SouthGobi Resources Ltd.
Management's Discussion and Analysis of Financial Condition and Results of Operations

June 30, 2022
(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 consolidated financial statements and the impact thereof;
- the Company's expectations of sufficient liquidity and capital resources to meet its ongoing obligations and future contractual commitments, including the Company's ability to settle its trade payables, to secure additional funding and to meet its obligations under each of the China Investment Corporation (together with its wholly-owned subsidiaries and affiliates, "CIC") convertible debenture (the "Convertible Debenture"), the 2020 November Deferral Agreement (as defined below), the Amended and Restated Cooperation Agreement (as defined below), the 2021 July Deferral Agreement (as defined below) and the 2022 May Deferral Agreement (as defined below) as the same become due;
- the Company's anticipated financing needs, development plans and future production levels;
- the impact of the Coronavirus Disease 2019 ("COVID-19") pandemic and the potential closure of Mongolia's southern border with China on the Company's business, financial condition and operations, including the resumption of coal production and coal processing at normal levels;
- the impact of the restrictions on the number of trucks crossing the border at the Ceke Port of Entry and the import coal quality standards established by Chinese authorities on the Company's operations;
- the 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*");
- completion of the CIC Sale Transaction (as defined below);
- the estimates and assumptions included in the Company's impairment analysis and the possible impact of changes thereof;
- the agreement with Ejin Jinda and the payments thereunder (as described under Section 6 of this MD&A under the heading entitled "*Regulatory Issues and Contingencies – Toll Wash Plant Agreement with Ejin Jinda");*
- the ability of the Company to enhance the operational efficiency and output throughput of the washing facilities at Ovoot Tolgoi;
- the ability of the Company to enhance the product value by conducting coal processing and coal washing;
- the impact of the Company's activities on the environment and actions taken for the purpose of mitigation of potential environmental impacts and planned focus on health, safety and environmental performance;
- the future demand for coal in China;
- future trends in the Chinese coal industry;

- the voluntary delisting of the Common Shares from the TSX and the listing of the Common Shares on the TSX-V pursuant to the Voluntary Delisting Application (as defined below) and the Listing Application (as defined below), respectively;
- the conversion of the Company's listing of Common Shares on the HKEX from a secondary listing to a primary listing pursuant to the Primary Listing Application (as defined below);
- the Company's outlook and objectives for 2022 and beyond (as more particularly described under Section 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 2022 and beyond; currency exchange rates; operating, labour and fuel costs; the ability of the Company to raise additional financing; the anticipated royalties payable under Mongolia's royalty regime; the future coal market conditions in China and the related impact on the Company's margins and liquidity; the anticipated impact of the COVID-19 pandemic; the assumption that the border crossings with China will reopen for coal exports at normal levels; the anticipated demand for the Company's coal products; future coal prices, and the level of worldwide coal production. While the Company considers these assumptions to be reasonable based on the information currently available to it, they may prove to be incorrect. Forward-looking statements are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These risks and uncertainties include, among other things: the uncertain nature of mining activities, actual capital and operating costs exceeding management's estimates; variations in mineral resource and mineral reserve estimates; failure of plant, equipment or processes to operate as anticipated; the possible impacts of changes in mine life, useful life or depreciation rates on depreciation expenses; risks associated with, or changes to regulatory requirements (including environmental regulations) and the ability to obtain all necessary regulatory approvals; the potential expansion of the list of licenses published by the Government of Mongolia covering areas in which exploration and mining are purportedly prohibited on certain of the Company's mining licenses; the Government of Mongolia designating any one or more of the Company's mineral projects in Mongolia as a Mineral Deposit of Strategic Importance; the risk of continued restrictions on the number of trucks crossing the border at the Ceke Port of Entry; the risk that the import coal quality standards established by Chinese authorities will negatively impact the Company's operations; the risk that Mongolia's southern borders with China will be subject for further closure; the negative impact of the COVID-19 pandemic on the demand for coal and the economy generally in China; the risk that the COVID-19 pandemic is not effectively controlled in China and Mongolia; the risk that the Company's existing coal inventories are unable to sufficiently satisfy expected sales demand; the possible impact of changes to the inputs to the valuation model used to value the embedded derivatives in the Convertible Debenture; the risk that the CIC Sale Transaction fails to complete; the risk of the Company or its subsidiaries defaulting under its existing debt obligations, including the Convertible Debenture, the deferral agreement signed on November 19, 2020 (the "2020 November Deferral Agreement"), the amended and restated mutual cooperation agreement signed on April 23, 2019 (the "Amended and Restated Cooperation Agreement"), the deferral agreement signed on July 30, 2021 (the "2021 July Deferral Agreement") and the deferral agreement signed on May 13, 2022 (the "2022 May Deferral Agreement"); the risk of the Company failing to obtain the necessary approvals for the voluntary delisting of the Common Shares from the TSX and the listing of the Common Shares from the TSX-V; the risk of the Company failing to complete the conversion of the Company's Common Shares on the HKEX from a secondary listing to a primary listing; 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 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 12, 2022 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, 2022. 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 267 employees as at June 30, 2022. As of the date hereof, 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.

