SouthGobi Resources Ltd.

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

June 30, 2021

(Expressed in U.S. dollars)

FORWARD-LOOKING STATEMENTS

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

- the Company continuing as a going concern and its ability to realize its assets and discharge its liabilities in the normal course of operations as they become due;
- adjustments to the amounts and classifications of assets and liabilities in the Company's condensed consolidated interim financial statements and the impact thereof;
- the Company's expectations of sufficient liquidity and capital resources to meet its ongoing obligations and future contractual commitments, including the Company's ability to settle its trade payables, to secure additional funding and to meet its obligations under each of the China Investment Corporation (together with its wholly-owned subsidiaries and affiliates, "CIC") convertible debenture (the "CIC Convertible Debenture"), the 2020 November Deferral Agreement (as defined below), the Amended and Restated Cooperation Agreement (as defined below) and the 2021 July Deferral Agreement (as defined below) as the same become due;
- the Company's anticipated financing needs, development plans and future production levels;
- the Company entering into discussions with CIC regarding a potential debt restructuring plan with respect to the amounts owing to CIC;
- the results and impact of the Ontario class action (as described under Section 6 of this MD&A under the heading entitled "*Regulatory Issues and Contingencies – Class Action Lawsuit*");
- the estimates and assumptions included in the Company's impairment analysis and the possible impact of changes thereof;
- the agreement with Ejin Jinda and the payments thereunder (as described under Section 6 of this MD&A under the heading entitled "*Regulatory Issues and Contingencies – Toll Wash Plant Agreement with Ejin Jinda");*
- the ability of the Company to enhance the operational efficiency and output throughput of the washing facilities at Ovoot Tolgoi;
- the ability to enhance the product value by conducting coal processing and coal washing;
- the impact of the Company's activities on the environment and actions taken for the purpose of mitigation of potential environmental impacts and planned focus on health, safety and environmental performance;
- the impact of the restrictions on the number of trucks crossing the border at the Ceke port of entry and the import coal quality standards established by Chinese authorities on the Company's operations;
- management's expectation that mining operations (including coal mining) will resume in the third quarter of 2021;
- 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 future demand for coal in China;
- future trends in the Chinese coal industry;

- the Company's outlook and objectives for 2021 and beyond (as more particularly described under Section 11 of this MD&A under the heading entitled "*Outlook*"); and
- other statements that are not historical facts.

Forward-looking information is based on certain factors and assumptions described below and elsewhere in this MD&A, including, among other things: the current mine plan for the Ovoot Tolgoi mine; mining, production, construction and exploration activities at the Company's mineral properties; the costs relating to anticipated capital expenditures; the capacity and future toll rate of the paved highway; plans for the progress of mining license application processes; mining methods; the Company's anticipated business activities, planned expenditures and corporate strategies; management's business outlook, including the outlook for 2021 and beyond; currency exchange rates; operating, labour and fuel costs; the ability of the Company to raise additional financing; the anticipated royalties payable under Mongolia's royalty regime; the future coal market conditions in China and the related impact on the Company's margins and liquidity; the anticipated impact of the COVID-19 pandemic; the assumption that the border crossings with China will remain open for coal exports; the anticipated demand for the Company's coal products; future coal prices, and the level of worldwide coal production. While the Company considers these assumptions to be reasonable based on the information currently available to it, they may prove to be incorrect. Forward-looking statements are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These risks and uncertainties include, among other things: the uncertain nature of mining activities, actual capital and operating costs exceeding management's estimates; variations in mineral resource and mineral reserve estimates; failure of plant, equipment or processes to operate as anticipated; the possible impacts of changes in mine life, useful life or depreciation rates on depreciation expenses; risks associated with, or changes to regulatory requirements (including environmental regulations) and the ability to obtain all necessary regulatory approvals; the potential expansion of the list of licenses published by the Government of Mongolia covering areas in which exploration and mining are purportedly prohibited on certain of the Company's mining licenses; the Government of Mongolia designating any one or more of the Company's mineral projects in Mongolia as a Mineral Deposit of Strategic Importance; the risk of continued restrictions on the number of trucks crossing the border at the Ceke port of entry; the risk of continued import coal quality standards established by Chinese authorities; the risk that Mongolia's southern borders with China will be subject of closure; the negative impact of the COVID-19 pandemic on the demand for coal and the economy generally in China; the risk that the COVID-19 pandemic is not effectively controlled in China and Mongolia; the risk that the Company's existing coal inventories are unable to sufficiently satisfy expected sales demand; the possible impact of changes to the inputs to the valuation model used to value the embedded derivatives in the CIC Convertible Debenture; the risk of the Company failing to successfully negotiate favorable repayment terms on the TRQ Reimbursable Amount (as described under Section 5 of this MD&A under the heading entitled "Liquidity and Capital Management – Costs Reimbursable to Turquoise Hill Resources Limited ("Turquoise Hill")"); the risk of the Company or its subsidiaries defaulting under its existing debt obligations, including the CIC Convertible Debenture, the deferral agreement signed on November 19, 2020 (the "2020 November Deferral Agreement"), the amended and restated mutual cooperation agreement signed on November 19, 2009 (the "Amended and Restated Cooperation Agreement") and the deferral agreement signed on July 30, 2021 (the "2021 July Deferral Agreement"); the impact of amendments to, or the application of, the laws of Mongolia, China and other countries in which the Company carries on business; modifications to existing practices so as to comply with any future permit conditions that may be imposed by regulators; delays in obtaining approvals and lease renewals; the risk of fluctuations in coal prices and changes in China and world economic conditions; the outcome of the Class Action (as described under Section 6 of this MD&A under the heading entitled "*Regulatory Issues and Contingencies – Class Action Lawsuit*") and any damages payable by the Company as a result; the risk that the Company is unable to successfully negotiate a debt restructuring plan with respect to the amounts owing to CIC; the risk that the calculated sales price determined by the Company for the purposes of determining the amount of royalties payable to the Mongolian government is deemed as being "non-market" under Mongolian tax law; customer credit risk; cash flow and liquidity risks; risks relating to the

Company’s decision to suspend activities relating to the development of the Ceke Logistics Park project, including the risk that its investment partner may initiate legal action against the Company for failing to comply with the underlying agreements governing project development; risks relating to the ability of the Company to enhance the operational efficiency and the output throughput of the washing facilities at Ovoot Tolgoi; the risk that the Company is unable to successfully negotiate an extension of the agreement with the third party contractor relating to the operation of the wash plant at the Ovoot Tolgoi mine site and risks relating to the Company’s ability to raise additional financing and to continue as a going concern. Please refer to Section 10 of this MD&A under the heading entitled “*Risk Factors*” for a discussion of these and other risks and uncertainties relating to the Company and its operations. This list is not exhaustive of the factors that may affect any of the Company’s forward-looking statements.

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

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INTRODUCTION

This MD&A is dated as of August 13, 2021 and should be read in conjunction with the condensed consolidated interim financial statements of the Company and the notes thereto for the three and six months ended June 30, 2021. The Company's condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 - "Interim Financial Reporting" using accounting policies in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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

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

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

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

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

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

1. OVERVIEW

The Company is an integrated coal mining, development and exploration company with 271 employees as at June 30, 2021. The Company's common shares ("Common Shares") are listed for trading on the Toronto Stock Exchange ("TSX") under the symbol SGQ and on the Hong Kong Stock Exchange ("HKEX") under the stock code symbol 1878.

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

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

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

Significant Events and Highlights

The Company's significant events and highlights for the three months ended June 30, 2021 and the subsequent period to August 13, 2021 are as follows:

- ***Operating Results*** – In response to the increase in COVID-19 case numbers in Mongolia in the second quarter of 2021, the Chinese authorities has been restricting the number of trucks permitted to cross the Ceke port of entry, and such restriction has severely impacted the sales volume of the Company in the second quarter of 2021. As a result, the Company's sales volume decreased from 0.5 million tonnes in the second quarter of 2020 to 0.1 million tonnes in the second quarter of 2021.

  In response to the restrictions on the number of trucks crossing the Mongolian border into China, the Company temporarily suspended its major mining operations (including coal mining) in the second quarter of 2021 in order to control the inventory level and preserve the Company's working capital. Such suspension remains in effect as of the date of this MD&A. Management expects that mining operations (including coal mining) will resume in the third quarter of 2021.

  The Company experienced an increase in the average selling price of coal from $31.7 per tonne in the second quarter of 2020 to $47.9 per tonne in the second quarter of 2021, as a result of improved market conditions in China and an improvement of the overall product mix.

- ***Financial Results*** – The Company recorded a $1.0 million loss from operations in the second quarter of 2021 compared to a $1.9 million loss from operations in the second quarter of 2020. The financial results for the second quarter of 2021 were impacted by the decreased sales resulting from the export volume limitations and a provision for commercial arbitration of $4.6 million recorded for the second quarter of 2020 in connection with the settlement agreement entered into with First Concept Industrial Group Limited ("First Concept").

- ***Impact of the COVID-19 Pandemic*** – Since the onset of the COVID-19 pandemic in early 2020, the Mongolian local authorities have taken certain precautionary steps to minimize further transmission of COVID-19 in Mongolia and announced several lockdown measures in Ulaanbaatar. During 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 case numbers in Mongolia, which included restricting the number of trucks crossing the Mongolian border into China. These restrictions on trucking volume have had an adverse impact on the Company's ability to import its coal products into China in the second quarter of 2021. In response, the Company has 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. Such suspension remains in effect as of the date of this MD&A. Although the export of coal from Mongolia to China continues as of the date hereof, there can be no guarantee that the Company will be able to continue exporting coal to China, or that the border crossings would not be the subject of closures as a result of COVID-19 or any variants thereof in the future. The Company will continue to closely monitor the development of the COVID-19 pandemic and the impact it has on coal exports to China and will react promptly to preserve the working capital of the Company and mitigate any negative impacts on the business and operations of the Company.

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

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

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

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

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

  Refer to Section 5 of this MD&A under the heading entitled "Liquidity and Capital Resources" and Section 10 of this MD&A under the heading entitled "Risk Factors" for details.

