charitable donations amounting to US\$186,883 (2020: US\$172,603).

Permitted Indemnities

The Company has arranged for appropriate insurance cover for the Directors' and Officers' liabilities in respect of legal actions against the Directors and senior management of the Company arising out of corporate activities.

Pursuant to the Articles of Continuation and subject to the Business Corporations Act of British Columbia, Canada, the Company must indemnify a director or former director of the Company and his or her heirs and legal personal representatives against all eligible penalties to which such person is or may be liable, and the Company must, after the final disposition of an eligible proceeding, pay the expenses actually and reasonably incurred by such person in respect of that proceeding.

Related party transactions

Related party transactions of the Company during the Financial Year are disclosed in Note 29 to the Financial Statements. They did not constitute connected transactions or continuing connected transactions, which are required to comply with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Equity-linked agreements

Other than the Share Option Plan and the Share Purchase Plan as disclosed above and the section headed "Management's Discussion and Analysis – CIC Convertible Debenture", no equity-linked agreements that (i) will or may result in the Company issuing Shares or (ii) require the Company to enter into any agreements that will or may result in the Company issuing Shares were entered into by the Company during the Financial Year or subsisted at the end of the Financial Year.

Tax relief

The Company is not aware of any relief on taxation available to the Shareholders by reason of their holdings of the Shares. If the Shareholders are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or exercising of any rights in relation to the Shares, they are advised to consult their professional advisers.



DIRECTORS' REPORT

Independent auditors

The Financial Statements have been audited by BDO Limited, Hong Kong, Certified Public Accountants (Practising), ("BDO"). BDO will retire and, being eligible offer themselves for re-appointment at the forthcoming 2022 AGM. A resolution will be submitted at the 2022 AGM to appoint BDO as the Auditors of the Company.

On behalf of the Board

Mao Sun

Independent Lead Director

May 30, 2022

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.



CORPORATE GOVERNANCE REPORT

Corporate Governance

The Board of Directors of the Company (the “Directors” and the “Board”, respectively) considers good corporate governance practices to be an important factor in the continued and long-term success of the Company by helping to maximize shareholders’ value over time.

To further this philosophy and ensure that the Company follows good governance practices, the Board has taken the following steps:

- approved and adopted a mandate for the Board (the “Board Mandate”), which sets out its stewardship responsibilities;
- appointed an independent non-executive director (“INED”), as the independent Lead Director (the “Independent Lead Director”), with specific responsibilities of, among other things, providing overall leadership of the Board, maintaining the independence of the Board and ensuring that the Board carries out its responsibilities mandated by applicable statutory and regulatory requirements and stock exchange listing standards, and in accordance with best practices;
- established an Audit Committee, a Nominating and Corporate Governance Committee, a Compensation and Benefits Committee, a Health, Environment, Safety and Social Responsibility (“HESS”) Committee and Operations Committee;
- reviewed, and approved amendments as required to, the Board Mandate and the respective charters for Board committees, including the Audit, Nominating and Corporate Governance, Compensation and Benefits, HESS, and an Operations Committees;
- established a Disclosure Committee for the Company, comprised of members of management and the Chair of the Nominating and Corporate Governance Committee, with the mandate to oversee the Company’s disclosure practices;
- adopted and implemented a compliance program for all Directors and employees, including business integrity policies and the whistleblowing program;
- reviewed, and approved amendments as required to, the Company’s Disclosure Controls and Procedures, and the Corporate Disclosure and Securities Trading Policy;
- reviewed, and approved amendments as required to, the Company’s Business Integrity standards, including: the Anti-Corruption Standard and the Conflicts of Interest Standard, “The Way We Work”, and Guidelines for the investigation into allegations of serious wrongdoing (collectively, the “Code of Conduct Standards”);
- reviewed, and approved amendments as required to, the Shareholder Communication Policy;
- reviewed, and approved amendments as required to, the Majority Voting Policy;
- reviewed, and approved amendments to the Board Diversity Policy, that incorporates changes put forth by The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”);



CORPORATE GOVERNANCE REPORT

- reviewed, and approved amendments as required to, the Dividend Policy;
- reviewed, and approved amendments as required to, Significant Contract Committee Policy and related procurement guidelines;
- reviewed, and approved amendments as required to, the written position descriptions for the Chairman, Independent Lead Director, Chief Executive Officer (“CEO”), Chief Financial Officer (“CFO”), Vice President of Sales (“VP Sales”), Vice President of Public Relations (“VP Public Relations”), Controller and Corporate Secretary, as well as the Chairs of the Audit, Nominating and Corporate Governance, Compensation and Benefits and HESS Committees clearly defining their respective roles and responsibilities; and
- formalized a process for assessing the effectiveness of the Board as a whole, the committees of the Board and the contribution of individual Directors, on a regular basis.

Implementation of Corporate Governance Policies

The Board has considered carefully the requirements of the Corporate Governance Code set out in Appendix 14 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange which came into effect on January 1, 2022 (the “Listing Rules” and the “Corporate Governance Code” respectively) and, save as disclosed below, deemed that the Company had complied with the mandatory disclosure requirements and code provisions set out in the Corporate Governance Code, in force as at December 31, 2021, throughout the year ended December 31, 2021 (the “Financial Year”):

- pursuant to Section C.2 under Part 2 of the Corporate Governance Code, the Chairman of the Board should be responsible for the overall management of the Board. The Company has not had a Chairman since November 2017. The Board appointed an Independent Lead Director, who is fulfilling the duties of the Chairman; and
- pursuant to code provision F.2.2 under Part 2 of the Corporate Governance Code, the Chairman of the Board of Directors should attend the annual general meeting (the “AGM”). Mr. Mao Sun, an INED and the Independent Lead Director, attended and acted as Chairman of the Company’s annual general and special meeting held on June 29, 2021 (the “2021 AGM”) to ensure effective communication with shareholders of the Company (the “Shareholders”).

Pursuant to code provision C.2.7 under Part 2 of the Corporate Governance Code, the Chairman of the board should at least annually hold meetings with the non-executive directors (including INEDs) without the executive directors present. During the Financial Year, one (1) meeting between the Independent Lead Director, who is fulfilling the duties of the Chairman, and the Non-Executive Directors was held. The opportunity for such communication channel is available at the end of each Board meeting.

The Company’s current practices are reviewed and updated regularly to ensure that the latest developments and best practices in corporate governance are followed and observed.

During the Financial Year, the Board reviewed the Company’s governance documents and policies included in the Code of Conduct Standards. The Code of Conduct Standards were originally adopted and implemented in 2012.

CORPORATE GOVERNANCE REPORT

The Code of Conduct Standards provides that the Company's Directors, officers, employees and consultants will uphold its commitment to a culture of honesty, integrity and accountability and that the Company requires the highest standards of professional and ethical conduct from its employees, consultants, officers and Directors. The various policies forming the Code of Conduct Standards, including the Shareholder Communication Policy, Majority Voting Policy and the Board Diversity Policy are available on the Company's website (www.southgobi.com). A copy of the Code of Conduct Standards may be obtained, without charge, by request to SouthGobi Resources Ltd. at its registered and records office in Canada, 20th floor – 250 Howe Street, Vancouver, British Columbia, Canada V6C 3R8, Attention: Corporate Secretary, or by phone: 1 604-762-6783 (Canada), +852 2156 1438 (Hong Kong) or email: info@southgobi.com.

To support the ethical standards expected of the Company and its employees, SouthGobi and its subsidiaries have adopted a confidential whistle-blower program, where employees may confidentially report any concerns or perceived misconduct.

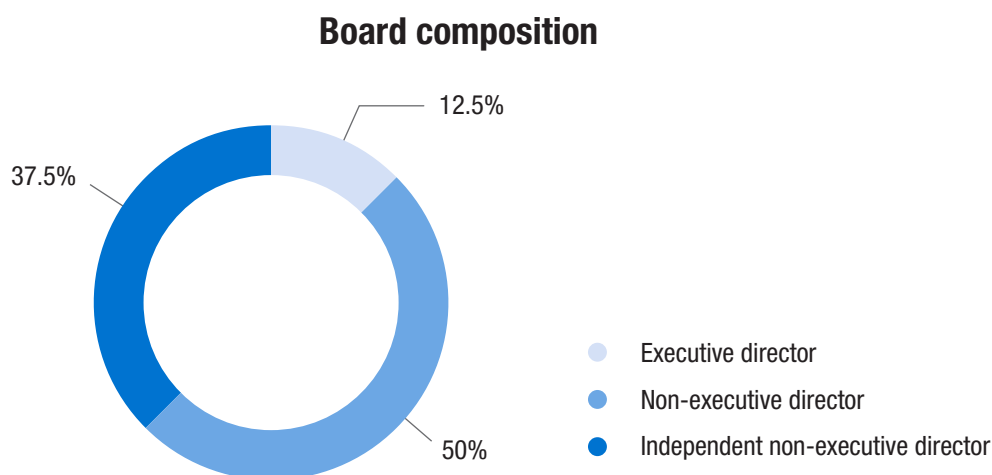
The Company's whistle-blower program is administered by the Company's Corporate Secretary in conjunction with the Chair of the Audit Committee.

The Nominating and Corporate Governance Committee monitors compliance with the Code of Conduct Standards and is responsible for establishing systems to verify compliance with legal, regulatory, corporate governance and disclosure requirements.

Board Composition

In the corporate governance guidelines provided by the Canadian Securities Administrators (the "CSA"), it is recommended that a majority of the directors of a corporation be independent directors. Under the CSA corporate governance guidelines, a director is independent if he or she has no direct or indirect material relationship with the Company. A "material relationship" is one that could, in the view of the Board, be reasonably expected to interfere with the exercise of the Director's independent judgment. The Company considers that a partner, shareholder or officer of an organization that has a material relationship with the Company has an indirect material relationship under the CSA corporate governance guidelines and is, therefore, not an independent Director.

Based on the information regarding personal and business circumstances provided in a comprehensive questionnaire completed annually by each of the Directors and a reasonable enquiry of the Board to determine whether or not the members of the Board are independent, the Board has determined that three (3) of its eight (8) current members (Messrs. Yingbin Ian He, Mao Sun and Ms. Jin Lan Quan) are independent, representing 37.5% of all Board members. Moreover, seven (7) of the eight (8) Directors are non-executive Directors.





CORPORATE GOVERNANCE REPORT

Although a majority of the Board are not independent Directors, the Board is of the view that appropriate structures and procedures are in place to allow the Board to function independently of management. The Board has appointed an INED as Independent Lead Director who is responsible for providing overall leadership of the Board and maintaining the independence of the Board. In the event that the Board must consider a potential or actual conflict, such matter is referred to the INEDs and is subject to independent scrutiny. To facilitate the exercise of independent judgment, the INEDs and non-executive directors of the Board hold meetings as required. During the Financial Year and up to the date of this report, the Directors were/are as follows:

BOARD COMPOSITION

DIRECTORS

EXECUTIVE DIRECTOR:

Mr. Dalanguerban ⁽¹⁾

NON-EXECUTIVE DIRECTORS:

Mr. Jianmin Bao ⁽²⁾

Mr. Zhiwei Chen ⁽³⁾

Ms. Ka Lee Ku ⁽³⁾

Mr. Ben Niu ⁽²⁾

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Mr. Yingbin Ian He

Ms. Jin Lan Quan

Mr. Mao Sun (*Independent Lead Director*)

Notes:

- 1) Mr. Dalanguerban is an Executive Director in his capacity as CEO of the Company;
- 2) Messrs. Jianmin Bao and Ben Niu are Non-Executive Directors in their capacity as employees of China Investment Corporation ("CIC"), a substantial shareholder of the Company; and
- 3) Mr. Zhiwei Chen and Ms. Ka Lee Ku are Non-Executive Directors in their capacity as employees of China Cinda (HK) Asset Management, which is a wholly owned subsidiary of Novel Sunrise Investments Limited, ("Novel Sunrise"), a substantial shareholder of the Company.

As at May 30, 2022, to the knowledge of the Company, each of CIC (through its wholly owned subsidiary, Land Breeze II S.a.r.l.), China Cinda Asset Management Company Limited (through its wholly owned subsidiary, Novel Sunrise), and Voyage Wisdom Limited held approximately 23.6%, 16.9% and 9.4% of the Company's issued and outstanding common shares, respectively.

The Company does not currently have a Chairman. Mr. Mao Sun, the Company's Independent Lead Director and an INED, fulfils the duties of the Chairman, and is responsible for, amongst other things, maintaining the independence of the Board, ensuring that the Board carries out its responsibilities and chairing meetings of the Board.

The Company has received written confirmations of independence from Messrs. Yingbin Ian He, Mao Sun and Ms. Jin Lan Quan, relating to his/her independence pursuant to securities laws and stock exchange rules in all applicable jurisdictions.

The Board has assessed the independence of each INED and, as at the date of this report, considers each of them to be independent in accordance with the applicable listing rules and, having regard to (i) their annual confirmation on independence as required under the Listing Rules, (ii) the absence of their involvement in the daily management of the Company and (iii) the absence of any relationships or circumstances which would interfere with the exercise of their independent judgement.

CORPORATE GOVERNANCE REPORT

Following the assessment of the INED's independence, the Board considers three (3) of the seven (7) non-executive Directors to be independent.

Mr. Dalanguerban, the Company's Executive Director, has been the CEO since March 31, 2020, and is responsible for the Company's operations.

To the best knowledge of the Company, none of the Directors is related, except indirectly as noted below. Relationships include financial, business or family relationships. In this regard, the Company notes:

1. Messrs. Jianmin Bao and Ben Niu are employees of CIC, a substantial shareholder of the Company. Mr. Jianmin Bao was nominated for election to the Board pursuant to CIC's nomination rights under a security holders' agreement executed by and among the Company, CIC, and Turquoise Hill Resources Ltd. Mr. Ben Niu was nominated for election to the Board pursuant to CIC's nomination rights under the 2019 deferral agreement executed by and among the Company and CIC.
2. Mr. Zhiwei Chen and Ms. Ka Lee Ku were nominated by Novel Sunrise, a substantial shareholder of the Company, for election to the Board pursuant to Novel Sunrise's nomination rights under a subscription agreement executed between the Company and Novel Sunrise.
3. Mr. Zhiwei Chen is the Chairman and Executive Director and Ms. Ka Lee Ku is the Executive Director on the Board of Zhongchang International Holdings Group Limited.
4. Mr. Yingbin Ian He is a Director and Mr. Jianmin Bao is a member of the Board of Commissioners of PT Bumi Resources Tbk.

The Directors are satisfied that the size and composition of the Board provides for a balanced representation on the Board among the Executive Director, Non-Executive Directors and INEDs. While the Board believes that it functions effectively given the size of the Company and complexity of its business, the Company, through its Nominating and Corporate Governance Committee, may in the future seek to add qualified candidates to augment its experience and expertise and to enhance the Company's ability to develop its business interests.

Each Director is free to exercise his or her independent judgment.

Corporate Culture and Strategy

The Company believes that building a strong corporate culture and strategy is integral to its long-term growth and success. Through years of operating in Mongolia and China, the Company has developed a culture of mutual respect, and has embraced safety as a basic principal of its operations.

Management values the well-being of all employees, returns from our assets to its stakeholders, and demonstrates this by operating in a safe, productive and socially responsible manner. The Company considers its employees to be its greatest asset and has undertaken to provide all employees with healthy, respectful and safe workplace conditions.



CORPORATE GOVERNANCE REPORT

Mandate of the Board

Under the British Columbia Business Corporations Act in Canada (“BCBCA”), the Directors are required to manage the Company’s business and affairs, and in doing so to act honestly and in good faith with a view to furthering the best interests of the Company. In addition, each Director must exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Board is responsible for supervising the conduct of the Company’s affairs and the management of its business. The Board Mandate includes setting long-term goals and objectives for the Company, formulating the plans and strategies necessary to achieve those objectives and supervising senior management in their implementation. Although the Board delegates the responsibility for managing the day-to-day affairs of the Company to senior management, the Board retains a supervisory role in respect of, and the ultimate responsibility for, all matters relating to the Company and its business.

The Board Mandate requires the Board be satisfied that the Company’s senior management will manage the affairs of the Company in the best interest of the Shareholders and that the arrangements made for the management of the Company’s business and affairs are consistent with their duties described above. The Board is responsible for protecting the Shareholders’ interests and ensuring that the incentives of the Shareholders and management are aligned. The obligations of the Board must be performed continuously, and not merely from time to time, and in times of crisis or emergency, the Board may have to assume a more direct role in managing the affairs of the Company.

In discharging this responsibility, the Board Mandate provides that the Board will oversee and monitor significant corporate plans and strategic initiatives. The Board’s strategic planning process includes annual and quarterly budget reviews and approvals, and discussions with management relating to strategic and budgetary issues. At least one (1) Board meeting per year is devoted to a comprehensive review of strategic corporate plans proposed by management.

As part of its ongoing review of business operations, the Board periodically reviews the principal risks inherent in the Company’s business, including financial risks, through periodic reports from management of such risks, and assesses the systems established to manage those risks. Directly and through the Audit Committee, the Board also assesses the integrity of internal controls over financial reporting and management information systems.

In addition to those matters that must, by law, be approved by the Board, the Board is required under the Board Mandate to approve annual operating and capital budgets, any material dispositions, acquisitions and investments outside of the ordinary course of business or not provided for in the approved budgets, long-term strategy, organizational development plans and the appointment of senior executive officers. Management is authorized to act, without the Board’s approval, on all ordinary course matters relating to the Company’s business.

The Board Mandate provides that the Board also expect management to provide the Directors, on a timely basis, with information concerning the business and affairs of the Company, including financial and operating information and information concerning industry developments as they occur, all with a view to enabling the Board to discharge its stewardship obligations effectively. The Board expects management to implement its strategic plans for the Company, to keep the Board fully apprised of its progress in doing so and to be fully accountable to the Board in respect to all matters for which it has been assigned responsibility.

The Board has instructed management to maintain procedures to monitor and promptly address Shareholders’ concerns, has directed, and will continue to direct, management to apprise the Board of any major concerns expressed by the Shareholders.

Each committee of the Board is empowered to engage external advisors as it reasonably sees fit. Any individual Director is entitled to engage an outside advisor at the expense of the Company provided that such Director has obtained the approval of the Nominating and Corporate Governance Committee to do so. In order to ensure that the principal business risks borne by the Company are identified and appropriately managed, the Board receives monthly reports from management of the Company’s assessment and management of such risks. In conjunction with its review of operations, the Board considers risk issues when appropriate and approves corporate policies addressing the management of the risk of the Company’s business.

CORPORATE GOVERNANCE REPORT

The Board takes ultimate responsibility for the appointment and supervision of the Company's senior management. The Board approves the appointment of senior management and through the Compensation and Benefits Committee, reviews their performance on an annual basis.

The Company has a disclosure policy addressing, among other things, the procedures and internal controls for the handling and dissemination of inside information, how the Company interacts with analysts and the public, and contains measures for the Company to avoid selective disclosure. The terms of the Company's Corporate Disclosure, Confidentiality and Security Trading Policy are no less exacting than those set out in the Guidelines on Disclosure of Insider Information published by the Securities and Futures Commission of Hong Kong.

The Company has a Disclosure Committee, comprised of members of management and with participation by the Chair of the Nominating and Corporate Governance Committee, and such other advisors as may be required. The Disclosure Committee is responsible for overseeing the Company's disclosure practices, including responsibility for the controls, procedures and policies with respect to corporate disclosure. The Disclosure Committee assesses materiality and determines when developments justify public disclosure. The Disclosure Committee reviews the disclosure policy annually and as otherwise needed, to ensure compliance with legal and regulatory requirements. The Disclosure Committee reviews all documents that are provided to the Board and the Audit Committee. The Board reviews and approves the Company's material disclosure documents, including its Annual Report, Annual Information Form and Management Proxy Circular. The Company's annual and quarterly financial statements, Management's Discussion and Analysis and other financial disclosure are reviewed by the Audit Committee and approved by the Board prior to release.

Committees of the Board

The Board has established several Board committees, namely the Audit, Nominating and Corporate Governance, Compensation and Benefits, HESS and Operations Committees, for overseeing particular aspects of the Company's affairs.

All Committees have been established with defined written charters, which are published on the respective websites of the Company and the Hong Kong Stock Exchange, and are available to the Shareholders upon request. All the Board committees report to the Board on their decisions or recommendations made.

Below please find the composition of the Company's Board Committees:

Audit ⁽¹⁾	Nominating and Corporate Governance ⁽¹⁾	Compensation and Benefits ⁽¹⁾	HESS	Operations
Mao Sun (Chair)	Yingbin Ian He (Chair)	Jin Lan Quan (Chair)	Dalangerban (Chair)	Yingbin Ian He (Chair)
Yingbin Ian He	Jin Lan Quan	Yingbin Ian He	Yingbin Ian He	Dalangerban
Jin Lan Quan	Mao Sun	Mao Sun	Munkhbat Chuluun ⁽²⁾	Ben Niu

Notes:

- 1) The Audit, Nominating and Corporate Governance, and Compensation and Benefits Committees are comprised solely of INEDs.
- 2) Mr. Munkhbat Chuluun was appointed to the HESS Committee on February 10, 2021 following the resignation of Mr. Aiming Guo from the HESS Committee. Mr. Munkhbat Chuluun is the Company's VP Public Relations and former Executive Director of the Company's wholly owned subsidiary, SouthGobi Sands LLC.



CORPORATE GOVERNANCE REPORT

Audit Committee

The Board has established an Audit Committee, which operates under a charter approved by the Board. It is the Board's responsibility to ensure that the Company has an effective internal control framework. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators.

The primary objective of the Audit Committee is to act as a liaison between the Board and the Company's independent auditors (the "Auditors") and to assist the Board in fulfilling its oversight responsibilities with respect to (a) the integrity and accuracy of the financial statements and other financial information provided by the Company to its Shareholders, the public and others, (b) the Company's compliance with legal and regulatory requirements, (c) the qualification, independence and performance of the Auditors and (d) the Company's risk management and internal financial and accounting controls, and management information systems.

Although the Audit Committee has the powers and responsibilities set forth in its charter, the role of the committee is oversight. During the Financial Year, the Board reviewed the Audit Committee's charter to ensure it reflects current best practices.

The members of the Audit Committee are not employees of the Company and may or may not be accountants or auditors by profession or experts in the fields of accounting or auditing and, in any event, do not serve in such a capacity. Consequently, it is not the duty of the Audit Committee to conduct audits or to determine that the Company's financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles and applicable rules and regulations. These are the responsibilities of management and the Auditors.

All services to be performed by the Auditors must be approved in advance by the Audit Committee or a designated member of the Audit Committee (the "Designated Member"). The Designated Member is a member of the Audit Committee who has been given the authority to grant pre-approvals of permitted audit and non-audit services. Pre-approvals by the Designated Member are reviewed and ratified by the Audit Committee at the next meeting thereof.

The Audit Committee has considered whether the provision of services other than audit services is compatible with maintaining the Auditors' independence and has adopted a policy governing the provision of these services. This policy requires the pre-approval by the Audit Committee or the Designated Member of all audit and non-audit services provided by the Auditors, other than any de minimis non-audit services allowed by applicable laws or regulations. The decisions of the Designated Member to pre-approve permitted services need to be reported to the Audit Committee at its regularly scheduled meetings. Pre-approval from the Audit Committee or the Designated Member can be sought for planned engagements based on budgeted or committed fees. No further approval is required to pay pre-approved fees. Additional pre-approval is required for any increase in the scope or final fees of the services. Pursuant to these procedures, 100% of each of the services provided by the Company's external auditors relating to the fees reported as audit, audit-related, tax and other fees are pre-approved by the Audit Committee or the Designated Member and then be recommended to the Board for approval or ratification.

CORPORATE GOVERNANCE REPORT

In performing its duties in accordance with the Audit Committee's Charter, the Audit Committee has:

- overseen the Company's relationship, audit fees and terms of engagement of the Auditors;
- reviewed the independence of the Auditors and made recommendations to the Board on the reappointment of the Auditors;
- reviewed the Company's quarterly, half-year and annual consolidated financial statements during the Financial Year;
- reviewed and assessed the effectiveness of the systems of risk management and internal controls;
- reviewed the effectiveness of the Company's internal audit function and oversaw the engagement of a third-party internal auditor; and
- reported to the Board on the proceedings and deliberations of the Audit Committee.

Nominating and Corporate Governance Committee

The Board has established a Nominating and Corporate Governance Committee that operates under a charter approved by the Board. During the Financial Year, the Board reviewed the Nominating and Corporate Governance Committee charter and the Board Mandate to ensure the documents reflect current best practices.

The Company has adopted guidelines and procedures in its Nominating and Corporate Governance Committee charter that are no less exacting than those that are set out in Section B.3 under Part 2 – Principles of good corporate governance, code provisions and recommended best practices of Corporate Governance Code relating to the creation of a Nomination Policy.

The primary objective of the Nominating and Corporate Governance Committee is to assist the Board in fulfilling its oversight responsibilities by (a) identifying individuals qualified to become members of the Board and the committees of the Board and recommending that the Board selects such individuals as director nominees for appointment or election to the Board or its committee, as the case may be; and (b) developing and recommending to the Board corporate governance guidelines for the Company and making recommendations to the Board with respect to corporate governance practices. The Nominating and Corporate Governance Committee monitors the disclosure of conflicts of interest to the Board with a view to ensuring that no Director will vote or participate in a discussion on a matter in respect of which such Director has a material interest. Committee Chairs perform the same function with respect to meetings of each Board committee.

In performing its duties in accordance with the Nominating and Corporate Governance Committee's charter, the Nominating and Corporate Governance Committee has:

- reviewed the Nominating and Corporate Governance Committee's charter to ensure that the Company has the appropriate procedures and processes in place to facilitate the nomination of Directors;
- conducted self-assessments of the Board and the Board committees;



CORPORATE GOVERNANCE REPORT

- reviewed the structure, optimal size, composition (including diversity, skills, knowledge and experience, etc.) and qualifications of the Board;
- made recommendations to the Board on the selection of individuals nominated for directorship in view of their qualifications and related expertise;
- made recommendations to the Board on the selection of individuals nominated for senior management roles;
- ensured that the Board has the necessary structures and procedures so that it can function with an appropriate degree of independence from management;
- provided a forum without management present to receive expressions of concern, including any concern regarding matters involving the independence of the Board from management;
- conducted induction programs for new Directors, as needed;
- assessed the independence of INEDs;
- reviewed the practices and procedures of the Board in light of ongoing developments in regulatory and stock exchange requirements and industry best practices in matters of corporate governance and recommended to the Board any changes considered necessary or desirable;
- supported the continuous professional development of the Directors as required by the Corporate Governance Code;
- reviewed, and recommended approval of amendments as required to, the Company's internal governance policies being: the Disclosure Controls and Procedures, Corporate Disclosure and Securities Trading Policy, Board Diversity Policy, Majority Voting Policy and Shareholder Communication Policy;
- reviewed, and recommended approval of amendments as required to, the Company's Code of Conduct Standards, including: the Anti-Corruption Standard and the Conflicts of Interest Standard, The Way We Work, and Guidelines for reporting allegations of serious wrongdoing and the EthicsPoint program; and
- reviewed, and recommended approval of amendments as required to, the written position descriptions for the Chairman, Independent Lead Director, CEO, CFO, VP Sales, VP Public Relations, Controller and Corporate Secretary, as well as the Chairs of the Audit, Nominating and Corporate Governance, Compensation and Benefits, and HESS Committees clearly defining their respective roles and responsibilities.

CORPORATE GOVERNANCE REPORT

In connection with its efforts to create and maintain a diverse Board, the Nominating and Corporate Governance Committee has:

- developed recruitment protocols that seek to include diverse candidates in any director search. These protocols take into account that qualified candidates may be found in a broad array of organizations, including academic institutions, privately held businesses, non-profit organizations and trade associations, in addition to the traditional candidate pool of corporate directors and officers;
- utilized the current network of organizations and trade groups that may help identify diverse candidates;
- periodically reviewed Board recruitment and selection protocols to ensure that diversity remains a component of any director search; and
- in order to support the specific objective of gender diversity, the Nominating and Corporate Governance Committee considered the level of representation of women on the Board and will seek to include women in the short list of candidates being considered for future Board positions.

Compensation and Benefits Committee

The Board has established a Compensation and Benefits Committee that operates under a charter approved by the Board. During the Financial Year, the Board reviewed the Compensation and Benefits Committee's charter to ensure it reflects current best practices.

The primary objective of the Compensation and Benefits Committee is to discharge the Board's responsibilities relating to the determination of remuneration and benefits for the Directors and executive officers of the Company. This role includes reviewing and approving executives' remuneration including long-term incentive components and making applicable recommendations to the Board, administering the employees' Equity Incentive Plan, determining the recipients as well as the nature and size of equity compensation awards and bonuses granted from time to time, and reviewing reports as may be required under applicable laws and regulations.

In performing its duties in accordance with the Compensation and Benefits Committee's charter, the Compensation and Benefits Committee has:

- reviewed and made recommendations to the Board with respect to the adequacy and forms of the Company's remuneration policy relating to the remuneration and benefits of the Executive Director, senior officers and INEDs;
- administered and made recommendations to the Board with respect to the Company's incentive compensation plans and equity-based plans;
- reviewed and approved corporate goals and objectives for the remuneration of the CEO, CFO, VP Sales and VP Public Relations evaluating their performance and setting their remuneration levels;
- reviewed and updated the form of agreement and compensation structure for the CEO, CFO, VP Sales and VP Public Relations;
- recommended to the Board the performance evaluation of the CEO and CFO, taking into consideration their annual objectives and performance; and
- determined the recipients as well as the nature and size of equity compensation awards and bonuses granted from time to time.



CORPORATE GOVERNANCE REPORT

Health, Environment, Safety and Social Responsibility Committee

The Board has established a HESS Committee that operates under a charter approved by the Board. During the Financial Year, the Board reviewed the HESS Committee's charter to ensure it reflects current best practices.

The primary objective of the HESS Committee is to assist the Board in fulfilling its oversight responsibilities by monitoring and reviewing performance, and recommending for approval policies and management systems, with respect to health, environmental, safety and social responsibility related matters affecting the Company.

In performing its duties in accordance with the HESS Committee's charter, the HESS Committee has:

- reviewed, and recommended approval of amendments as required to, the health, environmental, safety and social responsibility policies of the Company;
- monitored the status of compliance with the Company's policies and applicable laws and regulations in the areas of health, environment, safety and social responsibility;
- reviewed the performance of the Company in the areas of health, environment, safety and social responsibility.
- reviewed the Company's environmental, social and governance report (the "ESG Report"); and
- provided guidelines and recommendations to the Company's management relating to the findings in the ESG Report.

The Board believes that strong corporate governance provides a framework to make well-informed and sound decisions that will facilitate the implementation of policies and procedures to safeguard the safety and well-being of its employees, the environment and neighbouring communities.

Operations Committee

The Board has established an Operations Committee that operates under a charter approved by the Board. The primary objective of the Operations Committee is to assist the Board in fulfilling its oversight responsibilities with respect to mine operations and product marketing.

Ad Hoc/Special Committees

In appropriate circumstances, the Board may establish a special committee to review a matter in which certain Directors or management may have a conflict of interest.

CORPORATE GOVERNANCE REPORT

Meetings of the Board and Committees of the Board

The Board holds regular quarterly meetings. Between quarterly meetings, the Board meets as required, generally by means of telephone conferencing facilities. As part of the quarterly meetings, the INEDs also have the opportunity to meet separately from management. If required, between regularly scheduled Board meetings, a meeting of INEDs, chaired by the Independent Lead Director, is held by teleconference to update the Directors on corporate developments since the last Board meeting. Management also communicates informally with members of the Board on a regular basis, and may solicit the advice of the Board members on matters falling within their special knowledge or experience.

2021 Board and Committee Meetings

Total Number of:

Board Meetings:	8
Audit Committee Meetings:	8
Nominating and Corporate Governance Committee Meetings:	4
Compensation and Benefits Committee Meetings:	7
HESs Committee Meetings:	3
Operations Committee Meetings:	8

During the Financial Year, and due to the travel restrictions implemented due to the novel coronavirus (“COVID-19”), all of the Company’s Board and Committee meetings were held via teleconference.

The 2021 AGM was held via conference call on June 29, 2021. Attendance by the Directors at the 2021 AGM, as well as Board and Board committee meetings held in the Financial Year, is shown below:

	2021 AGM	Board meetings	Audit Committee meetings	Nominating & Corporate Governance Committee meetings	Compensation & Benefits Committee meetings	HESs Committee meetings	Operations Committee meetings
	<i>(Number of Attendances/Number of Meetings)</i>						
Executive Director							
Mr. Dalanguerban	0/1	7/8	N/A	N/A	N/A	1/3	8/8
Non-Executive Directors							
Mr. Jianmin Bao	1/1	8/8	N/A	N/A	N/A	N/A	N/A
Mr. Zhiwei Chen	0/1	6/8	N/A	N/A	N/A	N/A	N/A
Ms. Ka Lee Ku	0/1	8/8	N/A	N/A	N/A	N/A	N/A
Mr. Ben Niu	1/1	8/8	N/A	N/A	N/A	N/A	8/8
Independent Non-Executive Directors							
Mr. Yingbin Ian He	1/1	8/8	8/8	4/4	7/7	3/3	8/8
Ms. Jin Lan Quan	1/1	8/8	8/8	4/4	7/7	N/A	N/A
Mr. Mao Sun	1/1	8/8	8/8	4/4	7/7	N/A	N/A



CORPORATE GOVERNANCE REPORT

The Company obtained an order from the British Columbia Registrar of Companies to delay holding its 2020 annual general and special meeting of shareholders (the “2020 AGM”) until February 21, 2021; and approval from the Toronto Stock Exchange to hold the 2020 AGM on or before January 21, 2021.

Accordingly, notwithstanding the fact that the 2020 AGM was held in 2021, the annual general and special meeting of shareholders held on January 21, 2021 constituted the Company’s 2020 AGM for the purposes of applicable corporate law and stock exchange rules. The 2020 AGM was held in Vancouver, Canada and was attended by Messrs. Jianmin Bao, Yingbin Ian He, Ben Niu, Mao Sun and Ms. Jin Lan Quan.

No other extraordinary general meeting of the Company was held during the Financial Year.

Professional Development

The Company takes steps to ensure that prospective Directors fully understand the role of the Board and its Committees and the contribution individual Directors are expected to make, including, in particular, the commitment of time and energy that the Company expects and requires. New Directors are provided with a director information package containing copies of all corporate policies and procedures, Board and committee mandates and policies, corporate disclosure protocols, corporate governance matters and other key documents. New Directors are also briefed by Directors and management on the Company’s business and encouraged to visit the Company’s operations and mine-site, when permitted.

In addition, all Directors are briefed on the duties, responsibilities and liabilities of Directors, including the statutory duties of Directors to act honestly and in good faith with a view to the best interests of the Company when exercising the powers and performing the functions of Directors. In particular, the briefings focus on the Directors’ obligations to provide objective oversight of the Company on behalf of all Shareholders notwithstanding other prior or current relationships, if any.

In the event the Board must consider a matter which involves a potential or actual conflict, such matter will be referred to the INEDs for consideration to ensure that a proper process is followed and the matter is subject to independent scrutiny.

Management and outside advisors provide information and education sessions to the Board and its committees as necessary to keep the Directors up-to-date with the Company, its business and the environment in which it operates as well as with developments and best practices relating to the responsibilities of directors.

The Directors are encouraged to attend seminars, webinars and conferences relating to corporate governance, financial, environmental, mining, legal, regulatory and/or business affairs at the Company’s expense. The Company makes available continuous professional development for all Directors in order to develop and refresh their knowledge and skills.

CORPORATE GOVERNANCE REPORT

Throughout the Financial Year, continuous professional development for the Directors was provided as follows:

- a. Directors participated in two (2) professional development seminars provided by the Company's external legal advisers relating to (i) anti-bribery and compliance training and (ii) directors' duties and responsibilities, requirements under Hong Kong Listing Rules and the Securities and Futures Ordinance;
- b. each Director was provided with a membership to the Canadian Institute of Corporate Directors (the "ICD") as a means of facilitating continuing education opportunities for the Directors. Directors have the opportunity to attend on-line courses, conducted by the ICD, relevant to the Company and its business, particularly with respect to corporate governance and the mining industry, at the Company's expense. Through the ICD, the Directors receive regular updates on numerous matters; and
- c. Directors were provided with educational materials relating to matters relevant to their duties as directors, changes within the Company, and concerning regulatory and industry requirements and standards.

The following is a summary of the additional professional development completed by the INEDs during the Financial Year.