<u>Significant Events and Highlights</u>

The Company's significant events and highlights for the three months ended June 30, 2022 and the subsequent period to August 12, 2022 are as follows:

- ***Operating Results*** – In response to the increase in the number of COVID-19 cases in Ejinaqi, a region in China's Inner Mongolia Autonomous Region where the custom and border crossing are located, reported in late October 2021, the local government authorities imposed stringent preventive measures throughout the region, including the temporary closure of the Ceke Port of Entry located at the border of Mongolia and China. Accordingly, the Company's coal exports into China were suspended from November 2021 to May 2022. On May 25, 2022, the Ceke Port of Entry re-opened for coal export on a trial basis. As a result, the Company recorded 0.1 million tonnes of sales in the second quarter of 2022.

  Since May 25, 2022, the number of trucks permitted to cross the Chinese-Mongolian border, as well as the volume of coal exports, have increased. As a result, the Company has gradually resumed mining operations beginning on July 15, 2022. The Company's major mining operations, including coal mining, have resumed and the Company expects to increase the volume of coal production in a gradual manner, while coal processing shall remain suspended for the time being. The Company will revisit the possibility of resuming coal processing at a later date.

  The Company experienced an increase in the average selling price of coal from $47.9 per tonne in the second quarter of 2021 to $66.6 per tonne in the second quarter of 2022, due to improved market conditions in China.

- ***Financial Results*** – The Company recorded a $2.7 million profit from operations in the second quarter of 2022 compared to a $1.0 million loss from operations in the second quarter of 2021. The financial results for the second quarter of 2022 were impacted by the foreign exchange gain of $1.4 million, a write off of other payables of $1.6 million and by the decreased sales resulting from the temporary closure of the Ceke Port of Entry experienced by the Company during the second quarter.

- ***Convertible Debenture*** – On May 13, 2022, the Company and CIC entered into the 2022 May Deferral Agreement, pursuant to which CIC agreed to grant the Company a deferral of (i) semi-annual cash interest payments of $7.9 million payable to CIC on May 19, 2022 (the "Deferred Amounts"); and (ii) the management fee which payable to CIC on February 14, 2022 and August 14, 2021 (the "Deferred Management Fee") under the Amended and Restated Cooperation Agreement (collectively, the "2022 Deferral Amounts") under the Convertible Debenture.

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

  - Payment of the 2022 Deferral Amounts will be deferred until August 31, 2023.
  - As consideration for the deferral of the Deferred Amounts, the Company agreed to pay CIC a deferral fee equal to 6.4% per annum on the Deferred Amounts payable under the Convertible Debenture, commencing on May 19, 2022.
  - As consideration for the deferral of the Deferred Management Fees, the Company agreed to pay CIC a deferral fee equal to 2.5% per annum on the outstanding balance of the Deferred Management Fees payable under the Amended and Restated Cooperation Agreement, commencing on the date on which each such 2022 May Deferred Management Fee would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.
  - The Company agreed to provide CIC with monthly updates regarding its operational and financial affairs.
  - If at any time before the 2022 Deferral Amounts and related deferral fee are fully repaid, the Company proposes to appoint, replace or terminate one or more of its chief executive officer, its chief financial officer or any other senior executive(s) in charge of its principal business function or its principal subsidiary, the Company will first consult with, and obtain written consent (such consent shall not be unreasonably withheld) from CIC prior to effecting such appointment, replacement or termination.
  - The Company and CIC agreed that nothing in the 2022 May Deferral Agreement prejudices CIC's rights to pursue any of its remedies at any time pursuant to the prior deferral agreements.