2. OVERVIEW OF OPERATIONAL DATA AND FINANCIAL RESULTS

Summary of Operational Data

	Three months ended June 30,		Six months ended June 30,	
	2021	**2020**	**2021**	**2020**
Sales Volumes, Prices and Costs				
Premium semi-soft coking coal				
Coal sales *(millions of tonnes)*	**0.08**	0.21	**0.48**	0.28
Average realized selling price *(per tonne)*	**$ 52.11**	$ 28.69	**$ 48.56**	$ 28.63
Standard semi-soft coking coal/ premium thermal coal				
Coal sales *(millions of tonnes)*	**0.03**	0.26	**0.26**	0.39
Average realized selling price *(per tonne)*	**$ 36.71**	$ 33.12	**$ 35.35**	$ 32.98
Standard thermal coal				
Coal sales *(millions of tonnes)*	**-**	-	**-**	-
Average realized selling price *(per tonne)*	**$ -**	$ -	**$ -**	$ -
Washed coal				
Coal sales *(millions of tonnes)*	**-**	0.02	**0.01**	0.02
Average realized selling price *(per tonne)*	**$ -**	$ 43.26	**$ 49.75**	$ 43.26
Total				
Coal sales *(millions of tonnes)*	**0.11**	0.49	**0.75**	0.69
Average realized selling price *(per tonne)*	**$ 47.93**	$ 31.66	**$ 44.10**	$ 31.52
Raw coal production *(millions of tonnes)*	**-**	-	**1.04**	0.01
Cost of sales of product sold *(per tonne)*	**$ 41.38**	$ 21.16	**$ 30.53**	$ 23.82
Direct cash costs of product sold *(per tonne)* [(i)]	**$ 16.39**	$ 9.90	**$ 17.89**	$ 10.42
Mine administration cash costs of product sold *(per tonne)* [(i)]	**$ 4.26**	$ 1.70	**$ 1.51**	$ 1.93
Total cash costs of product sold *(per tonne)* [(i)]	**$ 20.65**	$ 11.60	**$ 19.40**	$ 12.35
Other Operational Data				
Production waste material moved *(millions of bank cubic meters)*	**-**	-	**5.04**	0.57
Strip ratio *(bank cubic meters of waste material per tonne of coal produced)*	**-**	-	**4.83**	85.08
Lost time injury frequency rate [(ii)]	**0.00**	0.04	**0.00**	0.06

(i) A non-IFRS financial measure, see section 3. Cash costs of product sold exclude idled mine asset cash costs.
(ii) Per 200,000 man hours and calculated based on a rolling 12-month average.

Overview of Operational Data

For the three months ended June 30, 2021

The Company experienced an increase in the average selling price of coal from $31.7 per tonne in the second quarter of 2020 to $47.9 per tonne in the second 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 second quarter of 2021 consisted of approximately 73% premium semi-soft coking coal and 27% semi-soft coking coal/premium thermal coal compared to approximately 43% premium semi-soft coking coal, 53% semi-soft coking coal/premium thermal coal and 4% washed coal in the second quarter of 2020.

In response to the increase in COVID-19 case numbers in Mongolia in the second quarter of 2021, the Chinese authorities has been restricting the number of trucks permitted to cross the Ceke port of entry, and such restriction has severely impacted the sales volume of the Company in the second quarter of 2021. As a result, the Company's sales volume decreased from 0.5 million tonnes in the second quarter of 2020 to 0.1 million tonnes in the second quarter of 2021.

In response to the restrictions on the number of trucks crossing the Mongolian border into China, the Company temporarily suspended its major mining operations (including coal mining) in the second quarter of 2021 in order to control the inventory level and preserve the Company's working capital. Such suspension remains in effect as of the date of this MD&A. Management expects that mining operations (including coal mining) will resume in the third quarter of 2021.

The Company's unit cost of sales of product sold increased from $21.2 per tonne in the second quarter of 2020 to $41.4 per tonne in the second 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.

<u>For the six months ended June 30, 2021</u>

The Company sold 0.8 million tonnes for the first six months of 2021 as compared to 0.7 million tonnes for the first six months of 2020. The average selling price increased from $31.5 per tonne for the first six months of 2020 to $44.1 per tonne for the first six months of 2021, as a result of improved market conditions in China and an improvement of the overall product mix.

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

The Company's unit cost of sales of product sold increased from $23.8 per tonne for the first six months of 2020 to $30.5 per tonne in the first six months of 2021. The increase was mainly driven by the increase in the effective royalty rate.

Summary of Financial Results

$ in thousands, except per share information	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Revenue (i)	**$ 5,191**	$ 14,975	**$ 33,255**	$ 21,112
Cost of sales (i)	**(4,552)**	(10,366)	**(22,899)**	(16,437)
Gross profit excluding idled mine asset costs	**1,565**	6,286	**11,793**	7,748
Gross profit	**639**	4,609	**10,356**	4,675
Other operating expenses	**(113)**	(5,150)	**(448)**	(4,680)
Administration expenses	**(1,484)**	(1,291)	**(3,266)**	(3,062)
Evaluation and exploration expenses	**(47)**	(52)	**(112)**	(108)
Profit/(loss) from operations	**(1,005)**	(1,884)	**6,530**	(3,175)
Finance costs	**(8,870)**	(7,258)	**(21,027)**	(14,365)
Finance income	**2,494**	2	**21,015**	17
Share of earnings/(loss) of a joint venture	**(35)**	268	**239**	222
Current income tax credit/(expense)	**139**	(900)	**(981)**	(1,632)
Net profit/(loss) attributable to equity holders of the Company	**(7,277)**	(9,772)	**5,776**	(18,933)
Basic earnings/(loss) per share	**$ (0.03)**	$ (0.04)	**$ 0.02**	$ (0.07)
Diluted earnings/(loss) per share	**$ (0.03)**	$ (0.04)	**$ 0.01**	$ (0.07)

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

Overview of Financial Results

For the three months ended June 30, 2021

The Company recorded a $1.0 million loss from operations in the second quarter of 2021 compared to a $1.9 million loss from operations in the second quarter of 2020. The financial results for the second quarter of 2021 were impacted by the decreased sales resulting from the export volume limitations and a provision for commercial arbitration of $4.6 million recorded for the second quarter of 2020 in connection with the settlement agreement entered into with First Concept.

Revenue was $5.2 million in the second quarter of 2021 compared to $15.0 million in the second quarter of 2020. The Company's effective royalty rate for the second quarter of 2021, based on the Company's average realized selling price of $47.9 per tonne, was 21.9% or $10.5 per tonne, compared to 11.1% or $3.5 per tonne in the second quarter of 2020 (based on the average realized selling price of $31.7 per tonne).

Royalty regime in Mongolia

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

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

Cost of sales was $4.6 million in the second quarter of 2021 compared to $10.4 million in the second quarter of 2020. The decrease in cost of sales was mainly due to the decreased sales during the quarter. Cost of sales consists of operating expenses, share-based compensation expense, equipment depreciation, depletion of mineral properties, royalties and idled mine asset costs. Operating expenses in cost of sales reflect the total cash costs of product sold (a Non-IFRS financial measure, refer to Section 3 of this MD&A for further analysis) during the quarter.

	Three months ended June 30,	
$ in thousands	**2021**	**2020**
Operating expenses	**$ 2,271**	$ 5,684
Share-based compensation expense	**1**	17
Depreciation and depletion	**219**	1,288
Royalties	**1,135**	1,700
Cost of sales from mine operations	**3,626**	8,689
Cost of sales related to idled mine assets	**926**	1,677
Cost of sales	**$ 4,552**	$ 10,366

Operating expenses in cost of sales were $2.3 million in the second quarter of 2021 compared to $5.7 million in the second quarter of 2020. The overall decrease in operating expenses was primarily due to the decreased sales volume from 0.5 million tonnes in the second quarter of 2020 to 0.1 million tonnes in the second quarter of 2021.

Cost of sales related to idled mine assets in the second quarter of 2021 included $0.9 million related to depreciation expenses for idled equipment (second quarter of 2020: $1.7 million).

Other operating expenses were $0.1 million in the second quarter of 2021 (second quarter of 2020: $5.2 million). A provision for commercial arbitration of $4.6 million recorded for the second quarter of 2020 in connection with the settlement agreement entered into with First Concept.

	Three months ended June 30,	
$ in thousands	**2021**	**2020**
CIC management fee	**$ 120**	$ 413
Provision for doubtful trade and other receivables	**29**	144
Foreign exchange loss, net	**189**	20
Discount on settlement of trade payables	**(225)**	-
Loss on disposal of items of property, plant and equipment, net	**-**	20
Provision for commercial arbitration	**-**	4,553
Other operating expenses	**$ 113**	$ 5,150

Administration expenses were $1.5 million in the second quarter of 2021 compared to $1.3 million in the second quarter of 2020 as follows:

	Three months ended June 30,	
$ in thousands	**2021**	**2020**
Corporate administration	**$ 533**	$ 143
Legal and professional fees	**16**	162
Salaries and benefits	**765**	757
Share-based compensation expense	**2**	57
Depreciation	**168**	172
Administration expenses	**$ 1,484**	$ 1,291

The Company continued to minimize evaluation and exploration expenditures in the second quarter of 2021 in order to preserve the Company's financial resources. Evaluation and exploration activities and expenditures in the second 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 $8.9 million and $7.3 million in the second quarter of 2021 and 2020 respectively, which primarily consisted of interest expense on the $250.0 million CIC Convertible Debenture.

For the six months ended June 30, 2021

The Company recorded a $6.5 million profit from operations in the first six months of 2021 compared to a $3.2 million loss from operations in the first six months of 2020. The financial results were impacted by (i) the higher selling price achieved by the Company; and (ii) a provision for commercial arbitration of $4.6 million recorded for the first six months of 2020 in connection with the settlement agreement entered into with First Concept.

Revenue was 33.3 million in the first six months of 2021 compared to $21.1 million in the first six months of 2020. The Company's effective royalty rate for the first six months of 2021, based on the Company's average realized selling price of $44.1 per tonne, was 16.0% or $7.1 per tonne, compared to 13.7% or $4.3 per tonne in the first six months of 2020 (based on the average realized selling price of $31.5 per tonne).

Cost of sales were $22.9 million in the first six months of 2021 compared to $16.4 million in the first six months of 2020, as follows:

	Six months ended June 30,	
$ in thousands	**2021**	**2020**
Operating expenses	**$ 14,551**	$ 8,522
Share-based compensation expense/(recovery)	**(1)**	19
Depreciation and depletion	**1,577**	1,866
Royalties	**5,335**	2,957
Cost of sales from mine operations	**21,462**	13,364
Cost of sales related to idled mine assets	**1,437**	3,073
Cost of sales	**$ 22,899**	$ 16,437

Operating expenses in cost of sales were $14.6 million in the first six months of 2021 compared to $8.5 million in the first six months of 2020. The overall increase in operating expenses was primarily due to the increased sales volume.

Cost of sales related to idled mine assets in the first six months of 2021 included $1.4 million related to depreciation expenses for idled equipment (first six months of 2020: $3.1 million).

Other operating expenses were $0.4 million in the first six months of 2021 (first six months of 2020: $4.7 million). A provision for commercial arbitration of $4.6 million recorded for the first six months of 2020 in connection with the settlement agreement entered into with First Concept.