- Ms. Jin Lan Quan:
- Beyond COVID-19, An Accountant's Guide to the Recovery
 - Audit Committee Effectiveness
 - CFO Perspectives on Leading through the New Normal
 - Global Economic Outlook – The Post COVID-19 Recovery
 - Ethics for sustainable AI adaptation connecting AI and Environmental, Social and Governance
 - Corporate Ethics, Governance and Sustainability
- Mr. Mao Sun:
- Loss Utilization and Related Tax Planning within a Related Group
 - Corporate Tax Update 2021
 - Personal Tax Update 2021
 - 2021 Western Canada Tax Conference
 - Essentials of Canadian Life Insurance Planning for Individuals
 - 2021 Young Practitioner Focus Conference
 - Partnership Re-allocations



CORPORATE GOVERNANCE REPORT

- Mr. Yingbin Ian He:
- Closing the Investment Gap
 - Climate Change Litigation and Disclosure Requirements: Recent Developments in Canada
 - Environmental, Social and Governance Regulatory Issues in Securities Litigation
 - Energy Transition: Fueling a New Energy Economy
 - A Mountain of Cash Lifts 2021 M&A: What Lies Ahead?
 - How Boards Can Prepare for Existential Risk
 - Glass Floors and Ceilings: Why Closing the Median Wage Gap Isn't Fair
 - The Mindsets and Practices of Excellent CEOs
 - The CFO's Evolving Role and Why It Matters
 - Latest trends in Mining Disputes in Canada and Latin America
 - Corporate Exploration Strategies 2021
 - New Coal Projects: Why and How Investors Need to Act
 - Net Zero – Now What? Paris-aligned Investing in a 'Code Red' World
 - CPAB's Energy Industry Forum
 - Beyond ESG with CEO Insights: Duke Energy
 - CPAB Mining Industry Forum
 - Carbon Sequestration in Mining Operations
 - ESG Institutional Investors' Series, ESG – An Institutional Investor Perspective
 - The World Economy Beyond the Pandemic (Asia encore)
 - Seeing the Future: The Value of Rigorous Mining Feasibility Studies
 - Legal Primer on Climate Change: Directors' Duties and Disclosure Obligations
 - Gold Mining, Alternative Financing
 - Understanding the Green Regulatory Landscape
 - The Checkerboard Effect in Mineral Resource Reporting for Underground Mines
 - Building Trust: How Top Leaders and Organizations Drive Business Results
 - Bennett Jones Spring 2021 Economic Outlook: Beyond COVID
 - Executive Compensation: Key Learnings from the 2021 Proxy Season
 - Canadian Public Accountability Board Audit Committee Forum
 - The Role of Data Science in Advancing Mine Water Management and Stewardship
 - Elevating Board Performance: Refreshment and Succession Planning
 - A Cross-Atlantic Debate: Mining the Transition to the Net Zero World
 - The Role of the Corporation in the 21st century
 - The Board's Role in Social Impact Initiatives: Opportunities and Risks
 - Crisis and Risk Management: Are You Ready?
 - Asia Pacific Business Intelligence for Boards
 - Is Your Board Ready for the Next Crisis? What 2020 Taught Us
 - Mine of the Future – Digital and Analytics in Mining
 - Rethinking Conflict with Debate
 - ESG Trends in Mineral Exploration and Development
 - Shaping a Sustainable, Competitive and Prosperous Future
 - How to do Force on Climate-related Financial Disclosures Reporting
 - Global trends in Mining: Latest Insights from Africa, China & Latin America
 - Strategic Resilience through the Crisis
 - What is the Impact of the Sustainable Finance Disclosure Regulation
 - Environmental Social Governance Thought Leadership Series
 - Sustainable Finance in Canada
 - The Latest in M&A and Financing Trends for Mining Issuers
 - Beyond ESG with CFOs
 - ESG and Investment in the Canadian Energy Sector
 - The Board's Role During Crisis and Beyond
 - Defining and Driving ESG Within Your Organization

CORPORATE GOVERNANCE REPORT

During the Financial Year, in addition to the above-mentioned professional development programs, Messrs. Jianmin Bao, Zhiwei Chen, Dalanguerban, Ben Niu and Ms. Ka Lee Ku continued their professional development by reviewing the materials provided relating to directors' roles and functions, and corporate governance practices.

Ethical Business Conduct

The Company's current practices are reviewed and updated regularly to ensure that the latest best practices and developments in corporate governance are followed and observed.

In 2012, the Company adopted and implemented a revised Code of Business Conduct and Ethics (the "Ethics Policy") called "The Way We Work". The Ethics Policy is applicable to all of the Company's employees, consultants, officers and Directors regardless of their position in the organization, at all times and everywhere the Company does business.

In addition to "The Way We Work", the Company has also adopted additional guidance notes and standards which form part of the Company's overall Code of Conduct Standards. Included in the Code of Conduct Standards are the following policies and standards: the Anti-Corruption Standard and the Conflicts of Interest Standard, "The Way We Work", Guidelines for the Investigation into Allegations of Serious Wrongdoing, and the EthicsPoint program.

To support the ethical standards expected of the Company and its employees, SouthGobi and its subsidiaries have adopted a confidential whistle-blower program, where employees may confidentially report any concerns or perceived misconduct. Information regarding the whistle-blower program is available on the Company's website (www.southgobi.com).

The Company's whistleblowing program is administered by the Company's Corporate Secretary in conjunction with the Chair of the Audit Committee.

The Ethics Policy and the Code of Conduct Standards provide that the Company's employees, consultants, officers and Directors will uphold its commitment to a culture of honesty, integrity and accountability and that the Company requires the highest standards of professional and ethical conduct from its employees, consultants, officers and Directors. A copy of the "The Way We Work" and the various policies forming the Code of Conduct Standards are available on the Company's website (www.southgobi.com) and may be obtained, without charge, by request to SouthGobi Resources Ltd. at its registered and records office in Canada, 20th floor – 250 Howe Street, Vancouver, British Columbia, Canada V6C 3R8, Attention: Corporate Secretary, or by phone: 1 604-762-6783 (Canada), +852 2156 1438 (Hong Kong) or email: info@southgobi.com.

The Nominating and Corporate Governance Committee monitors compliance with the Code of Conduct Standards and is responsible for establishing systems to verify compliance with legal, regulatory, corporate governance and disclosure requirements.

In 2019, a review was conducted of all of the Company's material internal controls, including financial, operational and compliance controls and risk management functions in respect of the effectiveness of the Company's internal control system, adequacy of resources and qualifications and experience of staff of the Company's accounting and financial reporting function. Following the review, the Board was satisfied that, following the implementation of certain recommended remedial actions and preventative measures, the internal control procedures were effective and in compliance with the Company's policies.



CORPORATE GOVERNANCE REPORT

Shareholder Communication Policy

The Company has a Shareholder Communication Policy which sets out the general policy and measures adopted by the Company in respect to its communication with Shareholders, both individual and institutional, and, when appropriate, potential investors and analysts who report on and analyze the Company's performance (collectively, the "investment community"), with the objective that all of them will be provided with complete, equal, and timely information about the Company (including its financial performance, strategic goals and plans, material business developments, corporate governance, risk profile and other material information) in order to enable Shareholders to make an informed decision with respect to their shares and other securities of the Company and to allow the investment community to engage in constructive dialogue with the Company.

A copy of the Shareholder Communication Policy is available on the Company's website (www.southgobi.com) and may be obtained, without charge, by request to SouthGobi Resources Ltd., 20th floor – 250 Howe Street, Vancouver, British Columbia, Canada V6C 3R8, Attention: Corporate Secretary, or by phone: 1 604-762-6783 (Canada), +852 2156 1438 (Hong Kong) or email: info@southgobi.com.

Board Diversity Policy

The Company is of the view that Board appointments should be based on merit, and is committed to selecting the most suitable candidate to join the Board. At the same time, the Company recognizes that diversity is important to ensure that the profiles of Board members provide the necessary range of perspectives, experience and expertise required to achieve effective stewardship.

The Company believes that a diverse Board will enhance its decision-making by utilizing the difference in skills, experience and background, geographical and industry experience, ethnicity, gender, knowledge and length of services, and other distinguishing qualities of the members of the Board. In support of this belief, the Board adopted a Board Diversity Policy in March 2014, and approved the adoption of certain amendments to the Board Diversity Policy in November 2017 and in March 2022.

For the purposes of Board composition, diversity includes, but is not limited to, characteristics such as gender, age, disability, as well as the inclusion of members of visible minorities. In particular, the Company recognizes that gender diversity is a significant aspect of diversity and acknowledges the important role that women play in contributing to the diversity of perspective on the Board.

Gender diversity is an important component of the Company's diversity strategy. The Board is committed to ensuring that gender diversity is actively pursued and seeks to ensure that women comprise at least 30% of the Board composition, giving due consideration to all other factors set forth in the Board Diversity Policy. The Company will seek to achieve a target of not less than 30% of women on the Board by December 31, 2024.

The Company is also committed to inclusiveness within all its positions.

The Nominating and Corporate Governance Committee is required to review the effectiveness of the Board Diversity Policy on an annual basis. The Nominating and Corporate Governance Committee also reviews the structure, size and diversity of the Board and makes recommendations on any proposed changes to the Board to complement the Company's objectives and strategy.

CORPORATE GOVERNANCE REPORT

The Nominating and Corporate Governance Committee is responsible for recommending qualified persons who possess the competencies, skills, business and financial experience, leadership and level of commitment required of a director to fulfill Board responsibilities. Diversity of directors is considered in assessing the skills matrix of the Board.

In the process of searching for qualified persons to serve on the Board, the Nominating and Corporate Governance Committee strives for the inclusion of diverse groups, knowledge, and viewpoints. To accomplish this, the Nominating and Corporate Governance Committee may retain an executive search firm to help meet the Board's diversity objectives.

In accordance with the Board Diversity Policy, Ms. Jin Lan Quan joined the Board on August 6, 2015 and Ms. Ka Lee Ku joined the Board on December 9, 2020.

Ms. Jin Lan Quan joined the Audit Committee on September 1, 2015, the Nominating and Corporate Governance Committee on December 14, 2015, and the Compensation and Benefits Committee on June 30, 2016. Ms. Jin Lan Quan has extensive experience in financial consulting services with specialist skills in external auditing, internal audit structuring, corporate financing, risk management and business acquisition.

Ms. Ka Lee Ku is currently the Managing Director of the Investment Department in Cinda HK, responsible for sourcing and execution of private and secondary market transactions valuing in excess of HK\$10 billion. Ms. Ka Lee Ku has approximately 25 years' experience in the management and finance sectors.

The Board currently consists of two (2) women and six (6) men, with females representing 25% of the total number of Directors. Throughout the Company, females represent approximately 22% of the overall workforce and the Company will work to maintain or increase this level in the upcoming years.

A copy of the Board Diversity Policy is available on the Company's website (www.southgobi.com) and may be obtained, without charge, by request to SouthGobi Resources Ltd., 20th floor – 250 Howe Street, Vancouver, British Columbia, Canada V6C 3R8, Attention: Corporate Secretary, or by phone: 1 604-762-6783 (Canada), +852 2156 1438 (Hong Kong) or email: info@southgobi.com.

Appointment and Re-election of Directors

The Board determines, in light of the opportunities and risks facing the Company, what competencies, skills and personal qualities it should seek in new Board members in order to add value to the Company. Based on this framework, the Nominating and Corporate Governance Committee has developed a skills matrix to identify and track the Company's desired complement of Directors' competencies, skills and characteristics. The specific make-up of the matrix includes such items and experiences as international business exposure, leading growth-orientated companies, diversity, financial literacy, legal knowledge, corporate governance, etc. The Nominating and Corporate Governance Committee annually assesses the current competencies and skill-sets represented on the Board and utilizes the matrix to determine the Board's strengths and identify any gaps that need to be filled. This analysis assists the Nominating and Corporate Governance Committee in discharging its responsibility for approaching and proposing to the full Board new nominees to the Board, and for assessing the Directors on an ongoing basis. The Nominating and Governance Committee believes that the Board should be comprised of directors with a broad range of experience and expertise and utilizes a skills matrix to identify those areas that are necessary for the Board to carry out its mandate effectively.

The skills matrix is also used to develop a list of potential candidates for nomination to the Board.



CORPORATE GOVERNANCE REPORT

The following table reflects the diverse skill set requirements of the Board and identifies the specific experience and expertise brought by each individual Director nominee.

Directors	Corporate Governance	Mining Industry	General Business Management	Compensation/ Human Resources	Finance	Audit	Mining Expertise	Public Company	Mongolia Specific	China Specific
Mr. Dalanguerban	✓	✓	✓	✓	✓		✓		✓	✓
Mr. Jianmin Bao	✓		✓	✓	✓					✓
Mr. Zhiwei Chen	✓		✓	✓	✓					✓
Mr. Yingbin Ian He	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Ms. Ka Lee Ku	✓		✓	✓	✓					✓
Mr. Ben Niu		✓	✓	✓						✓
Ms. Jin Lan Quan	✓		✓	✓	✓	✓		✓		✓
Mr. Mao Sun	✓		✓	✓	✓	✓		✓		✓

Unless a Director dies, resigns or is removed from office in accordance with the BCBCA, the term of office of each of incumbent Director (including INEDs and Non-Executive Directors) ends at the conclusion of the next AGM following his or her most recent election or appointment.

At every AGM, the Shareholders entitled to attend and vote at the AGM for the election of Directors have the right to elect a Board consisting of the number of Directors for the time being set under the articles of continuation for the Company (the “Articles”) and all the Directors cease to hold office immediately before such election but are eligible for re-election. If the Company fails to hold an AGM on or before the date by which the AGM is required to be held under the BCBCA or the Shareholders fail, at the AGM, to elect or appoint any Directors, each Director then in office continues to hold office until the earlier of:

- the date on which his or her successor is elected or appointed; and
- the date on which he or she otherwise ceases to hold office under the BCBCA or the Articles.

Securities Transactions by Directors

The Company has adopted policies in its Corporate Disclosure, Confidentiality and Securities Trading Policy that have terms that are no less exacting than those set out in the Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the Hong Kong Listing Rules. Having made specific enquiry of all Directors, the Company received written confirmation that the Directors had received, reviewed and abided by the terms of the Corporate Disclosure, Confidentiality and Securities Trading Policy throughout the Financial Year.

Furthermore, if a Director (a) enters into a transaction involving securities of the Company or, for any other reason, the direct or indirect beneficial ownership of, or control or direction over, securities of the Company changes from that shown or required to be shown in the latest insider report filed by the Director, or (b) enters into a transaction involving a related financial instrument, the Director must, within the prescribed period, file (i) an insider report in the required form on the System for Electronic Disclosure by Insiders website (www.sedi.ca) operated by the Canadian Securities Administrators and (ii) a Disclosure of Interest Form with the Hong Kong Stock Exchange.

A “related financial instrument” is defined as: (a) an instrument, agreement, security or exchange contract, the value, market price or payment obligations of which is/are derived from, referenced to or based on the value, market price or payment obligations of a security, or (b) any other instrument, agreement or understanding that affects, directly or indirectly, a person’s economic interest in respect of a security or an exchange contract.

CORPORATE GOVERNANCE REPORT

Remuneration of Directors

The Compensation and Benefits Committee periodically reviews and makes recommendations to the Board regarding the adequacy and forms of remuneration for non-management Directors to ensure that such remuneration realistically reflects the responsibilities and risks involved in being an effective Director, without compromising a Director's independence. Directors who are executives of the Company or who are nominee Directors receive no additional remuneration for their services as Directors.

Based on the recommendations provided in the remuneration report commissioned from Roger Gurr & Associates (the "Roger Gurr Report"), the annual retainer for the Financial Year for each of the INEDs was approved as below:

	CAD\$
Independent Directors:	45,000
Independent Lead Director:	25,000
Audit Committee Chair:	20,000
Nominating and Corporate Governance Committee Chair:	20,000
Compensation and Benefits Committee Chair:	10,000
Operations Committee Chair:	nil

Should the HESS Committee be chaired by an INED he or she would be entitled to receive the CAD\$10,000 annual retainer. There are no fees paid to the Chair or members of the Operations Committee.

The meeting fees for each of the INEDs are CAD\$1,500 for each Board meeting and each Committee meeting attended. INEDs also receive a travel allowance of CAD\$2,000 per round-trip in excess of four (4) hours' travel time when traveling on behalf of the Company.

As recommended in the Roger Gurr Report, Mr. Yingbin Ian He and Ms. Jin Lan Quan were each granted 150,000 incentive stock options and, for serving as the Independent Lead Director, Mr. Mao Sun was granted 200,000 incentive stock options. None of the incentive stock options granted to the INEDs are linked to the Company's performance.

Mr. Dalanguerban, in his capacity of CEO, was granted 450,000 incentive stock options, Mr. Alan Ho, the Company's acting CFO, was granted 350,000 incentive stock options, Mr. Tao Zhang, the Company's VP Sales, was granted 350,000 incentive stock options, and Mr. Munkhbat Chuluun, the Company's VP Public Relations, was granted 300,000 incentive stock options.

All of the above-mentioned incentive stock options were granted on June 29, 2021, will expire five (5) years following the date of grant, and have a strike price of HK\$1.41 per share.

All Directors are entitled to be reimbursed for actual expenses reasonably incurred in the performance of their duties as Directors.

Details regarding the remuneration of Directors are set out in Note A1 to the Financial Statements.

Risk Management and Internal Controls

The Board is responsible for maintaining appropriate and effective risk management and internal control systems. Internal controls are used by the Board to facilitate the effectiveness and efficiency of operations, safeguard the investment of the Shareholders, and assets of the Company and to ensure compliance with relevant statutory and regulatory requirements. The Company's internal control policies are designed to provide reasonable, but not absolute, assurance against material misstatements and help the Board identify and mitigate, but not eliminate, risk exposure.



CORPORATE GOVERNANCE REPORT

Because of their inherent limitations, internal controls and risk management systems can provide only reasonable assurance and may not prevent or detect misstatements due to error or fraud. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by individual acts, by collusion of two or more individuals or by unauthorized override of controls. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

During the year, the Company engaged an independent professional advisor, Ernst & Young (China) Advisory Limited (the “Independent Advisor”) to assess the Company’s risk management and internal control systems, including financial, operational and compliance controls, and perform the internal audit function for the year. From which, deficiencies in the design and implementation of internal controls will be identified and recommendations will be proposed for improvement. Such report will be submitted to the Audit Committee and the Board at least once a year.

The Audit Committee, on behalf of the Board, has considered the relevant assessment and review reports in order to assess the effectiveness of the Risk Management and Internal Control systems. The Audit Committee has also reviewed the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company’s accounting and financial reporting function as well as the Company’s internal audit function, which was performed by the Independent Advisor. The Board, through the reviews made by the Independent Advisors and the Audit Committee, concluded that the Company’s Risk Management and Internal Control Systems are effective and adequate.

Disclosure Controls and Procedures and Internal Controls Over Financial Reporting

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the Company’s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management, including the Chief Executive Officer and Chief Financial Officer of the Company, has evaluated the effectiveness of the design and operation of the Company’s disclosure controls and procedures. As of December 31, 2021, the Chief Executive Officer and Chief Financial Officer of the Company have each concluded that the Company’s disclosure controls and procedures, as defined in NI 52-109 – Certification of Disclosure in Issuer’s Annual and Interim Filings, are effective to achieve the purpose for which they have been designed.

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. Management is also responsible for the design of the Company’s internal control over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The Company’s internal controls over financial reporting include policies and procedures that: pertain to the maintenance of records that, in reasonable detail accurately and fairly reflect the transactions and disposition of assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with IFRS and that receipts and expenditures are being made only in accordance with authorization of management and directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements.

Because of their inherent limitations, internal controls over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in laws, or the degree of compliance with the policies may deteriorate.

CORPORATE GOVERNANCE REPORT

Management assessed the effectiveness of internal controls over financial reporting using the Internal Control – Updated Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company’s internal controls over financial reporting were effective as of December 31, 2021.

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

Auditors

BDO are the Company’s auditors and they report that they are independent of the Company in accordance with Chartered Professional Accountants of British Columbia, Code of Professional Conduct.

BDO will be nominated at the upcoming AGM for reappointment as Auditors at a remuneration to be fixed by the Board. BDO has served as the Auditors since November 13, 2019.

Fees paid/payable to BDO and its affiliates in respect of audit and non-audit services provided during the Financial Year were approximately CAD\$517,000.

These fees are detailed below:

Nature of services rendered	Fees paid/ payable (CAD\$000's)
	BDO 2021
Audit fees ⁽¹⁾	395
Audit related fees ⁽¹⁾	122
Total	517

Notes:

- (1) Fees for audit services billed relating to fiscal 2021 consisted of: (i) audit of the Company’s annual financial statements; (ii) review of the Company’s quarterly financial statements; (iii) statutory audit of the annual financial statements of subsidiaries of the Company; and (iv) other services related to Canadian securities regulatory authorities’ matters.

Responsibilities in Respect of the Financial Statements

The Directors acknowledge their responsibility in overseeing the preparation of financial statements that give a true and fair view of the financial affairs of the Company. With the assistance of the management of the Company, the Directors ensure that the financial statements of the Company are being prepared and published in a timely manner and in accordance with the applicable accounting and financial reporting standards as well as statutory and regulatory requirements.



CORPORATE GOVERNANCE REPORT

Going Concern

The Company's consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue to operate until at least December 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 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 consolidated financial statements. The Company incurred a loss attributable to equity holders of the Company of \$14.4 million for the year ended December 31, 2021 (compared to a loss attributable to equity holders of the Company of \$20.1 million for the year ended December 31, 2020), and as of that date, had a deficiency in assets of \$90.5 million as at December 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) reached \$42.5 million as at December 31, 2021 compared to a working capital deficiency of \$217.6 million as at December 31, 2020.

Included in the working capital deficiency as at December 31, 2021 are significant obligations represented and other payables of \$67.3 million, which includes \$22.1 million in unpaid taxes 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, and as a result any continuing postponement in settling of certain trade and other payables owed to suppliers and creditors may impact ability of the Company to resume its mining operations and may result in potential lawsuits and/or bankruptcy proceedings being filed against the Company. Except as disclosed elsewhere in this report, no such lawsuits or proceedings were pending as at May 30, 2022. 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.

On May 25, 2022, the Chinese-Mongolian border was re-opened for coal export on a trial basis, with a limit number of trucks was permitted to cross the border during this trial period. The Company has been proactively adjusting its sales strategy in response and exploring opportunities to expand its sales accordingly.

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 consolidated 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 consolidated 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.

CORPORATE GOVERNANCE REPORT

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 December 31, 2021. 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 three deferral agreements with CIC on November 19, 2020, the 2020 November Deferral Agreement for a deferral of (i) deferred cash interest and deferral fees of \$75.2 million which were due and payable to CIC on or before September 14, 2020, under the 2020 June Deferral Agreement; (ii) semi-annual cash interest payments in the aggregate amount of \$16.0 million payable to CIC on November 19, 2020 and May 19, 2021; (iii) \$4.0 million worth of PIK Interest shares issuable to CIC on November 19, 2020 under the CIC Convertible Debenture; and (iv) the management fee which payable to CIC on November 14, 2020, February 14, 2021, May 15, 2021, August 14, 2021 and November 14, 2021 under the Amended and Restated Cooperation Agreement, on July 30, 2021, the 2021 July Deferral Agreement for a deferral of (i) semi-annual cash interest payments of \$8.1 million payable to CIC on November 19, 2021; and (ii) \$4.0 million in PIK Interest shares and on May 13, 2022, the 2022 May Deferral Agreement for a deferral of semi-annual cash interest payments of \$7.9 million payable to CIC on May 19, 2022 respectively until August 31, 2023; (b) communicating with vendors in agreeing repayment plans of the outstanding payable; (c) continuously assessing through communication with MTA its acceptability to a prolonged settlement schedule of the outstanding tax payable and making settlement based on that assessment and the liquidity position of the Company; (d) In light of the uncertainty brought by the pandemic which may impact the openness of the border, management has kept the mining operations temporary suspended despite the abovementioned re-opening of the Chinese-Mongolian border for coal export since May 25, 2022, in order to preserve the working capital that is required to resume the mining operations. The management expected that the existing inventory level on hand is sufficient to cater the demand for approximately a quarter and this provides flexibility to the Company in managing the timing of resumption of the mining operations and related sales strategy and its liquidity; and (e) obtaining an avenue of financial support; from a prospective shareholder for a maximum amount of \$73.0 million during the period covered in the cash flow projection. There is no guarantee that the suppliers and MTA 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 December 31, 2021 and therefore are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

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



CORPORATE GOVERNANCE REPORT

Company Secretary

Ms. Allison Snetsinger was re-appointed as the Company's Corporate Secretary in November 2014 and was the Company's Corporate Secretary from May 2012 to March 2014. Prior to her appointment as the Corporate Secretary, Ms. Snetsinger was the Company's Assistant Corporate Secretary from the time of its Canadian initial public offering in December 2003.

Ms. Snetsinger has over 15 years' experience providing regulatory and corporate services to public and private companies, primarily in mining and resource industries. She is a member of the Canadian Institute of Corporate Directors and the Association of the Governance Professionals (Canada). Ms. Snetsinger has participated in over 15 hours' of professional development in the Financial Year required under Rule 3.29 of the Listing Rules.

Ms. Shuk Wan So was appointed as the Hong Kong Company Secretary of the Company on January 1, 2021. Ms. So joined the Company in February 2011 and has been the Company's Assistant Corporate Secretary since 2018.

Ms. So holds a Master of Corporate Governance degree from The Hong Kong Polytechnic University and a Bachelor of Business Administration degree in Finance and Investments from Baruch College, The City University of New York. She is a Chartered Governance Professional, an associate member of The Hong Kong Chartered Governance Institute ("HKCGI") (formerly The Hong Kong Institute of Chartered Secretaries) and a member of the Canadian Institute of Corporate Directors. Ms. So has participated in over 15 hours' of professional development in the Financial Year required under Rule 3.29 of the Listing Rules.

Sir Siu Man Kwok ("Sir Seaman") was the Hong Kong Company Secretary of the Company from October 12, 2016 to January 1, 2021. Sir Seaman was nominated by Boardroom Corporate Services (HK) Limited ("Boardroom") to assume such office and Boardroom provided certain corporate secretarial services to the Company until March 15, 2021. The primary persons at the Company with whom Sir Seaman contacted in respect of company secretarial matters were either Ms. Allison Snetsinger, the Company's Corporate Secretary, or Ms. Shuk Wan So, the Hong Kong Company Secretary.

Sir Seaman is a Chartered Governance Professional and a fellow member of each of the Chartered Governance Institute in England, the Institute of Financial Accountants in England, the Institute of Public Accountants in Australia, the Association of Hong Kong Accountants, the Hong Kong Institute of Directors, the Hong Kong Society of Financial Planners and the HKCGI. He holds a Bachelor of Arts degree and a post-graduate diploma in laws and passed the Common Professional Examinations of England and Wales.

Shareholders' Rights

Under Canadian corporate law, shareholders' rights are governed by the business corporation's legislation of the jurisdiction of incorporation of a company and by a company's constitutional documents. In the case of the Company, the BCBCA and the Articles govern the rights of Shareholders, as summarized in this section.

In November 2017, the Board approved and adopted a Shareholder Communication Policy. The Shareholder Communication Policy sets out the general policy and measures adopted by the Company in respect of its communication with Shareholders, both individual and institutional, and, when appropriate, potential investors and analysts who report on and analyze the Company's performance, with the objective that all of them will be provided with complete, equal, and timely information about the Company (including its financial performance, strategic goals and plans, material business developments, corporate governance, risk profile and other material information) in order to enable Shareholders to make an informed decision with respect to their shares and other securities of the Company and to allow the investment community to engage in constructive dialogue with the Company.

Further to the Shareholder Communication Policy, the section below entitled "Procedures by which enquiries may be put to the Board" also provides a basis for how Shareholders can communicate with the Company.

CORPORATE GOVERNANCE REPORT

How Shareholders Can Convene an Extraordinary General Meeting

Shareholders may requisition a meeting for the purpose of transacting any business that may be transacted at a general meeting. The Shareholder or a group of Shareholders are required to hold (on the date of giving the requisition to the Company) an aggregate of at least 1/20 (five per cent (5%)) of the Company's issued and outstanding common shares.

A valid requisition must:

- state the business to be transacted at the meeting (including the wording of any special resolution or exceptional resolution) in 1,000 words or less;
- be signed by and include the names and mailing addresses of all the requisitioning Shareholders, each of whom is a registered Shareholder;
- be made in a single record or several records, each of which is signed by one or more of the requisitioning Shareholders; and
- be delivered to the delivery address or mailed by registered mail to the mailing address of the Company at its registered office.

The Company's address for delivery is: SouthGobi Resources Ltd., 20th floor – 250 Howe Street, Vancouver, British Columbia, Canada V6C 3R8, Attention: Corporate Secretary.

If the requisition consists of more than one record, the requisition is deemed to be received by the Company on the first date by which the Company received requisition records that comply with the above-listed conditions and by the Shareholders holding the minimum number of common shares to qualify for the requisition.

On receiving a valid requisition, the Board must, except in circumstances specified in the BCBCA, call a general meeting to be held not more than four (4) months after the date on which the Company receives the requisition. The notice of the meeting and the information circular must include the date, time, location and text of the business to be approved. If the Board does not call a meeting within 21 days after the date of receiving a valid requisition, the requisitioning Shareholders or any one of them holding more than 1/40 (two and a half per cent (2.5%)) of the Company's issued and outstanding common shares may send notice of a general meeting to transact the business stated in the requisition.

A general meeting called by the requisitioning Shareholders must be held within four (4) months of the Company receiving the requisition notice and must be conducted in the same manner as a general meeting called by the Board.

Unless the Shareholders otherwise resolve by an ordinary resolution at the meeting called, the Company must reimburse the requisitioning Shareholders for the expenses reasonably incurred by them requisitioning, calling and holding the meeting.

The quorum for meetings of the Shareholders is set forth in the Articles. A quorum for a meeting of the Shareholders is two persons who are, or who are represented by proxy, Shareholders who, in the aggregate, hold at least five per cent (5%) of the Company's issued and outstanding common shares.



CORPORATE GOVERNANCE REPORT

Procedures by Which Enquiries May Be Put to the Board

The BCBCA does not legislate procedures by which shareholder enquiries may be put to the board of a company and the Company's constitutional documents do not mandate a specific process for enquiries to be put to the Board. However, Shareholders are kept informed of material information regarding the Company's financial position and operations through public disclosure in accordance with applicable Canadian securities laws and the stock exchange rules in all applicable jurisdictions. Further, the Directors are obliged to place the annual financial statements of the Company and an Auditor's report made on those financial statements before Shareholders at an AGM and must send a copy of this information to Shareholders who request such information within six (6) months of the Annual General Meeting.

Should a Shareholder wish to communicate with the Board, he/she can contact the Company's Corporate Secretary at SouthGobi Resources Ltd., 20th floor – 250 Howe Street, Vancouver, British Columbia, Canada V6C 3R8 Attention: Corporate Secretary, or by phone: 1 604-762-6783 (Canada), +852 2156 1438 (Hong Kong) or email: info@southgobi.com.

Procedures for Putting Forward Proposals at Shareholders' Meetings

A qualified Shareholder (as herein defined) may put forward a written proposal setting out a matter that the qualified Shareholder wishes to have considered at the next AGM. A "qualified Shareholder" is a Shareholder who is, and who has been for an uninterrupted period of at least two (2) years before the date of the signing of the proposal, a holder or beneficial owner of the Company's issued and outstanding common share(s) (subject to certain exceptions).

A valid proposal must be signed by the submitter and by qualified Shareholder(s) (each, a "Supporter") who, together with the submitter, is/are holders of common shares that, at the time of signing, in the aggregate constitute at least one per cent (1%) of the Company's issued and outstanding common shares. A declaration signed by the submitter and each Supporter, must accompany the proposal, providing contact details and shareholdings of the submitter or the Supporter, as the case may be.

Each of the proposals and the declarations must be received at the registered office of the Company at least three (3) months before the anniversary of the previous year's AGM and the Company must then (subject to certain statutory exceptions) send the text of the proposal to all holders of the Company's issued and outstanding common shares. The Company must allow a submitter to present the proposal at the AGM in relation to which the proposal was made.

Constitutional Documents

There were no changes to the Company's constitutional documents during the Financial Year. The Articles are available on the respective websites of the Company and the Hong Kong Stock Exchange.

On behalf of the Board

Allison Snetsinger
Corporate Secretary
May 30, 2022

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.



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

Forward-looking Statements

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

- the Company continuing as a going concern and its ability to realize its assets and discharge its liabilities in the normal course of operations as they become due;
- adjustments to the amounts and classifications of assets and liabilities in the Company's consolidated financial statements and the impact thereof;
- the Company's expectations of sufficient liquidity and capital resources to meet its ongoing obligations and future contractual commitments, including the Company's ability to settle its trade payables, to secure additional funding and to meet its obligations under each of the China Investment Corporation (together with its wholly-owned subsidiaries and affiliates, "CIC") convertible debenture (the "Convertible Debenture"), the 2020 November Deferral Agreement (as defined below), the Amended and Restated Cooperation Agreement (as defined below), the 2021 July Deferral Agreement (as defined below) and the 2022 May Deferral Agreement (as defined below) as the same become due;
- the Company's anticipated financing needs, development plans and future production levels;
- the impact of the Coronavirus Disease 2019 ("COVID-19") pandemic and the potential closure of Mongolia's southern border with China on the Company's business, financial condition and operations;
- the results and impact of the Ontario class action (as described under Section 7 of this MD&A under the heading entitled "Regulatory Issues and Contingencies – Class Action Lawsuit");
- completion of the CIC Sale Transaction (as defined below);
- 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 7 of this MD&A under the heading entitled "Regulatory Issues and Contingencies – Toll Wash Plant Agreement with Ejin Jinda");
- the ability of the Company to enhance the operational efficiency and output throughput of the washing facilities at Ovoot Tolgoi;



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

Forward-looking Statements continued

- 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 impact of the restrictions on the number of trucks crossing the border at the Ceke Port of Entry and the import coal quality standards established by Chinese authorities on the Company's operations;
- the future demand for coal in China;
- future trends in the Chinese coal industry;
- the impact of the Company's decision to temporarily suspend mining operations (including coal mining) beginning as of early November 2021 in order to control the Company's inventory level and preserve the Company's working capital;
- the delisting of the Common Shares from the TSX and the listing of the Common Shares on the TSX-V pursuant to the Voluntary Delisting Application (as defined below) and the Listing Application (as defined below), respectively;
- the conversion of the Company's listing of Common Shares on the HKEX from a secondary listing to a primary listing pursuant to the Primary Listing Application (as defined below);
- the Company's outlook and objectives for 2022 and beyond (as more particularly described under Section 15 of this MD&A under the heading entitled "Outlook"); and
- other statements that are not historical facts.

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

Forward-looking Statements continued

Forward-looking information is based on certain factors and assumptions described below and elsewhere in this MD&A, including, among other things: the current mine plan for the Ovoot Tolgoi mine; mining, production, construction and exploration activities at the Company's mineral properties; the costs relating to anticipated capital expenditures; the capacity and future toll rate of the paved highway; plans for the progress of mining license application processes; mining methods; the Company's anticipated business activities, planned expenditures and corporate strategies; management's business outlook, including the outlook for 2022 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 reopen for coal exports; the anticipated demand for the Company's coal products; future coal prices, and the level of worldwide coal production. While the Company considers these assumptions to be reasonable based on the information currently available to it, they may prove to be incorrect. Forward-looking statements are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These risks and uncertainties include, among other things: the uncertain nature of mining activities, actual capital and operating costs exceeding management's estimates; variations in mineral resource and mineral reserve estimates; failure of plant, equipment or processes to operate as anticipated; the possible impacts of changes in mine life, useful life or depreciation rates on depreciation expenses; risks associated with, or changes to regulatory requirements (including environmental regulations) and the ability to obtain all necessary regulatory approvals; the potential expansion of the list of licenses published by the Government of Mongolia covering areas in which exploration and mining are purportedly prohibited on certain of the Company's mining licenses; the Government of Mongolia designating any one or more of the Company's mineral projects in Mongolia as a Mineral Deposit of Strategic Importance; the risk of continued restrictions on the number of trucks crossing the border at the Ceke Port of Entry; the risk that the import coal quality standards established by Chinese authorities will negatively impact the Company's operations; the risk that Mongolia's southern borders with China will be subject for 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 Convertible Debenture; the risk that the CIC Sale Transaction fails to complete; the risk of the Company failing to successfully negotiate favorable repayment terms on the TRQ Reimbursable Amount (as described under Section 6 of this MD&A under the heading entitled "Liquidity and Capital Management – Costs Reimbursable to Turquoise Hill Resources Limited ("Turquoise Hill")"); the risk of the Company or its subsidiaries defaulting under its existing debt obligations, including the Convertible Debenture, the deferral agreement signed on November 19, 2020 (the "2020 November Deferral Agreement"), the amended and restated mutual cooperation agreement signed on April 23, 2019 (the "Amended and Restated Cooperation Agreement"), the deferral agreement signed on July 30, 2021 (the "2021 July Deferral Agreement") and the deferral agreement signed on May 13, 2022 (the "2022 May Deferral Agreement"); the impact of amendments to, or the application of, the laws of Mongolia, China and other countries in which the Company carries on business; modifications to existing practices so as to comply with any future permit conditions that may be imposed by regulators; delays in obtaining approvals and lease renewals; the risk of fluctuations in coal prices and changes in China and world economic conditions; the outcome of the Class Action (as described under Section 7 of this MD&A under the heading entitled "Regulatory Issues and Contingencies – Class Action Lawsuit") and any damages payable by the Company as a result; the risk that the 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. Please refer to Section 14 of this MD&A under the heading entitled "Risk Factors" for a discussion of these and other risks and uncertainties relating to the Company and its operations. This list is not exhaustive of the factors that may affect any of the Company's forward-looking statements.



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

Forward-looking Statements continued

Due to assumptions, risks and uncertainties, including the assumptions, risks and uncertainties identified above and elsewhere in this MD&A, actual events may differ materially from current expectations. The Company uses forward-looking statements because it believes such statements provide useful information with respect to the currently expected future operations and financial performance of the Company, and cautions readers that the information may not be appropriate for other purposes. Except as required by law, the Company undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change. The reader is cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this MD&A; they should not rely upon this information as of any other date.