- ***Application for New Listing on the TSX Venture Exchange (the "TSX-V") and Primary Listing on the Hong Kong Stock Exchange*** – On April 20, 2022, the Company announced that it would be making an application (the "Listing Application") to the TSX-V to list its common shares on the TSX-V. In conjunction with the foregoing, the Company would also apply for voluntary delisting of its common shares from the TSX (the "Delisting"), subject to the Company receiving approval from the TSX-V of the Listing Application. Pursuant to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules"), the Company announced it intends to submit a written notification to the HKEX stating, among other things, that it will be able to fully comply with the applicable Listing Rules in connection with the approval of the Listing Application and the Listing Application becoming effective, and such that its current secondary listing on the HKEX will be converted to a primary listing.

  On July 28, 2022, the Company received an acknowledgment from the HKEX in respect of the Delisting issued pursuant to paragraph 3.34 of the HKEx's Guidance Letter (HKEX-GL-112-22), which informed the Company that, upon the effective date of the Delisting, the Hong Kong Stock Exchange will regard the Company as having a primary (rather than secondary) listing status on the HKEX pursuant to Rule 19C.13A of the HKEX Listing Rules and the dis-application of the stock marker "S" from the Company's trading symbol on the HKEX will take effect. While it was disclosed in the Company's management proxy circular dated June 29, 2022 that the anticipated effective date of the Delisting would be July 29, 2022, the Company wishes to update its shareholders and investors that, subject to obtaining the said approvals from the TSX and TSX-V, the Company is targeting to complete the Delisting prior to mid-September 2022.

- ***Sale by CIC of its Interests in the Company*** – On May 27, 2022, the Company announced that as disclosed in the press release issued by CIC on May 26, 2022 (the "CIC Press Release"), CIC has entered into an agreement to sell (the "CIC Sale Transaction") all of its interests in the Company, including its 64,766,591 common shares of the Company and the Convertible Debenture, to JD Zhixing Fund L.P. (the "Buyer"). The Company has been advised that the Buyer is an exempted limited partnership formed under the laws of Cayman Islands. The Buyer's general partner is JD Dingxing Limited, a corporation formed under the laws of the Cayman Islands. The Buyer's limited partner is Inner Mongolia Tianyu Trading Limited, a corporation formed under the laws of Hong Kong. As disclosed in the CIC Press Release, completion of the Sale Transaction is subject to the satisfaction of certain conditions precedent.

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

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

  Upon the completion of the Sale Transaction and related Assignment:

  - while the Convertible Debenture is outstanding, or while the Buyer has a minimum 15% direct or indirect stake in the Company, the Buyer will have the right to nominate one director to the board of directors (the "Board") pursuant to the board nomination rights contained in the Securityholders Agreement;
  - the buyer also will have the right to nominate two additional directors to the Board if it and its affiliates have a minimum 20% direct or indirect stake in Company, or one additional director to the Board if it and its affiliate have a minimum 10% direct or indirect stake in Company, pursuant to the board nomination rights contained in the Deferral Agreements; and
  - while the Convertible Debenture is outstanding, or while the buyer has a minimum 15% direct or indirect stake in Company, the buyer will have certain pre-emption rights on a pro-rata basis to subscribe for any new shares to be allotted and issued by Company. The pre-emption rights do not apply to new shares issued pursuant to pro-rata public equity offerings made to all shareholders, exercise of stock options and shares issued to achieve a 25% public float.