$ in thousands	Six months ended June 30, 2021		Six months ended June 30, 2020	
CIC management fee	**$**	**733**	$	535
Provision for doubtful trade and other receivables		**220**		282
Foreign exchange loss/(gain), net		**171**		(752)
Gain on disposal of property, plant and equipment, net		**(270)**		(19)
Discount on settlement of trade payables		**(381)**		-
Reversal of impairment on materials and supplies inventories		**(25)**		-
Provision for commercial arbitration		**-**		4,634
Other operating expenses	**$**	**448**	$	4,680

Administration expenses were $3.3 million in the first six months of 2021 compared to $3.1 million in the first six months of 2020, as follows:

$ in thousands	Six months ended June 30, 2021		Six months ended June 30, 2020	
Corporate administration	**$**	**949**	$	448
Legal and professional fees		**559**		549
Salaries and benefits		**1,398**		1,667
Share-based compensation expense/(recovery)		**(4)**		69
Depreciation		**364**		329
Administration expenses	**$**	**3,266**	$	3,062

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

Finance costs were $21.0 million and $14.4 million in the first six months of 2021 and 2020 respectively, which primarily consisted of interest expense on the $250.0 million CIC Convertible Debenture. The increase was mainly due to the associated increase in interest expenses following the recording of a gain on extinguishment of the CIC Convertible Debenture.

Summary of Quarterly Operational Data

	2021		2020				2019	
Quarter Ended	**30-Jun**	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep
Sales Volumes, Prices and Costs								
Premium semi-soft coking coal								
Coal sales *(millions of tonnes)*	**0.08**	0.40	0.38	0.35	0.21	0.07	0.39	0.05
Average realized selling price *(per tonne)*	**$ 52.11**	$ 47.88	$ 39.34	$ 30.17	$ 28.69	$ 28.46	$ 29.18	$ 31.49
Standard semi-soft coking coal/ premium thermal coal								
Coal sales *(millions of tonnes)*	**0.03**	0.23	0.50	0.54	0.26	0.13	0.40	0.51
Average realized selling price *(per tonne)*	**$ 36.71**	$ 35.17	$ 31.66	$ 30.80	$ 33.12	$ 32.71	$ 31.88	$ 31.67
Standard thermal coal								
Coal sales *(millions of tonnes)*	**-**	-	-	-	-	-	-	-
Average realized selling price *(per tonne)*	**$ -**	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Washed coal								
Coal sales *(millions of tonnes)*	**-**	0.01	0.07	0.10	0.02	-	0.20	0.25
Average realized selling price *(per tonne)*	**$ -**	$ 49.62	$ 42.51	$ 41.30	$ 43.26	$ -	$ 42.95	$ 42.37
Total								
Coal sales *(millions of tonnes)*	**0.11**	0.64	0.95	0.99	0.49	0.20	0.99	0.81
Average realized selling price *(per tonne)*	**$ 47.93**	$ 43.46	$ 35.53	$ 31.63	$ 31.66	$ 31.18	$ 33.04	$ 34.98
Raw coal production *(millions of tonnes)*	**-**	1.04	0.96	0.52	-	0.01	1.48	1.21
Cost of sales of product sold *(per tonne)*	**$ 41.38**	$ 28.67	$ 23.36	$ 20.23	$ 21.16	$ 30.36	$ 23.68	$ 19.16
Direct cash costs of product sold *(per tonne)* (i)	**$ 16.39**	$ 18.15	$ 14.78	$ 12.38	$ 9.90	$ 11.69	$ 13.61	$ 18.03
Mine administration cash costs of product sold *(per tonne)* (i)	**$ 4.26**	$ 1.04	$ 1.07	$ 1.15	$ 1.70	$ 2.50	$ 1.29	$ 1.09
Total cash costs of product sold (*per tonne*) (i)	**$ 20.65**	$ 19.19	$ 15.85	$ 13.53	$ 11.60	$ 14.19	$ 14.90	$ 19.12
Other Operational Data								
Production waste material moved *(millions of bank cubic meters)*	**-**	5.04	3.10	1.67	-	0.57	3.61	4.36
Strip ratio *(bank cubic meters of waste material per tonne of coal produced)*	**-**	4.83	3.24	3.20	-	85.08	2.44	3.61
Lost time injury frequency rate (ii)	**0.00**	0.00	0.00	0.00	0.04	0.09	0.08	0.08

(i) A non-IFRS financial measure, see section 3. Cash costs of product sold exclude idled mine asset cash costs.
(ii) Per 200,000 man hours and calculated based on a rolling 12-month average.

Summary of Quarterly Financial Results

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

$ in thousands, except per share information	2021		2020				2019	
Quarter Ended	**30-Jun**	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep
Financial Results								
Revenue (i)	**$ 5,191**	$ 28,064	$ 33,879	$ 30,960	$ 14,975	$ 6,137	$ 32,113	$ 28,309
Cost of sales (i)	**(4,552)**	(18,347)	(22,193)	(20,027)	(10,366)	(6,071)	(23,446)	(15,518)
Gross profit excluding idled mine asset costs	**1,565**	10,228	12,610	11,789	6,286	1,462	9,971	13,664
Gross profit including idled mine asset costs	**639**	9,717	11,686	10,933	4,609	66	8,667	12,791
Other operating income/(expenses)	**(113)**	(335)	434	(575)	(5,150)	470	(1,589)	(1,245)
Administration expenses	**(1,484)**	(1,781)	(2,120)	(1,789)	(1,291)	(1,771)	(1,386)	(2,074)
Evaluation and exploration expenses	**(47)**	(65)	(55)	(63)	(52)	(56)	(382)	(22)
Profit/(loss) from operations	**(1,005)**	7,536	9,945	8,506	(1,884)	(1,291)	5,310	9,450
Finance costs	**(8,870)**	(14,637)	(7,442)	(9,885)	(7,258)	(7,135)	(7,095)	(7,184)
Finance income	**2,494**	21,001	13	2,583	2	43	36	68
Share of earnings/(loss) of a joint venture	**(35)**	274	431	660	268	(46)	225	277
Current income tax credit/(expense)	**139**	(1,120)	(5,174)	(793)	(900)	(732)	(659)	(468)
Net profit/(loss)	**(7,277)**	13,054	(2,227)	1,071	(9,772)	(9,161)	(2,183)	2,143
Basic earnings/(loss) per share	**$ (0.03)**	$ 0.05	$ (0.01)	$ -	$ (0.04)	$ (0.03)	$ (0.01)	$ 0.01
Diluted earnings/(loss) per share	**$ (0.03)**	$ 0.02	$ (0.01)	$ -	$ (0.04)	$ (0.03)	$ (0.01)	$ 0.01

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

3. NON-IFRS FINANCIAL MEASURES

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

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

Cash Costs

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

The following table provides a reconciliation of the cash costs of product sold disclosed for the three and six months ended June 30, 2021 and June 30, 2020. The cash costs of product sold presented below may differ from cash costs of product produced depending on the timing of coal stockpile inventory turnover and impairment of coal stockpile inventories from prior periods.

	Three months ended June 30,		Six months ended June 30,	
$ in thousands, except per tonne information	**2021**	**2020**	**2021**	**2020**
Cash costs				
Cost of sales determined in accordance with IFRS	**$ 4,552**	$ 10,366	**$ 22,899**	$ 16,437
Less royalties	**(1,135)**	(1,700)	**(5,335)**	(2,957)
Less non-cash expenses	**(220)**	(1,305)	**(1,576)**	(1,885)
Less non-cash idled mine asset costs	**(926)**	(1,677)	**(1,437)**	(3,073)
Total cash costs	**2,271**	5,684	**14,551**	8,522
Less idled mine asset cash costs	**-**	-	**-**	-
Total cash costs excluding idled mine asset cash costs	**2,271**	5,684	**14,551**	8,522
Coal sales *(millions of tonnes)*	**0.11**	0.49	**0.75**	0.69
Total cash costs of product sold *(per tonne)*	**$ 20.65**	$ 11.60	**$ 19.40**	$ 12.35

	Three months ended June 30,		Six months ended June 30,	
$ in thousands, except per tonne information	**2021**	**2020**	**2021**	**2020**
Cash costs				
Direct cash costs of product sold *(per tonne)*	**$ 16.39**	$ 9.90	**$ 17.89**	$ 10.42
Mine administration cash costs of product sold *(per tonne)*	**4.26**	1.70	**1.51**	1.93
Total cash costs of product sold *(per tonne)*	**$ 20.65**	$ 11.60	**$ 19.40**	$ 12.35

The cash cost of product sold per tonne was $20.7 for the second quarter of 2021, which has increased from $11.6 per tonne for the second quarter of 2020. The reason for the increase is primarily related to (i) diseconomies of scale given the decreased sales; and (ii) a higher portion of coal were transported to the Company's Inner Mongolia subsidiary and sold to third party customers within China instead of selling at the mine gate during the quarter.

4. PROPERTIES

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

Operating Mine

Ovoot Tolgoi Mine

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

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

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 ($33m^3$ & $36m^3$) hydraulic excavators, three Liebherr R9250 ($15m^3$) hydraulic excavators and 19 MT4400AC (218 tonne capacity) haul trucks, together with various pieces of ancillary equipment.

Workforce

As at June 30, 2021, SGS employed 233 employees in Mongolia. Of the 233 employees, 28 are employed in the Ulaanbaatar office and 205 at the Ovoot Tolgoi Mine site. Of the 233 employees based in Mongolia, all of them are Mongolian nationals, in which 116 (50%) are residents of the local Gurvantes, Dalanzadgad, Sevrei and Noyon Soums.

5. LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Capital Management

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

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

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

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

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

Going concern considerations

The Company's condensed consolidated interim financial statements have been prepared on a going concern basis which assumes that the Company will continue operating until at least June 30, 2022 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. However, in order to continue as a going concern, the Company must generate sufficient operating cash flow, secure additional capital or otherwise pursue a strategic restructuring, refinancing or other transactions to provide it with additional liquidity.

Several adverse conditions and material uncertainties cast significant doubt upon the Company's ability to continue as a going concern and the going concern assumption used in the preparation of the Company's consolidated financial statements. The Company had a deficiency in assets of $70.6 million as at June 30, 2021 as compared to a deficiency in assets of $76.2 million as at December 31, 2020 while the working capital deficiency (excess current liabilities over current assets) was $35.3 million as at June 30, 2021 compared to a working capital deficiency of $217.6 million as at December 31, 2020.

Included in the working capital deficiency as at June 30, 2021 are significant obligations, mainly comprising of trade and other payables of $68.8 million, which includes the unpaid taxes of $24.1 million that are repayable on demand to the Mongolian Tax Authority ("MTA").