Table of Contents

Page

60	1.	Overview
61		Significant Events and Highlights
65	2.	Selected Annual Information
66	3.	Overview of Operational Data and Financial Results
73	4.	Non-IFRS Financial Measures
75	5.	Properties
75		Operating Mine
76		Mining Operations
77	6.	Liquidity and Capital Resources
85	7.	Regulatory Issues and Contingencies
87	8.	Environment
88	9.	Emolument Policy
88	10.	Outstanding Share Data
89	11.	Disclosure Controls and Procedures and Internal Controls Over Financial Reporting
90	12.	Critical Accounting Estimates and Judgments
90	13.	Recent Accounting Pronouncements
91	14.	Risk Factors
110	15.	Outlook

Introduction

This MD&A is dated as of May 30, 2022 and should be read in conjunction with the consolidated financial statements of the Company and the notes thereto for the year ended December 31, 2021. The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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

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

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

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

Introduction continued

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

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

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

1. Overview

The Company is an integrated coal mining, development and exploration company with 279 employees as at December 31, 2021. The Company's common shares ("Common Shares") are listed for trading on the Toronto Stock Exchange ("TSX") under the symbol SGQ and on the Hong Kong Stock Exchange ("HKEX") under the stock code symbol 1878.

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

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

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



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

1. Overview continued

Significant Events and Highlights

The Company's significant events and highlights for the year ended December 31, 2021 and the subsequent period to May 30, 2022 are as follows:

- **Operating Results** – In response to the increase in COVID-19 case numbers in Mongolia, the Chinese authorities has been restricting the number of trucks permitted to cross the Ceke Port of Entry, and such restriction has severely impacted the sales volume of the Company in the third and fourth quarters of 2021. As a result, the Company's sales volume decreased from 2.6 million tonnes in 2020 to 0.9 million tonnes in 2021.

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

The Company experienced an increase in the average selling price of coal from \$35.5 per tonne in the fourth quarter of 2020 to \$55.4 per tonne in the fourth quarter of 2021, as a result of improved market conditions in China and an improvement of the overall product mix.

- **Financial Results** – The Company recorded a \$4.4 million profit from operations in 2021 compared to a \$15.3 million profit in 2020. The financial results were impacted by the decreased sales resulting from the export volume limitations and temporary closure of the Ceke Port of Entry experienced by the Company during the year.
- **Impact of the COVID-19 Pandemic** – Since the second quarter of 2021, additional precautionary measures were imposed by the Chinese authorities at the Ceke Port of Entry in response to the increase of COVID-19 cases in Mongolia, which included restricting the number of trucks crossing the Mongolian border into China. The restrictions on trucking volume have had an adverse impact on the Company's ability to import its coal products into China in 2021.

In response to the increase in the number of COVID-19 cases in Ejinaqi, a region in China's Inner Mongolia Autonomous Region where the custom and border crossing are located, reported in late October 2021, the local government authorities have imposed stringent preventive measures throughout the region, including the temporary closure of the Ceke Port of Entry located at the border of Mongolia and China. Accordingly, the Company's coal exports into China were suspended from November 2021 to May 2022. In order to control the inventory level and preserve the Company's working capital, the Company temporarily suspended mining operations (including coal mining) beginning in early November 2021.

On May 25, 2022, the Ceke Port of Entry re-opened for coal export on a trial basis, with a limited number of trucks permitted to cross the border during the trial period. The Company has been proactively adjusting its sales strategy in response and exploring opportunities to expand its sales accordingly. Although the export of coal from Mongolia to China has resumed as of the date hereof, there can be no guarantee that the Company will be able to continue exporting coal to China, or the Mongolian-Chinese border crossings would not be the subject of additional closure as a result of COVID-19 or any variants thereof in the future. The Company anticipates that its revenue, liquidity and profitability will continue to be adversely impacted until such time as the coal exports into China are allowed to resume at normal levels.

The Company will continue to closely monitor the situation at the Ceke Port of Entry, including the number of trucks that are permitted to cross the border and the impact on the operations and financials of the Company, and will evaluate the most suitable time for the full resumption of its mining operation.

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

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

1. Overview continued

Significant Events and Highlights continued

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

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

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

On May 15, 2022, the Company and CIC entered into the 2022 May Deferral Agreement, pursuant to which CIC agreed to grant the Company a deferral of (i) semi-annual cash interest payments of \$7.9 million payable to CIC on May 19, 2022 (the “Deferred Amounts”); and (ii) the management fee which payable to CIC on February 14, 2022 and August 14, 2021 (the “Deferred Management Fee”) under the Amended and Restated Cooperation Agreement (collectively, the “2022 Deferral Amounts”) under the Convertible Debenture.

The principal terms of the 2022 May Deferral Agreement are as follows:

- Payment of the 2022 Deferral Amounts will be deferred until August 31, 2023.
- As consideration for the deferral of the Deferred Amounts, the Company agreed to pay CIC a deferral fee equal to 6.4% per annum on the Deferred Amounts payable under the Convertible Debenture, commencing on May 19, 2022.
- As consideration for the deferral of the Deferred Management Fees, the Company agreed to pay CIC a deferral fee equal to 2.5% per annum on the outstanding balance of the Deferred Management Fees payable under the Amended and Restated Cooperation Agreement, commencing on the date on which each such 2022 May Deferred Management Fee would otherwise have been due and payable under the Amended and Restated Cooperation Agreement;
- The Company agreed to provide CIC with monthly updates regarding its operational and financial affairs.
- If at any time before the 2022 Deferral Amounts and related deferral fee 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 CIC prior to effecting such appointment, replacement or termination.
- The Company and CIC agreed that nothing in the 2022 May Deferral Agreement prejudices CIC's rights to pursue any of its remedies at any time pursuant to the prior deferral agreements.



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

1. Overview continued

Significant Events and Highlights continued

- **Management Cease Trade Order (“MCTO”)** – On March 11, 2022, the Company announced that it was advised by its external auditors that they would not be in a position to render an unmodified opinion on the Company’s annual consolidated financial statements for the year ended December 31, 2021 (the “2021 Financial Statements”) prior to the filing deadline of March 31, 2022 because they were not able to obtain sufficient evidence to support management’s going concern assumptions. As a result, the Company was unable to file: (i) the 2021 Financial Statements, accompanying MD&A and chief executive officer and chief financial officer certificates prior to the filing deadline of March 31, 2022; and (ii) the Annual Information Form for the financial year ended December 31, 2021 prior to the filing deadline of March 31, 2022 (collectively, the “2022 Required Filings”). The Company was also unable to file its 2021 Annual Report prior to the filing deadline of March 31, 2022 as required under applicable HKEX listing rules.

On March 17, 2022, the Company applied for a management cease trade order with the applicable Canadian securities regulators in connection with the anticipated delayed filing of the 2022 Required Filings. A MCTO was issued by the BCSC, the Company’s principal securities regulator in Canada, on April 1, 2022 (the “2022 MCTO”).

- **Application for New Listing on the TSX Venture Exchange (the “TSX-V”) and Primary Listing on the Hong Kong Stock Exchange** – On April 20, 2022, the Company announced that it would be making an application (the “Listing Application”) to the TSX-V to list its common shares on the TSX-V. In conjunction with the foregoing, the Company would also apply for voluntary delisting of its common shares from the TSX, subject to the Company receiving approval from the TSX-V of the Listing Application. Pursuant to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the “Listing Rules”), the Company announced it intends to submit a written notification to the HKEX stating, among other things, that it will be able to fully comply with the applicable Listing Rules in connection with the approval of the Listing Application and the Listing Application becoming effective, and such that its current secondary listing on the HKEX will be converted to a primary listing.
- **Sale by CIC of its Interests in the Company** – On May 27, 2022, the Company announced that as disclosed in the press release issued by CIC on May 26, 2022 (the “CIC Press Release”), CIC has entered into an agreement to sell (the “CIC Sale Transaction”) all of its interests in the Company, including its 64,766,591 common shares of the Company and the Convertible Debenture, to JD Zhixing Fund L.P. (the “Buyer”). The Company has been advised that the Buyer is an exempted limited partnership formed under the laws of Cayman Islands. The Buyer’s general partner is JD Dingxing Limited, a corporation formed under the laws of the Cayman Islands. The Buyer’s limited partner is Inner Mongolia Tianyu Trading Limited, a corporation formed under the laws of Hong Kong. As disclosed in the CIC Press Release, completion of the Sale Transaction is subject to the satisfaction of certain conditions precedent.

In connection with the CIC Sale Transaction, CIC has agreed to assign (the “Assignment”) to the Buyer all of CIC’s rights in and obligations under: (i) the Convertible Debenture and related security documents; (ii) the Amended and Restated Cooperation Agreement and related documents; (iii) the deferral agreements between CIC, the Company and certain of its subsidiaries in connection with the deferral of interest payments and other outstanding fees under the Convertible Debenture and the Amended and Restated Cooperation Agreement (the “Deferral Agreements”); and (iv) the Securityholders Agreement.

Subject to completion of the CIC Sale Transaction and related Assignment, the Buyer has agreed, effective as of July 1, 2022, to reduce the service fee payable by the Company under the Amended and Restated Cooperation Agreement from 2.5% to 1.5% of all net revenues realized by the Company and all of its subsidiaries derived from sales into China.

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

1. Overview continued

Significant Events and Highlights continued

Upon the completion of the Sale Transaction and related Assignment:

- while the Convertible Debenture is outstanding, or while the Buyer has a minimum 15% direct or indirect stake in the Company, the Buyer will have the right to nominate one director to the Board pursuant to the board nomination rights contained in the Securityholders Agreement;
- the Buyer also will have the right to nominate two additional directors to the Board if it and its affiliates have a minimum 20% direct or indirect stake in Company, or one additional director to the Board if it and its affiliate have a minimum 10% direct or indirect stake in Company, pursuant to the board nomination rights contained in the Deferral Agreements; and
- while the Convertible Debenture is outstanding, or while the Buyer has a minimum 15% direct or indirect stake in Company, the Buyer will have certain pre-emption rights on a pro-rata basis to subscribe for any new shares to be allotted and issued by Company. The pre-emption rights do not apply to new shares issued pursuant to pro-rata public equity offerings made to all shareholders, exercise of stock options and shares issued to achieve a 25% public float.
- **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 6 of this MD&A under the heading entitled “Liquidity and Capital Resources” and Section 14 of this MD&A under the heading entitled “Risk Factors” for details.



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

2. Selected Annual Information

<i>\$ in thousands, except per share and per tonne information</i>	Year ended December 31,		
	2021	2020	2019
Revenue	\$ 43,398	\$ 85,951	\$ 129,712
Profit from operations	4,377	15,276	29,832
Net profit/(loss) attributable to equity holders of the Company	(14,373)	(20,089)	4,201
Basic and diluted earnings/(loss) per share	\$ (0.05)	\$ (0.07)	\$ 0.02
Cash from/(used in) operating activities	(4,329)	23,687	20,057
Cash used in investing activities	(8,637)	(9,613)	(18,508)
Cash used in financing activities	(6,010)	(1,416)	(1,339)
Coal sales volumes (<i>millions of tonnes</i>) ⁽ⁱ⁾	0.94	2.63	3.74
Average realized selling price (<i>per tonne</i>)	\$ 46.02	\$ 33.01	\$ 34.88

<i>\$ in thousands</i>	As at December 31,		
	2021	2020	2019
Cash and cash equivalents	\$ 723	\$ 20,121	\$ 7,164
Total working capital deficiency	(42,535)	(217,607)	(114,711)
Total assets	206,113	214,632	228,427
Total non-current liabilities	198,728	6,869	98,581

(i) Coal sales volumes are from the Ovoot Tolgoi Mine.

The Mongolia-China border closure in response to the increase in COVID-19 case numbers in Mongolia has had an adverse impact on the Company's sales and cash flows for 2020. When combined with the impact of the provision for commercial arbitration of \$4.6 million recorded in connection with the Company entering into a settlement agreement with First Concept Industrial Group Limited, the Company recorded a net loss of \$20.1 million in 2020.

Despite an increase with the average realized selling price as a result of improved market condition in 2021, the financial results for 2021 were impacted by the decreased sales resulting from the export volume limitations as well as the closure of the Ceke Port of Entry experienced by the Company.

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

3. Overview of Operational Data and Financial Results

Summary of Annual Operational Data

	Year ended December 31,	
	2021	2020
Sales Volumes, Prices and Costs		
Premium semi-soft coking coal		
Coal sales (<i>millions of tonnes</i>)	0.60	1.01
Average realized selling price (<i>per tonne</i>)	\$ 51.80	\$ 33.22
Standard semi-soft coking coal/premium thermal coal		
Coal sales (<i>millions of tonnes</i>)	0.33	1.43
Average realized selling price (<i>per tonne</i>)	\$ 35.01	\$ 31.69
Washed coal		
Coal sales (<i>millions of tonnes</i>)	0.01	0.19
Average realized selling price (<i>per tonne</i>)	\$ 48.53	\$ 41.96
Total		
Coal sales (<i>millions of tonnes</i>)	0.94	2.63
Average realized selling price (<i>per tonne</i>)	\$ 46.02	\$ 33.01
Raw coal production (<i>millions of tonnes</i>)	1.36	1.49
Cost of sales of product sold (<i>per tonne</i>)	\$ 33.30	\$ 22.30
Direct cash costs of product sold (<i>per tonne</i>) ⁽ⁱ⁾	\$ 17.81	\$ 12.73
Mine administration cash costs of product sold (<i>per tonne</i>) ⁽ⁱ⁾	\$ 1.53	\$ 1.33
Total cash costs of product sold (<i>per tonne</i>) ⁽ⁱ⁾	\$ 19.34	\$ 14.06
Other Operational Data		
Production waste material moved (<i>millions of bank cubic meters</i>)	5.94	5.34
Strip ratio (<i>bank cubic meters of waste material per tonne of coal produced</i>)	4.36	3.59
Lost time injury frequency rate ⁽ⁱⁱ⁾	0.00	0.03

(i) A non-IFRS financial measure, refer to Section 4. 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 Annual Operational Data

The Company ended 2021 without a lost time injury. In comparison, as at December 31, 2020, the Company had a lost time injury frequency rate of 0.03 per 200,000 man hours based on a rolling 12-month average.

The Company sold 0.9 million tonnes in 2021 as compared to 2.6 million tonnes in 2020. The average selling price increased from \$33.0 per tonne for 2020 to \$46.0 per tonne for 2021, as a result of improved market conditions in China and an improvement of the overall product mix.

The product mix for 2021 consisted of approximately 64% of premium semi-soft coking coal, 34% of standard semi-soft coking coal/premium thermal coal and 2% of washed coal compared to approximately 39% of premium semi-soft coking coal, 54% of standard semi-soft coking coal/premium thermal coal and 7% of washed coal in 2020.



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

3. Overview of Operational Data and Financial Results continued

Overview of Annual Operational Data continued

The Company's production in 2021 was lower than 2020 as a result of the Company's major mining operations (including coal mining) being temporarily suspended for a relatively longer period in 2021 in order to mitigate the financial impact of the border closures and to preserve the Company's working capital, yielding 1.4 million tonnes for 2021 as compared to 1.5 million tonnes for 2020.

The Company's unit cost of sales of product sold increased from \$22.3 per tonne in 2020 to \$33.3 per tonne in 2021. The increase was mainly driven by the increase in the effective royalty rate.

Summary of Annual Financial Results

\$ in thousands, except per share information	Year ended December 31,	
	2021	2020
Revenue ⁽ⁱ⁾	\$ 43,398	\$ 85,951
Cost of sales ⁽ⁱ⁾	(31,304)	(58,657)
Gross profit excluding idled mine asset costs ⁽ⁱⁱ⁾	15,011	32,147
Gross profit	12,094	27,294
Other operating expenses, net	(1,426)	(4,821)
Administration expenses	(6,068)	(6,971)
Evaluation and exploration expenses	(223)	(226)
Profit from operations	4,377	15,276
Finance costs	(39,118)	(31,692)
Finance income	23,165	2,613
Share of earnings/(loss) of a joint venture	(159)	1,313
Current income tax expenses	(2,638)	(7,599)
Net loss attributable to equity holders of the Company	(14,373)	(20,089)
Basic and diluted loss per share	\$ (0.05)	\$ (0.07)

(i) Revenue and cost of sales related to the Company's Ovoot Tolgoi Mine within the Coal Division operating segment. Refer to note 4 of the consolidated financial statements for further analysis regarding the Company's reportable operating segments.

(ii) A non-IFRS financial measure. Refer to "Non-IFRS Financial Measures" section. Idled mine asset costs represents the depreciation expense relates to the Company's idled plant and equipment.

Overview of Annual Financial Results

The Company recorded a \$4.4 million profit from operations in 2021 compared to a \$15.3 million profit in 2020. The financial results were impacted by (i) the export volume limitations experienced by the Company during the year and (ii) the temporary closure of the China-Mongolia border which resulted in the Company being unable to export its coal products to China during the fourth quarter of 2021.

Revenue was \$43.4 million in 2021 compared to \$86.0 million in 2020. The Company's effective royalty rate for 2021, based on the Company's average realized selling price of \$46.0 per tonne, was 18.7% or \$8.6 per tonne, compared to 12.2% or \$4.0 per tonne in 2020 (based on the average realized selling price of \$33.0 per tonne).

Royalty regime in Mongolia

On June 23, 2021, the Government of Mongolia issued a new resolution in connection with the royalty regime. From July 1, 2021 onwards, the royalty payable is to be calculated based on the reference price as determined by the Government of Mongolia, and the reference to the contract sales price will be removed. Refer to the section entitled "Risk Factors – Risk Relating to the Company's Projects in Mongolia" of this MD&A.

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

3. Overview of Operational Data and Financial Results continued

Overview of Annual Financial Results continued

Royalty regime in Mongolia continued

Cost of sales was \$31.3 million in 2021 compared to \$58.7 million in 2020. The decrease in cost of sales in 2021 was mainly due to the effect of decreased sales volume. 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 4 of this MD&A for further analysis) during the year.

\$ in thousands	Year ended December 31,	
	2021	2020
Operating expenses	\$ 18,176	\$ 36,974
Share-based compensation expense	52	24
Depreciation and depletion	2,034	6,243
Royalties	8,125	10,563
Cost of sales from mine operations	28,387	53,804
Cost of sales related to idled mine assets	2,917	4,853
Cost of sales	\$ 31,304	\$ 58,657

Operating expenses in cost of sales were \$18.2 million in 2021 compared to \$37.0 million in 2020. The overall decrease in operating expenses was primarily due to the decreased sales volume from 2.6 million tonnes in 2020 to 0.9 million tonnes in 2021.

Cost of sales related to idled mine assets in 2021 included \$2.9 million related to depreciation expenses for idled equipment (2020: \$4.9 million).

Other operating expenses were \$1.4 million in 2021 (2020: \$4.8 million), which mainly comprises of the impairment of materials and supplies inventories of \$2.4 million in 2021.

\$ in thousands	Year ended December 31,	
	2021	2020
CIC management fee	\$ 967	\$ 2,170
Provision/(reversal of provision) for doubtful trade and other receivables	191	(336)
Provision for commercial arbitration	–	4,634
Impairment of prepaid expenses	–	8
Foreign exchange loss/(gain), net	325	(1,586)
Gain on disposal of items of property, plant and equipment, net	(299)	(69)
Impairment on materials and supplies inventories	2,411	–
Rental income from short term leases	(587)	–
Discount on settlement of trade payables	(891)	–
Written off of other payables	(691)	–
Other operating expenses	\$ 1,426	\$ 4,821



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

3. Overview of Operational Data and Financial Results continued

Overview of Annual Financial Results continued

Administration expenses were \$6.1 million in 2021 as compared to \$7.0 million in 2020, as follows:

<i>\$ in thousands</i>	Year ended December 31,	
	2021	2020
Corporate administration	\$ 1,312	\$ 1,268
Legal and professional fees	1,098	1,363
Salaries and benefits	2,847	3,518
Share-based compensation expense	151	89
Depreciation	660	733
Administration expenses	\$ 6,068	\$ 6,971

Administration expenses were lower for 2021 compared to 2020 primarily due to decrease in salaries and benefits incurred during the year.

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

Finance costs were \$39.1 million and \$31.7 million in 2021 and 2020, respectively, which primarily consisted of interest expense on the \$250.0 million Convertible Debenture.

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

3. Overview of Operational Data and Financial Results continued

Summary of Quarterly Operational Data

Quarter Ended	2021				2020			
	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
Sales Volumes, Prices and Costs								
Premium semi-soft coking coal								
Coal sales (<i>millions of tonnes</i>)	0.01	0.11	0.08	0.40	0.38	0.35	0.21	0.07
Average realized selling price (<i>per tonne</i>)	\$ 69.73	\$ 64.25	\$ 52.11	\$ 47.88	\$ 39.34	\$ 30.17	\$ 28.69	\$ 28.46
Standard semi-soft coking coal/premium thermal coal								
Coal sales (<i>millions of tonnes</i>)	0.01	0.06	0.03	0.23	0.50	0.54	0.26	0.13
Average realized selling price (<i>per tonne</i>)	\$ 34.84	\$ 33.56	\$ 36.71	\$ 35.17	\$ 31.66	\$ 30.80	\$ 33.12	\$ 32.71
Washed coal								
Coal sales (<i>millions of tonnes</i>)	–	–	–	0.01	0.07	0.10	0.02	–
Average realized selling price (<i>per tonne</i>)	\$ –	\$ –	\$ –	\$ 49.62	\$ 42.51	\$ 41.30	\$ 43.26	\$ –
Total								
Coal sales (<i>millions of tonnes</i>)	0.02	0.17	0.11	0.64	0.95	0.99	0.49	0.20
Average realized selling price (<i>per tonne</i>)	\$ 55.44	\$ 53.52	\$ 47.93	\$ 43.46	\$ 35.53	\$ 31.63	\$ 31.66	\$ 31.18
Raw coal production (<i>millions of tonnes</i>)	0.06	0.26	–	1.04	0.96	0.52	–	0.01
Cost of sales of product sold (<i>per tonne</i>)	\$ 76.95	\$ 40.39	\$ 41.38	\$ 28.67	\$ 23.36	\$ 20.23	\$ 21.16	\$ 30.36
Direct cash costs of product sold (<i>per tonne</i>) ⁽ⁱ⁾	\$ 17.47	\$ 17.50	\$ 16.39	\$ 18.15	\$ 14.78	\$ 12.38	\$ 9.90	\$ 11.69
Mine administration cash costs of product sold (<i>per tonne</i>) ⁽ⁱ⁾	\$ 1.23	\$ 1.62	\$ 4.26	\$ 1.04	\$ 1.07	\$ 1.15	\$ 1.70	\$ 2.50
Total cash costs of product sold (<i>per tonne</i>) ⁽ⁱ⁾	\$ 18.70	\$ 19.12	\$ 20.65	\$ 19.19	\$ 15.85	\$ 13.53	\$ 11.60	\$ 14.19
Other Operational Data								
Production waste material moved (<i>millions of bank cubic meters</i>)	0.31	0.59	–	5.04	3.10	1.67	–	0.57
Strip ratio (<i>bank cubic meters of waste material per tonne of coal produced</i>)	5.61	2.23	–	4.83	3.24	3.20	–	85.08
Lost time injury frequency rate ⁽ⁱⁱ⁾	0.00	0.00	0.00	0.00	0.00	0.00	0.04	0.09

(i) A non-IFRS financial measure, refer to Section 4. Cash costs of product sold exclude idled mine asset cash costs.

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



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

3. Overview of Operational Data and Financial Results continued

Overview of Quarterly Operational Data

The Company ended the fourth quarter of 2021 without a lost time injury.

The Company experienced an increase in the average selling price of coal from \$35.5 per tonne in the fourth quarter of 2020 to \$55.4 per tonne in the fourth quarter of 2021, as a result of improved market conditions in China and an improvement of the overall product mix. The product mix for the fourth quarter of 2021 consisted of approximately 59% premium semi-soft coking coal and 41% standard semi-soft coking coal/premium thermal coal compared to approximately 40% premium semi-soft coking coal, 53% standard semi-soft coking coal/premium thermal coal and 7% washed coal in the fourth quarter of 2020.

In response to the increase in the number of COVID-19 cases in Ejinaqi, the Ceke Port of Entry was closed in October 2021. Accordingly, the Company's coal exports into China were suspended from November 2020 to May 2022. As a result, the Company's sales volume decreased from 1.0 million tonnes in the fourth quarter of 2020 to less than 0.1 million tonnes in the fourth quarter of 2021.

In order to control the inventory level and preserve the Company's working capital, the Company temporarily suspended mining operations (including coal mining) beginning in early November 2021. See "Significant Events and Highlights – Impact of the COVID-19 Pandemic" above.

The Company's unit cost of sales of product sold increased from \$23.4 per tonne in the fourth quarter of 2020 to \$77.0 per tonne in the fourth quarter of 2021. The increase was mainly driven by the diseconomies of scale due to decreased sales as well as the increase in the effective royalty rate.

Summary of Quarterly Financial Results

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

Quarter Ended	2021				2020			
	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
<i>\$ in thousands, except per share information</i>								
Financial Results								
Revenue ⁽ⁱ⁾	\$ 848	\$ 9,295	\$ 5,191	\$ 28,064	\$ 33,879	\$ 30,960	\$ 14,975	\$ 6,137
Cost of sales ⁽ⁱ⁾	(1,539)	(6,866)	(4,552)	(18,347)	(22,193)	(20,027)	(10,366)	(6,071)
Gross profit/(loss) excluding idled mine asset costs	(51)	3,269	1,565	10,228	12,610	11,789	6,286	1,462
Gross profit/(loss) including idled mine asset costs	(691)	2,429	639	9,717	11,686	10,933	4,609	66
Other operating income/(expenses), net	(1,078)	100	(113)	(335)	434	(575)	(5,150)	470
Administration expenses	(1,336)	(1,467)	(1,484)	(1,781)	(2,120)	(1,789)	(1,291)	(1,771)
Evaluation and exploration expenses	(75)	(36)	(47)	(65)	(55)	(63)	(52)	(56)
Profit/(loss) from operations	(3,180)	1,026	(1,005)	7,536	9,945	8,506	(1,884)	(1,291)
Finance costs	(9,702)	(11,457)	(8,870)	(14,637)	(7,442)	(9,885)	(7,258)	(7,135)
Finance income	3,178	2,040	2,494	21,001	13	2,583	2	43
Share of earnings/(loss) of a joint venture	(137)	(261)	(35)	274	431	660	268	(46)
Current income tax credit/(expenses)	(1,579)	(78)	139	(1,120)	(5,174)	(793)	(900)	(732)
Net profit/(loss)	(11,420)	(8,730)	(7,277)	13,054	(2,227)	1,071	(9,772)	(9,161)
Basic earnings/(loss) per share	\$ (0.04)	\$ (0.03)	\$ (0.03)	\$ 0.05	\$ (0.01)	\$ –	\$ (0.04)	\$ (0.03)
Diluted earnings/(loss) per share	\$ (0.04)	\$ (0.03)	\$ (0.03)	\$ 0.02	\$ (0.01)	\$ –	\$ (0.04)	\$ (0.03)

(i) Revenue and cost of sales relate to the Company's Ovoot Tolgoi Mine within the Mongolian Coal Division operating segment. Refer to note 4 of the consolidated financial statements for further analysis regarding the Company's reportable operating segments.

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

3. Overview of Operational Data and Financial Results continued

Overview of Quarterly Financial Results

The Company recorded a \$3.2 million loss from operations in the fourth quarter of 2021 compared to a \$9.9 million profit from operations in the fourth quarter of 2020. The financial results for the fourth quarter of 2021 were impacted by the decreased sales resulting from the export volume limitations as well as the border closure experienced by the Company during the quarter.

Revenue was \$0.8 million in the fourth quarter of 2021 compared to \$33.9 million in the fourth quarter of 2020. The Company's effective royalty rate for the fourth quarter of 2021, based on the Company's average realized selling price of \$55.4 per tonne, was 49.4% or \$27.4 per tonne, compared to 12.3% or \$4.4 per tonne in the fourth quarter of 2020 (based on the average realized selling price of \$35.5 per tonne).

Cost of sales was \$1.5 million in the fourth quarter of 2021 compared to \$22.2 million in the fourth quarter of 2020. The decrease in cost of sales in the fourth quarter of 2021 was mainly due to the effect of decreased sales volume.

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 4 of this MD&A for further analysis) during the quarter.

\$ in thousands	Three months ended December 31,	
	2021	2020
Operating expenses	\$ 374	\$ 15,062
Share-based compensation expense	15	1
Depreciation and depletion	91	2,080
Royalties	419	4,126
Cost of sales from mine operations	899	21,269
Cost of sales related to idled mine assets	640	924
Cost of sales	\$ 1,539	\$ 22,193

Cost of sales related to idled mine assets in the fourth quarter of 2021 included \$0.6 million related to depreciation expenses for idled equipment (fourth quarter of 2020: \$0.9 million).

Other operating expenses was \$1.1 million in the fourth quarter of 2021 (fourth quarter of 2020: other operating income of \$0.4 million). The increase was mainly due to the impairment of materials and supplies inventories of \$2.4 million during the fourth quarter of 2021.

\$ in thousands	Three months ended December 31,	
	2021	2020
CIC management fee	\$ 35	\$ 771
Reversal of provision for doubtful trade and other receivables	(13)	(136)
Foreign exchange loss/(gain), net	141	(947)
Impairment of prepaid expenses	–	8
Impairment on materials and supplies inventories	2,435	–
Discount on settlement of trade payables	(383)	–
Gain on disposal of items of property, plant and equipment, net	(29)	(130)
Rental income from short term leases	(587)	–
Written off of other payables	(521)	–
Other operating expenses/(income), net	\$ 1,078	\$ (434)



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

3. Overview of Operational Data and Financial Results continued

Overview of Quarterly Financial Results continued

Administration expenses decreased from \$2.1 million in the fourth quarter of 2020 to \$1.3 million in the fourth quarter of 2021, primarily due to decrease in salaries and benefits incurred during the quarter.

\$ in thousands	Three months ended December 31,	
	2021	2020
Corporate administration	\$ 176	\$ 427
Legal and professional fees	246	418
Salaries and benefits	765	1,070
Share-based compensation expense	18	5
Depreciation	131	200
Administration expenses	\$ 1,336	\$ 2,120

The Company continued to minimize evaluation and exploration expenditures in the fourth quarter of 2021 in order to preserve the Company's financial resources. Evaluation and exploration activities and expenditures in the fourth 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 \$9.7 million in the fourth quarter of 2021 compared to \$7.4 million in the fourth quarter of 2020, which primarily consisted of interest expense on the Convertible Debenture.

4. Non-IFRS Financial Measures

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

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

Cash Costs

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

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

4. Non-IFRS Financial Measures continued

Cash Costs continued

The following table provides a reconciliation of the cash costs of product sold disclosed for the three months and year ended December 31, 2021 and December 31, 2020. The cash costs of product sold presented below may differ from cash costs of product produced depending on the timing of coal stockpile inventory turnover and impairment of coal stockpile inventories from prior periods.

\$ in thousands, except per tonne information	Three months ended December 31,		Year ended December 31,	
	2021	2020	2021	2020
Cash costs				
Cost of sales determined in accordance with IFRS	\$ 1,539	\$ 22,193	\$ 31,304	\$ 58,657
Less royalties	(419)	(4,126)	(8,125)	(10,563)
Less non-cash expenses	(106)	(2,081)	(2,086)	(6,267)
Less non-cash idled mine asset costs	(640)	(924)	(2,917)	(4,853)
Total cash costs	374	15,062	18,176	36,974
Less idled mine asset cash costs	–	–	–	–
Total cash costs excluding idled mine asset cash costs	374	15,062	18,176	36,974
Coal sales (millions of tonnes)	0.02	0.95	0.94	2.63
Total cash costs of product sold (per tonne)	\$ 18.70	\$ 15.85	\$ 19.34	\$ 14.06

\$ in thousands, except per tonne information	Three months ended December 31,		Year ended December 31,	
	2021	2020	2021	2020
Cash costs				
Direct cash costs of product sold (per tonne)	\$ 17.47	\$ 14.78	\$ 17.81	\$ 12.73
Mine administration cash costs of product sold (per tonne)	1.23	1.07	1.53	1.33
Total cash costs of product sold (per tonne)	\$ 18.70	\$ 15.85	\$ 19.34	\$ 14.06

The cash cost of product sold per tonne was \$19.3 for 2021, which has increased from \$14.1 per tonne for 2020. The reason for the increase is primarily related to (i) diseconomies of scale given the decreased sales; and (ii) a higher portion of coal was transported to the Company's Inner Mongolia subsidiary and sold to third party customers within China instead of being sold at the mine gate during the year.



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

4. Non-IFRS Financial Measures continued

Idle Mine Asset Costs

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

The following table provides a reconciliation of the gross profit/(loss) disclosed for the three months and year ended December 31, 2021 and December 31, 2020.

\$ in thousands, except per tonne information	Three months ended December 31,		Year ended December 31,	
	2021	2020	2021	2020
Idled mine asset costs				
Gross profit/(loss) excluding idled mine asset costs	\$ (51)	\$ 12,610	\$ 15,011	\$ 32,147
Less non-cash idled mine asset costs	\$ (640)	\$ (924)	\$ (2,917)	\$ (4,853)
Gross profit/(loss) including idled mine asset costs	\$ (691)	\$ 11,686	\$ 12,094	\$ 27,294

5. Properties

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

Operating Mine

Ovoot Tolgoi Mine

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

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

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

5. Properties continued

Operating Mine continued

Resources

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

Reserves

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

Mining Operations

Mining Method

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

Mining Equipment

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

Workforce

As at December 31, 2021, SGS employed 242 employees in Mongolia. Of the 242 employees, 27 are employed in the Ulaanbaatar office and 215 at the Ovoot Tolgoi Mine site. Of the 242 employees based in Mongolia, 241 (99%) are Mongolian nationals and of those, 114 (47%) are residents of the local Gурvantes, Dalanzadgad, Sevrei and Noyon Soums.

Exploration Program

The Company continued to minimize evaluation and exploration expenditures during 2021 in order to preserve the Company's financial resources. The 2022 exploration program will be limited to ensuring that the Company meets the Mongolian Minerals Law requirements in respect of its mining licenses.



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

6. Liquidity and Capital Resources

Liquidity and Capital Management

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

Bank Loan

On 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.

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 December 31, 2021, the amount of reimbursable costs and fees claimed by Turquoise Hill (the "TRQ Reimbursable Amount") amounted to \$6.8 million (such amount is included in the trade and other payables).

Going concern considerations

The Company's consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue to operate until at least December 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 flows, secure additional capital or otherwise pursue a strategic restructuring, refinancing or other transactions to provide it with sufficient liquidity.

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

6. Liquidity and Capital Resources continued

Liquidity and Capital Management continued

Going concern considerations continued

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 incurred a loss attributable to equity holders of the Company of \$14.4 million for the year ended December 31, 2021 (compared to a loss attributable to equity holders of the Company of \$20.1 million for the year ended December 31, 2020), and as of that date, had a deficiency in assets of \$90.5 million as at December 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) reached \$42.5 million as at December 31, 2021 compared to a working capital deficiency of \$217.6 million as at December 31, 2020.

Included in the working capital deficiency as at December 31, 2021 are significant obligations, represented by trade and other payables of \$67.3 million, which includes \$22.1 million in unpaid taxes 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, and as a result any continuing postponement in settling of certain trade and other payables owed to suppliers and creditors may impact the ability of the Company to resume its mining operations and may result in potential lawsuits and/or bankruptcy proceedings being filed against the Company. Except as disclosed elsewhere in this MD&A, no such lawsuits or proceedings were pending as at May 30, 2022. 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.

On May 25, 2022, the Mongolian-Chinese border was re-opened for coal export on a trial basis, with a limit number of trucks was permitted to cross the border during this trial period. The Company has been proactively adjusting its sales strategy in response and exploring opportunities to expand its sales accordingly.

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

6. Liquidity and Capital Resources continued

Liquidity and Capital Management continued

Going concern considerations continued

For the purpose of assessing the appropriateness of the use of the going concern basis to prepare the financial statements, management of the Company has prepared a cash flow projection covering a period of 12 months from December 31, 2021. 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 three deferral agreements with CIC on November 19, 2020, the 2020 November Deferral Agreement for a deferral of (i) deferred cash interest and deferral fees of \$75.2 million which were due and payable to CIC on or before September 14, 2020, under the deferral agreement signed on June 19, 2020 (the "2020 June Deferral Agreement"); (ii) semi-annual cash interest payments in the aggregate amount of \$16.0 million payable to CIC on November 19, 2020 and May 19, 2021; (iii) \$4.0 million worth of PIK Interest shares ("2020 November PIK Interest") issuable to CIC on November 19, 2020 under the Convertible Debenture; and (iv) the management fee which payable to CIC on November 14, 2020, February 14, 2021, May 15, 2021, August 14, 2021 and November 14, 2021 under the Amended and Restated Cooperation Agreement (collectively, the "2020 November Deferral Amounts"), on July 30, 2021, the 2021 July Deferral Agreement for a deferral of the 2021 Deferral Amounts and on May 13, 2022, the 2022 May Deferral Agreement for a deferral of the 2022 Deferral Amounts respectively until August 31, 2023; (b) communicating with vendors in agreeing repayment plans of the outstanding payable; (c) continuously assessing through communication with MTA its acceptability to a prolonged settlement schedule of the outstanding tax payable and making settlement based on that assessment and the liquidity position of the Group; (d) In light of the uncertainty brought by the pandemic which may impact the openness of the border, management has kept the mining operations temporary suspended despite the above-mentioned re-opening of the Chinese-Mongolian border for coal export since May 25, 2022, in order to preserve the working capital that is required to resume the mining operations. The management expected that the existing inventory level on hand is sufficient to cater the demand for approximately a quarter and this provides flexibility to the Company in managing the timing of resumption of the mining operations and related sales strategy and its liquidity; and (e) obtaining an avenue of financial support from a prospective shareholder for a maximum amount of \$73.0 million during the period covered in the cash flow projection. There is no guarantee that the suppliers and MTA would agree the settlement plan as communicated by the Group. 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 December 31, 2021 and therefore are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

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

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

6. Liquidity and Capital Resources continued

Liquidity and Capital Management continued

Impact of the COVID-19 Pandemic

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

In response to the increase in the number of COVID-19 cases in Ejinaqi, a region in China's Inner Mongolia Autonomous Region, reported in late October 2021, the local government authorities have imposed stringent preventive measures throughout the region, including the temporary closure of the Ceke Port of Entry located at the border of Mongolia and China. Accordingly, the Company's coal exports into China were suspended from November 2021 to May 2022. In order to control the inventory level and preserve the Company's working capital, the Company temporarily suspended mining operations (including coal mining) beginning in early November 2021.