- ***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,			
	2022		**2021**		**2022**		**2021**	
Sales Volumes, Prices and Costs								
Premium semi-soft coking coal								
Coal sales *(millions of tonnes)*		**0.04**		0.08		**0.04**		0.48
Average realized selling price *(per tonne)*	**$**	**92.87**	$	52.11	**$**	**92.87**	$	48.56
Standard semi-soft coking coal/ premium thermal coal								
Coal sales *(millions of tonnes)*		**0.04**		0.03		**0.04**		0.26
Average realized selling price *(per tonne)*	**$**	**30.41**	$	36.71	**$**	**30.41**	$	35.35
Washed coal								
Coal sales *(millions of tonnes)*		**0.01**		-		**0.01**		0.01
Average realized selling price *(per tonne)*	**$**	**79.02**	$	-	**$**	**79.02**	$	49.75
Total								
Coal sales *(millions of tonnes)*		**0.09**		0.11		**0.09**		0.75
Average realized selling price *(per tonne)*	**$**	**66.55**	$	47.93	**$**	**66.55**	$	44.10
Raw coal production *(millions of tonnes)*		**-**		-		**-**		1.04
Cost of sales of product sold *(per tonne)*	**$**	**56.32**	$	41.38	**$**	**67.49**	$	30.53
Direct cash costs of product sold *(per tonne)* *(i)*	**$**	**33.10**	$	16.39	**$**	**38.54**	$	17.89
Mine administration cash costs of product sold *(per tonne)* *(i)*	**$**	**1.20**	$	4.26	**$**	**1.30**	$	1.51
Total cash costs of product sold *(per tonne)* *(i)*	**$**	**34.30**	$	20.65	**$**	**39.84**	$	19.40
Other Operational Data								
Production waste material moved *(millions of bank cubic meters)*		**-**		-		**-**		5.04
Strip ratio *(bank cubic meters of waste material per tonne of coal produced)*		**-**		-		**-**		4.83
Lost time injury frequency rate *(ii)*		**0.00**		0.00		**0.00**		0.00

(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, 2022

The Company experienced an increase in the average selling price of coal from $47.9 per tonne in the second quarter of 2021 to $66.6 per tonne in the second quarter of 2022, as a result of improved market conditions in China. The product mix for the second quarter of 2022 consisted of approximately 52% premium semi-soft coking coal, 40% standard semi-soft coking coal/premium thermal coal and 8% of washed coal compared to approximately 72% premium semi-soft coking coal, 27% standard semi-soft coking coal/premium thermal coal and 1% washed coal in the second quarter of 2021.

In response to the increase in the number of COVID-19 cases in Ejinaqi, a region in China's Inner Mongolia Autonomous Region where the custom and border crossing are located, reported in late October 2021, the local government authorities imposed stringent preventive measures throughout the region, including the temporary closure of the Ceke Port of Entry located at the border of Mongolia and China. Accordingly, the Company's coal exports into China were suspended from November 2021 to May 2022. On May 25, 2022, the Ceke Port of Entry re-opened for coal export on a trial basis. As a result, the Company recorded 0.1 million tonnes of sales in the second quarter of 2022.

Since May 25, 2022, the number of trucks permitted to cross the Chinese-Mongolian border, as well as the volume of coal exports, have increased. As a result, the Company has gradually resumed mining operations beginning on July 15, 2022. The Company's major mining operations, including coal mining, have resumed and the Company expects to increase the volume of coal production in a gradual manner, while coal processing shall remain suspended for the time being. The Company will revisit the possibility of resuming coal processing at a later date.

The Company's unit cost of sales of product sold increased from $41.4 per tonne in the second quarter of 2021 to $56.3 per tonne in the second quarter of 2022. The increase was mainly driven by the diseconomies of scale due to decreased sales as well as the increase in the effective royalty rate.

For the six months ended June 30, 2022

The Company sold 0.1 million tonnes for the first six months of 2022 as compared to 0.8 million tonnes for the first six months of 2021. The average selling price increased from $44.1 per tonne for the first six months of 2021 to $66.6 per tonne for the first six months of 2022, due to improved market conditions in China.

The Company's production in the first six months of 2021 was higher than the first six months of 2022 as a result of the temporary suspension of the Company's major mining operations (including coal mining) which took effect from November 2021 to July 2022 for the purpose of mitigating the financial impact of the border closures on the Company and preserving the Company's working capital.

The Company's unit cost of sales of product sold increased from $30.5 per tonne for the first six months of 2021 to $67.5 per tonne in the first six months of 2022. The increase was mainly driven by the diseconomies of scale due to decreased sales as well as the increase in the effective royalty rate.