The Company may not be able to settle all trade and other payables on a timely basis, while continuing postponement in settling certain trade payables owed to suppliers and creditors may impact the mining operations of the Company and may result in potential lawsuits and/or bankruptcy proceedings being filed against the Company. Except as disclosed elsewhere in this MD&A, no such lawsuits or proceedings are pending as at August 13, 2021. However, there can be no assurance that no such lawsuits or proceedings will be filed by the Company's creditors in the future and the Company's suppliers and contractors will continue to supply and provide services to the Company uninterrupted.

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

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

Factors that impact the Company's liquidity are being closely monitored and include, but are not limited to, impact of the COVID-19 pandemic, restrictions on the Company's ability to import its coal products for sale in China, China's economic growth, market prices of coal, production levels, operating cash costs, capital costs, exchange rates of currencies of countries where the Company operates and exploration and discretionary expenditures.

As at June 30, 2021 and December 31, 2020, the Company was not subject to any externally imposed capital requirements.

Impact of the COVID-19 Pandemic

Since the onset of the COVID-19 pandemic in early 2020, the Mongolian local authorities have taken certain precautionary steps to minimize further transmission of COVID-19 in Mongolia and announced several lockdown measures in Ulaanbaatar. During 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 case numbers in Mongolia, which included restricting the number of trucks crossing the Mongolian border into China. These restrictions on trucking volume have had an adverse impact on the Company's ability to import its coal products into China in the second quarter of 2021. In response, 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. Such suspension remains in effect as of the date of this MD&A. Although the export of coal from Mongolia to China continues as of the date hereof, there can be no guarantee that the Company will be able to continue exporting coal to China, or that the border crossings would not be the subject of closures as a result of COVID-19 or any variants thereof in the future. The Company will continue to closely monitor the development of the COVID-19 pandemic and the impact it has on coal exports to China and will react promptly to preserve the working capital of the Company and mitigate any negative impacts on the business and operations of the Company.

CIC Convertible Debenture

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

On March 29, 2010, the Company exercised its right to call for the conversion of up to $250.0 million of the CIC Convertible Debenture into approximately 21.5 million shares at a conversion price of $11.64 (CAD$11.88). As at June 30, 2021, CIC owned approximately 23.7% of the issued and outstanding Common Shares of the Company.

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

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

- Payment of the 2020 November Deferral Amounts will be deferred until August 31, 2023.
- CIC agreed to waive its rights arising from any default or event of default under the CIC Convertible Debenture as a result of trading in the Common Shares being halted on the TSX beginning as of June

19, 2020 and suspended on the HKEX beginning as of August 17, 2020, in each case for a period of more than five trading days.
- As consideration for the deferral of the 2020 November Deferral Amounts, the Company agreed to pay CIC: (i) a deferral fee equal to 6.4% per annum on the 2020 November Deferral Amounts payable under the CIC Convertible Debenture and the 2020 June Deferral Agreement, commencing on the date on which each such 2020 November Deferral Amounts would otherwise have been due and payable under the CIC Convertible Debenture or the 2020 June Deferral Agreement, as applicable; and (ii) a deferral fee equal to 2.5% per annum on the 2020 November Deferral Amounts payable under the Amended and Restated Cooperation Agreement, commencing on the date on which the management fee would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.
- The 2020 November Deferral Agreement does not contemplate a fixed repayment schedule for the 2020 November Deferral Amounts and related deferral fees. Instead, the Company and CIC would agree to assess in good faith the Company's financial condition and working capital position on a monthly basis and determine the amount, if any, of the 2020 November Deferral Amounts and related deferral fees that the Company is able to repay under the CIC Convertible Debenture, the 2020 June Deferral Agreement or the Amended and Restated Cooperation Agreement, having regard to the working capital requirements of the Company's operations and business at such time and with the view of ensuring that the Company's operations and business would not be materially prejudiced as a result of any repayment.
- Commencing as of November 19, 2020 and until such time as the November 2020 PIK Interest is fully repaid, CIC reserves the right to require the Company to pay and satisfy the amount of the November 2020 PIK Interest, either in full or in part, by way of issuing and delivering PIK interest shares in accordance with the CIC Convertible Debenture provided that, on the date of issuance of such shares, the Common Shares are listed and trading on at least one stock exchange.
- If at any time before the 2020 November Deferral Amounts and related deferral fees are fully repaid, the Company proposes to appoint, replace or terminate one or more of its Chief Executive Officer, its Chief Financial Officer or any other senior executive(s) in charge of its principal business function or its principal subsidiary, then the Company must first consult with, and obtain written consent from CIC prior to effecting such appointment, replacement or termination.

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

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

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

Cash Flow Highlights

$ in thousands	Six months ended June 30, 2021	2020
Net cash flows from operating activities	**$ (3,387)**	$ 4,598
Cash used in investing activities	**(5,774)**	(4,841)
Cash used in financing activities	**(3,884)**	(3,284)
Effect of foreign exchange rate changes on cash	**(351)**	(39)
Decrease in cash for the period	**(13,396)**	(3,566)
Cash balance, beginning of period	**20,121**	7,164
Cash balance, end of period	**$ 6,725**	$ 3,598

Net cash flows from operating activities

The Company's net cash flows from operating activities was an outflow of $3.4 million in the first six months of 2021 compared to an inflow of $4.6 million in the first six months of 2020. This is primarily due to the net settlement of trade and other payables and the interest paid during the first six months of 2021.

Cash used in Investing Activities

The Company used $5.8 million of cash during the first six months of 2021 in investing activities compared to $4.8 million during the first six months of 2020. In the first six months of 2021, expenditures on property, plant and equipment totaled $6.5 million (first six months of 2020: $5.2 million).

Cash used in Financing Activities

Cash used in financing activities was $3.9 million in the first six months of 2021 (first six months of 2020: $3.3 million), which was principally attributable to the repayment of an interest-bearing loan of $2.8 million during the first quarter of 2021.

Contractual Obligations and Guarantees

Day-to-day mining, expansionary and sustaining capital expenditures as well as administrative operations give rise to commitments for future minimum payments. As at June 30, 2021, the Company's operating and capital commitments were:

	Within 1 year	2-3 years	Over 3 years	Total
As at June 30, 2021				
Capital expenditure commitments	**$ -**	**$ -**	**$ -**	**$ -**
Operating expenditure commitments	**2,058**	**47**	**289**	**2,394**
Commitments	**$ 2,058**	**$ 47**	**$ 289**	**$ 2,394**

Ovoot Tolgoi Mine Impairment Analysis

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

Financial Instruments

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

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

	As at	
$ in thousands	**June 30, 2021**	**December 31, 2020**
Financial assets		
Cash	**$ 6,725**	$ 20,121
Restricted cash	**1,239**	918
Trade and other receivables	**237**	1,305
Total financial assets	**$ 8,201**	$ 22,344

	As at	
$ in thousands	**June 30,**	**December 31,**
Financial liabilities	**2021**	**2020**
Fair value through profit or loss		
Convertible debenture - embedded derivatives	**$ 978**	$ 152
Other financial liabilities		
Trade and other payables	**68,791**	74,365
Interest-bearing borrowings	**-**	2,826
Convertible debenture - debt host and interest payable	**178,092**	181,259
Total financial liabilities	**$ 247,861**	$ 258,602

6. REGULATORY ISSUES AND CONTINGENCIES

Class Action Lawsuit

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

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

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

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

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

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

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

Special Needs Territory in Umnugobi

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

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

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

Mongolian Royalties

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

Importing F-Grade Coal into China

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

7. OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of Common Shares without par value and an unlimited number of preferred shares without par value. As at August 13, 2021, approximately 273.6 million Common Shares were issued and outstanding. There are also incentive share options outstanding to acquire approximately 8.3 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 August 13, 2021, to the best of the Company's knowledge:

- CIC holds a total of approximately 64.8 million Common Shares representing approximately 23.7% of the issued and outstanding Common Shares;
- Novel Sunrise holds a total of approximately 46.4 million Common Shares representing approximately 17.0% of the issued and outstanding Common Shares; and
- Voyage Wisdom Limited ("Voyage Wisdom") holds a total of approximately 25.8 million Common Shares representing approximately 9.4% of the issued and outstanding Common Shares.

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

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

9. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Refer to Note 2.4 of the Company's condensed consolidated interim financial statements of the quarter ended June 30, 2021 for information regarding the accounting judgments and estimates.

10. RISK FACTORS

There are certain risks involved in and related to the Company's operations, some of which are beyond its control. Material risks and uncertainties affecting the Company, their potential impact on the Company's operations and the Company's principal risk management strategies are, except as updated by this MD&A, substantially unchanged from those disclosed in the Company's most recently filed Annual Information Form for the year ended December 31, 2020, which is available under the Company's profile on SEDAR at www.sedar.com.

11. OUTLOOK

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

As a result of the restrictions on trucking volume crossing the Mongolian border into China imposed by Chinese Authorities at the Ceke port of entry, the Company anticipates that it will continue to be negatively impacted by the COVID-19 pandemic for the foreseeable future, which will have an adverse effect on the Company's sales, production, logistics and financials. In particular, the restriction of the number of trucks for crossing the Mongolian border into China by the Chinese authorities will limit the Company's ability to increase revenue despite the improved market conditions in China. The Company will continue to closely monitor the development of the COVID-19 pandemic and the impact it has on coal exports to China, and will react promptly to preserve the working capital of the Company and mitigate any negative impacts on the business and operations of the Company.

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.

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.

August 13, 2021

SouthGobi Resources Ltd.
Condensed Consolidated Interim Financial Statements

June 30, 2021
(Expressed in U.S. Dollars)
(Unaudited)

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Additional stock exchange information

SOUTHGOBI RESOURCES LTD.

Condensed Consolidated Interim Statement of Comprehensive Income

(Unaudited)

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

	Notes	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Revenue	4	**$ 5,191**	$ 14,975	**$ 33,255**	$ 21,112
Cost of sales	6	**(4,552)**	(10,366)	**(22,899)**	(16,437)
Gross profit		**639**	4,609	**10,356**	4,675
Other operating expenses	7	**(113)**	(5,150)	**(448)**	(4,680)
Administration expenses		**(1,484)**	(1,291)	**(3,266)**	(3,062)
Evaluation and exploration expenses		**(47)**	(52)	**(112)**	(108)
Profit/(loss) from operations		**(1,005)**	(1,884)	**6,530**	(3,175)
Finance costs	8	**(8,870)**	(7,258)	**(21,027)**	(14,365)
Finance income	8	**2,494**	2	**21,015**	17
Share of earnings/(loss) of a joint venture		**(35)**	268	**239**	222
Profit/(loss) before tax		**(7,416)**	(8,872)	**6,757**	(17,301)
Current income tax credit/(expenses)	9	**139**	(900)	**(981)**	(1,632)
Net profit/(loss) attributable to equity holders of the Company		**(7,277)**	(9,772)	**5,776**	(18,933)
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods					
Exchange differences on translation of foreign operation		**94**	(2,352)	**(224)**	(4,789)
Net comprehensive income/(loss) attributable to equity holders of the Company		**(7,183)**	$ (12,124)	**$ 5,552**	$ (23,722)
Basic earnings/(loss) per share	10	**$ (0.03)**	$ (0.04)	**$ 0.02**	$ (0.07)
Diluted earnings/(loss) per share	10	**$ (0.03)**	$ (0.04)	**$ 0.01**	$ (0.07)

SOUTHGOBI RESOURCES LTD.