On May 25, 2022, the Ceke Port of Entry re-opened for coal export on a trial basis, with a limited number of trucks permitted to cross the border during the trial period. The Company has been proactively adjusting its sales strategy in response and exploring opportunities to expand its sales accordingly. Although the export of coal from Mongolia to China has resumed as of the date hereof, there can be no guarantee that the Company will be able to continue exporting coal to China, or the Mongolian-Chinese border crossings would not be the subject of additional closure as a result of COVID-19 or any variants thereof in the future. The Company anticipates that its revenue, liquidity and profitability will continue to be adversely impacted until such time as the coal exports into China are allowed to resume at normal levels.

The Company will continue to closely monitor the situation at the Ceke Port of Entry, including the number of trucks that are permitted to cross the border and the impact on the operations and financials of the Company, and will evaluate the most suitable time for the resumption of its mining operation.

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 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 (CAD\$11.88). As at June 30, 2021, CIC owned approximately 23.7% of the issued and outstanding Common Shares of the Company.

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



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

6. Liquidity and Capital Resources continued

Liquidity and Capital Management continued

Convertible Debenture continued

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 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 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 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 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 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.

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

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

6. Liquidity and Capital Resources continued

Liquidity and Capital Management continued

Convertible Debenture continued

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

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

On May 15, 2022, the Company and CIC entered into the 2022 May Deferral Agreement, pursuant to which CIC agreed to grant the Company a deferral of (i) the Deferred Amounts; and (ii) the Deferred Management Fee under the Amended and Restated Cooperation Agreement under the Convertible Debenture.

The principal terms of the 2022 May Deferral Agreement are as follows:

- Payment of the 2022 Deferral Amounts will be deferred until August 31, 2023.
- As consideration for the deferral of the 2022 Deferral Amounts, the Company agreed to pay CIC a deferral fee equal to 6.4% per annum on the Deferred Amounts payable under the Convertible Debenture, commencing on May 19, 2022.
- As consideration for the deferral of the Deferred Management Fees, the Company agreed to pay CIC a deferral fee equal to 2.5% per annum on the outstanding balance of the Deferred Management Fees payable under the Amended and Restated Cooperation Agreement, commencing on the date on which each such 2022 May Deferred Management Fee would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.
- The Company agreed to provide CIC with monthly updates regarding its operational and financial affairs.
- If at any time before the 2022 Deferral Amounts and related deferral fee 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 CIC prior to effecting such appointment, replacement or termination.
- The Company and CIC agreed that nothing in the 2022 May Deferral Agreement prejudices CIC's rights to pursue any of its remedies at any time pursuant to the prior deferral agreements.



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

6. Liquidity and Capital Resources continued

Cash Flow Highlights

\$ in thousands	Year ended December 31,	
	2021	2020
Net cash flows from/(used in) operating activities	\$ (4,329)	\$ 23,687
Cash used in investing activities	(8,637)	(9,613)
Cash used in financing activities	(6,010)	(1,416)
Effect of foreign exchange rate changes on cash	(422)	299
Increase/(decrease) in cash for the year	(19,398)	12,957
Cash balance, beginning of year	20,121	7,164
Cash balance, end of year	\$ 723	\$ 20,121

Cash generated from Operating Activities

The Company used \$4.3 million of cash in operating activities in 2021 compared to an inflow of \$23.7 million in 2020. The decrease is primarily due to the decrease in revenue generated.

Cash used in Investing Activities

The Company used \$8.6 million of cash during 2021 in investing activities compared to \$9.6 million during 2020. In 2021, expenditures on property, plant and equipment totaled 10.5 million (2020: \$11.9 million).

Cash used in Financing Activities

Cash used in financing activities was \$6.0 million in 2021 (2020: \$1.4 million), which was principally attributable to the interest payment of convertible debenture of \$3.0 million (2020: 0.7 million) and repayment of an interest-bearing loan of \$2.8 million (2020: nil).

Contractual Obligations and Guarantees

Day-to-day mining, expansionary and sustaining capital expenditures as well as administrative operations give rise to commitments for future minimum payments. As at December 31, 2021, the Company's operating and capital commitments were:

	Within 1 year	2-3 years	Over 3 years	Total
As at December 31, 2021				
Capital expenditure commitments	\$ –	\$ –	\$ –	–
Operating expenditure commitments	1,642	47	277	1,966
Commitments	\$ 1,642	\$ 47	\$ 277	1,966

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

6. Liquidity and Capital Resources continued

Ovoot Tolgoi Mine Impairment Analysis

The Company determined that an indicator of impairment existed for its Ovoot Tolgoi Mine cash generating unit as at December 31, 2021. The impairment indicator was the fact that the Company suffered loss for the year.

Therefore, the Company conducted an impairment test whereby the carrying value of the Company's Ovoot Tolgoi Mine cash generating unit was compared to the recoverable amount (being the "fair value less costs of disposal") using a discounted future cash flow valuation model. The Company's cash flow valuation model takes into consideration the latest available information to the Company, including but not limited to, sales prices, sales volumes, washing production, operating costs and life of mine coal production estimates as at December 31, 2021. The carrying value of the Company's Ovoot Tolgoi Mine cash generating unit was \$133.1 million as at December 31, 2021.

Key estimates and assumptions incorporated in the valuation model included the following:

- Coal resources and reserves as estimated by an independent third party engineering firm;
- Sales price estimates from an independent market consulting firm;
- Forecasted sales volumes in line with production levels as reference to the mine plan;
- Life-of-mine coal production, strip ratio, capital costs and operating costs; and
- A post-tax discount rate of 17% based on an analysis of the market, country and asset specific factors.

Key sensitivities in the valuation model are as follows:

- For each 1% increase/(decrease) in the long term price estimates, the calculated fair value of the cash generating unit increases/(decreases) by approximately \$14.0/(14.0) million;
- For each 1% increase/(decrease) in the post-tax discount rate, the calculated fair value of the cash generating unit (decreases)/increases by approximately \$(16.9)/17.9 million;
- For each 1% increase/(decrease) in the cash mining cost estimates, the calculated fair value of the cash generating unit (decreases)/increases by approximately \$(7.6)/7.6 million; and
- For each 1% increase/(decrease) in Mongolian inflation rate, the calculated fair value of the cash generating unit (decreases)/increases by approximately \$(3.3)/3.3 million.

The impairment analysis did not result in the identification of an impairment loss or an impairment reversal and no charge or reversal was required as at December 31, 2021. A decline of 15% (2020:15%) in the long-term price estimates, an increase of more than 19% (2020: 20%) in the post-tax discount rate, an increase of 27% (2020: 25%) in the cash mining cost estimates or an increase of 62% (2020: 264%) in Mongolian inflation rate may trigger an impairment charge on the cash generating unit. The Company believes that the estimates and assumptions incorporated in the impairment analysis are reasonable; however, the estimates and assumptions are subject to significant uncertainties and judgments.



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

6. Liquidity and Capital Resources continued

Financial Instruments

The fair value of financial assets and financial liabilities at amortized cost is determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions. The fair value of all the financial instruments of the Company approximates their carrying value because of the demand nature or short-term maturity of these instruments, except for the fair values of trade and other payables, interest bearing borrowings, and provision for commercial arbitration and convertible debenture close to their respective carrying amounts given the current financial condition of the Company as described under Section 6 of this MD&A under the heading entitled "Liquidity and Capital Management".

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

\$ in thousands	As at December 31,	
	2021	2020
Financial assets		
Cash	\$ 723	\$ 20,121
Restricted cash	1,259	918
Trade and other receivables	141	1,305
Total financial assets	\$ 2,123	\$ 22,344

\$ in thousands	As at December 31,	
	2021	2020
Financial liabilities		
Fair value through profit or loss		
Convertible debenture – embedded derivatives	\$ 53	\$ 152
Other financial liabilities		
Trade and other payables	67,327	74,365
Interest-bearing borrowings	53	2,826
Lease liabilities	881	626
Convertible debenture – debt host and interest payable	191,573	181,259
Total financial liabilities	\$ 259,887	\$ 259,228

7. 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.

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

7. Regulatory Issues and Contingencies continued

Class Action Lawsuit continued

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

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

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

Counsel for the plaintiff and defendants have agreed on and the case management judge has ordered a trial to commence in December 2022 (subject to court availability). To accomplish all steps necessary for trial preparation, counsels have agreed to the following proposed schedule under the case management of the judge: (i) document production and pleading amendments by October 31, 2021; (ii) oral examinations for discovery ending by December 31, 2022; (iii) expert reports of plaintiff complete by April 25, 2022 and expert reports of defendants complete by August 22, 2022; and (iv) pre-trial agreements, filings and motions by August 31, 2022. The Company has urged for a trial to begin 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 December 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 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 December 31, 2021 was not required.

Special Needs Territory in Umnugobi

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



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

7. Regulatory Issues and Contingencies continued

Special Needs Territory in Umnugobi continued

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

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

Mongolian royalties

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

Importing F-Grade Coal into China

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

8. Environment

The Company is subject to the Environmental Protection Law of Mongolia ("EPL") and has the following duties with respect to environmental protection:

- To comply with the EPL and the decisions of the government, local self-governing organizations, local governors and Mongolian state inspectors;
- To comply with environmental standards, limits, legislation and procedures and to supervise their implementation within the organization;
- To keep records on toxic substances, adverse impacts, and waste discharged into the environment; and
- To report on measures taken to reduce or eliminate toxic chemicals, adverse impacts, and waste.

In addition to those duties imposed on them by the EPL, mining license holders are required to prepare an initial environmental impact assessment analysis before the mine comes into production. The mining license holders must also annually develop and implement an environmental management plan (including reclamation measures) in co-operation with the Ministry of Environment, Green Development and Tourism, which should take into account the results of the environmental impact assessment. The Company received approval of its detailed Environmental Impact Assessment and Environmental Management Plan from the Mongolian Ministry of Environment for the mining operation at the Ovoot Tolgoi Mine in 2007 and renewed in 2016.

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

8. Environment continued

The Company has implemented a number of internal policies to embrace responsibility for the impact of its business activities on the environment. By conducting studies, carefully designing mine plans, implementing pollution control recommendations from internal and external sources, monitoring the effects of mining on mining areas and carefully designing mine closure plans, the Company seeks to minimize the impact of its activities on the environment.

The Company established an environmental policy in 2008. The environmental policy affirms the Company's commitment to environmental protection. The Company monitors its operations to ensure that it complies with all applicable environmental requirements, and takes actions to prevent and correct problems if needed. In accordance with new provisions specified in Mongolian laws and regulations, in 2014 the Company developed a protection strategy jointly with professional organization. This strategic plan can serve as a policy document directed to protection of biological diversity, ecosystem balance and its preservation, and support species dwelling nearby the Ovoot Tolgoi mine area.

The Board maintains a Health, Environment, Safety and Social Responsibility Committee (the "HESS Committee"), which is composed of independent, non-executive and executive directors and the Vice President of Public Relations. The primary objective of the HESS Committee is to assist the Board of Directors in fulfilling its oversight responsibilities by monitoring and reviewing performance, and recommending for approval policies and management systems, with respect to health, environmental, safety and social responsibility related matters affecting the Company. The HESS Committee also reviews any incidents that may occur and provides guidance on how to prevent any recurrences.

9. Emolument Policy

The emolument policy of the executives of the Company is administered by the Compensation and Benefits Committee on the basis of merit, qualifications and competence and approved by the Board. The emolument policy for the rest of the employees is determined on a department by department basis with the executive in charge of each department determining the emoluments for senior employees and managers in the department and the emoluments for non-senior employees being determined by an appropriately designated manager. The emolument policy for non-executives is administered in conjunction with the human resources department and is done on the basis of merit, qualifications and competence.

The emolument policy for the directors of the Company is administered by the Compensation and Benefits Committee and approved by the Board, having regard to comparable market statistics.

The Company has also adopted an equity incentive plan to incentivize directors and eligible employees. Details of the plan are set out in note 25 of the Company's consolidated financial statements for the year ended December 31, 2021.

10. Outstanding Share Data

The Company is authorized to issue an unlimited number of Common Shares without par value and an unlimited number of preferred shares without par value. As at May 30, 2022, approximately 274.1 million Common Shares were issued and outstanding. There are also incentive share options outstanding to acquire approximately 6.2 million unissued Common Shares with exercise prices ranging from CAD\$0.11 to CAD\$0.39, and HK\$1.41. There are no preferred shares outstanding.

As at May 30, 2022, to the best of the Company's knowledge:

- CIC holds a total of approximately 64.8 million Common Shares representing approximately 23.6% of the issued and outstanding Common Shares;
- Novel Sunrise holds a total of approximately 46.4 million Common Shares representing approximately 16.9% of the issued and outstanding Common Shares; and
- Voyage Wisdom Limited ("Voyage Wisdom") holds a total of approximately 25.8 million Common Shares representing approximately 9.4% of the issued and outstanding Common Shares.



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

11. Disclosure Controls and Procedures and Internal Controls Over Financial Reporting (“ICFR”)

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management, including the Chief Executive Officer and Chief Financial Officer of the Company, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. As of December 31, 2021, the Chief Executive Officer and Chief Financial Officer of the Company have each concluded that the Company's disclosure controls and procedures, as defined in NI 52-109 – *Certification of Disclosure in Issuer's Annual and Interim Filings*, are effective to achieve the purpose for which they have been designed.

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. Management is also responsible for the design of the Company's internal control over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The Company's internal controls over financial reporting include policies and procedures that: pertain to the maintenance of records that, in reasonable detail accurately and fairly reflect the transactions and disposition of assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with IFRS and that receipts and expenditures are being made only in accordance with authorization of management and directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements.

Because of their inherent limitations, internal controls over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in law or the degree of compliance with the policies may deteriorate.

Management assessed the effectiveness of internal controls over financial reporting using the Internal Control – Updated Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company's internal controls over financial reporting were effective as of December 31, 2021.

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

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

12. Critical Accounting Estimates and Judgments

The preparation of financial statements in conformity with IFRS requires the Company to establish accounting policies and to make estimates and judgments that affect both the amount and timing of the recording of assets, liabilities, revenues and expenses.

A detailed summary of all of the Company's significant accounting policies is included in Note 3 to the Company's consolidated financial statements for the year ended December 31, 2021.

The following new IASB standards were adopted by the Company on January 1, 2021. Refer to Note 2.3 of the Company's consolidated financial statement of the year ended December 31, 2021 for details.

Amendments to IFRS 16	Covid-19-Related Rent Concessions
Amendments to IFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to IAS 39, IFRS 4, IFRS 7, IFRS 9 and IFRS 16,	Interest Rate Benchmark Reform – Phase 2

Refer to Note 3.23 of the Company's consolidated financial statements of the year ended December 31, 2021 for information regarding the accounting judgments and estimates.

13. Recent Accounting Pronouncements

The standards that are issued up to the date of issuance of the Company's financial statements, but were not effective during the year ended December 31, 2021, are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

Amendments to IAS 1	Classification of Liabilities as Current or Non-current, and Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ³
Amendments to IAS 8	Definition of accounting estimates ³
Amendments to IAS 28	Deferred tax related to assets and liabilities arising from a single transaction ³
Amendments to IAS 16	Proceeds before Intended Use ¹
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract ¹
IFRS 17	Insurance Contracts ⁴
Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41	Annual Improvements to IFRSs 2018-2020 ¹
Amendments to IFRS 3	Reference to the Conceptual Framework ²
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁵

¹ Effective for annual periods beginning on or after 1 January 2022.

² Effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022.

³ Effective for annual periods beginning on or after 1 January 2023.

⁴ Effective for annual periods beginning on or after 1 January 2024.

⁵ The amendments shall be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined.

The Company is not yet in a position to state whether these new pronouncements will result in substantial changes to the Company's accounting policies and financial statements.



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

14. Risk Factors

There are certain risks involved in the Company's operations, some of which are beyond its control. These risks can be broadly categorized into: (i) risks relating to the Company's ability to continue as a going concern; (ii) risks relating to the Common Shares; (iii) risks relating to the economic operation of the Company's Ovoot Tolgoi Mine; (iv) risks relating to the Company's other projects in Mongolia; and (v) risks relating to its business and industry. The risk factors identified below could have a material adverse impact on the Company's business, operations, results of operations, financial condition and future prospects and could cause actual events to differ materially from those described in forward-looking statements relating to the Company. Additional risks and uncertainties not presently known, or not expressed or implied below, or that are presently deemed immaterial, could also harm the Company's business, operations, results of operations, financial condition and future prospects. Some of the following statements are forward-looking and actual results may differ materially from the results anticipated in these forward-looking statements. Refer to "Forward-Looking Statements".

Risks Relating to the Company's Ability to Continue as a Going Concern

Unless the Company acquires additional sources of financing and/or funding in the short term, the ability of the Company to continue as a going concern is threatened.

The Company's consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will continue operating until at least December 31, 2021 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. However, certain adverse conditions and material uncertainties cast doubt upon the ability of the Company to continue as a going concern. These include:

- the Company has a working capital deficiency (excess current liabilities over current assets) of \$42.5 million as at December 31, 2021;
- the Company has an obligation to pay CIC under the 2021 July Deferral Agreement and 2022 May Deferral Agreement;
- the trade and other payables of the Company remain high due to liquidity constraints. Refer to the Company's aging profile of the trade and other payables as at December 31, 2021 in Section 6 of this MD&A under the heading entitled "Liquidity and Capital Resources – *Liquidity and Capital Management – Going Concern Considerations*";
- the Company has other current liabilities which require settlement in the short-term, including the \$22.1 million of unpaid taxes payable by SGS to MTA; and
- the current import restrictions on F-grade coal by Chinese authorities will further affect the short term cash inflow and may in turn undermine the execution of the operation plan.

This could result in adjustments to the amounts and classifications of assets and liabilities in the Company's consolidated financial statements and such adjustments could be material. If the Company is unable to continue as a going concern, it may be forced to seek relief under applicable bankruptcy and insolvency legislation, which 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.

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

14. Risk Factors continued

Risks Relating to the Company's Ability to Continue as a Going Concern continued

If the Company is unable to continue as a going concern it may be forced to seek relief under applicable bankruptcy and insolvency legislation.

If the Company seeks relief under applicable bankruptcy and insolvency legislation, its business and operations will be subject to certain risks, including but not limited to, the following:

- An insolvency filing by or against the Company will cause an event of default under the CIC Convertible Debenture;
- An insolvency filing by or against the Company may adversely affect its business prospects, including its ability to continue to obtain and maintain the contracts necessary to operate its business on competitive terms;
- There can be no assurance as to the Company's ability to maintain or obtain sufficient financing sources for operations or to fund any reorganization plan and meet future obligations;
- There can be no assurance that the Company will be able to successfully develop, prosecute, confirm and consummate one or more plans of reorganization that are acceptable to the applicable courts and its creditors, equity holders and other parties in interest; and
- The value of the Common Shares could be reduced to zero as result of an insolvency filing.

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 any potential losses, if any.

The Company is subject to litigation risks. In the normal course of the Company's business, it may come involved in, named as a party to, or be the subject of, various legal proceedings, including, without limitations, mining laws, environmental laws, labour laws, and anti-corruption and anti-bribery laws in the jurisdictions in which the Company operates. Defense and settlement costs associated with legal claims can be substantial, even with respect to claims that are frivolous or have no merit. Due to the inherent uncertainty of the litigation process, the resolution of any particular legal proceeding to which the Company is or may become subject could have a material adverse impact on its business, operations, results of operations, financial condition and future prospects.

The Company is currently a defendant in the Class Action (as more particularly described in Section 7 "*Regulatory Issues and Contingencies*" of this MD&A). 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.

In the event the Company incurs any liability in connection with the Class Action, it maintains insurance with respect thereto. While the Company believes that such insurance coverage is in an amount that would be sufficient to cover any amounts the Company may be required or determines to pay with respect thereto, there can be no assurance that such coverage will be adequate to do so, and, if so, any amounts not so covered would be required to be paid by the Company. The Company's ability to continue as a going concern will be impacted to the extent it is required to pay any amounts in connection with the Class Action, which would 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.



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

14. Risk Factors continued

Risks Relating to the Common Shares

Future issuances or sales, or perceived possible issuances or sales, of substantial amounts of Common Shares in the public market could materially and adversely affect the prevailing market price of the Common Shares and the Company's ability to raise capital in the future.

The market price of the Common Shares could decline as a result of future sales of substantial amounts of the Common Shares or other securities relating to the Common Shares in the public market, including sales by its substantial Shareholders, or the issuance of new Common Shares, or the perception that such sales or issuances may occur. Future sales, or perceived possible sales, of substantial amounts of the Common Shares could also materially and adversely affect the Company's ability to raise capital in the future at a time and at a price favorable to it, and Shareholders may experience dilution in their holdings upon issuance or sale of additional Common Shares or other securities in the future.

Future stock market conditions may change.

There are risks involved with any equity investment. The market price of the Common Shares may rise or fall depending upon a range of factors and stock market conditions, which are unrelated to the Company's future financial performance. Movements on international stock markets, local interest rates and exchange rates, domestic and international economic and political conditions, as well as government, taxation and other policy changes may affect the stock market. As the Company is a listed company on the TSX and the HKEX, its Common Share price will also be subject to numerous influences including broad trends in the stock market and the share prices of individual companies or sectors.

Risks Relating to the Economic Operation of the Company's Ovoot Tolgoi Project

There can be no assurance that the mine plan developed for the Ovoot Tolgoi Mine will ultimately be viable or profitable due to the inherent operational risks.

As a result of work performed by DMCL, the Company increased its estimate of total resources at the Ovoot Tolgoi deposit from those described in the 2016 Technical Report, has declared reserves for the Ovoot Tolgoi deposit and prepared a new mine plan. There are no assurances, however, that the Company will execute its mine plan and realize on the estimates for the Ovoot Tolgoi deposit. It is not unusual in the mining industry for mining operations to experience unexpected problems during commercial production, resulting in delays and requiring more capital than anticipated. Actual costs and economic returns may differ materially from the Company's estimates. Risks associated with the operation of mines include, but are not limited to, the following:

- Unusual or unexpected geological formations;
- Unstable ground conditions that could result in cave-ins or landslides;
- Floods;
- Power outages;
- Restrictions or interruptions in supply of key materials;
- Restrictions or interruptions to coal exports into China;
- Labour disruptions or shortages;
- Social unrest in adjacent areas;
- Equipment failure;
- Fires and explosions;

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

14. Risk Factors continued

Risks Relating to the Economic Operation of the Company's Ovoot Tolgoi Project

continued

There can be no assurance that the mine plan developed for the Ovoot Tolgoi Mine will ultimately be viable or profitable due to the inherent operational risks. continued

- Changes to applicable law; and
- Inability to obtain suitable or adequate machinery, equipment, or labour.

In addition, risks particular to the Company's mine plan include:

- Transition to contract mining and if the Company is unable to negotiate a contract with applicable contractors at rates that justify the transition;
- Ability to generate sufficient sales volumes at economical realized prices;
- Maintaining an adequate water supply to the mine site to permit the continued operations of the wash plant as planned;
- Achieving satisfactory yields from wet washing operations;
- Successful conversion of resources into reserves during the life of mine;
- Continued delays in the custom clearance process at the Ceke border;
- Continued ban on the import of F-grade coal products into China;
- Impact of the COVID-19 pandemic on the Company's ability to export coal into China; and
- Success in enhancing the operational efficiency and the output throughput of the of the wet wash plant.

Any of the risks noted above could have a material adverse impact on the Company's financial performance, cash flow and results of operations, which 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.



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

14. Risk Factors continued

Risks Relating to the Company's Projects in Mongolia

Legislation in Mongolia may be subject to conflicting interpretations, which may have adverse consequences on the Company's business.

The Mongolian legal system shares several of the qualitative characteristics typically found in a developing country and many of its laws, particularly with respect to matters of taxation, are still evolving. A transaction or business structure that would likely be regarded under a more established legal system as appropriate and relatively straightforward might be regarded in Mongolia as outside the scope of existing Mongolian law or regulation. As a result, certain business arrangements or structures and certain tax planning mechanisms may carry significant risks. In particular, when business objectives and practicalities dictate the use of arrangements and structures that, while not necessarily contrary to settled Mongolian law, are sufficiently novel within a Mongolian legal context, it is possible that such arrangements may be challenged resulting in their invalidation.

The legal system in Mongolia has inherent uncertainties that could limit the legal protections available to the Company, which include: (i) inconsistencies between laws; (ii) limited judicial and administrative guidance on interpreting Mongolian legislation; (iii) substantial gaps in the regulatory structure due to delay or absence of implementing regulations; (iv) the lack of established interpretations of new principles of Mongolian legislation, particularly those relating to business, corporate and securities laws; (v) a lack of judicial independence from political, social and commercial forces; and (vi) bankruptcy procedures that are not well developed and are subject to abuse. The Mongolian judicial system has relatively little experience in enforcing the laws and regulations that currently exist, leading to a degree of uncertainty as to the outcome of any litigation; it may be difficult to obtain swift and equitable enforcement, or to obtain enforcement of a judgment by a court of another jurisdiction.

In addition, while legislation has been enacted to protect private property against expropriation and nationalization, due to the lack of experience in enforcing these provisions and political factors, these protections may not be enforced in the event of an attempted expropriation or nationalization. Expropriation or nationalization of any of the Company's assets, or portions thereof, potentially without adequate compensation, could materially and adversely affect its business and results of operations.

Application of and amendments to legislation could adversely affect the Company's mining rights in its projects or make it more difficult or expensive to develop its projects and carry out mining.

The 2006 Minerals Law (as defined under the heading "DEFINITIONS AND OTHER INFORMATION – Defined Terms and Abbreviations" in the Company's most recently filed Annual Information Form), which preserves to a limited extent some of the substance of the former 1997 minerals legislation, was drafted with the assistance of legal experts in the area of mining legislation and was widely regarded as progressive, internally consistent and effective legislation. However, the 2006 Minerals Law has been subsequently amended and the potential for political interference has increased and the rights and security of title holders of mineral tenures in Mongolia has been weakened. Certain provisions of the 2006 Minerals Law are ambiguous and it is unclear how they will be interpreted and applied in practice. Examples of such provisions include those relating to the designation of a mineral deposit as a Mineral Deposit of Strategic Importance (as defined under the heading "DEFINITIONS AND OTHER INFORMATION – Defined Terms and Abbreviations" in the Company's most recently filed Annual Information Form). Refer to the risk factor entitled "*The Government of Mongolia could determine that any one or more of the Company's projects in Mongolia is a Mineral Deposit of Strategic Importance*" below.

In addition, the introduction of new Mongolian laws and regulations and the interpretation of existing ones may be subject to policy changes reflecting domestic political or social changes. For example, on July 16, 2009, the Parliament of Mongolia enacted the Mining Prohibition in Specified Areas Law (the "Specified Areas Law") that prohibits minerals exploration and mining in areas such as headwaters of rivers and lakes, forest areas as defined in the Law of Forests of Mongolia of May 17, 2012, as amended, and areas adjacent to rivers and lakes as defined in the Law of Mongolia on Water enacted on May 17, 2012, as amended.

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

14. Risk Factors continued

Risks Relating to the Company's Projects in Mongolia continued

Application of and amendments to legislation could adversely affect the Company's mining rights in its projects or make it more difficult or expensive to develop its projects and carry out mining.
continued

Pursuant to the Specified Areas Law, the Government of Mongolia has defined the boundaries of certain areas in which exploration and mining is purportedly prohibited. A list of licences has been prepared that overlap with the prohibited areas described in the law based on information submitted by water authority agencies, forest authority agencies and local authorities for submission to the Government of Mongolia.

Portions of the mining licence in respect of the Ovoot Tolgoi Mine and the exploration licence pertaining to the Zag Suuj Deposit are included on the list of specified areas described in the Specified Areas Law.

In regard to the Ovoot Tolgoi Mining Licence, the potential area which may be affected is a relatively small area which represents approximately 3% of the entire area of the mining licence and does not contain any reserves or resources or immovable assets. Accordingly, the loss of the potentially affected area would not materially and adversely affect the existing operations.

Activities historically carried out on the other licences referred to above include drilling, trenching and geological reconnaissance. The Company has no immovable assets located in any of the potentially affected areas of these licences and the loss of any or all of these potentially affected properties would not materially and adversely affect the existing operations.

The Mining Prohibition in Specified Areas Law has not been adequately enforced to date mainly due to compensation issues due to the licence holders.

In order to address the issues facing its implementation, in February, 2015 the Parliament of Mongolia adopted an amendment to the Law on Implementation of the Mining Prohibition in Specified Areas Law (the "Amended Law on Implementation"). The Amended Law on Implementation provides an opportunity for license holders covered within the scope of application of the Mining Prohibition in Specified Areas Law to continue their mining operations subject to advance placement of funds to cover 100% of the future environmental rehabilitation costs. A model contract and a specific Government regulation on this requirement will be adopted by the Government. The license holders must also apply within 3 months after the amendment to the Law on Implementation comes into effect for permission to MRAM to resume activities. The Company submitted its application with respect to its mining licenses before the deadline set on June 16, 2015 and hasn't yet received any communication from MRAM on the status of its application.

Pursuant to the Mongolian Law "To prohibit mineral exploration and mining operations at headwaters of rivers, water protection zones and forested areas", the Government administrative agency has notified the Company that special license area 12726A is partly overlapping with a water reservoir. The Company has inspected the area together with the Cadastral Division of the Mineral Resource Authority as well as through the cadastral registration system of the Ministry of Environment, it is determined that 29 hectares of Sukhait Bulag is partly overlapping with a water reservoir, of which has been partly handed over. (Resolution No.6/7522 issued on September 29, 2015 by the Head of Cadastral Division of the Mineral Resource Authority).

In accordance with Article 22.3 of Law of Mongolia on Water, 5,602.96 hectares of land, including Sukhaityn Bulag, Uvur Zadgai, and Zuun Shand pertaining to exploration license 9443X, which was converted to mining license MV-0125436 in January 2016, is overlapping with a protected area boundary. The overlapping area has been officially handed over to the local administration. (Resolution No.688 issued on September 24, 2015 by the Head of Cadastral Division of the Mineral Resource Authority) In connection with the nullification of Annex 2 of the Government order No.194 "On determining boundary" issued on June 5, 2012, area around the water reservoir located at MV-016869 license area was annulled from the Specified Area Law.



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

14. Risk Factors continued

Risks Relating to the Company's Projects in Mongolia continued

Application of and amendments to legislation could adversely affect the Company's mining rights in its projects or make it more difficult or expensive to develop its projects and carry out mining.
continued

Therefore, mining license 12726A was removed from the list of licenses that overlaps with the prohibited areas described in the law.

There has been limited development of the law during 2016 while two exploration licenses of the Company (13779X and 5267X) were converted to mining licenses (MV-020676 and MV-020675) in November 2016. The Company will continue to monitor the developments and ensure that it follows the necessary steps in the Amended Law on Implementation to secure its operations and licenses and is fully compliant with Mongolian law.

There can be no assurance that future political and economic conditions in Mongolia will not result in the Government of Mongolia adopting different policies in relation to foreign development and ownership of mineral resources. Any such changes in government or policy may result in changes in laws affecting ownership of assets, environmental protection, labour relations, repatriation of income, return of capital, investment agreements, income tax laws, royalty regulation, government incentive and other areas, each of which may materially and adversely affect the Company's ability to undertake exploration and development activities in the manner currently contemplated. Any restrictions imposed or charges levied or raised (including royalty fees) under Mongolian law for the export of coal could harm the Company's competitiveness.

The impact of the COVID-19 pandemic in China could have a material adverse impact on the Company's business, results of operations, or financial condition.

On March 12, 2020, the World Health Organization declared the COVID-19 outbreak as a global pandemic.

Due to the recent increase in the number of COVID-19 cases in Ejinagi, a region in China's Inner Mongolia Autonomous Region, the local government authorities imposed stringent preventive measures throughout the region beginning as of the second quarter of 2021, including the temporary closure of the Ceke Port of Entry located at the borders of Mongolia and China. As a result, the Company's coal exports into China were suspended from November 2021 to May 2022. In order to control the inventory level and preserve the Company's working capital, the Company decided to temporarily suspend mining operations (including coal mining), beginning as of early November 2021. On May 25, 2022, the Ceke Port of Entry re-opened for coal export on a trial basis, with a limited number of trucks permitted to cross the border during the trial period. The Company will continue to closely monitor the situation at the Ceke Port of Entry, including the number of trucks that are permitted to cross the border and the impact on the operations and financials of the Company, and will evaluate the most suitable time for the full resumption of its mining operation. In the event that the Company's ability to export coal into the Chinese market continues to be restricted or limited, this is expected to have a material adverse effect on the business and operations of the Company and may negatively affect the price and volatility of the Common Shares and any investment in such shares could suffer a significant decline or total loss in value.

The Company believes the COVID-19 pandemic in China has negatively affected its business. Furthermore, the economic slowdown and negative business sentiment in the PRC could potentially have a negative impact on the demand for coal generally and our business operations and financial condition may be adversely affected as a result. Given the difficulty involved in determining with any degree of certainty as to how long the COVID-19 pandemic will last, the Company cannot predict if the adverse impact on the Company's business, financial condition and operations will be short-lived or long-lasting at this time. If the negative impact of the COVID-19 pandemic continues and becomes long-lasting, the Company's business, financial condition and operations may be materially and adversely affected as a result of any slowdown in economic growth in China, reduce demand for coal or other factors that the Company cannot foresee.

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

14. Risk Factors continued

Risks Relating to the Company's Projects in Mongolia continued

The Company's ability to carry on business in Mongolia is subject to political risk.

The Company's ability to efficiently conduct its exploration and development activities is subject to changes in government policy or shifts in political attitudes within Mongolia that are beyond the Company's control.

Government policy may change to discourage foreign investment, nationalization of mining industries may occur or other government limitations, restrictions or requirements not currently foreseen may be implemented. There is no assurance that the Company's assets will not be subject to nationalization, requisition or confiscation, whether legitimate or not, by any authority or body. The provisions under Mongolian law for compensation and reimbursement of losses to investors under such circumstances may not be effective to restore the value of the Company's original investment.

In addition, Mongolia may experience political instability. Such instability could have a material adverse effect on economic or social conditions in Mongolia and may result in outbreaks of civil unrest, which could materially and adversely affect the Company's business and results of operations.

The Government of Mongolia could determine that any one or more of the Company's projects in Mongolia is a Mineral Deposit of Strategic Importance if it meets legal requirements.

Under the 2006 Minerals Law, the State Great Khural of Mongolia (the "Parliament of Mongolia") has wide discretion to designate mineral deposits to be Mineral Deposits of Strategic Importance. The Government of Mongolia is empowered to participate on an equity basis with the licence holder in the exploitation and/or mining of each Mineral Deposit of Strategic Importance on terms to be negotiated between the Government of Mongolia and such licence holder. Details of any minerals reserves must be filed by the relevant licence holder with the Government of Mongolia, and those deposits on the Strategic Deposits List represent most of the largest and highest profile deposits in Mongolia. In addition to deposits currently on the Strategic Deposits List and the additional Tier 2 Deposits List, the Parliament of Mongolia may at any time designate other deposits not yet currently on such Lists to be Mineral Deposits of Strategic Importance, add such deposits to either the Strategic Deposits List or the Tier 2 Deposits List and, in the former case, commence negotiations with the relevant licence holder with respect to the terms under which the Government of Mongolia will take an interest in such deposit. While the Government of Mongolia is in the process of adding the exact location and coordinates for each Mineral Deposit of Strategic Importance, a number of deposits on the Strategic Deposits List are identified by name only with no indication of the latitude and longitude coordinates for the deposit, and it is therefore not always possible to precisely determine the intended geographic area covered by each designated Mineral Deposit of Strategic Importance or to accurately determine whether or not any given licence area is within, or overlaps, a Mineral Deposit of Strategic Importance. In July 2014, the Mongolian Parliament made an amendment to the Minerals Law and redefined the term of "Mineral Deposit of Strategic Importance". According to the Minerals Law, the Mineral Deposit of Strategic Importance means "a deposit which can affect national security, national economic and social development or a deposit that can produce more than five percent of Mongolian GDP in a year".