Summary of Financial Results

$ in thousands, except per share information	Three months ended June 30, 2022	Three months ended June 30, 2021	Six months ended June 30, 2022	Six months ended June 30, 2021
Revenue (i)	**$ 5,790**	$ 5,191	**$ 5,790**	$ 33,255
Cost of sales (i)	**(5,069)**	(4,552)	**(6,074)**	(22,899)
Gross profit excluding idled mine asset costs (ii)	**940**	1,565	**379**	11,793
Gross profit/(loss)	**721**	639	**(284)**	10,356
Other operating income/(expenses), net	**3,778**	(113)	**5,836**	(448)
Administration expenses	**(1,772)**	(1,484)	**(2,978)**	(3,266)
Evaluation and exploration expenses	**(66)**	(47)	**(90)**	(112)
Profit/(loss) from operations	**2,661**	(1,005)	**2,484**	6,530
Finance costs	**(10,247)**	(8,870)	**(20,283)**	(21,027)
Finance income	**1,160**	2,494	**1,173**	21,015
Share of earnings/(loss) of a joint venture	**(109)**	(35)	**(261)**	239
Current income tax credit/(expenses)	**(518)**	139	**(938)**	(981)
Net profit/(loss) attributable to equity holders of the Company	**(7,053)**	(7,277)	**(17,825)**	5,776
Basic earnings/(loss) per share	**$ (0.03)**	$ (0.03)	**$ (0.07)**	$ 0.02
Diluted earnings/(loss) per share	**$ (0.03)**	$ (0.03)	**$ (0.07)**	$ 0.01

(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, 2022

The Company recorded a $2.7 million profit from operations in the second quarter of 2022 compared to a $1.0 million loss from operations in the second quarter of 2021. The financial results for the second quarter of 2022 were impacted by the foreign exchange gain of $1.4 million, a write off of other payables of $1.6 million and by the decreased sales resulting from the temporary closure of the Ceke Port of Entry experienced by the Company during the second quarter.

Revenue was $5.8 million in the second quarter of 2022 compared to $5.2 million in the second quarter of 2021. The Company's effective royalty rate for the second quarter of 2022, based on the Company's average realized selling price of $66.6 per tonne, was 26.4% or $17.6 per tonne, compared to 21.9% or $10.5 per tonne in the second quarter of 2021 (based on the average realized selling price of $47.9 per tonne).

Cost of sales was $5.1 million in the second quarter of 2022 compared to $4.6 million in the second quarter of 2021. The increase in cost of sales was mainly due to the increase in royalties 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.

$ in thousands	Three months ended June 30, 2022	2021
Operating expenses	**$ 3,087**	$ 2,271
Share-based compensation expense	**10**	1
Depreciation and depletion	**222**	219
Royalties	**1,531**	1,135
Cost of sales from mine operations	**4,850**	3,626
Cost of sales related to idled mine assets	**219**	926
Cost of sales	**$ 5,069**	$ 4,552

Operating expenses in cost of sales were $3.1 million in the second quarter of 2022 compared to $2.3 million in the second quarter of 2021. Cost of sales related to idled mine assets in the second quarter of 2022 included $0.2 million related to depreciation expenses for idled equipment (second quarter of 2021: $0.9 million).

Other operating income was $3.8 million in the second quarter of 2022 (second quarter of 2021: $0.1 million of other operating expenses). Foreign exchange gain of $1.4 million and write off of other payables of $1.6 million were recorded in the second quarter of 2022. (second quarter of 2021: the Company incurred a foreign exchange loss of $0.2 million).

$ in thousands	Three months ended June 30, 2022	2021
CIC management fee	**$ 131**	$ 120
Provision/(reversal of provision) for doubtful trade and other receivables	**(249)**	29
Foreign exchange loss/(gain), net	**(1,415)**	189
Reversal of impairment on materials and supplies inventories	**(10)**	
Rental income from short term leases	**(12)**	-
Discount on settlement of trade payables	**-**	(225)
Written off of other payables	**(1,556)**	-
Gain on contract offsetting arrangement	**(667)**	-
Other operating expenses/(income), net	**$ (3,778)**	$ 113

Administration expenses were $1.8 million in the second quarter of 2022 compared to $1.5 million in the second quarter of 2021, the increase in the balance was mainly due to the increase in legal and professional fees for the second quarter of 2022.

$ in thousands	Three months ended June 30, 2022	2021
Corporate administration	**$ 240**	$ 533
Legal and professional fees	**718**	16
Salaries and benefits	**673**	765
Share-based compensation expense	**34**	2
Depreciation	**107**	168
Administration expenses	**$ 1,772**	$ 1,484

The Company continued to minimize evaluation and exploration expenditures in the second quarter of 2022 in order to preserve the Company's financial resources. Evaluation and exploration activities and expenditures in the second quarter of 2022 were limited to ensuring that the Company met the Mongolian Minerals Law requirements in respect of its mining licenses.