Condensed Consolidated Interim Statement of Financial Position

(Unaudited)

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

	Notes	As at June 30, 2021	As at December 31, 2020
Assets			
Current assets			
Cash and cash equivalents		**$ 6,725**	$ 20,121
Restricted cash		**1,239**	918
Trade and other receivables	11	**237**	1,305
Inventories	12	**48,426**	42,383
Prepaid expenses		**2,121**	1,666
Total current assets		**58,748**	66,393
Non-current assets			
Property, plant and equipment	13	**135,049**	131,425
Inventories	12	**136**	680
Investment in a joint venture		**15,969**	16,134
Total non-current assets		**151,154**	148,239
Total assets		**$ 209,902**	$ 214,632
Equity and liabilities			
Current liabilities			
Trade and other payables	14	**$ 68,791**	$ 74,365
Deferred revenue		**19,997**	20,831
Interest-bearing borrowing	15	**-**	2,826
Lease liabilities		**249**	202
Income tax payable		**5,049**	4,365
Current portion of convertible debenture	16	**-**	181,411
Total current liabilities		**94,086**	284,000
Non-current liabilities			
Lease liabilities		**689**	424
Convertible debenture	16	**179,070**	-
Decommissioning liability		**6,649**	6,445
Total non-current liabilities		**186,408**	6,869
Total liabilities		**280,494**	290,869
Equity			
Common shares		**1,098,760**	1,098,634
Share option reserve		**52,669**	52,702
Capital reserve		**396**	396
Exchange reserve		**(30,495)**	(30,271)
Accumulated deficit		**(1,191,922)**	(1,197,698)
Total deficiency in assets		**(70,592)**	(76,237)
Total equity and liabilities		**$ 209,902**	$ 214,632
Net current liabilities		**$ (35,338)**	$ (217,607)
Total assets less current liabilities		**$ 115,816**	$ (69,368)

Corporate information and going concern (Note 1) and commitments for expenditure (Note 19)

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

APPROVED BY THE BOARD:

"Mao Sun"	*"Dalanguerban"*
Director	Director

SOUTHGOBI RESOURCES LTD.

Condensed Consolidated Interim Statement of Changes in Equity

(Unaudited)

(Expressed in thousands of U.S. Dollars and shares/units 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 period	-	-	-	-	-	(18,933)	(18,933)
Exchange differences on translation of foreign operations	-	-	-	-	(4,789)	-	(4,789)
Total comprehensive loss attributable to equity holders of the Company	-	-	-	-	(4,789)	(18,933)	(23,722)
Share-based compensation charged to operations	-	-	88	-	-	-	88
Balances, June 30, 2020	272,703	$ 1,098,634	$ 52,677	$ 396	$ (28,017)	$ (1,196,542)	$ (72,852)
Balances, January 1, 2021	**272,703**	**$ 1,098,634**	**$ 52,702**	**$ 396**	**$ (30,271)**	**$ (1,197,698)**	**$ (76,237)**
Net profit for the period	**-**	**-**	**-**	**-**	**-**	**5,776**	**5,776**
Exchange differences on translation of foreign operations	**-**	**-**	**-**	**-**	**(224)**	**-**	**(224)**
Total comprehensive income attributable to equity holders of the Company	**-**	**-**	**-**	**-**	**(224)**	**5,776**	**5,552**
Shares issued for:							
Exercise of stock options	**921**	**126**	**(28)**	**-**	**-**	**-**	**98**
Share-based compensation credited to operations	**-**	**-**	**(5)**	**-**	**-**	**-**	**(5)**
Balances, June 30, 2021	**273,624**	**$ 1,098,760**	**$ 52,669**	**$ 396**	**$ (30,495)**	**$ (1,191,922)**	**$ (70,592)**

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

SOUTHGOBI RESOURCES LTD.

Condensed Consolidated Interim Statement of Cash Flows

(Unaudited)
(Expressed in thousands of U.S. Dollars)

	Notes	Six months ended June 30, 2021	2020
Operating activities			
Profit/(loss) before tax		**$ 6,757**	$ (17,301)
Adjustments for:			
Depreciation and depletion		**3,378**	5,307
Share-based compensation expense/(recovery)		**(5)**	88
Interest expense on convertible debenture	8	**18,803**	12,357
Interest expense on borrowing	8	**61**	198
Interest elements on leased assets	8	**34**	32
Accretion of decommissioning liability	8	**171**	341
Fair value loss/(gain) on embedded derivatives in convertible debenture	8	**826**	(9)
Finance income	8	**(45)**	(8)
Share of earnings of a joint venture		**(239)**	(222)
Gain on disposal of items of property, plant and equipment, net	7	**(270)**	(19)
Provision for doubtful trade and other receivables	11	**220**	282
Provision for commercial arbitration	7	**-**	4,634
Reversal of impairment of inventories	7	**(25)**	-
Discount on settlement of trade payables	7	**(381)**	-
Gain on extinguishment of convertible debenture	8	**(20,970)**	-
Operating cash flows before changes in non-cash working capital items		**8,315**	5,680
Net change in working capital items	18	**(11,272)**	(931)
Cash generated from/(used in) operating activities		**(2,957)**	4,749
Interest paid		**(59)**	(120)
Income tax paid		**(371)**	(31)
Net cash flows from/(used in) operating activities		**(3,387)**	4,598
Investing activities			
Expenditures on property, plant and equipment		**(6,492)**	(5,216)
Proceeds from disposal of property, plant and equipment		**271**	57
Interest received	8	**45**	8
Dividend from a joint venture		**402**	310
Net cash flows used in investing activities		**(5,774)**	(4,841)
Financing activities			
Proceeds from exercise of share options		**97**	-
Repayment of interest-bearing loan		**(2,800)**	-
Interest payment of convertible debenture	16.4	**(1,000)**	(700)
Capital elements of lease rental paid		**(181)**	(362)
Refund of customers' deposits		**-**	(2,222)
Net cash flows used in financing activities		**(3,884)**	(3,284)
Effect of foreign exchange rate changes on cash and cash equivalents		**(351)**	(39)
Decrease in cash and cash equivalents		**(13,396)**	(3,566)
Cash and cash equivalents, beginning of period		**20,121**	7,164
Cash and cash equivalents, end of period		**$ 6,725**	$ 3,598

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

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 June 30, 2021, to the Company's 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 23.7% 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 17.0% and 9.5% of the outstanding common shares of the Company, respectively.

The Company owns the following significant 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 Coronavirus Disease 2019 ("COVID-19") pandemic

Since the onset of the COVID-19 pandemic in early 2020, the Mongolian local authorities have taken certain precautionary steps to minimize further transmission of COVID-19 in Mongolia and announced several lockdown measures in Ulaanbaatar. During 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 case numbers in Mongolia, which included restricting the number of trucks crossing the Mongolian border into China. These restrictions on trucking volume have had an adverse impact on the Company's ability to import its coal products into China in the second quarter of 2021. In response, 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. Such suspension remains in effect as of the date hereof. Although the export of coal from Mongolia to China continues as of the date hereof, there can be no guarantee that the Company will be able to continue exporting coal to China, or that the border crossings would not be the subject of closures as a result of COVID-19 or any variants thereof in the future. The Company will continue to closely monitor the development of the COVID-19 pandemic and the impact it has on coal exports to China and will react promptly to preserve the working capital of the Company and mitigate any negative impacts on the business and operations of the Company.

Going concern assumption

The Company's condensed interim consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue operating until at least June 30, 2022 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. 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 additional liquidity.

1. CORPORATE INFORMATION AND GOING CONCERN (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 condensed interim consolidated financial statements. The Company had a deficiency in assets of $70,592 as at June 30, 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) was $35,338 as at June 30, 2021 as compared to a working capital deficiency of $217,607 as at December 31, 2020.

Included in the working capital deficiency as at June 30, 2021 are significant obligations, mainly comprising of trade and other payables of $68,791, which includes the unpaid taxes of $24,069 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 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 condensed consolidated interim financial statements, no such lawsuits or proceedings were pending as at August 13, 2021.

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

1. CORPORATE INFORMATION AND GOING CONCERN (CONTINUED)

Management of the Company has prepared a cash flow projection covering a period of 12 months from June 30, 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: (1) entering into two 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") and 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 worth of PIK Interest shares (collectively, the "2021 Deferral Amounts") respectively until August 31, 2023; (2) agreeing to deferral arrangements and improved payment terms with certain vendors; (3) reducing the outstanding tax payable by making monthly payments to the MTA beginning as of June 2020; and (4) reducing the inventory of low quality coal by wet washing. After considering the above, the directors of the Company believe that there will be sufficient financial resources to continue its operations and to meet its financial obligations as and when they fall due in the next 12 months from June 30, 2021 and therefore are satisfied that it is appropriate to prepare the condensed consolidated interim financial statements on a going concern basis.

Factors that impact the Company's liquidity are being closely monitored and include, but are not limited to: impact of the COVID-19 pandemic, restrictions on the Company's ability to import its coal products for sale in China, China's economic growth, market prices of coal, production levels, operating cash costs, capital costs, exchange rates of currencies of countries where the Company operates and exploration and discretionary expenditures.

As at June 30, 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

These condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standard ("IAS") 34 - "Interim Financial Reporting" using accounting policies in compliance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the IFRS Interpretations Committee ("IFRIC").

The condensed consolidated interim financial statements of the Company for the six months ended June 30, 2021 were approved and authorized for issue by the Board of Directors of the Company on August 13, 2021.

2. BASIS OF PREPARATION (CONTINUED)

2.2 Basis of presentation

These condensed consolidated interim financial statements have been prepared using accounting policies and methods of computation consistent with those applied in the Company's December 31, 2020 consolidated annual financial statements. These condensed consolidated interim financial statements do not include all the information and note disclosures required by IFRS for annual financial statements and therefore should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2020.

2.3 Adoption of new and revised standards and interpretations

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

2.4 Significant accounting judgments and estimates

Information about judgments and estimates in applying accounting policies that have the most significant effect on the amounts recognized in the Company's consolidated financial statements are included in Note 3.22 to the Company's December 31, 2020 consolidated annual financial statements. The significant accounting judgments and estimates remain substantially unchanged from December 31, 2020.