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

14. Risk Factors continued

Risks Relating to the Company's Projects in Mongolia continued

The Government of Mongolia could determine that any one or more of the Company's projects in Mongolia is a Mineral Deposit of Strategic Importance if it meets legal requirements. continued

Under the 2006 Minerals Law, the size of the Government of Mongolia's participation is determined largely by the level of state funding which has been provided for the exploration and development of any deposit, with the Government of Mongolia entitled to participate up to 50% in the event that there has been state funding of such deposit and up to 34% if there has not. However, the 2006 Minerals Law is very vague as to the details and method by which the Government of Mongolia will take its interest and the final arrangements in respect of the Government of Mongolia's interest in each Mineral Deposit of Strategic Importance, including the amount of compensation to be paid to the licence holder and the actual form of the Government of Mongolia's interest are subject to negotiation between the Government of Mongolia and the licence holder. In 2015, the Parliament of Mongolia adopted an amendment to the 2006 Minerals Law providing for the possibility for the Government to collect a special royalty on Mineral Deposits of Strategic Importance in lieu of holding an equity stake in such deposit. It stipulates that the parties can agree to transfer to the licence holder the state's share in the Mineral Deposit of Strategic Importance upon the approval of an authorized Government body, with the licence holder agreeing to pay a special royalty at a percentage (not to exceed 5%) to be approved by the Government.

The 2006 Minerals Law also contains provisions requiring any company which holds a Mineral Deposit of Strategic Importance to list no less than 10% of its shares on the Mongolian Stock Exchange. This particular provision of the 2006 Minerals Law has not yet been enforced and it is not clear how it will work in practice.

In recent years there have been a number of proposed amendments to the 2006 Minerals Law suggested by various parties, many of which have centered on amending the 2006 Minerals Law to increase the Government of Mongolia's participating interest in excess of 50%. While the 2006 Minerals Law provides that the interest of the Government of Mongolia should take the form of an equity interest, based on past practice, and depending on the results of individual negotiations, the interest may be in the form of production or profit sharing or some other arrangement negotiated between the licence holder and the Government of Mongolia. There can be no assurance that legislation will not be enacted which further strengthens the Government of Mongolia's right to participate in privately held mineral resources in Mongolia.

None of the deposits covered by the Company's existing mining licences or exploration licences are currently designated as Mineral Deposits of Strategic Importance. However, there can be no assurance that any one or more of these deposits will not be so designated in the future, in which case the Company's business and results of operations may be materially and adversely affected.

Risks relating to the Company's business and industry

Some of the Company's projects may not be completed as planned; costs may exceed original budgets and may not achieve the intended economic results or commercial viability.

The Company's business strategy depends largely on expanding its production capacity at the Ovoot Tolgoi Mine and further developing its other coal projects into commercially viable mines. Whether a mineral deposit will be commercially viable depends on a number of factors, including: (i) the particular attributes of the deposit, such as size, grade and proximity to infrastructure; (ii) commodity prices, which are highly cyclical; and (iii) government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of mineral resources and environmental protection.

The Company's projects are subject to both (i) technical risk in that they may not perform as designed, or (ii) operational redesign or modification as a result of on-going evaluation of the projects. Increased development costs, lower output or higher operating costs may all combine to make a project less profitable than expected at the time of the development decision. This would have a negative impact on the Company's business and results of operations. No assurance can be given that the Company would be adequately compensated by third party project design and construction companies (if not performed by the Company) in the event that a project did not meet its expected design specification.

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

14. Risk Factors continued

Risks Relating to the Company's business and industry continued

The Company's coal reserves and resources are estimates based on a number of assumptions, and the Company may produce less coal than its current estimates.

The coal reserve and resource estimates are based on a number of assumptions that have been made by the QPs in accordance with NI 43-101. Reserve and resource estimates involve expressions of judgment based on various factors such as knowledge, experience and industry practice, and the accuracy of these estimates may be affected by many factors, including quality of the results of exploration drilling and analysis of coal samples, as well as the procedures adopted by and the experience of the person making the estimates.

The Company notes that, in general, mineral resource and reserve estimates are always subject to change based on new information. Specifically, should the Company encounter mineralization different from that predicted by past drilling, sampling and similar examination, mineral resource and/or reserve estimates may have to be adjusted downward. In addition, the rank of coal ultimately mined may differ from that indicated by drilling results. There can be no assurance that coal recovered in laboratory tests will be duplicated under on-site conditions or in production-scale operations. In the event that the actual level of impurities is higher than expected or the coal mined is of a lower quality than expected, the demand for, and realizable price of, the Company's coal may decrease. Short term factors relating to reserves, such as the need for orderly development of coal seams or the processing of new or different quality coals, may also materially and adversely affect the Company's business and results of operations.

The inclusion of reserve and resource estimates should not be regarded as a representation that all these amounts can be economically exploited and nothing contained herein (including, without limitation, the estimates of mine lives) should be interpreted as assurance of the economic lives of the Company's coal reserves and resources or the profitability of its future operations.

Mineral resources that are not mineral reserves do not have demonstrated economic viability. Due to the uncertainty that may attach to inferred mineral resources, there is no assurance that mineral resources will be upgraded to proven and probable ore reserves. Inferred mineral resources are considered too speculative geologically to have economic considerations applied to them that would enable them to be categorized as mineral reserves.

The Company's results of operations are subject, to a significant extent, to economic, political and legal developments in China.

The Company expects that a majority if not all of the coal sales from the Ovoot Tolgoi Mine will be made to customers based in China. Accordingly, the economic, political and social conditions, as well as government policies, of China may affect its business. The Chinese economy differs from the economies of most developed countries in many respects, including: (i) structure; (ii) level of government involvement; (iii) level of development; (iv) growth rate; (v) control of foreign exchange; and (vi) allocation of resources. The Chinese economy has been transitioning from a planned economy to a more market-oriented economy. For the past two decades, the Chinese government has implemented economic reform measures emphasizing the utilization of market forces in the development of the Chinese economy. Changes in the Chinese's political, economic and social conditions, laws, regulations and policies could materially and adversely affect the Company's business and results of operations. More recently, the COVID-19 pandemic has resulted in reduced industrial activity in China, with temporary closures of factories and other facilities, as described in the risk factor entitled "*The impact of the COVID-19 pandemic in China could have a material adverse impact on the Company's business, results of operations, or financial condition*".



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

14. Risk Factors continued

Risks Relating to the Company's business and industry continued

The Company's results of operations are subject, to a significant extent, to economic, political and legal developments in China. continued

As a result of import restrictions established by the PRC 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. The Company, together with other Mongolian coal companies, have been in discussions with the PRC authorities regarding a potential amendment or withdrawal of these import restrictions to allow for the importation of F-grade coal into China; however, there can be no assurance that a favorable outcome will be reached. A protracted or indefinite ban on the import of the Company's F-grade coal products into China may have a material adverse impact on the Company's financial performance, cash flow and results of operations, which 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.

The interests of the Company's principal stakeholders, CIC, Novel Sunrise and Voyage Wisdom, may differ from those of the other stakeholders.

As at May 30, 2021, to the best of the Company's knowledge:

- CIC holds a total of 64.8 million Common Shares representing approximately 23.6% of the issued and outstanding Common Shares;
- Novel Sunrise holds a total of approximately 46.4 million Common Shares representing approximately 16.9% of the issued and outstanding Common Shares; and
- Voyage Wisdom holds a total of approximately 25.8 million Common Shares representing approximately 9.4% of the issued and outstanding Common Shares.

Accordingly, the Company's principal stakeholders may have the ability to substantially affect the outcome of matters submitted to Shareholders of the Company for approval, including, without limitation, the election and removal of directors, amendments to our articles of incorporation and bylaws and the approval of any business combination. This may delay or prevent an acquisition of the Company or cause the market price of the Common Shares to decline. The interests of each of these principal stakeholders may conflict with the interests of other Shareholders and there is no assurance that any of these principal stakeholders will vote its Common Shares in a way that benefits minority Shareholders. While no Shareholder has the ability to elect a majority of the Board unilaterally, both Novel Sunrise and CIC have been granted contractual director appointment rights. In addition, the Company's principal stakeholders may have an interest in pursuing acquisitions, divestitures and other transactions that, in the judgment of management, could enhance its equity or debt investment, even though such transactions might involve risks to other Shareholders and may negatively affect prevailing market prices of the Common Shares.

Subject to compliance with applicable securities laws, the principal stakeholders may sell some or all of their Common Shares in the future. No prediction can be made as to the effect, if any, such future sales of Common Shares will have on market prices of the Common Shares prevailing from time to time. However, the future sale of a substantial number of Common Shares by our principal stakeholders, or the perception that such sales could occur, could adversely affect prevailing market prices of the Common Shares.

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

14. Risk Factors continued

Risks Relating to the Company's business and industry continued

Tax and royalty legislation in Mongolia is subject to varying interpretations and changes which may have a significant impact on the Company's financial position.

Mongolian tax, currency, customs and royalty legislation is subject to varying interpretations and changes, which can occur frequently. The interpretation by the Company's management of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant authorities.

The Mongolian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged by tax authorities. As a result, significant additional taxes, penalties, interest or royalties may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

The Mongolian tax legislation does not provide definitive guidance in certain areas, specifically in areas such as value-added tax, withholding tax, corporate income tax, personal income tax, transfer pricing and other areas. From time to time, the Company adopts interpretations of such uncertain areas that reduce the overall tax rate of the Company. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices. The impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity in question.

The royalty regime in Mongolia is evolving and has been subject to change since 2012. On June 23, 2021, the Government of Mongolia issued a new resolution in connection with the royalty regime. From July 1, 2021 onwards, the royalty payable is to be calculated based on the reference price as determined by the Government of Mongolia, and the reference to the contract sales price will be removed.

There can be no assurance, however, that the Government of Mongolia will not disagree with the methodology employed by the Company in determining the calculated sales price and require that the royalty payable be calculated based on the Mongolian government's reference, which could 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.

Management believes that its interpretation of the relevant legislation is appropriate and the Company's positions related to tax, royalty and other legislation will be sustained. Management believes that tax, royalty and legal risks are remote at present. Management performs regular re-assessment of tax risk and its position may change in the future as a result of the change in conditions that cannot be anticipated with sufficient certainty at present.

The Company does not insure against all risks to which it may be subject in planned operations and insurance coverage could prove inadequate to satisfy potential claims.

For certain aspects of the Company's business operations, insurance coverage, in particular business interruption insurance, is restricted or prohibitively expensive. The Company currently holds its primary insurance policies through Canadian insurance providers to insure its properties. The Company has taken out insurance for risks including commercial general liability, and aviation premises liability. The Company maintains mining property insurance for all of its mining assets wherever located, property insurance on its office premises and liability insurance for its directors and officers. However, no assurance can be given that the Company will elect or be able to obtain such insurance coverage at economically reasonable premiums (or at all), or that any coverage it obtains will be adequate to cover the extent of any claims brought against it.



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

14. Risk Factors continued

Risks Relating to the Company's business and industry continued

The Company does not insure against all risks to which it may be subject in planned operations and insurance coverage could prove inadequate to satisfy potential claims. continued

Exploration, development and production operations on mineral properties involve numerous risks, including environmental risks, such as unexpected or unusual geological operating conditions, rock bursts or slides, fires, floods, earthquakes or other environmental occurrences, and political and social instability. The Company does not maintain insurance against any environmental or political risks. Should any liabilities arise for which it is not insured or insurance coverage is inadequate to cover the entire liability, they could reduce or eliminate the Company's actual or prospective profitability, result in increasing costs and a decline in the value of the Common Shares and could materially and adversely affect the Company's business and results of operations.

Licences and permits are subject to renewal and various uncertainties and the Company may only renew its exploration licences a limited number of times for a limited period of time.

The Company's activities are subject to extensive licensing and permitting requirements. The Company strives to obtain all required licenses and permits on a timely basis and to comply with all such licenses and permits at all times. However, there can be no assurance that the Company will obtain and maintain all required licenses and permits or that it will not face delays in obtaining all required licenses and permits, renewals of existing licenses and permits, additional licenses and permits required for existing or future operations or activities, or additional licenses and permits required by new legislation. The Company notes the following with respect to its ability to obtain and maintain applicable licenses and permits:

- Certain provisions of the Law on Land of Mongolia enacted on June 7, 2002, as amended (the "Land Law of Mongolia") and the 2006 Minerals Law provide for the revocation of previously granted land use rights, MELs or mining licences on the grounds that the affected area of land has been designated as SNT. The Land Law of Mongolia grants the discretion to declare an area of land for special needs purposes to local governing authorities and identifies various broad categories which qualify as special needs. The 2006 Minerals Law requires the local governing authority that designates an area of land as a special needs territory to compensate within one year the licence holder whose rights or licence status are affected. The failure to pay the compensation within the one year period would allow the licence holder to resume its operations. If any of the Company's land use rights or mining licences in Mongolia are revoked because the underlying land is declared as special needs territory, there is no assurance that the Company will receive adequate compensation and its business and results of operation might be adversely and materially affected.
- On February 13, 2015, the License Areas were included into a special protected area (referred to as a Special Needs Territory or "SNT") newly set up by the Umnugobi Aimag's 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 until the License Areas are removed from the SNT.

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

14. Risk Factors continued

Risks Relating to the Company's business and industry continued

Licences and permits are subject to renewal and various uncertainties and the Company may only renew its exploration licences a limited number of times for a limited period of time. continued

- 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). There is no assurance that the Company will receive adequate compensation and its business and results of operation might be adversely and materially affected.

The inability to obtain or maintain licenses and permits with respect to its mining operations, of any delay with respect to the obtaining of licenses and permits, could have a material adverse impact on the Company's financial performance, cash flow and results of operations.

Prolonged periods of severe weather conditions could materially and adversely affect the Company's business and results of operations.

Severe weather conditions may require the Company to evacuate personnel or curtail operations and may cause damages to the project site, equipment or facilities, which could result in the temporary suspension of operations or generally reduce the Company's productivity. Severe weather conditions have not caused any delay or damages to the Company's operations to date. However, there can be no assurance that severe weather will not occur. Any damages to the Company's projects or delays in its operations caused by prolonged periods of severe weather could materially and adversely affect its business and results of operations.

The Company's business and results of operations are susceptible to the cyclical nature of coal markets and are vulnerable to fluctuations in prices for coal.

The Company expects to derive substantially all of its revenue and cash flow from the sale of coal. Therefore, the market price of the Common Shares, the Company's ability to raise additional financing and maintain ongoing operations and its financial condition and results of operations will be directly related to the demand for, and price of, coal and coal-related products. Coal demand and price are determined by numerous factors beyond the Company's control, including the international demand for steel and steel products, the availability of competitive coal supplies, international exchange rates, political and economic conditions in Mongolia, China and elsewhere in the world, milder or more severe than normal weather conditions, production costs in major coal producing regions and, most recently, the impact of the COVID-19 pandemic. The Chinese and international coal markets are cyclical and have in the past exhibited significant fluctuations in supply, demand and prices from year to year. There has been significant price volatility on the coal spot market. An oversupply of coal in China or a general downturn in the economies of any significant markets for the Company's coal and coal-related products could materially and adversely affect its business and results of operations. In addition, the Company's dependence on Asian markets may result in instability in its operations due to political and economic factors in those Asian jurisdictions which are beyond the Company's control. The combined effects of any or all of these factors on coal prices or volumes are impossible for the Company to predict.

If realized coal prices are below the full cost of production of any of the Company's future mining operations and remain at such a level for any sustained period, the Company could experience increased losses and may decide to discontinue operations, which could require the Company to incur closure costs and result in further reduced revenues.



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

14. Risk Factors continued

Risks Relating to the Company's business and industry continued

The Company's coal mining activities are subject to operational risks, including equipment breakdown.

The Company's coal mining operations are subject to a number of operational risks, some of which are beyond its control, which could delay the production and delivery of coal. These risks include unexpected maintenance or technical problems, periodic interruptions to its mining operations due to inclement or hazardous weather conditions and natural disasters, industrial accidents, power or fuel supply interruptions and critical equipment failure, including malfunction and breakdown of its shovels, upon which its coal mining operations are heavily reliant and which would require considerable time to replace. These risks and hazards may result in personal injury, damage to, or destruction of, properties or production facilities, environmental damage, business interruption and damage to its business reputation. In addition, breakdowns of equipment, difficulties or delays in obtaining replacement shovels and other equipment, natural disasters, industrial accidents or other causes could temporarily disrupt the Company's operations, which in turn may also materially and adversely affect its business, prospects, financial condition and results of operations.

The Company's future financial performance depends, in part, on the successful operation of the wash plant at the Ovoot Tolgoi Mine, which is subject to various risks.

Because the Company's current mine plan is predicated, in part, on incorporating a coal washing and process systems, the Company's future financial performance will depend on the successful operation of the wash plant at the Ovoot Tolgoi mine. The operating performance of the wash plant, and the related cost of operation and maintenance, may be adversely affected by a variety of risk factors, including, but not limited to, the following:

- Maintaining an adequate water supply and power supply to the mine site to permit the continued operations of the wash plant as planned;
- Achieving satisfactory yields from wet washing operations;
- The Company successfully enhancing the operational efficiency and the output throughput of the wet wash plant;
- The Company successfully negotiating an agreement with the wash plant operator regarding the operation of the wash plant;
- Unexpected maintenance and replacement expenditures;
- Shutdowns due to the breakdown or failure of the wash plant's equipment;
- Labour disputes; and
- Catastrophic events such as fires, explosions, severe storms or similar occurrence affecting the wash plant facility or third parties providing services to the wash plant.

Any of the risks noted above could have a material adverse impact on the operational performance or cost of operations of the wash plant, which in turn could have a material adverse effect on the Company's financial performance, cash flow and results of operations.

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

14. Risk Factors continued

Risks Relating to the Company's business and industry continued

The unavailability or shortage of reliable and sufficient coal transportation capacity that meets Mongolian authority regulations will reduce the Company's coal revenue by causing it to reduce its production volume or impairing its ability to supply coal to its customers.

The Company anticipates that the majority of its coal production from the projects in Mongolia will be exported to China. Inadequate transportation infrastructure, or restrictions on or delays in coal exports to China, is likely to affect the pricing terms on which it can sell the coal to customers and the willingness and ability of such customers to purchase coal from it. Customers are likely to factor in any delays and the costs and availability of transportation in determining the price they are prepared to pay to purchase the Company's coal. Therefore, its mining operations are anticipated to be highly dependent on road and rail services in Mongolia and China.

The opening hours of the Shivee Khuren Border Crossing also affect the Company's ability to expedite the movement of its coal shipments. There can be no assurance that there would be any other cost effective means of transporting the coal to the Company's primary market in China. As a result, the Company may experience difficulty expediting the movement of its coal shipments and/or significant cost escalation for the transportation services, which could affect its production and reduce its profitability.

Although the Company's coal exports to China has resumed as of the date hereof, there can be no guarantee that the Company will be able to continue exporting coal to China, or the border crossings would not be the subject of additional closures as a result of COVID-19 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.

In China, rail and road infrastructure and capacity has in the past been affected by extreme weather conditions, earthquakes, delays caused by major rail accidents, the COVID-19 pandemic, the diversion of rolling stock needed to deliver emergency food relief and seasonal congestion during public holidays. There can be no assurance that these problems will not recur or that new problems will not occur. In any of these circumstances, the customers may not be able to take delivery of the Company's coal, which may lead to delays in payment, or refusal to pay, for the Company's coal and, as a result, the Company's business and results of operations could be materially and adversely affected.

The Company's prospects depend on its ability to attract, retain and train key personnel.

Recruiting, retaining and training qualified personnel is critical to the Company's success. The number of persons skilled in the acquisition, exploration and development of mining properties is limited and competition within the mining industry for such persons is intense, in particular, Mongolian law requires that at least 90% of a mining company's employees be of Mongolian nationality. This provision of the law, coupled with the large number of active mining projects in Mongolia, further limits the number of available personnel and increases competition for skilled personnel. The reputation and capability to operate continuously over the longer term are key factors in also attracting key personnel to its business. The Company is reinforcing its core values of ethical behavior in dealing with all its stakeholders from senior management down in order to ensure the Company attracts the right people to its business. As the Company's business activity grows, it will require additional key financial, administrative, mining, marketing and public relations personnel as well as additional operations staff. If the Company is not successful in attracting such key personnel, or retaining existing key personnel, its business and results of operations could be materially and adversely affected.

In addition, the Company's ability to train operating and maintenance personnel is a key factor for the success of its business activities. If the Company is not successful in recruiting, training and retaining such personnel, its business and results of operations could be materially and adversely affected.



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

14. Risk Factors continued

Risks Relating to the Company's business and industry continued

Competition in the coal industry may hinder development plans and adversely affect the Company's coal sales if it is not able to compete effectively.

Continued growth in mining and mineral exploration activities in Mongolia could create an increasing demand for mining equipment and related services. Shortages of, or higher costs for, equipment and services could restrict the Company's ability to carry out the exploration, development and production activities, increase its costs of operations and adversely affect its future plans.

The Company intends to sell a majority of the coal it produces in China. Competition in the Chinese coal industry is based on many factors, including, among others, price, production capacity, coal quality and characteristics, transportation capability and costs, blending capability and brand name. The Company's coal business will most likely compete in China with other large Chinese and international coal mining companies. Due to location, some of the Company's Chinese competitors may have lower transportation costs than the Company does. The Chinese coal market is highly fragmented and the Company faces price competition from some small local coal producers that produce coal for significantly lower costs than the Company due to various factors, including their lower expenditure on safety and regulatory compliance. Some of the Company's international competitors, including the Mongolian coal producers, may have greater coal production capacity as well as greater financial, marketing, distribution and other resources than the Company does, and may benefit from more established brand names in international markets. The Company's future success will depend on its ability to respond in an effective and timely manner to competitive pressure.

There are a number of risks associated with the Company's operation plan, dependence on a limited number of customers and inability to attract additional customers.

The current operation plan contemplates significant operational funding in the Company's mining operations as well as equipment maintenance in order to achieve the Company's revenue and cash flow targets. Such expenditures and other working capital requirements may require the Company to seek additional financing. There is no guarantee that the Company will be able to secure other sources of financing. If the Company is unable to continue as a going concern, it may be forced to seek relief under applicable bankruptcy and insolvency legislation.

The Company has been selling its coal products since 2008. The Company had 22 active customers with the largest customer representing approximately 35%, the second largest customer representing approximately 17%, the third largest customer representing approximately 10% and the remaining customers accounting for 38% of the Company's total sales for the year ended December 31, 2021. In order to mitigate this risk, the Company is attempting to modify its sales strategy in order to expand its existing customer base. With certain of its customers, the Company has accepted payment for coal deliveries in the form of bank instruments, in lieu of cash. There can be no assurance, however, that the Company will be able to satisfy or comply with the funding conditions of such instruments following completion of the coal delivery or the bank that issues the instrument will be capable of paying all or any portion of the proceeds to the Company, which could 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.

The Company still expects to sell the majority of the coal from its Mongolian mining operations to customers in China. Chinese law requires specific authorization to be obtained by entities responsible for the import of coal into China. In the event that the Company's customers, or the agents of such customers who are responsible for importing coal into China on their behalf, fail to obtain and retain the necessary authorizations, their ability to import coal into China may be affected, which could materially and adversely affect the Company's business and results of operations.

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

14. Risk Factors continued

Risks Relating to the Company's business and industry continued

There are a number of risks associated with the Company's operation plan, dependence on a limited number of customers and inability to attract additional customers. continued

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 consolidated 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 consolidated financial statements.

Failure to maintain an effective system of internal controls may result in material misstatements of the Company's financial statements or cause the Company to fail to meet its reporting obligations or fail to prevent fraud.

Effective internal controls are necessary for the Company to provide reliable financial reports and prevent fraud. If the Company fails to maintain an effective system of internal controls, the Company may not be able to report its financial results accurately or prevent fraud; and in that case, Shareholders and investors could lose confidence in the Company's financial reporting, which would harm the Company's business and could negatively impact the price of the Common Shares.

If the Company suffers any future material weaknesses in its internal controls and procedures or fails to maintain the adequacy of its internal controls and procedures, the Company could be the subject of regulatory scrutiny, penalties or litigation, all of which would harm the Company's business and could negatively impact the price of the Common Shares.

The Company cannot provide assurances that the Company will not experience potential material weaknesses in its internal controls. Even if the Company concludes that its internal controls over financial reporting provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS, because of their inherent limitations, internal control over financial reporting may not prevent or detect fraud or misstatements. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by individual acts, by collusion of two or more individuals or by unauthorized override of controls. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm the Company's results of operations or cause the Company to fail to meet its future reporting obligations.

The Company's operations are exposed to risks in relation to environmental protection and rehabilitation.

The operations of coal mines involve substantial environmental risks and hazards and the Company's operations are subject to laws and regulations relating to the environment, health and safety and other regulatory matters in Mongolia and China.

The risk of environmental liability is inherent in the operation of the Company's business. Environmental hazards may occur in connection with the Company's operations as a result of human negligence, force majeure, or otherwise. Claims may be asserted against the Company arising out of its operations in the normal course of business, including claims relating to land use, safety, health and environmental matters. The Company is not insured against environmental liabilities and there can be no assurance that environmental liabilities would not materially and adversely affect its business and results of operations.



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

14. Risk Factors continued

Risks Relating to the Company's business and industry continued

The Company's operations are exposed to risks in relation to environmental protection and rehabilitation. continued

In addition, the Company is subject to reclamation requirements. The Company's mine will eventually close. The key tasks in relation to the closure of the mines involves (i) long-term management of permanent engineered structures (for example, spillways, roads, waste dumps); (ii) achievement of environmental closure standards; (iii) orderly retrenchment of employees and contractors; and (iv) relinquishment of the site with associated permanent structures and community development infrastructure and programs to new owners. The successful completion of these tasks is dependent on the Company's ability to successfully implement negotiated agreements with the relevant government, community and employees. The consequences of a difficult closure range from increased closure costs and handover delays to ongoing environmental impacts and corporate reputation damage if desired outcomes cannot be achieved, which could materially and adversely affect the Company's business and results of operations.

The Company currently does not own a coal storage facility at the Ceke border. As a result of potential stricter requirements for coal storage facilities which may be adopted by the local government in the future, the Company may not be able to secure enough storage space at the Ceke border, which could 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. As part of its focus on capital preservation, the Company has decided to suspend indefinitely all further development activities relating to the previously announced Ceke Logistics Park Project until further notice. The Company may be at risk of becoming subject to litigation proceedings initiated by its investment partner in the Ceke Logistics Park Project for failing to comply with the underlying agreements governing project development. Due to the inherent uncertainty of the litigation process, the resolution of any particular legal proceeding to which the Company may become subject could have a material adverse impact on its business, operations, results of operations, financial condition and future prospects.

Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. The Company may experience increased costs of production arising from compliance with environmental laws and regulations. Should the Company fail to comply with current or future environmental laws and regulations, the Company may be required to pay penalties or take corrective actions, any of which may have a material adverse effect on its results of operations and financial condition.

Foreign currency fluctuations could affect expenses and any future earnings.

The Company is exposed to foreign exchange fluctuations with respect to the MNT, Chinese Renminbi, Hong Kong, and Canadian dollars. The Company's financial results are reported in United States dollars. The salaries for local laborers in Mongolia are paid in local currency. Sales of coal into China have been and may continue to be settled in United States dollars and Renminbi. The Company has a subsidiary in Hong Kong where some expenses are incurred in Hong Kong dollars. Since the Company's headquarters is in Canada, a minor portion of its expenses are in Canadian dollars and the Company holds a portion of its cash in Canadian dollars. As a result, its financial position and results are impacted by the exchange rate fluctuations between the aforementioned currencies and the United States dollar.

Information in this MD&A regarding future plans reflects current intentions and is subject to change.

Whether the Company ultimately implements the business strategies described in this MD&A will depend on a number of factors including, but not limited to: the political situation in Mongolia and China; the availability and cost of capital; current and projected coal prices; coal markets; costs and availability of drilling services, costs and availability of heavy equipment, supplies and personnel; success or failure of activities in similar areas to those in which the Company's projects are situated; and changes in estimates of project completion costs. The Company will continue to gather information about its projects, and it is possible that additional information will cause it to alter its schedule or determine that a project should not be pursued at all. Accordingly, the Company's plans and objectives may change from those described in this MD&A.

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

15. Outlook

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

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

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

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

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

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

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



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

15. Outlook continued

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.

May 30, 2022

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SouthGobi believes that having sound environmental, social and governance (“ESG”) performance is important to the continued sustainable development of its business and community. The Company is committed, not only in creating value for its shareholders, but also in promoting environmental protection, social responsibility and effective corporate governance.

The Board has established a Health, Environment, Safety and Social Responsibility Committee (the “HES Committee”), which operates under a charter approved by the Board. The primary objective of the HES Committee is to assist the Board of Directors in fulfilling its oversight responsibilities by monitoring and reviewing performance, and recommending for approval policies and management systems, with respect to health, environmental, safety and social responsibility related matters affecting the Company. The HES Committee also reviews any incidents that occur and provides guidance on how to prevent any recurrences. During the course of 2021, the HES Committee met three (3) times.

Annually, the HES Committee reviews the Company’s environmental, social and governance report (the “ESG Report”) and provides guidelines and recommendations to the Company’s management relating to the findings in the ESG Report. During the Financial Year, the HES Committee reviewed its charter in light of current best practices.

We uphold and value the principles of integrity and responsibility in our operations, and are constantly seeking ways to enhance our competitive edge by striving for excellence and embracing technological advances. We fulfill our social responsibility through our work in supporting the local community and by minimizing pollution to the environment. We also conduct an environmental monitoring program every year, which consists of checking soil quality, ground and surface water levels and quality, vegetation, fauna, air quality including dust and waste gas emissions, and reclamation and rehabilitation.

We provide a positive working environment and sustain strong safety guidelines for our employees to minimize the lost time injury. The Company continues to be committed to operate in a safe and socially responsible manner in order to maintain a solid low lost time injury frequency rate since establishment. As at December 31, 2021, the Company had a lost time injury frequency rate of 0.00 per 200,000 man hours based on a rolling 12-month average. We provide continuous training for our staff to enhance morale and improve efficiency.

Disclosures relating to the material ESG issues identified have been included in this ESG Report pursuant to the requirements of Appendix 27 of the Listing Rules of The Hong Kong Stock Exchange. This ESG Report mainly covers the policies, initiatives and performance of the Company’s business in relation to these issues, for the year ended December 31, 2021:

A. Environmental

A1: Emissions

The Company is required and willing to comply with the Environmental Protection Law of Mongolia for its mining activities. It includes specific regulations and guidelines on the protection of the land and soil, water and air within the areas it operates. In particular, the Law on Air of Mongolia has specifically identified the standards that the Company must reach and maintain.

Within the framework of such relevant environmental laws and regulations, the Company aspires to demonstrate environmental leadership by keeping its environmental impact at a minimum through rehabilitation, biological offsetting, regular monitoring of pollutant emissions and taking relevant responsive measures and protecting the environment with the participation of locals in the area in which it operates.

In 2014, a weather station was set up and commenced operations at the mine site in order to gather site specific data every 10 minutes, including data for gas emissions.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In 2021, the emissions of sulphur dioxide, nitrogen dioxide, respirable and fine suspended particles released through the mining process were within Mongolian air quality standard MNS 4585:2016. The results were derived from the Company's environmental monitoring program where samples from selected areas were taken and passed to authorized laboratory for testing.

The results shown below demonstrate that our average results of the measured parameters were under the standard requirement for both 2020 and 2021.

Measured parameters	Unit	Standard requirement	2020 average result	2021 average result
1 Dust content (PM2.5)	mg/m ³	0.5	0.101	0.02
2 Sulphur Dioxide	mg/m ³	0.45	0.0299	0.0105
3 Nitrogen Dioxide	mg/m ³	0.085	0.061	0.026

Moreover, the Company has implemented a variety of environmental friendly waste management programs and is focused on recycling and reduction of wastes. In 2021, the Ovoot Tolgoi mine site generated 71 (2020: 83) tonnes of waste, including waste oil, used tires, car batteries and cartridges, and 71% (2020: 69%) of such were recycled and donated to local residents and various contract companies for reuse.

A2: Use of resources

The Board, together with its HESS Committee, supports Management's decision in respect of energy conservation and environmental protection. The Company established a top-down management approach and assessment mechanism for energy conservation and environmental protection at three levels: head office, subsidiaries (branches) and plant (mine, wash plant), in order to delegate responsibility, effectively communicate to each level, and connect incentives and constraints on all division.

– Energy consumption (electricity, gas, oil)

The details of energy consumption at mine site are as follows:

Measured parameters	Unit	2020		2021	
		Total consumption	Per tonne produced	Total consumption	Per tonne produced
1 Electricity	kWh	1,327,162	0.56	1,245,511	0.56
2 Gas (propane, oxygen, acetylene, argon, nitrogen)	Gallon/3000 psi	81	47.9 (per million tonnes)	42	47.9 (per million tonnes)
3 Oil (Gear oil, Hydraulic oil, Engine oil)	tonnes	167	30.2 (per million tonnes)	42	30.2 (per million tonnes)

– Water consumption

In 2021, the Ovoot Tolgoi mine site consumed 17,414m³ (2020: 45,979m³) of water for domestic use. In addition, 58,714m³ (2020: 108,497m³) of water, acquired from a nearby pit and water pond, was used for dust compression. In 2021, the coal wash plant at the Ovoot Tolgoi mine site consumed 69,512m³ (2020: 62,518m³) of water for the coal washing process. Water consumption was lower in 2021 as mining operations were temporarily suspended during the year due to the border closures as a result of the COVID-19 pandemic and management's decision to pace production to meet expected sales. We continue to strive to minimize the water consumption used in dust compression by reducing the source pollution and emission during the mining process.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

– Energy use efficiency initiatives

The Company utilizes the following measures to promote energy saving:

- conducting routine camp meeting for all employees about energy use efficiency;
- erecting signage to remind employees to turn off lights when not in use;
- checking the lights every night by the camp manager;
- closely maintaining and monitoring the room temperature; and
- air conditioners being only utilized according to a specific schedule.

Sourcing water, water efficiency initiatives

The Company has implemented various measures to preserve water usage, especially at the mine site. Various meetings have been held with our employees and local residents to promote the importance of and ways to preserve and conserve water and the efficient use of water. We have placed rubbish bins at different water sources near the mine site to prevent littering, which directly affects the quality of water sources. Moreover, we constantly clean the water source points to ensure the water quality supplied to Ovoot Tolgoi and the nearby community.

A3: The Environment and Natural Resources

The Company adheres to the notion of producing green coal and building ecological mining sites. Great emphasis has been placed on soil and water conservation, land rehabilitation and greening, ecological projects and other efforts to safeguard and improve the local eco-environment and advance the ecological progress.

The Company established an annual environmental monitoring programme to monitor soil quality, underground water, reclamation and rehabilitation.

The Ovoot Tolgoi mining license area does not have large scale soil contamination by heavy metals often associated with mining operations. Samplings were obtained in eight (8) different locations and the results were all within the government standard requirement under MNS 5850:2008. The overall results for 2020 and 2021 are as follows:

For 2020:

Heavy metals	Unit	Chromium	Lead	Cadmium	Nickel	Zinc
Average	Mg/kg	41.2	18	0.4	23.5	70
Maximum	Mg/kg	79.3	41.7	1.8	45.3	132.3
Minimum	Mg/kg	2	2	0.06	12.2	49.1
MNS 5850:2008	Mg/kg	150	100	3	150	300

For 2021:

Heavy metals	Unit	Chromium	Lead	Cadmium	Nickel	Zinc
Average	Mg/kg	7	8	0	25.7	57.8
Maximum	Mg/kg	13.5	15.6	0	71.3	82.7
Minimum	Mg/kg	0.3	5	0	18.2	25.4
MNS 5850:2008	Mg/kg	150	100	3	150	300



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Company also tested eight (8) surface water points to monitor underground water quality. A total of seven (7) ions, acidity, and minimization were tested and the results were all up to standard.

Mining, rehabilitation and greening at Ovoot Tolgoi are conducted in a synchronized manner. Timely rehabilitation and greening has been carried out in accordance with the procedure of topsoil stripping, layering up, mining, back-filling, covering the topsoil and restoring vegetation, which enables a full-scale greening and restores the ecology to its pre-mining conditions. Commencing in 2008, the Company has carried out biological reclamation of a 56.16 hectare area and planted over 6,250 trees and shrubs to reduce greenhouse gas emissions. The Company organizes tree planting activities at Ovoot Tolgoi twice a year during the spring and the fall.

The Company is required by the Government of Mongolia to develop an environmental protection plan each year. The plan for 2022 has been approved by the Ministry of Environment and Green Development of Mongolia. Seventeen measures were planned to minimize the impact on environment, including but not limited to air, soil, underground water, plants and animals.

B. Social

B1: Employment

The Company upholds an equal and non-discriminative employment policy to provide equal employment opportunities for all candidates, regardless of race, gender, religion belief and cultural background. Taking into account characteristics and development requirements of different positions, the Company actively provides job opportunities for women and ensures equal pay for equal work for male and female employees. As of December 31, 2021, the Company had a workforce of 279 employees, including 61 female employees, representing 22% of the workforce. In 2021, the Company recruited 39 new employees.