Liquidity and the going concern assumption

Management has made a critical judgement that the Company will be able to continue operating until at least June 30, 2022 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. However, in order to continue as a going concern, the Company must generate sufficient operating cash flow, secure additional capital or otherwise pursue a strategic restructuring, refinancing, or other transactions to provide it with additional liquidity. Refer to Note 1 for details.

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 recognized in profit or loss and the resulting carrying amounts of assets.

2. BASIS OF PREPARATION (CONTINUED)

2.4 Significant accounting judgments and estimates (continued)

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 June 30, 2021. The impairment indicator was the potential closures of the border crossings as a result of COVID-19 in the future. Since the recoverable amount was higher than carrying value of the Ovoot Tolgoi Mine cash generating unit, there was no impairment of non-financial asset recognized during the six months ended June 30, 2021.

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 $23,740 as at June 30, 2021 (December 31, 2020: $23,055). Refer to Note 11 for details.

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.

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 recognized in profit or loss and the carrying value of the decommissioning, restoration and similar liabilities.

Long term F-grade coal inventory

As a result of import coal quality restrictions established by Chinese authorities, the Company has not been able to export its F-grade coal products into China 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 were classified as non-current inventory. As at June 30, 2021, $136 of F-grade coal products were classified as non-current (December 31, 2020: $680).

2. BASIS OF PREPARATION (CONTINUED)

2.4 Significant accounting judgments and estimates (continued)

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 recognized in profit or loss.

3. SEGMENTED INFORMATION

The Chief Executive Officer (chief operating decision maker) of the Company 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 six months ended June 30, 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 six months ended June 30, 2021 and 2020.

3.1 Information about major customers

During the six months ended June 30, 2021, the Coal Division had twenty active customers. Two customers with respective revenues contributed over 10% of the total revenue during the six months ended June 30, 2021, with the largest customer accounting for 38% of revenues and the second largest customer accounting for 17% of revenues. Five customers with respective revenues contributed over 10% of the total revenue during the six months ended June 30, 2020, with the largest customer accounting for 25% of revenues, the second largest customer accounting for 23% of revenues, the third largest customer accounting for 16% of revenues, the fourth largest customer accounting for 13% of revenues and the fifth largest customer accounting for 11% of revenues.

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

3. SEGMENTED INFORMATION (CONTINUED)

3.2 Geographical information

The operations of the Company are primarily located in Mongolia, Hong Kong and China.

	Mongolia	Hong Kong	China	Consolidated Total
Revenue [(i)]				
For the three months ended June 30, 2021	**$ -**	**$ -**	**$ 5,191**	**$ 5,191**
For the three months ended June 30, 2020	-	-	14,975	14,975
For the six months ended June 30, 2021	**$ -**	**$ -**	**$ 33,255**	**$ 33,255**
For the six months ended June 30, 2020	-	-	21,112	21,112
Non-current assets				
As at June 30, 2021	**$ 150,322**	**$ 466**	**$ 366**	**$ 151,154**
As at December 31, 2020	147,675	84	480	148,239

(i) The revenue information above is based on the locations of the customers.

4. REVENUE

Revenue represents the net invoiced 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.

5. EXPENSES BY NATURE

The Company's expenses by nature are summarized as follows:

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Depreciation	**$ 1,499**	$ 3,137	**$ 3,378**	$ 5,268
Auditors' remuneration	**148**	138	**307**	383
Employee benefit expense (including directors' remuneration)				
Wages and salaries	**$ 1,332**	$ 1,612	**$ 2,921**	$ 3,904
Equity-settled share option expense	**3**	73	**(5)**	88
Pension scheme contributions	**127**	75	**351**	323
	$ 1,462	$ 1,760	**$ 3,267**	$ 4,315
Lease payments under operating leases	**$ 48**	$ 17	**$ 69**	$ 42
Foreign exchange loss/(gain) (Note 7)	**189**	20	**171**	(752)
CIC management fee (Note 17)	**120**	413	**733**	535
Royalties (Note 6)	**1,135**	1,700	**5,335**	2,957
Provision for doubtful trade and and other receivables (Note 11)	**29**	144	**220**	282
Loss/(gain) on disposal of property, plant and equipment (Note 7)	**-**	20	**(270)**	(19)
Provision for commercial arbitration (Note 7)	**-**	4,553	**-**	4,634
Discount on settlement of trade payables (Note 7)	**(225)**	-	**(381)**	-
Reversal of impairment on materials and supplies inventories (Note 7)	**-**	-	**(25)**	-
Mine operating costs and others	**1,791**	4,957	**13,921**	6,642
Total operating expenses	**$ 6,196**	$ 16,859	**$ 26,725**	$ 24,287

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

6. COST OF SALES

The Company's cost of sales consists of the following amounts:

	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Operating expenses	**$ 2,271**	$ 5,684	**$ 14,551**	$ 8,522
Share-based compensation expense/(recovery)	**1**	17	**(1)**	19
Depreciation and depletion	**219**	1,288	**1,577**	1,866
Royalties	**1,135**	1,700	**5,335**	2,957
Cost of sales from mine operations	**3,626**	8,689	**21,462**	13,364
Cost of sales related to idled mine assets (i)	**926**	1,677	**1,437**	3,073
Cost of sales	**$ 4,552**	$ 10,366	**$ 22,899**	$ 16,437

(i) Cost of sales related to idled mine assets were all related to the depreciation expense for the Company's idled plant and equipment.

Cost of inventories recognized as expense in cost of sales for the three months ended June 30, 2021 totaled $1,951 (2020: $7,228). Cost of inventories recognized as expense in cost of sales for the six months ended June 30, 2021 totaled $13,751 (2020: $9,822).

7. OTHER OPERATING EXPENSES

The Company's other operating expenses consist of the following amounts:

	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Foreign exchange loss/(gain), net (Note 5)	**$ 189**	$ 20	**$ 171**	$ (752)
CIC management fee (Note 17)	**120**	413	**733**	535
Provision for doubtful trade and other receivables (Note 11)	**29**	144	**220**	282
Reversal of impairment on materials and supplies inventories (Note 5)	**-**	-	**(25)**	-
Loss/(gain) on disposal of items of property, plant and equipment, net (Note 13)	**-**	20	**(270)**	(19)
Provision for commercial arbitration (Note 5)	**-**	4,553	**-**	4,634
Discount on settlement of trade payables (Note 5)	**(225)**	-	**(381)**	-
Other operating expenses	**$ 113**	$ 5,150	**$ 448**	$ 4,680

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

8. FINANCE COSTS AND INCOME

The Company's finance costs consist of the following amounts:

	Three months ended, June 30,		Six months ended, June 30,	
	2021	**2020**	**2021**	**2020**
Interest expense on convertible debenture (Note 16.4)	**$ 8,342**	$ 6,228	**$ 18,803**	$ 12,357
Fair value loss on embedded derivatives in convertible debenture (Note 16.4)	**-**	28	**826**	-
Value added tax on interest from intercompany loan	**430**	719	**1,132**	1,437
Interest expense on borrowing	**-**	93	**61**	198
Interest elements on leased assets	**11**	13	**34**	32
Accretion of decommissioning liability	**87**	177	**171**	341
Finance costs	**$ 8,870**	$ 7,258	**$ 21,027**	$ 14,365

The Company's finance income consists of the following amounts:

	Three months ended, June 30,		Six months ended, June 30,	
	2021	**2020**	**2021**	**2020**
Fair value gain on embedded derivatives in convertible debenture (Note 16.4)	**$ 2,479**	$ -	**$ -**	$ 9
Gain on extinguishment of convertible debenture (Note 16.4)	**-**	-	**20,970**	-
Interest income	**15**	2	**45**	8
Finance income	**$ 2,494**	$ 2	**$ 21,015**	$ 17

9. TAXES

The Canadian statutory tax rate was 27% (2020: 27%) on the estimated assessable profits arising in Canada during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Company operates.

	Three months ended, June 30,		Six months ended, June 30,	
	2021	**2020**	**2021**	**2020**
Current - Canada				
Charge for the period	**$ -**	$ -	**$ -**	$ -
Current - elsewhere				
Charge for the period	**-**	736	**981**	1,468
Underprovision/(overprovision) in prior periods	**(139)**	164	**-**	164
Total tax credit/(charge) for the period	**$ (139)**	$ 900	**$ 981**	$ 1,632

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

10. EARNINGS/(LOSS) PER SHARE

The calculation of basic and diluted earnings/(loss) per share is based on the following data:

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Net profit/(loss)	$ (7,277)	$ (9,772)	$ 5,776	$ (18,933)
Weighted average number of shares	273,289	272,703	273,289	272,703
Basic earnings/(loss) per share	$ (0.03)	$ (0.04)	$ 0.02	$ (0.07)
Earnings/(loss)				
Profit/(Loss) for the purposes of basic earnings/(loss) per share	$ (7,277)	$ (9,772)	$ 5,776	$ (18,933)
Effect of dilutive potential ordinary shares:				
- Interest expenses on convertible debenture (Note 8)	-	-	18,803	-
- Fair value loss on embedded derivatives in convertible debenture (Note 8)	-	-	826	-
- Gain on extinguishment of convertible debenture (Note 8)	-	-	(20,970)	-
Profit/(loss) for the purposes of diluted earnings/(loss) per share	$ (7,277)	$ (9,772)	$ 4,435	$ (18,933)
Number of shares				
Weighted average number of shares for the purposes of basic earnings/(loss) per share	273,289	272,703	273,289	272,703
Effect of dilutive potential ordinary shares:				
- Convertible debenture	-	-	34,893	-
- Share options	-	-	6,974	-
Weighted average number of ordinary shares for the purposes of diluted earnings/(loss) per share	273,289	272,703	315,156	272,703
Diluted earnings/(loss) per share	$ (0.03)	$ (0.04)	$ 0.01	$ (0.07)

11. TRADE AND OTHER RECEIVABLES

The Company's trade and other receivables consist of the following amounts:

	As at June 30, 2021	As at December 31, 2020
Trade receivables	$ -	$ 995
Other receivables	237	310
Total trade and other receivables	$ 237	$ 1,305

The aging of the Company's trade and other receivables is as follows:

	As at June 30, 2021	As at December 31, 2020
Less than 1 month	$ 48	$ 1,260
1 to 3 months	60	20
3 to 6 months	129	25
Over 6 months	-	-
Total trade and other receivables	$ 237	$ 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.

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

11. TRADE AND OTHER RECEIVABLES (CONTINUED)

The Company has determined that the loss allowance on its trade and other receivables was $23,740 as at June 30, 2021 (December 31, 2020: $23,055), 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 June 30, 2021 reconcile to the opening loss allowances as follows:

Loss allowance for trade and other receivables		
Opening loss allowance as at January 1, 2021	**$**	**23,055**
Increase in loss allowance recognised in profit or loss during the period (Note 7)		**220**
Exchange realignment		**465**
Loss allowance as at June 30, 2021	**$**	**23,740**
Opening loss allowance as at January 1, 2020	$	21,976
Increase in loss allowance recognised in profit or loss during the period (Note 7)		282
Exchange realignment		(325)
Loss allowance as at June 30, 2020	$	21,933

12. INVENTORIES

The Company's inventories consist of the following amounts:

	As at			
	June 30, 2021		**December 31, 2020**	
Current inventories				
Coal stockpiles	**$**	**34,376**	$	28,778
Materials and supplies		**14,050**		13,605
	$	**48,426**	$	42,383
Non-current inventories				
Coal stockpiles		**136**		680
Total inventories	**$**	**48,562**	$	43,063

Coal stockpile inventories of $136 are not expected to be utilized or sold within 12 months and are therefore classified as non-current inventories as at June 30, 2021 (December 31, 2020: $680).

13. PROPERTY, PLANT AND EQUIPMENT

During the six months ended June 30, 2021, the Company acquired items of plant and equipment with a cost including mineral properties of approximately $9,072 (six months ended June 30, 2020: $7,479). Items of plant and equipment with cost of approximately $1 were disposed during the six months ended June 30, 2021 (six months ended June 30, 2020: $76) with sales proceeds of $271 (six months ended June 30, 2020: $57), resulting in a gain on disposal of $270 (six months ended June 30, 2020: $19).

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

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

13.1 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.

13.2 Pledge on items of property, plant and equipment

There was no pledge of assets as at June 30, 2021 ($44 of the Company's property, plant and equipment were pledged as security for a bank loan granted to the Company as at December 31, 2020). (Note 15).

13.3 Right-of-use assets

The right-of-use assets relate to the buildings amounted to $988 as at June 30, 2021 (December 31, 2020: $791).

14. TRADE AND OTHER PAYABLES

Trade and other payables of the Company primarily consists 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	
	June 30, 2021	December 31, 2020
Less than 1 month	**$ 14,082**	$ 22,803
1 to 3 months	**2,550**	4,935
3 to 6 months	**18,518**	6,365
Over 6 months	**33,641**	40,262
Total trade and other payables	**$ 68,791**	$ 74,365

The trade and other payables of $68,791 (December 31, 2020: $74,365) included other tax payables of $24,069 (December 31, 2020: $31,742).

15. INTEREST-BEARING BORROWING

The Company's interest-bearing borrowing consists of the following amount:

	As at	
	June 30, 2021	December 31, 2020
Bank loan (i)	**$ -**	$ 2,826
Total interest-bearing borrowing	**$ -**	$ 2,826

15. INTEREST-BEARING BORROWING (CONTINUED)

(i) Bank Loan

On May 15, 2018, SGS obtained a bank loan (the "2018 Bank Loan") in the principal amount of $2,800 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 book value of the pledged items of property, plant and equipment was $44.

As at December 31, 2020, the outstanding principal balance for the 2018 Bank Loan was $2,800 and the Company owed accrued interest of $26.

In February 2021, $2,826 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.

16. CONVERTIBLE DEBENTURE

16.1 Key commercial terms

On November 19, 2009, the Company issued a convertible debenture to a wholly owned subsidiary of 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 shares) and has a maximum term of 30 years. 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 June 30, 2021.

16.2 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 amortized 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.

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

16. CONVERTIBLE DEBENTURE (CONTINUED)

16.2 Debt host and embedded derivatives (continued)

The convertible debenture is derecognized 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 recognized 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.

16.3 Valuation assumptions

The Company and CIC entered into 2020 November Deferral Agreement and became effective on January 21, 2021, detail refer to Note 16.5. As the net present value of the cash flows under the deferral terms discounted at the original effective interest rate is differ from the net present value of the remaining cash flows of the original convertible debenture for more than 10%, it is considered the deferral terms is “substantially different”. The original convertible debenture was derecognized on January 21, 2021 and the convertible debenture with modified terms was recognized accordingly.

The assumptions used in the Company’s valuation models are as follows:

	As at	
	June 30, 2021	**December 31, 2020**
Floor conversion price	**CAD$8.88**	CAD$8.88
Ceiling conversion price	**CAD$11.88**	CAD$11.88
Common share price	**CAD$0.17**	CAD$0.09
Historical volatility	**77%**	82%
Risk free rate of return	**2.25%**	1.35%
Foreign exchange spot rate (CAD$ to U.S. Dollar)	**0.81**	0.79
Forward foreign exchange rate curve (CAD$ to U.S. Dollar)	**0.718 - 0.807**	0.779 - 0.786

16.4 Presentation

Based on the Company’s valuation as at June 30, 2021, the fair value of the embedded derivatives increased by $826 compared to that as at December 31, 2020.

For the six months ended June 30, 2021, the Company recorded interest expense of $18,803 related to the convertible debenture as a finance cost (2020: $12,357). 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 on original convertible bond, the Company uses the contract life of 30 years and an effective interest rate of 22.2%. To calculate the accretion expense on the convertible bond with modified terms under the 2020 November Deferral Agreement, the Company uses an effective interest rate of 21.0%.

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

16. CONVERTIBLE DEBENTURE (CONTINUED)

16.4 Presentation (continued)

A gain on extinguishment of substantially modified terms of $20,970 was recognized in profit or loss for the six months ended June 30, 2021 for the difference between the derecognition of original convertible debenture and recognition of the convertible debenture under 2020 November Deferral Agreement discounted at the new effective interest rate.

The movements of the amounts due under the convertible debenture are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2021	**2020**	**2021**	**2020**
Balance, beginning of period	**$ 174,207**	$ 162,366	**$ 181,411**	$ 156,974
Interest expense on convertible debenture (Note 8)	**8,342**	6,228	**18,803**	12,357
Increase/(decrease) in fair value of embedded derivatives (Note 8)	**(2,479)**	28	**826**	(9)
Gain on extinguishment of convertible debenture (Note 8)	**-**	-	**(20,970)**	-
Interest paid	**(1,000)**	-	**(1,000)**	(700)
Balance, end of period	**$ 179,070**	$ 168,622	**$ 179,070**	$ 168,622

The convertible debenture balance consists of the following amounts:

	As at	
	June 30, 2021	**December 31, 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	**178,092**	-
Fair value of embedded derivatives	**978**	-
	179,070	-
Total convertible debenture	**$ 179,070**	$ 181,411

16.5 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 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.

16. CONVERTIBLE DEBENTURE (CONTINUED)

16.5 Interest deferral and settlement (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 CIC Convertible Debenture as a result of trading in the common shares being halted on the TSX beginning as of June 19, 2020 and suspended on the HKEX beginning as of August 17, 2020, in each case for a period of more than five trading days.
- As consideration for the deferral of the 2020 November Deferral Amounts, the Company agreed to pay CIC: (i) a deferral fee equal to 6.4% per annum on the 2020 November Deferral Amounts payable under the CIC Convertible Debenture and the 2020 June Deferral Agreement, commencing on the date on which each such 2020 November Deferral Amount would otherwise have been due and payable under the CIC Convertible Debenture or the 2020 June Deferral Agreement, as applicable; and (ii) a deferral fee equal to 2.5% per annum on the 2020 November Deferral Amounts payable under the Amended and Restated Cooperation Agreement, commencing on the date on which the management fee would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.
- The 2020 November Deferral Agreement does not contemplate a fixed repayment schedule for the 2020 November Deferral Amounts and related deferral fees. Instead, the Company and CIC would agree to assess in good faith the Company's financial condition and working capital position on a monthly basis and determine the amount, if any, of the 2020 November Deferral Amounts and related deferral fees that the Company is able to repay under the CIC Convertible Debenture, the 2020 June Deferral Agreement or the Amended and Restated Cooperation Agreement, having regard to the working capital requirements of the Company's operations and business at such time and with the view of ensuring that the Company's operations and business would not be materially prejudiced as a result of any repayment.
- Commencing as of November 19, 2020 and until such time as the November 2020 PIK Interest is fully repaid, CIC reserves the right to require the Company to pay and satisfy the amount of the November 2020 PIK Interest, either in full or in part, by way of issuing and delivering PIK interest shares in accordance with the CIC Convertible Debenture provided that, on the date of issuance of such shares, the common shares are listed and trading on at least one stock exchange.
- If at any time before the 2020 November Deferral Amounts and related deferral fees are fully repaid, the Company proposes to appoint, replace or terminate one or more of its Chief Executive Officer, its Chief Financial Officer or any other senior executive(s) in charge of its principal business function or its principal subsidiary, then the Company must first consult with, and obtain written consent from CIC prior to effecting such appointment, replacement or termination.

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 the 2021 Deferral Amounts issuable to CIC on November 19, 2021 under the CIC Convertible Debenture. The effectiveness of the 2021 July Deferral Agreement and the respective covenants, agreements and obligations of each party under the 2021 July Deferral Agreement are subject to the Company obtaining the requisite approval of the 2021 July Deferral Agreement from the TSX in accordance with applicable TSX rules.

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

16. CONVERTIBLE DEBENTURE (CONTINUED)

16.5 Interest deferral and settlement (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 CIC Convertible Debenture, commencing on November 19, 2021.

17. RELATED PARTY TRANSACTIONS

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 six months ended June 30, 2021:

- CIC – CIC is a major shareholder of the Company, CIC holds approximately 23.7% of the issued and outstanding common shares of the Company as at June 30, 2021. The Amended and Restated Cooperation Agreement states that the management fee being calculated based on 2.5% of the revenue of SGS shall be paid to CIC on a quarterly basis. During the three and six months ended June 30, 2021, $120 and $733 was recorded, respectively (three and six months ended June 30, 2020: $413 and $535, respectively).

17.1 Related party expenses

The Company's related party expenses consist of the following amounts:

	Three months ended June 30,		Six months ended June 30,	
	2021	**2020**	**2021**	**2020**
Finance costs	**$ 8,342**	$ 6,228	**$ 18,803**	$ 12,357
Management Fee	**120**	413	**733**	535
Related party expenses	**$ 8,462**	$ 6,641	**$ 19,536**	$ 12,892

18. SUPPLEMENTAL CASH FLOW INFORMATION

18.1 Non-cash financing and investing activities

The Company's non-cash investing and financing transactions are as follows:

	Six months ended June 30,	
	2021	**2020**
Addition to decommissioning liability	**$ 54**	$ 53
Amortization of deferred stripping being capitalized	**1,528**	2,210

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

18. SUPPLEMENTAL CASH FLOW INFORMATION (CONTINUED)

18.2 Net change in non-cash working capital items

The net change in the Company's non-cash working capital items is as follows:

	Six months ended June 30, 2021	Six months ended June 30, 2020
Decrease/(increase) in inventories	**$ (5,676)**	$ 6,870
Decrease/(increase) in trade and other receivables	**878**	(463)
Decrease/(increase) in prepaid expenses and deposits	**(436)**	528
Increase/(decrease) in trade and other payables	**(5,205)**	661
Increase in deferred revenue	**(833)**	1,404
Decrease in provision for arbitration	**-**	(10,227)
Decrease in restricted cash	**-**	296
Net change in working capital items	**$ (11,272)**	$ (931)

Depreciation and depletion capitalised in inventories for the period ended June 30, 2021 totaled $334 (2020: utilised from $474).