The Company believes that a diverse Board will enhance the decision making of the Board by utilizing the difference in skills, experience and background, geographical and industry experience, ethnicity, gender, knowledge and length of services, and other distinguishing qualities of the members of the Board. In support of this belief, the Board adopted a Board Diversity Policy in March 2014. In March 2022, the Board amended the Board Diversity Policy to incorporate changes put forward by the Hong Kong Stock Exchange. The Company is of the view that Board appointments should be based on merit, and is committed to selecting the most suitable candidate to join the Board. At the same time, the Company recognizes that diversity is important to ensure that the profiles of Board members provide the necessary range of perspectives, experience and expertise required to achieve effective stewardship.

The Company is also committed to inclusiveness within all its positions.

To retain competitive employees, the Company has in place a remuneration and welfare mechanism that are internally fair and externally competitive. The Company has implemented the appropriate policies and campaigns to encourage and incentivize employees to develop and realize their personal values.

Employees are entitled to paid leave, maternity leave, paternity leave and other statutory leave in accordance with the law in various jurisdictions. The Company also provides paid sick leave and personal leave, granting 15 days of annual paid leave on average for the employees in 2021.

B2: Health and Safety

The health and safety of the Company's employees is a top priority and the Company constantly improves the occupational safety and health management system in order to reduce risks and create a safe working environment. The Company requires all employees to strictly comply with the health and safety policies.

The Company's safety management system is designed on the principles of continual improvement and adopts the "Plan, Do, Check and Review" methodology. The structure of the safety management system generally follows the layout of international standards such as MNS OHSAS 18001:2012 and AS/NZS 4801.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The system has 13 elements which are inter-related, and each of those have specific objective which enables employees to identify and manage various health and safety threats. Each element includes measures which help employees meet the requirements of respective objective. Some of the elements refer to fixed procedures that must be followed, and defined in safe work procedures. The health and safety performance standards also address specific risk areas and the precautions and guidelines set by the health and safety performance standards are mandatory for all employees.

As at December 31, 2021, the Company had a lost time injury frequency rate of 0.00 per 200,000 man hours based on a rolling 12-month average.

In response to the COVID-19 pandemic, the Company has implemented various precautionary measures at the mine site, as well as in all of its offices, in order to prevent the spread of COVID-19 and to maintain operations in the normal course, while also complying with the advice or orders of local public health authorities. The following measures were adopted and strictly enforced at the mine site:

- the mine site employees roster have been adjusted so that the current shift employees do not make contact with the next shift between rotation;
- employees requires to have 3 doses of COVID-19 vaccine, or show a negative PCR or rapid test before being allowed to transport to the mine site;
- employees are being tested for COVID-19 before entering the mine site;
- measuring body temperature for all personnel entering the mine site and daily for all employees;
- COVID-19 tests are conducted daily and randomly for various employees;
- disinfect frequently on all the touched surfaces, common areas, and camp rooms;
- clean and sanitize mining equipment at the start and the end of each shift;
- employees have meals at different hours in smaller groups and on a different schedule from the contractor; and
- employees are reminded to maintain social distance from each other.

B3: Human Development and Training

The Company has conducted various training activities and has in place ongoing mechanisms for employees to enhance their skills and capabilities in order to provide a career development path for employees and to improve the efficiency of the Company.

In particular, there are various trainings in relation to health and safety at the mine site. We ensure all personnel involved in any operation or activities at the mine site are knowledgeable of the risks and controls associated with their position and that they are competent to perform those activities. All new employees, contractors and visitors to the mine site must undertake relevant induction training, which includes reference to the significant health and safety risks identified at the managed site.

The health and safety training includes two (2) major aspects: competency-based training, and awareness training. Competency-based training provides training on risk analysis, operational controls, work place monitoring, management of change and incident management. Awareness training includes significant health and safety risks and activities, accountabilities of specific health and safety roles and responsibilities, and emergency response procedures.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During 2021, safety training was provided for 125 employees (2020: 743) which includes new employee training, refresher training, contractor new employee training, contractor refresher training, visitor induction and trainings. A total of 1,733 training hours were provided in 2021 (2020: 7,072 hours). The safety trainings conducted in 2021 was significantly lowered than 2020 due to the temporary cessation of the Company's coal mining operations in the second and fourth quarter of 2021, and approximately half of the Company's workforce was placed on furlough during that period.

B4: Labour standards

The Company strictly prohibits the use of child and forced labour in all operations, and is committed to creating a work environment which respects human rights.

In strict compliance with laws and regulations regarding labour and human rights, the Company takes such measures as instituting and enhancing collective contract system, signing labour contracts with each employee, improving remuneration and welfare mechanism and strengthening occupational health management to protect employees' legitimate rights and interests. In case of any violation, the Company will carry out investigation and impose necessary action on the employing unit and demand rectification within a specified period. No breach of any standards, rules or regulations on child labour and forced labour has ever occurred.

B5: Supply Chain Management

The Company is continuously improving its supply chain management, by ensuring the stable supply of production materials and services, as well as managing the suppliers to ensure they are aligned with the Company's core values to uphold the environmental and social standards.

The Company regards the social value and social influence (especially the fulfilment of social responsibility) as important aspects in supplier assessment and enhanced admission management. According to specific admission requirements, the Company not only demands that a supplier presents certification of quality, environment and occupational health and safety regimes, but that the supplier's product and its production meets national environmental protection standards and regulations and has passed external expert assessment.

According to the Company's procurement guidelines, the agreements with suppliers include the Company's requirement and standards in terms of environment and safety concerns. The tools and equipment by the contractors are all inspected and evaluated to be in safe condition and confirm with the Company health and safety standards and site procedures.

B6: Product Responsibility

The Company's main coal products primarily consist of premium semi-soft coking coal, standard semi-soft coking coal, standard thermal coal, and washed coal. We strive to ensure steady supply of quality coal products to customers.

In 2021, the Company produced 1.4 million tonnes of coal and sold 0.9 million tonnes of coal to customers. During production, a total of 5.9 m³ overburden was stripped, and the stripping ratio was 4.4 m³ per tonne. The Company actively promotes clean coal products. In general, our coal products' average ash content ranged from 13% to 28%, calorific value ranged from 5,500 to 7,000 kcal/kg, the sulphur content below 1.2%, G index ranged from 58 to 75, and volatile matter around 32.5%.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The coal wash plant at the Ovoot Tolgoi mine site commenced operations in October 2018. The plant washes run-of-mine coals with high ash content. The washed coal is sold as semi-soft coking coal. In 2021, the wash plant processed 0.83 million tonnes of run-of-mine coal and 0.01 million tonnes of washed coal were sold. The washed coal has an average ash content of around 15.7%, an average calorific value of 6,300 kcal/kg, an average sulphur content of 1.2%, G index of around 64, and volatile matter of 36.1%. The Company will continue to enhance the product value by increasing the volume of coal being washed. The contract for the coal wash plant operator finished in September 2021 and the wash plan operation has been suspended since. We will also consider alternative technologies to enhance-coal quality for the Chinese market with improved margins.

B7: Anti-corruption

The Company's current practices are reviewed and updated annually to ensure that the latest developments and best practices in corporate governance are followed and observed.

In 2012, the Company adopted and implemented a revised Code of Business Conduct and Ethics (the "Ethics Policy") called "The Way We Work". The Ethics Policy is applicable to all employees, consultants, officers and Directors regardless of their position in the organization, at all times and everywhere the Company does business.

In addition to "The Way We Work", the Company has also adopted additional guidance notes and standards that form part of the Company's overall Code of Conduct Standards. Included in the Code of Conduct Standards are the following policies and standards: the Anti-Corruption Standard and the Conflicts of Interest Standard, "The Way We Work" and Guidelines for the Investigation into Allegations of Serious Wrongdoing and a whistle-blower program.

To support the ethical standards expected of the Company and its employees, the Company has adopted a confidential whistle-blower program, where employees may confidentially report any concerns or perceived misconduct.

The Company's whistle-blower program is administered by the Company's Corporate Secretary in conjunction with the Chair of the Audit Committee. Information regarding the whistle-blower program is available on the Company's website (www.southgobi.com).

The Ethics Policy and the Code of Conduct Standards provide that the Company's employees, consultants, officers and Directors will uphold its commitment to a culture of honesty, integrity and accountability and that the Company requires the highest standards of professional and ethical conduct from its employees, consultants, officers and Directors. A copy of the Ethics Policy entitled "The Way We Work" and the various policies forming the Code of Conduct Standards are available on the Company's website (www.southgobi.com) and may be obtained, without charge, by request to SouthGobi Resources Ltd. at its registered and records office in Canada, 20th floor – 250 Howe Street, Vancouver, British Columbia, Canada, V6C 3R8, Attention: Corporate Secretary, or by phone to 1 604-762-6783 (Canada), +852 2156 1438 (Hong Kong) or email: info@southgobi.com.

The Nominating and Corporate Governance Committee monitors compliance with the Code of Conduct Standards and is responsible for establishing systems to verify compliance with legal, regulatory, corporate governance and disclosure requirements.

In 2019, a review was conducted for all of the Company's material internal controls, including financial, operational and compliance controls and risk management functions in respect of the effectiveness of the Company's internal control system, adequacy of resources and qualifications and experience of staff of the Company's accounting and financial reporting function. Following the review, the Board was satisfied that, following the implementation of certain recommended remedial actions and preventative measures, the internal control procedures were effective and in compliance with the Company's policies.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B8: Corporate Social Responsibility

SouthGobi proactively cares for the needs of the community by creating job opportunities, supporting the necessities of the community especially for small businesses and children educations, and is committed to the long term development of Mongolia.

The Company encourages the employment of staff from the local community based on the principal of harmonious development. The Company's Ovoot Tolgoi mine has created job opportunities in the Umnugobi Aimag (South Gobi province). As at December 31, 2021, the Company employed 246 employees in Mongolia, of which 241 (97%) are Mongolian nationals, and of those, 114 (46%) are residents of the local Gurvantes, Dalanzadgad, Sevrei and Noyon Soums.

The Company also supports and participates in the economic construction of the surrounding regions and development in Mongolia. Thus, the Company enjoys a good relationship with the local enterprises and government by supporting the local communities. For instance, the Company purchases goods and materials from the local community, such as purchasing employees' uniforms through domestic suppliers. The Company also continues to donate coal and livestock feed for the nearby local residents during the winter months. In 2021, the Company donated 4,500 tonnes of coal to the local communities at Gurvantes, Bayandalai, Noyon and Sevrei soums and funds were donated to the Animal Protection Fund of the soum to purchase foddors.

In 2009, the Company implemented a scholarship program to support local students in the Gobi region, and, to-date, 220 scholarships have been granted to university students. In 2021, the Company awarded 15 scholarships to students from the Gurvantes Soum region (Dalanzadgad, Bayandalai, Gurvantes, Noyon, and Sevrei). The Company also built infrastructures for the local communities, including the construction of a kindergarten in the Gurvantes Soum region in 2011 and renovated the library at a secondary school in 2017. In the past, we have also donated books to local schools, toys to the kindergarten classrooms, and bed linens to the Gurvantes hospital which were all appreciated by the locals.

In 2019, our Mongolian subsidiary SouthGobi Sands LLC ("SGS") entered into a tri-party cooperation agreement with the nearby soums (village) and aimag (town) which is aimed at funding sustainable infrastructure projects for the communities. Following the commencement of the cooperation agreement, several renovation projects were completed in 2019. However, further projects were suspended or postponed due to COVID-19. The Company will continue to participate in these various infrastructure projects in order to contribute and give back to our communities.

In addition, each year SGS usually hosts and sponsors sporting events and festivals for the local schools, and also co-organizes the English assessment exam, Olympiad. However, these events and exam were postponed in 2021 due to COVID-19.

The input and support that the Company and SGS have contributed to the communities over the years has been acknowledged and recognized, and the Company was honoured to receive various awards in the past years including "Top 100 Companies in Mongolia", "Best Employer of 2018", "Best Occupational Hygiene and Safety Excellence", "Best Corporate Social Responsibility Enterprise of Umnugobi Province", "Best Social Fee Paying Employer" awards and more. The Company is proud and appreciative of all the recognition received over the years and will continue to contribute to the communities in every aspect it can.

During 2021, the Company made US\$186,883 in charitable donations, of which includes cash donations to various communities and coal donations to various Soums of the Umnugobi Province. We believe the Company and our surrounding communities could help each other and endure through these difficult times together.





CONSOLIDATED FINANCIAL STATEMENTS

TABLE OF CONTENTS

	<i>Page</i>
Consolidated Financial Statements	
Consolidated Statements of Comprehensive Income	127
Consolidated Statements of Financial Position	128
Consolidated Statements of Changes in Equity	129
Consolidated Statements of Cash Flows	130
Notes to the consolidated financial statements	
1 Corporate information and going concern	131
2 Basis of preparation	133
3 Summary of significant accounting policies	135
4 Segment information	149
5 Revenue	150
6 Expenses by nature	150
7 Cost of sales	150
8 Other operating expenses	151
9 Administration expenses	151
10 Finance costs and income	151
11 Taxes	152
12 Loss per share	153
13 Trade and other receivables	154
14 Inventories	155
15 Prepaid expenses	155
16 Property, plant and equipment	156
17 Investment in joint venture	157
18 Trade and other payables	158
19 Deferred revenue	159
20 Interest-bearing borrowing	159
21 Lease liabilities	160
22 Convertible debenture	160
23 Decommissioning liability	165
24 Equity	166
25 Share-based payments	166
26 Reserves	169
27 Capital risk management	169
28 Financial instruments and fair value measurements	170
29 Related party transactions	174
30 Supplemental cash flow information	175
31 Commitments for expenditure	177
32 Contingencies	177
33 Events after the reporting period	179
34 Statement of financial position of the company	180
35 Reserve and deficit of the company	180
Additional stock exchange information	
A1 Director and employee emoluments	181
A2 Five year summary	183
A3 Cash	183



INDEPENDENT AUDITORS' REPORT



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To the Shareholders of SouthGobi Resources Ltd.

Opinion

We have audited the consolidated financial statements of SouthGobi Resources Ltd. (the “Company”) and its subsidiaries (together, the “Group”) set out on pages 127 to 183 which comprise the consolidated statements of financial position as at December 31, 2021 and 2020, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2021 and 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (“IFRS”) issued by International Accounting Standard Board.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the “Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements” section of our auditor’s report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the consolidated financial statements, which indicates that the Group incurred a loss attributable to equity holders of the Company of \$14.4 million for the year ended December 31, 2021, and as of that date, had a deficiency in assets of \$90.5 million while the working capital deficiency reached \$42.5 million. These conditions, along with other matters as set forth in Note 1 to the consolidated financial statements, indicates that a material uncertainty exists that may cast significant doubt about the Group’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

INDEPENDENT AUDITORS' REPORT

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the “Material Uncertainty Related to Going Concern” section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Impairment of property, plant and equipment

(Refer to note 3.23(b) and 16 to the consolidation financial statements)

We have identified the impairment of property, plant and equipment as a key audit matter because of its significance to the consolidated financial statements of the Group and the Group's assessment of impairment of property, plant and equipment is a judgmental process which requires estimates concerning the forecasted future cash flows associated with the assets in determining the recoverable amount.

The selection of the valuation model, adoption of key assumptions and input data may be subject to management bias and changes in these assumptions and inputs to the valuation model may result in a significant financial impact.

How the matter was addressed in our audit

Our procedures in relation to the impairment assessment of property, plant and equipment included among others:

- Assessing the appropriateness of the Group's identification of the individual cash generating unit;
- Evaluating the competence, capabilities and objectivity of the independent external consultant engaged by the Group (“Management's Expert”);
- With the assistance from our internal valuation experts, evaluating the appropriateness of the valuation methodology in the context of the relevant accounting standards, the data and technical information and the reasonableness of significant assumptions used by the Group and Management's Expert in the valuation models against information of independent source, our knowledge of the Group and its industry; and
- Evaluating the adequacy of the sensitivity analysis on significant assumptions in the valuation models for risk assessments.



INDEPENDENT AUDITORS' REPORT

Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis of Financial Condition and Results of Operations for the years ended December 31, 2021 and 2020, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated. We obtained the information included in the Management's Discussion and Analysis of Financial Condition and Results of Operations for the years ended December 31, 2021 and 2020 prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's consolidated financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

INDEPENDENT AUDITORS' REPORT

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements continued

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

BDO Limited

Certified Public Accountants

Lee Alfred

Practising Certificate Number P04960

Hong Kong, May 30, 2022



CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

	Notes	Year ended December 31,	
		2021	2020
Revenue	5	\$ 43,398	\$ 85,951
Cost of sales	7	(31,304)	(58,657)
Gross profit		12,094	27,294
Other operating expenses	8	(1,426)	(4,821)
Administration expenses	9	(6,068)	(6,971)
Evaluation and exploration expenses		(223)	(226)
Profit from operations		4,377	15,276
Finance costs	10	(39,118)	(31,692)
Finance income	10	23,165	2,613
Share of earnings/(loss) of a joint venture	17	(159)	1,313
Loss before tax		(11,735)	(12,490)
Current income tax expense	11	2,638	(7,599)
Net loss attributable to equity holders of the Company		(14,373)	(20,089)
Other comprehensive loss to be reclassified to profit or loss in subsequent periods			
Exchange difference on translation of foreign operation		(197)	(7,043)
Net comprehensive loss attributable to equity holders of the Company		\$ (14,570)	\$ (27,132)
Basic and diluted loss per share	12	\$ (0.05)	\$ (0.07)

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in thousands of U.S. dollars)

	Notes	As at December 31,	
		2021	2020
Assets			
Current assets			
Cash and cash equivalents		\$ 723	\$ 20,121
Restricted cash		1,259	918
Trade and other receivables	13	141	1,305
Inventories	14	51,606	42,383
Prepaid expenses	15	1,571	1,666
Total current assets		55,300	66,393
Non-current assets			
Property, plant and equipment	16	135,145	131,425
Inventories	14	–	680
Investment in a joint venture	17	15,668	16,134
Total non-current assets		150,813	148,239
Total assets		\$ 206,113	\$ 214,632
Equity and liabilities			
Current liabilities			
Trade and other payables	18	\$ 67,327	\$ 74,365
Deferred revenue	19	26,477	20,831
Interest-bearing borrowing	20	53	2,826
Lease liabilities	21	296	202
Income tax payable		3,682	4,365
Current portion of convertible debenture	22	–	181,411
Total current liabilities		97,835	284,000
Non-current liabilities			
Lease liabilities	21	585	424
Convertible debenture	22	191,626	–
Decommissioning liability	23	6,517	6,445
Total non-current liabilities		198,728	6,869
Total liabilities		296,563	290,869
Equity			
Common shares	24	1,098,835	1,098,634
Share option reserve	26	52,858	52,702
Capital reserve	26	396	396
Exchange fluctuation reserve	24	(30,468)	(30,271)
Accumulated deficit	24	(1,212,071)	(1,197,698)
Total deficiency in assets		(90,450)	(76,237)
Total equity and liabilities		\$ 206,113	\$ 214,632
Net current liabilities		\$ (42,535)	\$ (217,607)
Total assets less current liabilities		\$ 108,278	\$ (69,368)

Corporate information and going concern (Note 1), commitments for expenditure (Note 31) and contingencies (Note 32)

The accompanying notes are an integral part of these consolidated financial statements.

APPROVED BY THE BOARD:

“Mao Sun”

Director

“Dalanguerban”

Director



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Expressed in thousands of U.S. dollars and shares in thousands)

	Number of shares/units	Share capital	Share option reserve	Capital reserve	Exchange fluctuation reserve	Accumulated deficit	Total
Balances, January 1, 2020	272,703	\$ 1,098,634	\$ 52,589	\$ 396	\$ (23,228)	\$ (1,177,609)	\$ (49,218)
Net loss for the year	-	-	-	-	-	(20,089)	(20,089)
Exchange differences on translation of foreign operations	-	-	-	-	(7,043)	-	(7,043)
Total comprehensive loss attributable to equity holders of the Company	-	-	-	-	(7,043)	(20,089)	(27,132)
Share-based compensation charged to operations	-	-	113	-	-	-	113
Balances, December 31, 2020	272,703	\$ 1,098,634	\$ 52,702	\$ 396	\$ (30,271)	\$ (1,197,698)	\$ (76,237)
Balances, January 1, 2021	272,703	\$ 1,098,634	\$ 52,702	\$ 396	\$ (30,271)	\$ (1,197,698)	\$ (76,237)
Net loss for the year	-	-	-	-	-	(14,373)	(14,373)
Exchange differences on translation of foreign operations	-	-	-	-	(197)	-	(197)
Total comprehensive loss attributable to equity holders of the Company	-	-	-	-	(197)	(14,373)	(14,570)
Shares issued for:							
Exercise of stock options	1,368	190	(47)	-	-	-	143
Employee share purchase plan	45	11	-	-	-	-	11
Share-based compensation charged to operations	-	-	203	-	-	-	203
Balances, December 31, 2021	274,116	\$ 1,098,835	\$ 52,858	\$ 396	\$ (30,468)	\$ (1,212,071)	\$ (90,450)

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(Expressed in thousands of U.S. dollars)

	Notes	Year ended December 31,	
		2021	2020
Operating activities			
Loss before tax		\$ (11,735)	\$ (12,490)
Adjustments for:			
Depreciation and depletion	6	5,611	8,736
Share-based compensation	25	203	113
Interest expense on convertible debenture	10	36,301	27,726
Interest expense on borrowings	10	61	413
Interest elements on leased assets	10	93	69
Accretion of decommissioning liability	10	510	584
Fair value gain on embedded derivatives in convertible debenture	22	(100)	(44)
Interest income	10	(79)	(24)
Share of loss/(earnings) of a joint venture	17	159	(1,313)
Gain on disposal of items of property, plant and equipment, net	8	(299)	(69)
Provision/(reversal of provision) for doubtful trade and other receivables	13	191	(336)
Provision for commercial arbitration		–	4,634
Impairment of prepaid expenses	15	–	8
Impairment on materials and supplies inventories	14	2,411	–
Discount on settlement of trade payables	8	(891)	–
Written off of other payables	8	(691)	–
Gain on extinguishment of convertible debenture	22	(20,970)	–
Gain on modification of convertible debenture	22	(2,016)	(2,545)
Operating cash flows before changes in working capital items		8,759	25,462
Net change in working capital items	30	(11,993)	(1,153)
Cash generated from/(used in) operating activities		(3,234)	24,309
Interest paid		(26)	(423)
Income tax paid		(1,069)	(199)
Net cash flows from/(used in) operating activities		(4,329)	23,687
Investing activities			
Expenditures on property, plant and equipment		(10,455)	(11,886)
Proceeds from disposal of property, plant and equipment		1,337	255
Interest received		79	24
Dividend from a joint venture	17	402	1,994
Net cash flows used in investing activities		(8,637)	(9,613)
Financing activities			
Interest payment of convertible debenture	22	(3,000)	(700)
Repayment of interest-bearing loan		(2,800)	–
Proceeds from interest-bearing loan		53	–
Proceeds from exercise of share options		143	–
Capital elements of lease rental paid		(324)	(647)
Interest elements of lease rentals paid		(93)	69
Proceed from issued shares for employee share purchase plan		11	–
Net cash flows used in financing activities		(6,010)	(1,416)
Effect of foreign exchange rate changes on cash and cash equivalents		(422)	299
Increase/(decrease) in cash and cash equivalents		(19,398)	12,957
Cash and cash equivalents, beginning of year		20,121	7,164
Cash and cash equivalents, end of year		\$ 723	\$ 20,121

The accompanying notes are an integral part of these consolidated financial statements.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

1. CORPORATE INFORMATION AND GOING CONCERN

SouthGobi Resources Ltd. is a publicly listed company incorporated in Canada with limited liability under the legislation of the Province of British Columbia and its shares are listed for trading on the Toronto Stock Exchange (“TSX”) (Symbol: SGQ) and Hong Kong Stock Exchange (“HKEX”) (Symbol: 1878). The company, together with its subsidiaries (collectively referred to as the “Company”), is an integrated coal mining, development and exploration company. At December 31, 2021, to the Company’s best knowledge, Land Breeze II S.à.r.l., a wholly-owned subsidiary of China Investment Corporation (together with its wholly-owned subsidiaries and affiliates, “CIC”) owned approximately 23.6% of the outstanding common shares of the Company. Novel Sunrise Investments Limited (“Novel Sunrise”), a wholly-owned subsidiary of China Cinda (HK) Investments Management Company Limited (“Cinda”), and Voyage Wisdom Limited owned approximately 16.9% and 9.4% of the outstanding common shares of the Company, respectively.

The Company owns the following coal projects in Mongolia: the Ovoot Tolgoi open pit producing coal mine (“Ovoot Tolgoi Mine”), the Soumber Deposit, the Zag Suuj Deposit and the Ovoot Tolgoi Underground Deposit. These projects are located in the Umnugobi Aimag (South Gobi Province) of Mongolia, within 150 kilometers of each other and in close proximity to the Mongolia-China border. The Company owns a 100% interest in these coal projects.

The registered and records office of the Company is located at 20th Floor, 250 Howe Street, Vancouver, British Columbia, Canada, V6C 3R8. The principal place of business of the Company is located at Unit 1208-10, Tower One, Grand Century Place, 193 Prince Edward Road West, Mongkok, Kowloon, Hong Kong.

Impact of the Covid-19 pandemic

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

In response to the increase in the number of COVID-19 cases in Ejinaqi, a region in China’s Inner Mongolia Autonomous Region, reported in late October 2021, the local government authorities have imposed stringent preventive measures throughout the region, including the temporary closure of the Ceke Port of Entry located at the border of Mongolia and China. Accordingly, the Company’s coal exports into China were suspended from November 2021 to May 2022. In order to control the inventory level and preserve the Company’s working capital, the Company temporarily suspended mining operations (including coal mining) beginning in early November 2021.

The Company will continue to closely monitor the situation at the Ceke Port of Entry, including the number of trucks that are permitted to cross the border and the impact on the operations and financials of the Company, and will evaluate the most suitable time for the resumption of its mining operation.

Going concern assumption

The Company’s consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue to operate until at least December 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 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 consolidated financial statements. The Company incurred a loss attributable to equity holders of the Company of \$14,373 for the year ended December 31, 2021 (compared to a loss attributable to equity holders of the Company of \$20,089 for the year ended December 31, 2020), and as of that date, had a deficiency in assets of \$90,450 as at December 31, 2021 as compared to a deficiency in assets of \$76,237 as at December 31, 2020 while the working capital deficiency (excess current liabilities over current assets) reached \$42,535 as at December 31, 2021 as compared to a working capital deficiency of \$217,607 as at December 31, 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

1. CORPORATE INFORMATION AND GOING CONCERN continued

Going concern assumption continued

Included in the working capital deficiency as at December 31, 2021 are significant obligations, represented by trade and other payables of \$67,327, which includes \$22,075 in unpaid taxes 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, and as a result any continuing postponement in settling certain trade and other payables owed to suppliers and creditors may impact the ability of the Company to resume its 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 these consolidated financial statements, no such lawsuits or proceedings were pending as at May 30, 2022.

On May 25, 2022, the Mongolian-Chinese border was re-opened for coal export on a trial basis, with a limit number of trucks was permitted to cross the border during this trial period. The Company has been proactively adjusting its sales strategy in response and exploring opportunities to expand its sales accordingly.

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 consolidated 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 consolidated 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 December 31, 2021. 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 three deferral agreements with CIC on November 19, 2020 (the “2020 November Deferral Agreement”) for a deferral of (i) deferred cash interest and deferral fees of \$75,194 which were due and payable to CIC on or before September 14, 2020, under the 2020 June Deferral Agreement; (ii) semi-annual cash interest payments in the aggregate amount of \$16,000 payable to CIC on November 19, 2020 and May 19, 2021; (iii) \$4,000 worth of payment in kind interest (“PIK Interest”) shares issuable to CIC on November 19, 2020 under the CIC convertible debenture; and (iv) the management fee which payable to CIC on November 14, 2020, February 14, 2021, May 15, 2021, August 14, 2021 and November 14, 2021 under the Amended and Restated Cooperation Agreement (collectively, the “2020 November Deferral Amounts”), on July 30, 2021 (the “2021 July Deferral Agreement”) for a deferral of (i) semi-annual cash interest payments of \$8,065 payable to CIC on November 19, 2021; and (ii) \$4,000 in PIK Interest shares (collectively, the “2021 Deferral Amounts”) and on May 13, 2022 (the “2022 May Deferral Agreement”) for a deferral of semi-annual cash interest payments of \$7,934 payable to CIC (the “Deferred Amounts”) on May 19, 2022 respectively until August 31, 2023; (b) communicating with vendors in agreeing repayment plans of the outstanding payable; (c) continuously assessing through communication with MTA its acceptability to a prolonged settlement schedule of the outstanding tax payable and making settlement based on that assessment and the liquidity position of the Group; (d) In light of the uncertainty brought by the pandemic which may impact the openness of the border, management has kept the mining operations temporary suspended despite the above-mentioned re-opening of the Chinese-Mongolian border for coal export since May 25, 2022, in order to preserve the working capital that is required to resume the mining operations. The management expected that the existing inventory level on hand is sufficient to cater the demand for approximately a quarter and this provides flexibility to the Company in managing the timing of resumption of the mining operations and related sales strategy and its liquidity; and (e) obtaining an avenue of financial support from a prospective shareholder for a maximum amount of \$73,000 during the period covered in the cash flow projection. There is no guarantee that the suppliers and MTA would agree the settlement plan as communicated by the Group, 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 December 31, 2021 and therefore are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

1. CORPORATE INFORMATION AND GOING CONCERN continued

Going concern assumption continued

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

2. BASIS OF PREPARATION

2.1 Statement of compliance

The consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

2.2 Basis of presentation

The consolidated financial statements of the Company for the year ended December 31, 2021 were approved and authorized for issue by the Board of Directors of the Company (the "Board") on May 30, 2022.

The consolidated financial statements have been prepared on a historical cost basis except for certain financial assets and financial liabilities which are measured at fair value. The Company's financial instruments are further disclosed in Note 28.

2.3 Adoption of new and revised standards and interpretations

The following new IFRS standards and interpretations were adopted by the Company on January 1, 2021.

Amendments to IFRS 16	Covid-19-Related Rent Concessions
Amendments to IFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to IAS 39, IFRS 4, IFRS 7, IFRS 9 and IFRS 16,	Interest Rate Benchmark Reform – Phase 2

There have been no new IFRSs or IFRIC interpretations that have a material impact on the Company's results and financial position for the year ended December 31, 2021. The Company has not early applied any new or amended IFRSs that is not yet effective for the year ended December 31, 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2. BASIS OF PREPARATION continued

2.4 Standard issued but not yet effective

The following new and revised IFRSs, potentially relevant to the Company's consolidated financial statements, have been issued, but are not yet effective and have not been early adopted by the Company.

Amendments to IAS 1	Classification of Liabilities as Current or Non-current, and Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ³
Amendments to IAS 8	Definition of accounting estimates ³
Amendments to IAS 12	Deferred tax related to assets and liabilities arising from a single transaction ³
Amendments to IAS 16	Proceeds before Intended Use ¹
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract ¹
IFRS 17	Insurance Contracts ⁴
Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41	Annual Improvements to IFRSs 2018-2020 ¹
Amendments to IFRS 3	Reference to the Conceptual Framework ²
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁵

¹ Effective for annual periods beginning on or after 1 January 2022.

² Effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022.

³ Effective for annual periods beginning on or after 1 January 2023.

⁴ Effective for annual periods beginning on or after 1 January 2024.

⁵ The amendments shall be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined.

The Company is not yet in a position to state whether these new pronouncements will result in substantial changes to the Company's accounting policies and consolidated financial statements.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of consolidation

The consolidated financial statements include the financial statements of SouthGobi Resources Ltd. and its major controlled subsidiaries (Note 29).

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate. All intercompany transactions, balances, income and expenses are eliminated on consolidation.

The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

3.2 Foreign currencies

The consolidated financial statements are presented in the U.S. dollar, which is the functional currency of SouthGobi Resources Ltd. Each entity in the Company has its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the U.S. dollar rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the U.S. dollar rate of exchange ruling at the end of each reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate prevailing at the date of the transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value is determined.

At the end of the reporting period, the assets and liabilities of an entity with the functional currency in a foreign currency are translated into the U.S. dollar at the exchange rates prevailing at the end of the reporting period and the profit or loss is translated into the U.S. dollar at the weighted average exchange rate for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

3.3 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. All other borrowing costs are expensed and included in profit or loss.

3.4 Inventories

Coal stockpile inventories are measured at the lower of production cost and net realizable value. Production cost is determined by the weighted average cost method and includes direct and indirect labor, operating materials and supplies, processing costs, transportation costs and an appropriate portion of fixed and variable overhead expenses. Fixed and variable overhead expenses include depreciation and depletion. Net realizable value represents the future estimated selling price of the product, less estimated costs to complete production and costs necessary to bring the product to sale.

Materials and supplies inventory consists of consumable parts and supplies which are valued at the lower of weighted average cost and net realizable value, less allowances for obsolescence. Replacement cost is used as the best available measure of net realizable value. Supplies used in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.5 Leases

All leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the consolidated statement of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalize (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Company has elected not to recognize right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

Right-of-use asset

The right-of-use asset is recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (refer to below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Except for right-of-use asset that meets the definition of an investment property or a class of property, plant and equipment to which the Company applies the revaluation model, the Company measures the right-of-use assets applying a cost model. Under the cost model, the Company measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability. Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. For right-of-use asset that meets the definition of an investment property, they are carried at fair value and for right-of-use asset that meets the definition of a leasehold land and buildings held for own use, they are carried at fair value.

Lease liability

The lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company uses the Company's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, the Company measures the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.6 Property, plant and equipment

Property, plant and equipment includes the Company's operating equipment and infrastructure, construction in progress and mineral properties. Property, plant and equipment is stated at cost less accumulated depreciation and depletion and accumulated impairment losses.

Initial recognition

The cost of an item of operating equipment and infrastructure consists of the purchase price or construction cost, including vendor prepayments, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, an initial estimate of the decommissioning liability and capitalised borrowing costs.

Construction in progress is classified to the appropriate category of property, plant and equipment when it is completed and is ready for its intended use.

All direct costs related to the acquisition of mineral property interests are capitalised on a property by property basis. The cost of mineral properties also includes mineral property development costs (Note 3.7), certain production stripping costs (Note 3.8) and decommissioning liabilities related to the reclamation of the Company's mineral properties (Note 3.10).

Depreciation and depletion

Depreciation and depletion are recorded based on the cost of an item of property, plant and equipment, less its estimated residual value, using the straight-line method or unit-of-production method over the following estimated useful lives:

Mobile equipment	5 to 7 years
Other operating equipment	1 to 10 years
Buildings and roads	5 to 20 years
Construction in progress	not depreciated
Mineral properties	unit-of-production basis based on proven and probable reserves

Upon disposal, reclassification to assets held for sale or when no future economic benefits are expected to arise from the continued use of an asset the original cost and related accumulated depreciation is removed from property, plant and equipment. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognised in profit or loss.

The Company conducts an annual assessment of the residual balances, estimated useful lives and depreciation methods being used for property, plant and equipment and any changes arising from the assessment are applied by the Company prospectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.7 Mineral properties

Evaluation and exploration expenses

Evaluation and exploration expenses are charged to profit or loss in the period incurred until such time as it has been determined that a mineral property has technical feasibility and commercial viability.

Production phase

Upon a mine development being ready for its intended use it enters the production phase and depletion of the mineral property is recorded on a unit-of-production basis, using the estimated resources that are expected to be mined in the mine plan as the depletion base. Management's determination of when an asset is ready for its intended use is based on several qualitative and quantitative factors including, but not limited to, the following:

- the elevation or bench where the coal to be mined has been reached; and
- the commissioning of major operating equipment and infrastructure is completed.

3.8 Development and production stripping costs

Once a property is determined to have reached technical feasibility and commercial viability, the Company's subsequent exploration and evaluation and development expenses are capitalised as mineral property costs within property, plant and equipment.

Production stripping activity assets are recognised when the following three criteria are met:

- it is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;
- the entity can identify the component of the ore body for which access has been improved; and
- the costs relating to the stripping activity associated with that component can be measured reliably.

If not all of the criteria are met, the stripping activity costs are included in the cost of inventory produced during the period incurred.

3.9 Leasing

The Group as a lessor

The Group has leased out its warehouse and containers to suppliers and subcontractors. Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on the straight-line basis over the lease term.

3.10 Decommissioning, restoration and similar liabilities

The Company recognizes provisions for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of mineral properties, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a provision for a decommissioning liability is recognised as its present value in the period in which it is incurred. Upon initial recognition of the liability, a corresponding amount is added to the carrying amount of the related asset and the cost is amortised as an expense over the estimated useful life of the asset using the unit-of-production method. Following the initial recognition of the decommissioning liability, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the discount rate and the amount or timing of the underlying cash flows required to settle the obligation. The discount rate used is a credit adjusted risk free rate.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.11 Joint arrangements

The Company classifies joint arrangements as either joint operations or joint ventures, depending on the rights and obligations of the parties involved in the joint arrangement. Joint arrangements that are classified as joint operations require the venturers to recognize the individual assets, liabilities, revenues and expenses to which they have legal rights or are responsible. Joint arrangements that are classified as a joint venture are accounted for using the equity method of accounting.

3.12 Share-based payments

Share-based payment transactions

Employees (including directors and senior executives) of the Company receive a portion of their remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (“equity-settled transactions”).

In situations where equity instruments are issued to non-employees and the value of some or all of the goods or services received by the entity as consideration cannot be measured reliably, they are measured at the fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

Equity-settled transactions

The cost of equity-settled transactions with employees are measured by reference to the fair value at the date on which the awards are granted.