19. COMMITMENTS FOR EXPENDITURE

The Company's commitments for expenditure that have not been disclosed elsewhere in the condensed consolidated interim financial statements are as follows:

	Within 1 year	2-3 years	Over 3 years	Total
As at June 30, 2021				
Capital expenditure commitments	**$ -**	**$ -**	**$ -**	**$ -**
Operating expenditure commitments	**2,058**	**47**	**289**	**2,394**
Commitments	**$ 2,058**	**$ 47**	**$ 289**	**$ 2,394**
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

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

ADDITIONAL STOCK EXCHANGE INFORMATION

Additional information required by the Hong Kong Stock Exchange in the half-year interim report and not shown elsewhere in this report is as follows:

A1. FINANCIAL INSTRUMENTS

Cash

The Company's cash is denominated in the following currencies:

	As at	
	June 30, 2021	December 31, 2020
Denominated in U.S. Dollars	**$ 1,439**	$ 9,427
Denominated in Chinese Renminbi	**6,090**	10,025
Denominated in Mongolian Tugriks	**126**	1,390
Denominated in Canadian Dollars	**132**	17
Denominated in Hong Kong Dollars	**177**	180
Cash	**$ 7,964**	$ 21,039

Exposure to fluctuations in foreign exchange rates

The sensitivity of the Company's loss before tax due to changes in the carrying values of assets and liabilities denominated in foreign currencies is as follows. A positive number indicates a decrease in loss before tax, whereas a negative number indicates an increase in loss before tax.

	As at	
	June 30, 2021	December 31, 2020
Increase/decrease in foreign exchange rate against respective functional currency		
+5%	**$ 1,161**	$ 877
–5%	**$ (1,161)**	$ (877)

A2. COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has, throughout the six months ended June 30, 2021, applied the principles and complied with the requirements of its corporate governance practices as defined by the Board of Directors and all applicable statutory, regulatory and stock exchange listings standards, which include the code provisions set out in the Corporate Governance Code (the "Corporate Governance Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Hong Kong Listing Rules"), except for the following:

Pursuant to code provision A.2.7 of the Corporate Governance Code, the Chairman of the Board should at least annually hold meetings with the non-executive directors (including independent non-executive directors) without the executive director present. The Company has not had a Chairman since the conclusion of the annual general meeting held on June 30, 2017. During the period of January 1, 2021 to June 30, 2021 there was one meeting between the Independent Lead Director, who is fulfilling the duties of the Chairman, and the non-executive directors without the presence of the executive director. The opportunity for such communication channel is offered at the end of each Board meeting.

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

A3. COMPLIANCE WITH MODEL CODE

The Company has adopted policies regarding directors' securities transactions in its Corporate Disclosure, Confidentiality and Securities Trading policy on terms that are similar in all material respects to the terms set out in the Model Code of Appendix 10 of the rules governing the listing of securities on the Hong Kong Stock Exchange.

The Board of Directors confirms that all of the directors of the Company have complied with the required policies in the Company's Corporate Disclosure, Confidentiality and Securities Trading policy throughout the six months ended June 30, 2021.

A4. PURCHASE, SALE OR REDEPMTION OF LISTED SECURITIES OF THE COMPANY

The Company did not redeem its listed securities, nor did the Company or any of its subsidiaries purchase or sell such securities during the six months ended June 30, 2021.

A5. INTERIM DIVIDEND

The Board of Directors do not recommend the payment of an interim dividend for the six months ended June 30, 2021.

A6. SUBSTANTIAL SHAREHOLDERS

As at June 30, 2021, the persons or corporations (not being a director or chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register of interests in shares required to be kept by the Company were as follows:

Name	Nature of interest	Shares held [(a)(e)]	Approximate & of issued shares [(d)]
Land Breeze II S.a.r.l. [(b)]	Beneficial	64,766,591	23.67%
Fullbloom [(b)]	Interest of controlled corporation	64,766,591	23.67%
CIC [(b)]	Interest of controlled corporation	64,766,591	23.67%
Novel Sunrise [(c)]	Beneficial	46,358,978	16.94%
Hope Rosy Limited [(c)]	Interest of controlled corporation	46,358,978	16.94%
China Cinda (HK) Investments Management Company Limited [(c)]	Interest of controlled corporation	46,358,978	16.94%
China Cinda (HK) Holdings Company Limited [(c)]	Interest of controlled corporation	46,358,978	16.94%
China Cinda Asset Management Co., Ltd. [(c)]	Interest of controlled corporation	46,358,978	16.94%
The Ministry of Finance of the People's Republic of China ("MOF") [(c)]	Interest of controlled corporation	46,358,978	16.94%
Voyage Wisdom Limited	Beneficial	25,768,162	9.42%

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

A6. SUBSTANTIAL SHAREHOLDERS (CONTINUED)

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.a.r.l. is a wholly-owned subsidiary of Fullbloom, which is wholly owned by CIC. Accordingly, Fullbloom and CIC are deemed to be interested in shares held by Land Breeze II S.a.r.l. and CIC.
(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. Ltd. China Cinda Asset Management Co., Ltd. is indirectly controlled by MOF. Accordingly, each of Hope Roxy Limited, China Cinda (HK) Investments Management Company Limited, China Cinda (HK) Holdings Company Limited, China Cinda Asset Management Co., Ltd. and MOF was deemed to be interested in shares held by Novel Sunrise.
(d) The percentage represents the total number of the Shares and the underlying Shares interested divided by the number of issued Shares as at June 30, 2021 (i.e. 273,623,835 Shares).
(e) All interests stated above are long positions.

Other than as disclosed above, the Company has not been notified of any relevant interests or short positions in the issued share capital of the Company as at June 30, 2021.

A7. DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at June 30, 2021, the interests of the Company's directors in the shares, underlying shares and debentures of the Company and its associated corporations were as follows:

	Number of Shares interested				Number of underlying Shares interested		
Name of directors	**Directly beneficially owned**	**Through spouse or minor children**	**Through controlled company**	**Beneficiary of a trust**	**Directly benefically owned (2)**	**Total (3)**	**Percentage interest in the company (4)**
Dalanguerban	-	-	-	-	450,000	450,000	0.16%
Mao Sun	-	-	-	-	1,000,000	1,000,000	0.37%
Jin Lan Quan	-	-	-	-	750,000	750,000	0.27%
Yingbin Ian He	7,000	-	-	-	700,000	707,000	0.26%

A7. DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (CONTINUED)

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 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 June 30, 2021 (i.e. 273,623,835 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 June 30, 2021.

A8. 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 to eligible employees 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. The general terms of stock options granted under the plan to independent non-executive directors include a maximum exercise period of 5 years and a vesting period of 100% of the grant vesting on the first anniversary of the date of grant.

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

A8. STOCK OPTION PLAN (CONTINUED)

The stock options outstanding and exercisable as at June 30, 2021 are as follows:

	Options Outstanding			Options Exercisable		
Exercise price (CAD$)	Options outstanding	Weighted average exercise price (CAD$)	Weighted average remaining contractual life (years)	Options outstanding and exercisable	Weighted average exercise price (CAD$)	Weighted average remaining contractual life (years)
$0.11 - $0.13	**3,822**	**$ 0.13**	**2.76**	**3,138**	**$ 0.13**	**2.55**
$0.33 - $0.39	**950**	**0.34**	**0.76**	**950**	**0.34**	**0.76**
	4,772	**$ 0.17**	**2.37**	**4,088**	**$ 0.18**	**2.13**

Exercise price (HKD$)	Options outstanding	Weighted average exercise price (HKD$)	Weighted average remaining contractual life (years)	Options outstanding and exercisable	Weighted average exercise price (HKD$)	Weighted average remaining contractual life (years)
$1.41	**3,543**	**$ 1.41**	**5.00**	**-**	**$ -**	**-**
Total	**8,315**		**3.49**	**4,088**		**2.13**

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

A8. STOCK OPTION PLAN (CONTINUED)

The following table discuss movements in the Company's share options during the six month ended June 30, 2021.

	Number of share options								
Name	At January 1, 2021	Granted during the period	Exercised during the period	Forfeited during the period	Expired during the period	At June 30, 2021	Date of grant of share options	Exercise period of share options	Exercise price per share
Directors									
Mao Sun	100,000	-	-	-	-	100,000	November 16, 2016	November 16, 2017 - November 16, 2021	CAD$0.33
	100,000	-	-	-	-	100,000	November 16, 2016	November 16, 2018 - November 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	September 11, 2019	September 11, 2020 - September 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**	**-**	**-**	**-**	**1,000,000**			
Jin Lan Quan	75,000	-	-	-	-	75,000	November 16, 2016	November 16, 2017 - November 16, 2021	CAD$0.33
	75,000	-	-	-	-	75,000	November 16, 2016	November 16, 2018 - November 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	September 11, 2019	September 11, 2020 - September 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**	**-**	**-**	**-**	**750,000**			
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	September 11, 2019	September 11, 2020 - September 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**	**-**	**-**	**-**	**700,000**			
Dalanguerban	**-**	**450,000**	**-**	**-**	**-**	**450,000**	June 29, 2021	June 29 2022 - June 29 2026	HK$1.41
Jianmin Bao	**-**	**-**	**-**	**-**	**-**	**-**			
Ben Niu	**-**	**-**	**-**	**-**	**-**	**-**			
Zhiwei Chen	**-**	**-**	**-**	**-**	**-**	**-**			
Ka Lee Ku	**-**	**-**	**-**	**-**	**-**	**-**			
Total for directors	**1,950,000**	**950,000**	**-**	**-**	**-**	**2,900,000**			
Other share option holders	2,024,500	-	(591,000)	(170,000)	-	1,263,500	August 16, 2018	August 16, 2019 - August 16, 2023	CAD$0.13
	2,324,750	-	(330,000)	(435,500)	-	1,559,250	November 15, 2019	November 15 2020 - November 15 2024	CAD$0.13
	-	2,592,500	-	-	-	2,592,500	June 29, 2021	June 29 2022 - June 29 2026	HK$1.41
Total for other share option holders	**4,349,250**	**2,592,500**	**(921,000)**	**(605,500)**	**-**	**5,415,250**			
Total	**6,299,250**	**3,542,500**	**(921,000)**	**(605,500)**	**-**	**8,315,250**			