The cost of equity-settled transactions are recognised, together with a corresponding increase in the share option reserve, over the period in which the performance and/or service conditions are fulfilled and end on the date on which the relevant employees become fully entitled to the award. The cumulative expense recognised for equity-settled transactions at each reporting date reflects the Company’s best estimate of the number of equity instruments that will ultimately vest. No expense is recognised for awards that do not ultimately vest.

When the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of the modification.

3.13 Earnings/(loss) per share

Basic earnings/(loss) per share is calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of shares outstanding during the reporting period.

Diluted earnings/(loss) per share is calculated by adjusting the profit or loss attributable to equity holders of the Company divided by the weighted average number of shares outstanding for the effects of all dilutive share equivalents. The Company’s dilutive share equivalents include stock options and convertible debt.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.14 Taxation

Income tax expense represents the sum of tax currently payable and deferred tax.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are substantively enacted at the end of each reporting period.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences, at the end of each reporting period, between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled by the parent, investor or venturer and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognised deferred income tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been substantively enacted at the end of each reporting period.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss.

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.15 Financial instruments

(a) Financial assets

All financial assets are initially recorded at fair value and categorized upon inception into one of the following categories: those to be measured subsequently at fair value either through other comprehensive income ("FVOCI") or through profit or loss ("FVTPL"), and those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity investments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

The Company reclassifies debt investments when and only when its business model for managing those assets changes.

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as other operating expenses in the consolidated statements of comprehensive income.

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as other operating expenses in the consolidated statements of comprehensive income.

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.15 Financial instruments continued

(b) Financial liabilities

Financial liabilities are categorized, at initial recognition, as financial liabilities at FVTPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in case of loans and borrowings and payables, net of directly attributable costs.

Financial liabilities categorized as financial liabilities measured at amortised cost are initially recognised at fair value less directly attributable transaction costs. After initial recognition, financial liabilities at amortised cost are subsequently measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Financial liabilities categorized as FVTPL include financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives, are also classified as FVTPL unless they are designated as effective hedging instruments. Transaction costs on financial liabilities classified as FVTPL are expensed as incurred. At the end of each reporting period subsequent to initial recognition, financial liabilities classified as FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities. For liabilities designated at FVTPL, changes due to credit risk are recognised in other comprehensive income.

3.16 Impairment of financial assets

The Company's trade and other receivables are subject to IFRS 9's expected credit loss ("ECL") model.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all trade and other receivables. The Company's definition of a default scenario is if receivables from a customer are over six months past due, or if there is reasonable and supportable evidence that a customer will no longer be able to settle its receivables with the Company.

3.17 Derecognition of financial assets and financial liabilities

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.18 Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the assets belong.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing fair value less costs to sell, recent market transactions are taken into account. The Company also considers the results of an appropriate valuation model which would generally be determined based on the present value of estimated future cash flows arising from the continued use and eventual disposal of the asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior periods.

3.19 Cash and cash equivalents

Cash and cash equivalents include cash at banks and short term money market instruments with original maturities of three months or less.

3.20 Revenue recognition

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Company's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Company performs; or
- does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.20 Revenue recognition continued

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Company and the customer at contract inception. Where the contract contains a financing component which provides a significant financing benefit to the Company, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

Sales of mining coal

Income from sales of mining coal is recognised at a point in time when the goods are delivered to customers and title has passed.

Other income

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

Rental income under operating leases is recognised on a straight-line basis over the term of the relevant lease.

Deferred revenue

Deferred revenue represents the Company's obligation to transfer services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer.

3.21 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to the passage of time is recognised as a finance cost.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.22 Related party transactions

- (a) A person or a close member of that person's family is related to the Company if that person:
- (i) has control or joint control over the Company;
 - (ii) has significant influence over the Company; or
 - (iii) is a member of key management personnel of the Company or the Company's parent.
- (b) An entity is related to the Company if any of the following conditions apply:
- (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of the employees of the Company or an entity related to the Company.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the Company's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.23 Significant accounting judgments and estimates

Information about judgments and estimates in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are as follows:

(a) Going concern assumption

The directors of the Company have prepared the consolidated financial statements on the assumption that the Company will be able to operate as a going concern in the foreseeable future, which is a critical judgement that has the most significant effect on the amounts recognised in the consolidated financial statements. The assessment of the going concern assumption involves making a judgement by the directors about the future outcome of events or conditions which are inherently uncertain. The directors consider that, after taking into account of all major events or conditions, which may give rise to business risks, that individually or collectively may cast significant doubt upon the going concern assumption as set out in Note 1 to the consolidated financial statements, the Company has the capability to continue as a going concern.

(b) Review of carrying value of assets and impairment charges

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

Ovoot Tolgoi Mine cash generating unit

The Company determined that an indicator of impairment existed for its Ovoot Tolgoi Mine cash generating unit as at December 31, 2021. The impairment indicator was the fact that the Company suffered continuous loss for the year and temporary closure of border crossings as a result of COVID-19 since the end of October 2021.

Therefore, the Company conducted an impairment test whereby the carrying value of the Company's Ovoot Tolgoi Mine cash generating unit was compared to the recoverable amount (being the "fair value less costs of disposal") using a discounted future cash flow valuation model. The Company's cash flow valuation model takes into consideration the latest available information to the Company, including but not limited to, sales prices, sales volumes, washing production, operating costs and life of mine coal production estimates as at December 31, 2021. The carrying value of the Company's Ovoot Tolgoi Mine cash generating unit was \$133,103 as at December, 31 2021.

Key estimates and assumptions incorporated in the valuation model included the following:

- Coal resources and reserves as estimated by an independent third party engineering firm;
- Sales price estimates from an independent market consulting firm;
- Forecasted sales volumes in line with production levels as reference to the mine plan;
- Life-of-mine coal production, strip ratio, capital costs and operating costs; and
- A post-tax discount rate of 17% based on an analysis of the market, country and asset specific factors.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.23 Significant accounting judgments and estimates continued

(b) Review of carrying value of assets and impairment charges continued

Ovoot Tolgoi Mine cash generating unit continued

Key sensitivities in the valuation model are as follows:

- For each 1% increase/(decrease) in the long term price estimates, the calculated fair value of the cash generating unit increases/(decreases) by approximately \$13,951/(14,004);
- For each 1% increase/(decrease) in the post-tax discount rate, the calculated fair value of the cash generating unit (decreases)/increases by approximately \$(16,929)/17,900;
- For each 1% increase/(decrease) in the cash mining cost estimates, the calculated fair value of the cash generating unit (decreases)/increases by approximately \$(7,626)/7,574; and
- For each 1% increase/(decrease) in Mongolian inflation rate, the calculated fair value of the cash generating unit (decreases)/increases by approximately \$(3,300)/3,400.

The impairment analysis did not result in the identification of an impairment loss or an impairment reversal and no charge or reversal was required as at December 31, 2021. A decline of 15% (2020: 15%) in the long-term price estimates, an increase of more than 19% (2020: 20%) in the post-tax discount rate, an increase of 27% (2020: 25%) in the cash mining cost estimates or an increase of 62% (2020: 264%) in Mongolian inflation rate may trigger an impairment charge on the cash generating unit. The Company believes that the estimates and assumptions incorporated in the impairment analysis are reasonable; however, the estimates and assumptions are subject to significant uncertainties and judgments.

(c) Expected credit losses for trade and other receivables

The Company applies the IFRS 9 simplified approach to measuring expected credit losses on its trade receivables and estimates expected credit loss based on the possible default events on its trade and other receivables. The Company has determined that the loss allowance on its trade and other receivables was \$23,841 (2020: \$23,055) as at December 31, 2021.

(d) Estimated resources

The Company estimates its mineral resources based on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the ore body, and requires complex geological judgments to interpret the data. Changes in resource estimates may impact the carrying value of mining interests, mine restoration provisions, recognition of deferred tax assets, and depreciation and amortization charges.

(e) Estimated recoverable reserves

Reserve estimates involve expressions of judgment based on various factors such as knowledge, experience and industry practice, and the accuracy of these estimates may be affected by many factors, including estimates and assumptions with respect to coal prices, operating costs, mine plan and life, coal quality and recovery, foreign currency exchange rates and inflation rates. Reserve estimates are made by qualified persons, but will be impacted by changes in the above estimates and assumptions.

Estimated recoverable reserves are used to determine the depletion of mineral properties, in accounting for deferred production stripping costs, in performing impairment testing and for forecasting the timing of the payment of decommissioning, restoration and similar costs. Therefore, changes in the estimates and assumptions used to determine recoverable reserves could impact the carrying value of assets, depletion expense and impairment charges recognised in profit or loss and the carrying value of the decommissioning, restoration and similar liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.23 Significant accounting judgments and estimates continued

(f) **Long term F-grade coal inventory**

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. The Company intends to realize the value of the F-grade coal inventory upon the coal washing and coal blending in order to meet the import standards from Chinese authorities. Due to the limitation of coal washing and blending capacities, a portion of F-grade coal products was classified as non-current inventory. As at December 31, 2021, none of F-grade coal products was classified as non-current (December 31, 2020: \$680).

(g) **Useful lives and depreciation rates for property, plant and equipment**

Depreciation expense is allocated based on estimated property, plant and equipment useful lives and depreciation rates except the mineral properties are depreciated on unit-of production basis based on proven and probable reserves. Therefore, changes in the useful life or depreciation rates from the initial estimate could impact the carrying value of property, plant and equipment and an adjustment would be recognised in profit or loss.

3.24 Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: (i) power over the investee, (ii) exposure, or rights, to variable returns from the investee, and (iii) the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

De-facto control exists in situations where the Company has the practical ability to direct the relevant activities of the investee without holding the majority of the voting rights. In determining whether de-facto control exists, the Company considers all relevant facts and circumstances, including:

- the size of the Company's voting rights relative to both the size and dispersion of other parties who hold voting rights;
- substantive potential voting rights held by the Company and other parties who hold voting rights;
- other contractual arrangements; and
- historic patterns in voting attendance.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of investment in subsidiaries are fully impaired as at December 31, 2021 and 2020.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

4. SEGMENT INFORMATION

The Company's Chief Executive Officer (chief operating decision maker) reviews the financial information in order to make decisions about resources to be allocated to the segment and to assess its performance. No operating segment identified by the Board of Directors has been aggregated in arriving at the reporting segments of the Company. For management's purpose, the Company has only one reportable operating segment, which is the coal division. The division is principally engaged in coal mining, development and exploration in Mongolia, and logistics and trading of coal in Mongolia and China for the years ended December 31, 2021 and 2020.

The Company's resources are integrated and as a result, no discrete operating segment financial information is available. Since this is the only reportable and operating segment of the Company, no further analysis thereof is presented. All the revenue of the Company is generated from trading of coal for the years ended December 31, 2021 and 2020.

Information about major customers

During the years ended December 31, 2021 and 2020, the Coal Division had 22 and 14 active customers, respectively. 3 and 4 customers with respective revenues contributed over 10% of the total revenue during the years ended December 31, 2021 and 2020, with the largest customer accounting for 35% of revenues (2020: 26%), the second largest customer accounting for 17% of revenues (2020: 18%) and the third largest customer accounting for 10% of revenues (2020: 15%).

The operations of the Company are primarily located in Mongolia, Hong Kong and China.

	Mongolia	Hong Kong	China	Consolidated Total
Revenue ⁽ⁱ⁾				
For the year ended December 31, 2021	\$ —	\$ —	\$ 43,398	\$ 43,398
For the year ended December 31, 2020	—	—	85,951	85,951
Non-current assets				
As at December 31, 2021	\$ 150,136	\$ 430	\$ 247	\$ 150,813
As at December 31, 2020	147,675	84	480	148,239

(i) The revenue information above is based on the locations of the customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

5. REVENUE

Revenue represents the value of goods sold which arises from the trading of coal. The Company recognizes all revenue from the trading of coal at a point in time when the customer obtains control of the goods or services.

6. EXPENSES BY NATURE

The Company's loss before tax is arrived at after charging/(crediting):

	Year ended December 31,	
	2021	2020
Depreciation	\$ 5,611	\$ 8,736
Auditors' remuneration	465	317
Employee benefit expense (including directors' remuneration)		
Wages and salaries	\$ 5,404	\$ 7,639
Equity-settled share option expense (Note 25)	203	113
Pension scheme contributions	401	531
	\$ 6,008	\$ 8,283
Lease payments under operating leases	\$ 147	\$ 101
Foreign exchange loss/(gain)	325	(1,586)
Impairment on materials and supplies inventories (Note 14)	2,411	–
Royalties	8,125	10,563
CIC management fee (Note 29)	967	2,170
Provision of commercial arbitration	–	4,634
Provision/(reversal of provision) for doubtful trade and other receivables (Note 13)	191	(336)
Impairment of prepaid expenses (Note 15)	–	8
Gain on disposal of property, plant and equipment	(299)	(69)
Rental income from short term leases (Note 8)	(587)	–
Discount on settlement of trade payables (Note 8)	(891)	–
Written off of other payables (Note 8)	(691)	–
Mine operating costs and others	17,239	37,854
Total operating expenses	\$ 39,021	\$ 70,675

7. COST OF SALES

The Company's cost of sales consists of the following amounts:

	Year ended December 31,	
	2021	2020
Operating expenses	\$ 18,176	\$ 36,974
Share-based compensation expense (Note 25)	52	24
Depreciation and depletion	2,034	6,243
Royalties	8,125	10,563
Cost of sales from mine operations	28,387	53,804
Cost of sales related to idled mine assets ⁽ⁱ⁾	2,917	4,853
Cost of sales	\$ 31,304	\$ 58,657

(i) Cost of sales related to idled mine assets for the year ended December 31, 2021 includes \$2,917 of depreciation expense (2020: includes \$4,853 of depreciation expense). The depreciation expense relates to the Company's idled plant and equipment.

Cost of inventories recognised as expense in cost of sales for the year ended December 31, 2021 totaled \$17,000 (2020: \$38,499), including depreciation and depletion totaled \$3,981 (2020: \$6,243).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

8. OTHER OPERATING EXPENSES

The Company's other operating expenses consist of the following amounts:

	Year ended December 31,	
	2021	2020
CIC management fee (Note 29)	\$ 967	\$ 2,170
Provision/(reversal of provision) for doubtful trade and other receivables (Note 13)	191	(336)
Provision for commercial arbitration	–	4,634
Impairment of prepaid expenses (Note 15)	–	8
Foreign exchange loss/(gain), net	325	(1,586)
Gain on disposal of items of property, plant and equipment, net	(299)	(69)
Impairment on materials and supplies inventories	2,411	–
Rental income from short term leases	(587)	–
Discount on settlement of trade payables	(891)	–
Written off of other payables	(691)	–
Other operating expenses	\$ 1,426	\$ 4,821

9. ADMINISTRATION EXPENSES

The Company's administration expenses consist of the following amounts:

	Year ended December 31,	
	2021	2020
Corporate administration	\$ 1,312	\$ 1,268
Legal and professional fees	1,098	1,363
Salaries and benefits	2,847	3,518
Share-based compensation expense (Note 25)	151	89
Depreciation	660	733
Administration expenses	\$ 6,068	\$ 6,971

10. FINANCE COSTS AND INCOME

The Company's finance costs consist of the following amounts:

	Year ended December 31,	
	2021	2020
Interest expense on convertible debenture (Note 22)	\$ 36,301	\$ 27,726
Value added tax on interest from intercompany loan	2,153	2,900
Interest expense on borrowing	61	413
Interest elements on leased assets	93	69
Accretion of decommissioning liability (Note 23)	510	584
Finance costs	\$ 39,118	\$ 31,692

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

10. FINANCE COSTS AND INCOME continued

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

	Year ended December 31,	
	2021	2020
Fair value gain on embedded derivatives in convertible debenture (Note 22)	\$ 100	\$ 44
Gain on extinguishment of convertible debenture (Note 22)	20,970	–
Gain on modification of convertible debenture (Note 22)	2,016	2,545
Interest income	79	24
Finance income	\$ 23,165	\$ 2,613

11. TAXES

11.1 Income tax recognised in profit or loss

The Canadian statutory tax rate was 27% (2020: 27%). A reconciliation between the Company's tax expense and the product of the Company's loss before tax multiplied by the Company's domestic tax rate is as follows:

	Year ended December 31,	
	2021	2020
Loss before tax	\$ (11,735)	\$ (12,490)
Statutory tax rate	27%	27%
Income tax recovery based on combined Canadian federal and provincial statutory rates	(3,168)	(3,372)
Lower effective tax rate in foreign jurisdictions	440	377
Tax effect of tax losses and temporary differences not recognized	13,421	10,352
Withholding tax on intercompany interest	2,153	2,881
Profit/(loss) attributable to joint venture	(40)	328
Income not subject to tax	(10,891)	(6,281)
Non-deductible expenses	723	3,314
Income tax expenses	\$ 2,638	\$ 7,599

11.2 Unrecognised deductible temporary differences and unused tax losses

The Company's deductible temporary differences and unused tax losses for which no deferred tax asset is recognised consist of the following amounts:

	As at December 31,	
	2021	2020
Non-capital losses	\$ 165,730	\$ 169,173
Capital losses	30,049	30,049
Foreign exchange and others	446,762	463,778
Total unrecognised amounts	\$ 642,541	\$ 663,000

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

11. TAXES continued**11.3 Expiry dates**

The expiry dates of the Company's unused tax losses are as follows:

	As at December 31, 2021	
	U.S. Dollar Equivalent	Expiry dates
Non-capital losses		
Canada	\$ 161,113	2039 – 2041
China	4,617	2026
	\$ 165,730	
Capital losses		
Canada	\$ 30,049	Indefinite

	As at December 31, 2020	
	U.S. Dollar Equivalent	Expiry dates
Non-capital losses		
Canada	\$ 165,184	2038 – 2040
China	3,989	2025
	\$ 169,173	
Capital losses		
Canada	\$ 30,049	Indefinite

12. LOSS PER SHARE

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

	Year ended December 31,	
	2021	2020
Net loss	\$ (14,373)	\$ (20,089)
Weighted average number of shares	273,380	272,703
Basic and diluted loss per share	\$ (0.05)	\$ (0.07)

Potentially dilutive items not included in the calculation of diluted earnings per share for the year ended December 31, 2021 include the underlying shares comprised in the convertible debenture (Note 22) and stock options (Note 25) that were anti-dilutive.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

13. TRADE AND OTHER RECEIVABLES

The Company's trade and other receivables consist of the following amounts:

	As at December 31,	
	2021	2020
Trade receivables	\$ –	\$ 995
Other receivables	141	310
Total trade and other receivables	\$ 141	\$ 1,305

The aging of the Company's trade and other receivables, based on invoice date and net of provisions, is as follows:

	As at December 31,	
	2021	2020
Less than 1 month	\$ 112	\$ 1,260
1 to 3 months	6	20
3 to 6 months	23	25
Over 6 months	–	–
Total trade and other receivables	\$ 141	\$ 1,305

Overdue balances are reviewed regularly by senior management. The Company does not hold any collateral or other credit enhancements over its trade and other receivable balances.

The Company has determined that the loss allowance on its trade and other receivables was \$23,841 (December 31, 2020: \$23,055) as at December 31, 2021, based upon an expected loss rate of 10% for trade and other receivables 90 days past due and 100% for trade and other receivables 180 days past due. The closing allowances for trade and other receivables as at December 31, 2021 reconcile to the opening loss allowances as follows:

Loss allowance for trade and other receivables	
Opening loss allowance as at January 1, 2021	\$ 23,055
Increase in loss allowance recognised in profit or loss during the year	191
Exchange realignment	595
Loss allowance as at December 31, 2021	\$ 23,841
Opening loss allowance as at January 1, 2020	\$ 21,976
Decrease in loss allowance recognised in profit or loss during the year	(336)
Exchange realignment	1,415
Loss allowance as at December 31, 2020	\$ 23,055



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

14. INVENTORIES

The Company's inventories consist of the following amounts:

	As at December 31,	
	2021	2020
Current inventories		
Coal stockpiles	\$ 40,270	\$ 28,778
Materials and supplies	11,336	13,605
	\$ 51,606	\$ 42,383
Non-current inventories		
Coal stockpiles	–	680
Total inventories	\$ 51,606	\$ 43,063

Coal stockpile inventories of \$nil are not expected to be utilized or sold within 12 months and are therefore classified as non-current inventories as at December 31, 2021 (2020: \$680).

Other operating expenses for the year ended December 31, 2021 includes an impairment loss of \$2,411 related to the Company's materials and supplies inventories (2020: \$nil).

15. PREPAID EXPENSES

The Company's prepaid expenses consist of the following amounts:

	As at December 31,	
	2021	2020
Vendor prepayments	\$ 628	\$ 710
Other prepaid expenses	943	956
Total prepaid expenses	\$ 1,571	\$ 1,666

For the year ended December 31, 2021, the Company recorded an impairment of \$nil on the vendor prepayments (2020: \$8).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

16. PROPERTY, PLANT AND EQUIPMENT

The Company's property, plant and equipment consist of the following amounts:

	Mobile equipment	Other operating equipment	Buildings and roads	Right-of-use assets	Mineral properties	Non- depreciable assets	Total
Cost							
As at January 1, 2021	\$ 266,273	\$ 25,042	\$ 68,544	\$ 942	\$ 212,138	\$ 982	\$ 573,921
Additions	3,311	1,169	–	566	7,232	–	12,278
Disposals	(92)	(2,395)	–	–	–	–	(2,487)
Exchange realignment	44	20	7	2	19	–	92
As at December 31, 2021	\$ 269,536	\$ 23,836	\$ 68,551	\$ 1,510	\$ 219,389	\$ 982	\$ 583,804
Accumulated depreciation and impairment charges							
As at January 1, 2021	\$ (258,172)	\$ (23,630)	\$ (56,062)	\$ (151)	\$ (104,481)	\$ –	\$ (442,496)
Depreciation for the year	(3,495)	(542)	(1,523)	(624)	(1,374)	–	(7,558)
Eliminated on disposals	91	1,358	–	–	–	–	1,449
Exchange realignment	(31)	(13)	(3)	(1)	(6)	–	(54)
As at December 31, 2021	\$ (261,607)	\$ (22,827)	\$ (57,588)	\$ (776)	\$ (105,861)	\$ –	\$ (448,659)
Carrying amount							
As at January 1, 2021	\$ 8,101	\$ 1,412	\$ 12,482	\$ 791	\$ 107,657	\$ 982	\$ 131,425
As at December 31, 2021	\$ 7,929	\$ 1,009	\$ 10,963	\$ 734	\$ 113,528	\$ 982	\$ 135,145

	Mobile equipment	Other operating equipment	Buildings and roads	Right-of-use assets	Mineral properties	Non- depreciable assets	Total
Cost							
As at January 1, 2020	\$ 278,736	\$ 25,663	\$ 70,834	\$ 1,126	\$ 211,418	\$ 24,742	\$ 612,519
Additions	3,187	6	–	603	8,693	–	12,489
Disposals	(4,326)	(98)	–	815	–	–	(5,239)
Written off	–	–	–	–	–	(23,759)	(23,759)
Exchange realignment	(11,324)	(529)	(2,290)	28	(7,973)	(1)	(22,089)
As at December 31, 2020	\$ 266,273	\$ 25,042	\$ 68,544	\$ 942	\$ 212,138	\$ 982	\$ 573,921
Accumulated depreciation and impairment charges							
As at January 1, 2020	\$ (264,803)	\$ (23,662)	\$ (55,900)	\$ (521)	\$ (106,653)	\$ (23,759)	\$ (475,298)
Depreciation for the year	(8,336)	(589)	(1,089)	(386)	(1,429)	–	(11,829)
Eliminated on disposals	4,253	24	–	776	–	–	5,053
Eliminated on written off	–	–	–	–	–	23,759	23,759
Exchange realignment	10,714	597	927	(20)	3,601	–	15,819
As at December 31, 2020	\$ (258,172)	\$ (23,630)	\$ (56,062)	\$ (151)	\$ (104,481)	\$ –	\$ (442,496)
Carrying amount							
As at January 1, 2020	\$ 13,933	\$ 2,001	\$ 14,934	\$ 605	\$ 104,765	\$ 983	\$ 137,221
As at December 31, 2020	\$ 8,101	\$ 1,412	\$ 12,482	\$ 791	\$ 107,657	\$ 982	\$ 131,425



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

16. PROPERTY, PLANT AND EQUIPMENT continued

16.1 Non-depreciable assets

The non-depreciable assets mainly include the construction in progress. Depreciation on these assets will commence once they are ready for their intended use.

16.2 Pledge on items of property, plant and equipment

As at December 31, 2021, one of the Company's property, plant and equipment with a carrying value of \$nil (2020: \$44) was pledged as security for a bank loan granted to the Company (Note 20) and the Company's mobile equipment and other operating equipment with a carrying value of \$2,863 (2020: \$4,275) were pledged as security of CIC convertible debenture.

16.3 Right-of-use assets

The right-of-use assets relate to the buildings as at December 31, 2021 and 2020.

16.4 Impairment charges

No impairment nor reversal of impairment was made during the year ended December 31, 2021 (2020: nil).

17. INVESTMENT IN JOINT VENTURE

The Company's investment consists of the following amounts:

	As at December 31,	
	2021	2020
Non-current investment in joint venture		
Investment in RDCC LLC	\$ 15,668	\$ 16,134
Total investment	\$ 15,668	\$ 16,134

The Company has a 40% interest in RDCC LLC, a joint venture. RDCC LLC has a concession agreement with the State Property Committee of Mongolia to construct a paved highway from the Company's Ovoot Tolgoi Mine to the Mongolia-China border for the exclusive use of third party coal transport companies. In October 2012, the concession agreement was structured as a 17-year build, operate and transfer agreement. The construction was completed in 2014 and operations commenced in the second quarter of 2015. On September 17, 2015, the Invest Mongolia Agency signed an amendment to the concession agreement with RDCC LLC to extend the exclusive right of ownership to 30 years.

The movement of the Company's investment in RDCC LLC is as follows:

	Year ended December 31,	
	2021	2020
Balance, beginning of year	\$ 16,134	\$ 17,521
Dividend received	(402)	(1,994)
Share of earnings/(loss) of a joint venture	(159)	1,313
Share of other comprehensive income/(loss) of a joint venture (i)	95	(706)
Balance, end of year	\$ 15,668	\$ 16,134

(i) The share of other comprehensive income of a joint venture of \$95 (2020: loss of \$706) included exchange fluctuation reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

17. INVESTMENT IN JOINT VENTURE continued

Summarized financial statement information of RDCC LLC is as follows (presented on a 100% basis of RDCC LLC in which the Company has a 40% investment):

	As at December 31,	
	2021	2020
Current assets	\$ 1,023	\$ 1,955
Non-current assets	26,387	29,537
Total assets	\$ 27,410	\$ 31,492
Current liabilities	\$ 1,954	\$ –
Total liabilities	\$ 1,954	\$ –

	Year ended December 31,	
	2021	2020
Revenue	\$ 2,129	\$ 5,684
Gross profit/(loss) margin	(172)	3,740
Other operating and finance costs	(225)	(235)
Profit/(loss) before tax	(397)	3,505
Net profit/(loss)	\$ (397)	\$ 3,282
Other comprehensive income/(loss)	\$ (11)	\$ 90
Total comprehensive income/(loss)	\$ (408)	\$ 3,372

18. TRADE AND OTHER PAYABLES

Trade and other payables of the Company primarily consist of amounts outstanding for trade purchases relating to coal mining, development and exploration activities and mining royalties payable. The usual credit period taken for trade purchases is between 30 to 90 days.

The aging of the Company's trade and other payables, based on invoice date, is as follows:

	As at December 31,	
	2021	2020
Less than 1 month	\$ 17,185	\$ 22,803
1 to 3 months	8,332	4,935
3 to 6 months	6,791	6,365
Over 6 months	35,019	40,262
Total trade and other payables	\$ 67,327	\$ 74,365

The trade and other payables of \$67,327 (2020: \$74,365) included other tax payables of \$22,075 (2020: \$31,742).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

19. DEFERRED REVENUE

At December 31, 2021, the Company had deferred revenue of \$26,477, which represents cash prepayments from customers for future coal sales (2020: \$20,831).

The movement of the Company's deferred revenue is as follows:

	Year ended December 31,	
	2021	2020
Balance, beginning of year	\$ 20,831	\$ 16,057
Revenue recognized that was included in the deferred revenue balance at beginning of the year	(20,911)	(15,486)
Increase due to trade deposits received, excluding amounts recognized as revenue during the year	26,553	20,913
Exchange realignment	4	(653)
Balance, end of year	\$ 26,477	\$ 20,831

The performance obligation related to the revenue from customers for contracts that are unsatisfied (or partially unsatisfied) are expected to be recognised within one year after the reporting date. The Company applies the practical expedient and does not disclose information about any remaining performance obligation that is a part of contract that has original expected duration of one year or less.

20. INTEREST-BEARING BORROWING

As at December 31, 2020, the outstanding principal balance of the bank loan obtained in 2018 was \$2,800 and the Company owed accrued interest of \$26.

In February 2021, \$2,826 was repaid to a Mongolian bank by the Company in full settlement of the outstanding principal balance of the bank loan of \$2,800 obtained in 2018 and the accrued interest of \$26.

On December 30, 2021, SouthGobi Sands LLC, a wholly owned subsidiary of the Company ("SGS"), obtained a bank loan (the "2021 Bank Loan") in the principal amount of \$53 from a Mongolian bank with the key commercial terms as follows:

- Maturity date set at 3 months from drawdown;
- Interest rate of 16% per annum and interest is payable at the maturity date; and
- One item of property, plant and equipment was pledged as security for the 2021 Bank Loan. As at December 31, 2021, the net book value of the pledged item of property, plant and equipment was \$nil.

As at December 31, 2021, the outstanding principal balance for the 2021 Bank Loan was \$53 and the Company owed accrued interest of \$nil.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

21. LEASE LIABILITIES

The Company leases certain of its office premises for daily operations. These leases have remaining lease terms ranging from 3 to 4 years.

At December 31, 2021, the total future minimum lease payments and their present values were as follows:

	Minimum lease payments		Present value of minimum lease payments	
	As at December 31,		As at December 31,	
	2021	2020	2021	2020
Amounts payable:				
Within one year	\$ 379	\$ 272	\$ 296	\$ 202
In the second year	379	174	326	112
In the third to fifth year, inclusive	284	418	259	312
Total minimum lease payments	\$ 1,042	\$ 864	\$ 881	\$ 626
Future finance charges	(161)	(238)		
Total net lease payables	\$ 881	\$ 626		
Portion classified as current liabilities	(296)	(202)		
Non-current portion	\$ 585	\$ 424		

22. CONVERTIBLE DEBENTURE

22.1 Key commercial terms

On November 19, 2009, the Company issued a convertible debenture to CIC for \$500,000. The convertible debenture bears interest at 8.0% per annum (6.4% payable semi-annually in cash and 1.6% payable annually in the Company's Common Shares) and has a maximum term of 30 years. The convertible debenture is secured by a first ranking charge over the Company's assets, including shares of its material subsidiaries. During 2010, the Company exercised a right within the debenture to call and convert \$250,000 of the debenture for 21,471 common shares. Following the conversion, the outstanding principal balance was \$250,000 and has remained unchanged at that balance to December 31, 2021.

The key commercial terms of the financing include:

- Interest – 8% per annum (6.4% payable semi-annually in cash and 1.6% payable annually in the Company's common shares, where the number of shares to be issued is calculated based on the 50-day volume-weighted average price ("VWAP")).
- Term – Maximum of 30 years.
- Security – First charge over the Company's assets, including shares of its material subsidiaries.
- Conversion price – The conversion price is set as the lower of CAD\$11.88 or the 50-day VWAP at the date of conversion, with a floor price of CAD\$8.88 per share.
- Representation on the Company's Board – While the convertible debenture is outstanding, or while CIC has a minimum 15% direct or indirect stake in the Company, CIC has the right to nominate one director to the Company's Board of Directors. As of the date hereof, the Company currently has eight Board of Directors members of which two (Mr. Ben Niu and Mr. Jianmin Bao) were nominated by CIC.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

22. CONVERTIBLE DEBENTURE continued

22.1 Key commercial terms continued

- Voting restriction – CIC has agreed that it will not have any voting rights in the Company beyond 29.9% if CIC ever acquires ownership of such a shareholder stake.
- Pre-emption rights – While the convertible debenture is outstanding, or while CIC has a 15% direct or indirect stake in the Company, CIC has certain pre-emption rights on a pro-rata basis to subscribe for any new shares to be allotted and issued by the Company for the period which the convertible debenture is outstanding. The pre-emption rights will not apply to new shares issued pursuant to pro-rata public equity offerings made to all shareholders, exercise of stock options and shares issued to achieve a 25% public float.
- Registration rights – CIC has registration rights under applicable Canadian provincial securities laws in connection with the common shares issuable upon conversion of the convertible debenture.
- Event of default – CIC could demand for the principal and corresponding interest from the Company immediately when certain events, including default of interest payment, suspension of trading and delisting of its shares from the TSX and the HKEX have occurred.

22.2 Debt host and embedded derivatives

The convertible debenture is presented as a liability since it contains no equity components. The convertible debenture is a hybrid instrument, containing a debt host component and three embedded derivatives – the investor’s conversion option, the issuer’s conversion option and the equity based interest payment provision (the 1.6% share interest payment) (the “embedded derivatives”). The debt host component is classified as other financial liabilities and is measured at amortised cost using the effective interest rate method and the embedded derivatives are classified as FVTPL and all changes in fair value are recorded in profit or loss. The difference between the debt host component and the principal amount of the loan outstanding is accreted to profit or loss over the expected life of the convertible debenture.

The embedded derivatives were valued upon initial measurement and subsequent periods using a Monte Carlo simulation valuation model. A Monte Carlo simulation model is a valuation model that relies on random sampling and is often used when modeling systems with a large number of inputs and where there is significant uncertainty in the future value of inputs and where the movement of the inputs can be independent of each other. Some of the key inputs used by the Company in its Monte Carlo simulation include: the floor and ceiling conversion prices, the Company’s common share price, the risk-free rate of return, expected volatility of the Company’s common share price, forward foreign exchange rate curves (between the CAD\$ and U.S. dollar) and spot foreign exchange rates.

The convertible debenture is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing convertible debenture is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original convertible debenture and a recognition of a new convertible debenture, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

The terms of exchanged or modified debt as ‘substantially different’ if the net present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted at the original effective interest rate is at least 10% different from the discounted present value of the remaining cash flows of the original convertible debenture.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

22. CONVERTIBLE DEBENTURE continued

22.3 Valuation assumptions

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

	As at December 31,	
	2021	2020
Floor conversion price	CAD\$8.88	CAD\$8.88
Ceiling conversion price	CAD\$11.88	CAD\$11.88
Common share price	CAD\$0.88	CAD\$0.09
Historical volatility	28%	82%
Risk free rate of return	2.18%	1.35%
Foreign exchange spot rate (CAD\$ to U.S. Dollar)	0.79	0.79
Forward foreign exchange rate curve (CAD\$ to U.S. Dollar)	0.741 – 0.791	0.779 – 0.786

22.4 Presentation

Based on the Company's valuation as at December 31, 2021, the fair value of the embedded derivatives decreased by \$100 (2020: \$44) compared to December 31, 2020. The decrease was recorded as finance income for the year ended December 31, 2021.

For the year ended December 31, 2021, the Company recorded interest expense of \$36,301 related to the convertible debenture as a finance cost (2020: \$27,726). The interest expense consists of the interest at the contract rate and the accretion of the debt host component of the convertible debenture. To calculate the accretion expense, the Company uses the contract life of 30 years and an effective interest rate of 22.2%.

A gain on extinguishment of substantially modified terms of \$20,970 was recognised in profit or loss for the year ended December 31, 2021 for the difference between the derecognition of original convertible debenture and recognition of the convertible debenture under 2020 November Deferral Agreement as defined in Note 22.5 discounted at the new effective interest rate.

A modification gain of \$2,016 was recognised in profit or loss for the year ended December 31, 2021 (2020: \$2,545) for the difference between the original contractual cash flows and modified cash flows under the 2021 July Deferral Agreement discounted at the original effective interest rate.

The movements of the amounts due under the convertible debenture are as follows:

	Year ended December 31,	
	2021	2020
Balance, beginning of year	\$ 181,411	\$ 156,974
Interest expense on convertible debenture	36,301	27,726
Decrease in fair value of embedded derivatives	(100)	(44)
Gain on extinguishment of convertible debenture	(20,970)	–
Gain on modification of convertible debenture	(2,016)	(2,545)
Interest paid	(3,000)	(700)
Balance, end of year	\$ 191,626	\$ 181,411

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

22. CONVERTIBLE DEBENTURE *continued***22.4 Presentation** *continued*

The convertible debenture balance consists of the following amounts:

	As at December 31,	
	2021	2020
Current convertible debenture		
Debt host and interest payable	\$ —	\$ 181,259
Fair value of embedded derivatives	—	152
	—	181,411
Non-current convertible debenture		
Debt host and interest payable	191,573	—
Fair value of embedded derivatives	53	—
	191,626	—
Total convertible debenture	\$ 191,626	\$ 181,411

22.5 Interest deferral and settlement

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: (i) deferred cash interest and deferral fees of \$75,194 which were due and payable to CIC on or before September 14, 2020, under the 2020 June Deferral Agreement; (ii) semi-annual cash interest payments in the aggregate amount of \$16,000 payable to CIC on November 19, 2020 and May 19, 2021; (iii) \$4,000 worth of PIK Interest shares (“2020 November PIK Interest”) issuable to CIC on November 19, 2020 under the CIC convertible debenture; and (iv) the Management Fee which payable to CIC on November 14, 2020, February 14, 2021, May 15, 2021, August 14, 2021 and November 14, 2021 under the Amended and Restated Cooperation Agreement (collectively, the “2020 November Deferral Amounts”).

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 cease trade order (“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. As a consequence of the Company not entering into a deferral agreement with CIC as at December 31, 2020, IAS 1 requires the Company to classify the entire balance of the CIC convertible debenture as a current liability as at December 31, 2020.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

22. CONVERTIBLE DEBENTURE continued

22.5 Interest deferral and settlement continued

- 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 June 2020 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 June 2020 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.

On July 30, 2021, the Company and CIC entered into the 2021 July Deferral Agreement which became effective on that day, pursuant to which CIC agreed to grant the Company a deferral of the 2021 Deferral Amounts issuable to CIC on November 19, 2021 under the CIC convertible debenture.

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

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

On May 15, 2022, the Company and CIC entered into the 2022 May Deferral Agreement, pursuant to which CIC agreed to grant the Company a deferral of the Deferred Amounts and the management fee which payable to CIC on February 14, 2022 and August 14, 2021 (the "Deferred Management Fee") under the Amended and Restated Cooperation Agreement (collectively, the "2022 Deferral Amounts") under the CIC convertible debenture.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

22. CONVERTIBLE DEBENTURE continued

22.5 Interest deferral and settlement continued

The principal terms of the 2022 May Deferral Agreement are as follows:

- Payment of the 2022 Deferral Amounts will be deferred until August 31, 2023.
- As consideration for the deferral of the Deferred Amounts, the Company agreed to pay CIC a deferral fee equal to 6.4% per annum on the Deferred Amounts payable under the CIC convertible debenture, commencing on May 19, 2022.
- As consideration for the deferral of the Deferred Management Fees, the Company agreed to pay CIC a deferral fee equal to 2.5% per annum on the outstanding balance of the Deferred Management Fees payable under the Amended and Restated Cooperation Agreement, commencing on the date on which each such 2022 May Deferred Management Fee would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.
- The Company agreed to provide CIC with monthly updates regarding its operational and financial affairs.
- If at any time before the 2022 Deferral Amounts and related deferral fee 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 CIC prior to effecting such appointment, replacement or termination.
- The Company and CIC agreed that nothing in the 2022 May Deferral Agreement prejudices CIC's rights to pursue any of its remedies at any time pursuant to the prior deferral agreements.

23. DECOMMISSIONING LIABILITY

At December 31, 2021, the decommissioning liability relates to reclamation and closure costs of the Company's Ovoot Tolgoi Mine.

The Ovoot Tolgoi Mine decommissioning liability is calculated as the net present value of the estimated future reclamation and closure costs, which as at December 31, 2021 totaled \$10,897 (2020: \$10,613). The estimated future reclamation and closure costs are inflated using an estimated inflation rate of 6.5% (2020: 6.6%) and discounted at 17% per annum (2020: 16% per annum) to determine the year end decommissioning liability. The settlement of the decommissioning liability will occur through to 2030.

The movements in the decommissioning liability during the years ended December 31, 2021 and 2020 were as follows:

	Year ended December 31,	
	2021	2020
Balance, beginning of year	\$ 6,445	\$ 8,605
Adjustments	(282)	(1,910)
Accretion	510	584
Exchange realignment	(156)	(834)
Balance, end of year	\$ 6,517	\$ 6,445

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

24. EQUITY

24.1 Share capital

The Company has authorized an unlimited number of common and preferred shares with no par value. At December 31, 2021, the Company had 274,116 common shares outstanding (2020: 272,703) and no preferred shares outstanding (2020: nil).

Ordinary share issued at fully paid	As at December 31,			
	2021		2020	
	Number of shares/units	Share capital	Number of shares/units	Share capital
Balance, beginning of year	272,703	\$ 1,098,634	272,703	\$ 1,098,634
Shares issued under share options	1,368	190	–	–
Shares issued under employee share purchase plan	45	11	–	–
Balance, end of year	274,116	\$ 1,098,835	272,703	\$ 1,098,634

24.2 Exchange fluctuation reserve

Gains/losses arising on retranslating the net assets of foreign operations into presentation currency.

24.3 Accumulated deficit and dividends

At December 31, 2021, the Company has accumulated a deficit of \$1,212,071 (2020: \$1,197,698). No dividend has been paid or declared by the Company since inception.

The Board did not recommend the payment of any dividend for the year ended December 31, 2021 (2020: nil).

25. SHARE-BASED PAYMENTS

25.1 Stock option plan

The Company has a stock option plan which permits the Board of Directors of the Company to grant options to acquire common shares of the Company at the volume weighted average closing price for the five days preceding the date of grant. The Company is authorized to issue stock options for a maximum of 10% of the issued and outstanding common shares pursuant to the stock option plan. The stock option plan permits the Board of Directors of the Company to set the terms for each stock option grant; however, the general terms of stock options granted under the plan include a maximum exercise period of 5 years and a vesting period of 3 years with 33% of the grant vesting on the first anniversary of the grant, 33% vesting on the second anniversary of the grant and 34% vesting on the third anniversary of the grant.

For the year ended December 31, 2021, the Company granted 3,543 stock options to officers, employees, directors and other eligible persons at an exercise prices HK\$1.41 and expiry dates on June 29, 2026. The weighted average fair value of the options granted in the year ended December 31, 2021 was estimated at \$0.09 (HKD\$0.72) per option at the grant date using the Black-Scholes option pricing model. For the year ended December 31, 2020, the Company did not grant any stock options to officers, employees, directors and other eligible persons.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

25. SHARE-BASED PAYMENTS continued

25.1 Stock option plan continued

The weighted average assumptions used for the Black-Scholes option pricing model were as follows:

	Year ended December 31,	
	2021	2020
Risk free interest rate	0.87%	1.68%
Expected life	3.4 years	3.4 years
Expected volatility (i)	79%	38%
Expected dividend per share	\$nil	\$nil

(i) Expected volatility has been calculated based on historical volatility of the Company's publicly traded shares over a period equal to the expected life of the options.

The total share-based compensation expense for the year ended December 31, 2021 was \$203 (2020: \$113). Share-based compensation expense of \$151 (2020: \$89) has been allocated to administration expenses and share-based compensation expense of \$52 (2020: \$24) has been allocated to cost of sales.

25.2 Outstanding stock options

The option transactions under the stock option plan are as follows:

	Year ended December 31, 2021		Year ended December 31, 2020	
	Number of options	Weighted average exercise price (CAD\$)	Number of options	Weighted average exercise price (CAD\$)
Balance, beginning of year	6,299	\$ 0.16	6,854	\$ 0.21
Options granted	3,543	0.22	–	–
Options exercised	(1,368)	0.13	–	–
Options forfeited	(761)	0.18	(176)	0.13
Options expired	(1,464)	0.19	(379)	0.54
Balance, end of year	6,249	\$ 0.17	6,299	\$ 0.16

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

25. SHARE-BASED PAYMENTS continued

25.2 Outstanding stock options continued

The stock options outstanding and exercisable are as follows:

Exercise price (CAD\$)	As at December 31, 2021					
	Options Outstanding			Options Exercisable		
	Options outstanding	Weighted average exercise price (CAD\$)	Weighted average remaining contractual life (years)	Options outstanding and exercisable	Weighted average exercise price (CAD\$)	Weighted average remaining contractual life (years)
\$0.11 – \$0.13	2,211	0.13	2.36	1,812	\$ 0.12	2.25
\$0.33 – \$0.39	600	0.34	0.48	600	0.34	0.48
	2,811	\$ 0.17	1.96	2,412	\$ 0.18	1.81

Exercise price (HKD\$)	Options outstanding	Weighted average exercise price (CAD\$)	Weighted average remaining contractual life (years)	Options Outstanding		Weighted average remaining contractual life (years)
				Options outstanding	Options exercisable	
\$1.41	3,438	\$ 1.41	4.50	–	\$ –	–
Total	6,249		3.35	2,412		1.81

Exercise price (CAD\$)	As at December 31, 2020					
	Options Outstanding			Options Exercisable		
	Options outstanding	Weighted average exercise price (CAD\$)	Weighted average remaining contractual life (years)	Options outstanding and exercisable	Weighted average exercise price (CAD\$)	Weighted average remaining contractual life (years)
\$0.11 – \$0.29	5,349	\$ 0.13	3.26	3,138	\$ 0.13	3.04
\$0.33 – \$0.39	950	0.34	1.26	950	0.34	1.26
	6,299	\$ 0.16	2.96	4,088	\$ 0.18	2.63

25.3 Employee Share Purchase Plan

Share purchase plan as part of a long term employee retention program equity incentive plan, which allows the Company's eligible employees to contribute up to 7% of their basic annual salary to purchase shares in the Company. The Company contributes 50% of the employee's contribution and at the end of each calendar quarter shares are purchased on behalf of the employee. At the end of each quarter, the Company's share will be issued. For the year ended 31 December 2021, eligible employees paid \$8 and the Company contributed \$3 to purchase 45 ordinary shares of the Company under the employee share purchase plan (2020: Nil).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

26. RESERVES

26.1 Share option reserve

The Company's share option reserve relates to stock options granted by the Company to officers, employees, directors and other eligible persons under its stock option plan. Details about the Company's share-based payments are further disclosed in Note 25.

The share option reserve transactions for the years ended December 31, 2021 and 2020 are as follows:

	Year ended December 31,	
	2021	2020
Balance, beginning of year	\$ 52,702	\$ 52,589
Exercise of stock options	(47)	–
Share-based compensation charged to operations	203	113
Balance, end of year	\$ 52,858	\$ 52,702

26.2 Capital reserve

Pursuant to the applicable laws and regulations of the People's Republic of China, a portion of the profits of a subsidiary has been transferred to reserve funds (i.e. capital reserve), which the Company is restricted from using.

27. CAPITAL RISK MANAGEMENT

The Company's capital risk management objectives are to safeguard the Company's ability to continue as a going concern in order to support the Company's normal operating requirements, continue the development and exploration of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares, acquire previously issued shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents. In order to facilitate management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including capital deployment, results from operations, results from the exploration and development of its properties and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

At December 31, 2021, the Company's capital structure consists of convertible debenture (Note 22), interest-bearing borrowing (Note 20), lease liabilities (Note 21) and the equity of the Company (Note 24). Except for disclosed elsewhere in the consolidated financial statements, the Company is not subject to any externally imposed capital requirements. In order to maximize ongoing development efforts, the Company does not pay dividends.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

27. CAPITAL RISK MANAGEMENT continued

The gearing ratio at the end of the reporting period was as follows:

	As at December 31,	
	2021	2020
Debt	\$ 296,563	\$ 290,869
Cash and cash equivalents	(723)	(20,121)
Net debt	\$ 295,840	\$ 270,748
Equity	\$ (90,450)	\$ (76,237)
Net debt to equity ratio	-327%	-355%

For the year ended December 31, 2021, there were no significant changes in the processes used by the Company or in the Company's objectives and policies for managing its capital. As at December 31, 2021, the Company had cash of \$723 (December 31, 2020: \$20,121).

28. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

28.1 Categories of financial instruments

The Company's financial assets and financial liabilities are categorized as follows:

	As at December 31,	
	2021	2020
Financial assets		
At amortised cost		
Cash and cash equivalents	\$ 723	\$ 20,121
Restricted cash	1,259	918
Trade and other receivables (Note 13)	141	1,305
Total financial assets	\$ 2,123	\$ 22,344
Financial liabilities		
Fair value through profit or loss		
Convertible debenture – embedded derivatives (Note 22)	\$ 53	\$ 152
At amortised cost		
Trade and other payables (Note 18)	67,327	74,365
Interest-bearing borrowing (Note 20)	53	2,826
Lease liabilities (Note 21)	881	626
Convertible debenture – debt host (Note 22)	191,573	181,259
Total financial liabilities	\$ 259,887	\$ 259,228



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

28. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS continued

28.2 Fair value

The fair value of financial assets and financial liabilities measured at amortised cost is determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions. The Company considers that the carrying amount of all its financial assets and financial liabilities measured at amortised cost approximates their fair value, except as disclosed below.

The fair values of the Company's financial instruments classified as FVTPL are determined as follows:

- The fair value of financial instruments that are not traded in an active market are determined using generally accepted valuation models using inputs that are directly (i.e. prices) or indirectly (i.e. derived from prices) observable. The fair value of the embedded derivatives within the convertible debenture (Note 22) is determined using a Monte Carlo simulation. None of the fair value change in the embedded derivatives for the year ended December 31, 2021 is related to a change in the credit risk of the convertible debenture. All of the change in fair value is associated with changes in market conditions.

The fair value of all the other financial instruments of the Company, approximates their carrying value because of the demand nature or short-term maturity of these instruments.

The following table provides an analysis of the Company's financial instruments that are measured and disclosed subsequent to initial recognition at fair value, grouped into Level 1 to 3 based on the degree to which the inputs used to determine the fair value are observable.

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1, that are observable either directly or indirectly.
- Level 3 fair value measurements are those derived from valuation techniques that include inputs that are not based on observable market data.

Recurring measurements	As at December 31, 2021			Total
	Level 1	Level 2	Level 3	
Financial liabilities measured at fair value				
Convertible debenture – embedded derivatives	\$ –	\$ –	\$ 53	\$ 53
Total financial liabilities measured at fair value	\$ –	\$ –	\$ 53	\$ 53

Recurring measurements	As at December 31, 2020			Total
	Level 1	Level 2	Level 3	
Financial liabilities measured at fair value				
Convertible debenture – embedded derivatives	\$ –	\$ –	\$ 152	\$ 152
Total financial liabilities measured at fair value	\$ –	\$ –	\$ 152	\$ 152

There were no transfers between Level 1, 2 and 3 for the year ended December 31, 2021 (2020: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

28. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS continued

28.3 Financial risk management objectives and policies

The financial risk arising from the Company's operations are currency risk, interest rate risk, credit risk, liquidity risk and commodity price risk. These risks arise from the normal course of operations and all transactions undertaken are to support the Company's ability to continue as a going concern. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management of the Company manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

The Company is exposed to foreign currency risk on its sales or purchases in currencies other than the U.S. dollar. The Company manages this risk by matching receipts and payments in the same currency.

The sensitivity of the Company's loss before tax due to changes in the carrying values of monetary assets and liabilities denominated in foreign currencies is as follows. A positive number indicates a decrease in loss for the year, whereas a negative number indicates an increase in comprehensive loss for the year.

	As at December 31,	
	2021	2020
Increase/decrease in foreign exchange rate against respective functional currency		
+5%	\$ 945	\$ 877
-5%	\$ (945)	\$ (877)

Interest rate risk

The Company is exposed to interest rate risk on the variable rate of interest earned on its cash. However, the rate of interest earned on these instruments is below 3% (2020: 3%); therefore, the interest rate risk is not significant.

The Company has not entered into any derivative instruments to manage interest rate fluctuations, however, management closely monitors interest rate exposure and the risk exposure is limited.

Credit risk

The Company is exposed to credit risk associated with its cash and trade and other receivables. The Company's maximum exposure to credit risk is equal to the carrying amount of these instruments.

The Company applies the IFRS 9 simplified approach to measuring ECL which uses a lifetime expected loss allowance for all trade and other receivables.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

28. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS *continued***28.3 Financial risk management objectives and policies** *continued*

To measure the expected credit losses, trade and other receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 2 years before December 31, 2021 or 2020 respectively and the corresponding historical credit losses experienced within this period as well as the forecast regarding the industry environment. On that basis, the loss allowance as at December 31, 2021 and 2020 was determined as follows for trade and others receivables:

	Less than 1 month	1 to 3 months	3 to 6 months	Over 6 months	Total
As at December 31, 2021					
Expected loss rate	(i)	(i)	10%	100%	
Gross carrying amount – trade and other receivables	\$ 112	\$ 6	\$ 26	\$ 23,838	\$ 23,982
Loss allowance	\$ –	\$ –	\$ 3	\$ 23,838	\$ 23,841
As at December 31, 2020					
Expected loss rate	(i)	(i)	10%	100%	
Gross carrying amount – trade and other receivables	\$ 1,260	\$ 20	\$ 28	\$ 23,052	\$ 24,360
Loss allowance	\$ –	\$ –	\$ 3	\$ 23,052	\$ 23,055

(i) The expected credit loss rate is considered insignificant.

The Company's credit risk on cash arises from possible default of the counterparty. The Company limits its exposure to counterparty credit risk on cash by only dealing with financial institutions with high credit ratings.

The Company seeks to manage its credit risk on trade and other receivables by trading with third party customers it considers to be creditworthy. It is the Company's policy that all customers are required to prepay deposits to the Company for future purchasing from the Company, and for those who wish to trade on credit terms are subject to credit verification procedures.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to settle or manage its obligations associated with financial liabilities. Based on the Company's forecasts for the year ending December 31, 2021, the Company is expected to have sufficient capital resources in order to satisfy its ongoing obligations and future contractual commitments. Please refer to Note 1 for further details.

The Company's current and expected remaining contractual maturities for its financial liabilities with agreed repayment periods are as follows. The table includes the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to satisfy the liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

28. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS continued

28.3 Financial risk management objectives and policies continued

Liquidity risk continued

	0 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total contractual undiscounted cash flow	Carrying Amount
As at December 31, 2021						
Trade and other payables	\$ 67,327	\$ –	\$ –	\$ –	\$ 67,327	\$ 67,327
Interest-bearing borrowing ⁽ⁱ⁾	55	–	–	–	55	53
Lease liabilities ⁽ⁱ⁾	190	190	663	–	1,043	881
Convertible debenture – cash interest ⁽ⁱ⁾	–	–	222,021	260,000	482,021	191,626
	\$ 67,572	\$ 190	\$ 222,684	\$ 260,000	\$ 550,446	\$ 259,887
As at December 31, 2020						
Trade and other payables	\$ 74,365	\$ –	\$ –	\$ –	\$ 74,365	\$ 74,365
Interest-bearing borrowing ⁽ⁱ⁾	2,983	–	–	–	2,983	2,826
Lease liabilities ⁽ⁱ⁾	136	136	592	–	864	626
Convertible debenture – cash interest ⁽ⁱ⁾	–	–	188,800	280,000	468,800	181,411
	\$ 77,484	\$ 136	\$ 189,392	\$ 280,000	\$ 547,012	\$ 259,228

- (i) The expected undiscounted cash flows of the above noted financial liabilities include the cash interest payment on the interest-bearing borrowing, lease liabilities and convertible debenture for the years ended December 31, 2021 and December 31, 2020. Refer to Note 20, Note 21 and Note 22 for the terms of the interest-bearing borrowings, lease liabilities and convertible debenture, respectively.

29. RELATED PARTY TRANSACTIONS

The consolidated financial statements include the financial statements of SouthGobi Resources Ltd. and its significant subsidiaries listed in the following table:

Name	Country of incorporation	% equity interest As at December 31,	
		2021	2020
SouthGobi Resources (Hong Kong) Limited	Hong Kong	100%	100%
SouthGobi Sands LLC	Mongolia	100%	100%
SGQ Coal Investment Pte. Ltd.	Singapore	100%	100%
SouthGobi Trading (Beijing) Co., Ltd. ⁽ⁱ⁾	China	100%	100%
Inner Mongolia SouthGobi Energy Co., Ltd.	China	100%	100%
Inner Mongolia SouthGobi Mining Development Co., Ltd.	China	100%	100%
Inner Mongolia SouthGobi Enterprise Co., Ltd.	China	70%	70%

- (i) SouthGobi Trading (Beijing) Co., Ltd. was registered as a wholly-foreign-owned enterprise under law of China.

In addition to the transactions detailed elsewhere in profit or loss, the Company had related party transactions with the following company related by way of directors or shareholders in common during the year ended December 31, 2021:

- CIC – CIC is a major shareholder of the Company, CIC holds approximately 23.6% of the issued and outstanding common shares of the Company as at December 31, 2020. The Amended and Restated Cooperation Agreement with CIC states that the Management Fee calculated based on 2.5% of the revenue shall be paid to CIC on a quarterly basis. During the year ended December 31, 2021, \$967 was recorded in profit or loss (2020: \$2,170).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

29. RELATED PARTY TRANSACTIONS *continued***29.1 Related party expenses**

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

	Year ended December 31,	
	2021	2020
Finance costs	\$ 36,301	\$ 27,726
Management fee	967	2,170
Related party expenses	\$ 37,268	\$ 29,896

29.2 Key management personnel compensation

The remuneration of the Company's directors and other members of key management, who have the authority and responsibility for planning, directing and controlling the activities of the Company, consists of the following amounts:

	Year ended December 31,	
	2021	2020
Salaries, fees and other benefits	\$ 1,244	\$ 1,536
Share-based compensation	170	–
Total remuneration	\$ 1,414	\$ 1,536

30. SUPPLEMENTAL CASH FLOW INFORMATION**30.1 Non-cash financing and investing activities**

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

	Year ended December 31,	
	2021	2020
Depreciation and amortization capitalized in mineral properties	\$ 2,528	\$ 2,794
Decrease in decommissioning liability (Note 23)	(282)	(1,910)

30.2 Net change in working capital items

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

	Year ended December 31,	
	2021	2020
Decrease/(increase) in inventories	\$ (11,137)	\$ 16,411
Decrease/(increase) in trade and other receivables	1,062	(823)
Decrease in prepaid expenses	117	500
Decrease in trade and other payables	(7,677)	(12,441)
Increase in deferred revenue	5,642	5,427
Decrease in provision for arbitration	–	(10,227)
Net change in working capital items	\$ (11,993)	\$ (1,153)

Depreciation and depletion capitalised in inventories for the year ended December 31, 2021 totaled \$706 (2020: \$3,093).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

30. SUPPLEMENTAL CASH FLOW INFORMATION continued

30.3 Reconciliation of liabilities arising from financing activities

	Interest-bearing borrowings	Lease liabilities	Convertible debenture	Total
At January 1, 2020	\$ 2,835	\$ 568	\$ 156,974	\$ 160,377
Changes from financing cash flow:				
Interest payments	(423)	–	(700)	(1,123)
Capital element of lease rentals paid	–	(647)	–	(647)
Interest element of lease rentals paid	–	(69)	–	(69)
Total changes from financing cash flows	(423)	(716)	(700)	(1,839)
Other charges:				
Interest expenses	413	69	27,726	28,208
Changes in fair value of embedded derivatives	–	–	(44)	(44)
Gain on modification of convertible debenture	–	–	(2,545)	(2,545)
Increase in finance lease payable	–	700	–	700
	413	769	25,137	26,319
Exchange adjustments	1	5	–	6
At December 31, 2020 and January 1, 2021	\$ 2,826	\$ 626	\$ 181,411	\$ 184,863
Changes from financing cash flow:				
Interest payments	–	–	(3,000)	(3,000)
Repayment of interest-bearing loan	(2,800)	–	–	(2,800)
Proceeds from bank loan	53	–	–	53
Capital element of lease rentals paid	–	(324)	–	(324)
Interest element of lease rentals paid	–	(93)	–	(93)
Total changes from financing cash flows	(2,747)	(417)	(3,000)	(6,164)
Other charges:				
Interest expenses	–	93	36,301	36,394
Changes in fair value of embedded derivatives	–	–	(100)	(100)
Gain on modification of convertible debenture	–	–	(2,016)	(2,016)
Gain on extinguishment of convertible debenture	–	–	(20,970)	(20,970)
Increase in finance lease payable	–	579	–	579
	–	672	13,215	13,887
Exchange adjustments	(26)	–	–	(26)
At December 31, 2021	\$ 53	\$ 881	\$ 191,626	\$ 192,560



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

31. COMMITMENTS FOR EXPENDITURE

The Company's commitments for expenditure that have not been disclosed elsewhere in the consolidated financial statements are as follows:

	Within 1 year	2-3 years	Over 3 years	Total
As at December 31, 2021				
Capital expenditure commitments	\$ –	\$ –	\$ –	\$ –
Operating expenditure commitments	1,642	47	277	1,966
Commitments	\$ 1,642	\$ 47	\$ 277	\$ 1,966
As at December 31, 2020				
Capital expenditure commitments	\$ 448	\$ –	\$ –	\$ 448
Operating expenditure commitments	1,208	47	324	1,579
Commitments	\$ 1,656	\$ 47	\$ 324	\$ 2,027

Management is currently in discussions with the third party contractor who built the wash plant to negotiate certain terms of the contract.

32. CONTINGENCIES

32.1 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 Superior Court in relation to the Company's November 2013 restatement of certain financial statements, which statements were previously disclosed in the Company's earlier public financial statement 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

32. CONTINGENCIES continued

32.1 Class Action Lawsuit continued

Counsel for the plaintiff and defendants have agreed on and the case management judge has ordered a trial to commence in December 2022 (subject to court availability). To accomplish all steps necessary for trial preparation, counsels have agreed to the following proposed schedule under the case management of the judge: (i) document production and pleading amendments by October 31, 2021; (ii) oral examinations for discovery ending by December 31, 2022; (iii) expert reports of plaintiff complete by April 25, 2022 and expert reports of by defendants complete by August 22, 2022; and (iv) pre-trial agreements, filings and motions by August 31, 2022. The Company has urged for a trial to begin 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 judged a provision for this matter as at December 31, 2021 and December 31, 2020 is not required.

32.2 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 commencement of the contract and provided for an annual 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 washing facility to commence on October 1, 2011, the additional fees payable by the Company under the washing contract would have been \$18,500. At each reporting date, the Company assesses the agreement with Ejin Jinda and has determined it is not probable that this \$18,500 will be required to be paid. Accordingly, the Company has determined a provision for this matter at December 31, 2021 and December 31, 2020 is not required.

32.3 Tax legislation

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

32. CONTINGENCIES continued

32.3 Tax legislation continued

Management believes that its interpretation of the relevant legislation is appropriate and the Company's positions related to tax and other legislation will be sustained. Management believes that tax and legal risks are remote at present. The management performs regular re-assessment of tax risk and its position may change in the future as a result of the change in conditions that cannot be anticipated with sufficient certainty at present.

As of December 31, 2021 and December 31, 2020, management has assessed that recognition of a provision for uncertain tax position is not necessary.

33. EVENTS AFTER THE REPORTING PERIOD

Management Cease Trade Order ("MCTO")

The BCSC imposed the Management Cease Trade Order on the TSX on April 1, 2022 pursuant to National Policy 12-203 – Cease Trade Orders for Continuous Disclosure Defaults ("NP 12-203"). With the granting of the MCTO, the Company has until May 30, 2022, being the expiry date of the MCTO, to file the 2021 Annual Filings. Pursuant to the MCTO, the Chief Executive Officer and the Chief Financial Officer of the Company are not permitted to trade any securities of the Company unless and until such time as the Company files the 2021 Annual Filings. While the MCTO is in effect, the shareholders of the Company will continue to be able to trade the Company's common shares on the TSX and the HKEX. If the Company is unable to file the 2021 Annual Filings prior to the expiry of the MCTO, it is anticipated that the BCSC will issue a general "failure to file" cease trade order prohibiting the trading by any person of any securities of the Company, including trades in the Company's common shares made through the TSX, which would take effect shortly after the expiry of the MCTO and would remain in place until such time as the 2021 Annual Filings have been filed.

Sale by CIC of its Interests in the Company

On May 27, 2022, the Company announced that as disclosed in the press release issued by CIC on May 26, 2022, CIC has entered into an agreement to sell (the "Sale Transaction") all of its interests in the Company, including its 64,767 common shares of the Company and the \$250,000 convertible debenture dated November 19, 2009 to JD Zhixing Fund LP (the "Buyer"). The Company has been advised that the Buyer is an exempted limited partnership formed under the laws of Cayman Islands. The Buyer's general partner is JD Dingxing Limited, a corporation formed under the laws of the Cayman Islands. The Buyer's limited partner is Inner Mongolia Tianyu Trading Limited, a corporation formed under the laws of Hong Kong.

In connection with the Sale Transaction, CIC has agreed to assign to the Buyer all of CIC respective rights in and obligations under: (i) the CIC convertible debenture and related security documents; (ii) the Amended and Restated Cooperation Agreement and related documents; (iii) the deferral agreements between CIC, the Company and certain of its subsidiaries in connection with the deferral of interest payments and other outstanding fees under the CIC convertible debenture and the Amended and Restated Cooperation Agreement; and (iv) the Securityholders Agreement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

The statement of financial position of the Company prepared on a stand-alone basis is presented below:

	As at December 31,	
	2021	2020
Assets		
Current assets		
Cash and cash equivalents	\$ 42	\$ 8,406
Other receivables	7	6
Prepaid expenses	94	114
Total current assets	143	8,526
Total assets	\$ 143	\$ 8,526
Equity and liabilities		
Current liabilities		
Other payables	\$ 14,225	\$ 11,546
Current portion of convertible debenture	–	181,411
Total current liabilities	14,225	192,957
Non-current liabilities		
Convertible debenture	191,626	–
Total non-current liabilities	191,626	–
Total liabilities	205,851	192,957
Equity		
Common shares	1,098,835	1,098,634
Share option reserve	52,858	52,702
Accumulated deficit	(1,357,401)	(1,335,767)
Total deficiency in assets	(205,708)	(184,431)
Total equity and liabilities	\$ 143	\$ 8,526

APPROVED BY THE BOARD:

“Mao Sun”

Director

“Dalanguerban”

Director

35. RESERVE AND DEFICIT OF THE COMPANY

The reserve and deficit of the Company prepared on a stand-alone basis is presented below:

	Share option reserve	Accumulated deficit	Total
Balances, January 1, 2020	\$ 52,589	\$ (1,316,768)	\$ (1,264,179)
Net loss for the year	–	(18,999)	(18,999)
Share-based compensation charged to operations	113	–	113
Balances, December 31, 2020	\$ 52,702	\$ (1,335,767)	\$ (1,283,065)
Balances, January 1, 2021	\$ 52,702	\$ (1,335,767)	\$ (1,283,065)
Net loss for the year	–	(21,634)	(21,634)
Share-based compensation charged to operations	156	–	156
Balances, December 31, 2021	\$ 52,858	\$ (1,357,401)	\$ (1,304,543)



UNAUDITED APPENDIX TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

ADDITIONAL STOCK EXCHANGE INFORMATION

Additional information required by the HKEX and not shown elsewhere in this report is as follows:

A1. DIRECTOR AND EMPLOYEE EMOLUMENTS

Directors' emoluments

The Company's directors' emoluments consist of the following amounts:

	Year ended December 31,	
	2021	2020
Directors' fees	\$ 260	\$ 279
Other emoluments for executive and non-executive directors		
Salaries and other benefits	323	391
Share-based compensation	88	–
Directors' emoluments	\$ 671	\$ 670

Year ended December 31, 2021

Name of director	Directors' fees	Salaries and other benefits	Share-based compensation	Total
Executive director				
Dalanguerban ⁽ⁱ⁾	\$ –	\$ 323	\$ 42	\$ 365
	\$ –	\$ 323	\$ 42	\$ 365
Non-executive directors				
Jianmin Bao	\$ –	\$ –	\$ –	\$ –
Zhiwei Chen	–	–	–	–
Yingbin Ian He	84	–	14	98
Ka Lee Ku	–	–	–	–
Ben Niu	–	–	–	–
Jin Lan Quan	74	–	14	88
Mao Sun	102	–	18	120
	\$ 260	\$ –	\$ 46	\$ 306
Directors' emoluments	\$ 260	\$ 323	\$ 88	\$ 671

UNAUDITED APPENDIX TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

A1. DIRECTOR AND EMPLOYEE EMOLUMENTS continued

Year ended December 31, 2020

Name of director	Directors' fees	Salaries and other benefits	Share-based compensation	Total
Executive directors				
Dalangerban ⁽ⁱ⁾	\$ –	\$ 301	\$ –	301
Shougao Wang ⁽ⁱⁱ⁾	–	90	–	90
	\$ –	\$ 391	\$ –	391
Non-executive directors				
Jianmin Bao ⁽ⁱ⁾	\$ –	\$ –	\$ –	–
Zhiwei Chen	–	–	–	–
Yingbin Ian He	91	–	–	91
Ka Lee Ku ⁽ⁱ⁾	–	–	–	–
Xiaoxiao Li ⁽ⁱⁱ⁾	–	–	–	–
Ben Niu	–	–	–	–
Jin Lan Quan	81	–	–	81
Mao Sun	107	–	–	107
Wen (Wayne) Yao ⁽ⁱⁱ⁾	–	–	–	–
	\$ 279	\$ –	\$ –	279
Directors' emoluments	\$ 279	\$ 391	\$ –	670

(i) Appointed to the Board of Directors during the year ended December 31, 2020.

(ii) Resigned from the Board of Directors during the year ended December 31, 2020.

Five highest paid individuals

The five highest paid individuals included one director of the Company for the year ended December 31, 2021 (2020: one director). The emoluments of the five highest paid individuals are as follows:

	Year ended December 31,	
	2021	2019
Salaries and other benefits	\$ 1,102	\$ 1,200
Share-based compensation	124	–
Total emoluments	\$ 1,226	\$ 1,200

The emoluments for the five highest paid individuals were within the following bands:

	Year ended December 31,	
	2021	2020
HK\$1,000,001 to HK\$1,500,000	1	–
HK\$1,500,001 to HK\$2,000,000	2	4
HK\$2,000,001 to HK\$2,500,000	1	1
HK\$2,500,001 to HK\$3,000,000	1	–
	5	5

**UNAUDITED APPENDIX TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

A2. FIVE YEAR SUMMARY

The following table contains a five-year summary of the Company's results, assets and liabilities:

	Year ended December 31,				
	2021	2020	2019	2018	2017 (Restated)
Revenue	\$ 43,398	\$ 85,951	\$ 129,712	\$ 103,804	\$ 120,973
Gross profit	12,094	27,294	45,312	23,969	15,115
Net comprehensive loss attributable to equity holders of the Company	\$ (14,570)	\$ (27,132)	\$ (928)	\$ (54,145)	\$ (37,515)
Basic and diluted earnings/(loss) per share	\$ (0.05)	\$ (0.07)	\$ 0.02	\$ (0.15)	\$ (0.14)

	As at December 31,				
	2021	2020	2019	2018	2017 (Restated)
Total assets	\$ 206,113	\$ 214,632	\$ 228,427	\$ 227,606	\$ 253,436
Less: total liabilities	(296,563)	(290,869)	(277,645)	(275,746)	(245,608)
Total equity/(deficiency in assets)	\$ (90,450)	\$ (76,237)	\$ (49,218)	\$ (48,140)	\$ 7,828

A3. CASH

The Company's cash is denominated in the following currencies:

	As at December 31,	
	2021	2020
Denominated in U.S. Dollars	\$ 63	\$ 9,427
Denominated in Chinese Renminbi	511	9,106
Denominated in Mongolian Tugriks	37	1,390
Denominated in Canadian Dollars	23	17
Denominated in Hong Kong Dollars	89	181
Cash	\$ 723	\$ 20,121

CORPORATE INFORMATION

Directors

Executive Director:

Mr. Dalanguerban (*Chief Executive Officer*)

Non-Executive Directors:

Mr. Jianmin Bao
Mr. Zhiwei Chen
Ms. Ka Lee Ku
Mr. Ben Niu

Independent Non-Executive Directors:

Mr. Yingbin Ian He
Ms. Jin Lan Quan
Mr. Mao Sun (*Independent Lead Director*)

Audit Committee

Mr. Mao Sun (*Chair*)
Mr. Yingbin Ian He
Ms. Jin Lan Quan

Nominating and Corporate Governance Committee

Mr. Yingbin Ian He (*Chair*)
Ms. Jin Lan Quan
Mr. Mao Sun

Compensation and Benefits Committee

Ms. Jin Lan Quan (*Chair*)
Mr. Yingbin Ian He
Mr. Mao Sun

Health, Environment, Safety and Social Responsibility Committee

Mr. Dalanguerban (*Chair*)
Mr. Yingbin Ian He
Mr. Munkhbat Chuluun
(*Vice President of Public Relations*)

Operations Committee

Mr. Yingbin Ian He (*Chair*)
Mr. Dalanguerban
Mr. Ben Niu

Joint Company Secretaries

Ms. Allison Snetsinger and Ms. Shuk Wan So

Records and Registered Office

20th floor – 250 Howe Street, Vancouver, British Columbia, Canada V6C 3R8

Principal Place of Business in Canada

1150 – 355 Burrard Street, Vancouver, British Columbia, Canada V6C 2G8

Principal Place of Business in Hong Kong

Units 1208-10, Tower 1, Grand Century Place, 193 Prince Edward Road West, Mongkok, Kowloon, Hong Kong

Principal Place of Business in Mongolia

8th Floor, Monnis Building, Orgil Stadium 22, Great Mongolian State Street, 15th Khoroo, Khan-Uul District, Ulaanbaatar, Mongolia, 17011

Principal Bankers

Canada:

BMO Bank of Montreal

Hong Kong:

Standard Chartered Bank (Hong Kong) Limited

Principal Share Registrar

TSX Trust Company
(*formerly AST Trust Company (Canada)*)
Suite 1600 – 1066 West Hastings Street, Vancouver, British Columbia, Canada V6E 3X1

Branch Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712 – 1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong

Independent Auditors

BDO Limited (Hong Kong)

Website address

SouthGobi.com