Finance costs were $10.2 million and $8.9 million in the second quarter of 2022 and 2021 respectively, which primarily consisted of interest expense on the $250.0 million Convertible Debenture.

For the six months ended June 30, 2022

The Company recorded a $2.5 million profit from operations in the first six months of 2022 compared to a $6.5 million in the first six months of 2021. The financial results were impacted by (i) the higher selling price achieved by the Company; and (ii) decreased sales volume resulting from the temporary closure of the Ceke Port of Entry experienced by the Company during the first six months of 2022.

Revenue was 5.8 million in the first six months of 2022 compared to $33.3 million in the first six months of 2021. The Company's effective royalty rate for the first six months of 2022, based on the Company's average realized selling price of $66.6 per tonne, was 26.4% or $17.6 per tonne, compared to 16.0% or $7.1 per tonne in the first six months of 2021 (based on the average realized selling price of $44.1 per tonne).

Cost of sales were $6.1 million in the first six months of 2022 compared to $22.9 million in the first six months of 2021, as follows:

	Six months ended June 30,	
$ in thousands	**2022**	**2021**
Operating expenses	**$ 3,586**	$ 14,551
Share-based compensation expense/(recovery)	**21**	(1)
Depreciation and depletion	**273**	1,577
Royalties	**1,531**	5,335
Cost of sales from mine operations	**5,411**	21,462
Cost of sales related to idled mine assets	**663**	1,437
Cost of sales	**$ 6,074**	$ 22,899

Operating expenses in cost of sales were $3.6 million in the first six months of 2022 compared to $14.6 million in the first six months of 2021. The overall decrease in cost of sales was primarily due to the reduced sales.

Cost of sales related to idled mine assets in the first six months of 2022 included $0.7 million related to depreciation expenses for idled equipment (first six months of 2021: $1.4 million).

Other operating income was $5.8 million in the first six months of 2022 (first six months of 2021: $0.4 million of other operating expenses). Foreign exchange gain of $1.9 million and write off of other payables of $2.8 million were recorded in the first six months of 2022. (first six months of 2021: foreign exchange loss of $0.2 million).

$ in thousands	Six months ended June 30, 2022	Six months ended June 30, 2021
CIC management fee	**$ 155**	$ 733
Provision/(reversal of provision) for doubtful trade and other receivables	**(554)**	220
Foreign exchange loss/(gain), net	**(1,896)**	171
Gain on disposal of items of property, plant and equipment, net	**(33)**	(270)
Reversal of impairment on materials and supplies inventories	**(10)**	(25)
Rental income from short term leases	**(26)**	-
Discount on settlement of trade payables	**-**	(381)
Written off of other payables	**(2,805)**	-
Gain on contract offsetting arrangement	**(667)**	-
Other operating expenses/(income), net	**$ (5,836)**	$ 448

Administration expenses were $3.0 million in the first six months of 2022 compared to $3.3 million in the first six months of 2021, as follows:

$ in thousands	Six months ended June 30, 2022	Six months ended June 30, 2021
Corporate administration	**$ 410**	$ 949
Legal and professional fees	**979**	559
Salaries and benefits	**1,300**	1,398
Share-based compensation expense/(recovery)	**71**	(4)
Depreciation	**218**	364
Administration expenses	**$ 2,978**	$ 3,266

The Company continued to minimize evaluation and exploration expenditures in the first six months of 2022 in order to preserve the Company's financial resources. Evaluation and exploration activities and expenditures in the first six months of 2022 were limited to ensuring that the Company met the Mongolian Minerals Law requirements in respect of its mining licenses.

Finance costs were $20.3 million and $21.0 million in the first six months of 2022 and 2021 respectively, which primarily consisted of interest expense on the $250.0 million Convertible Debenture.

Summary of Quarterly Operational Data

	2022		2021				2020	
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)*	**0.04**	**-**	0.01	0.11	0.08	0.40	0.38	0.35
Average realized selling price *(per tonne)*	**$ 92.87**	**$ -**	$ 69.73	$ 64.25	$ 52.11	$ 47.88	$ 39.34	$ 30.17
Standard semi-soft coking coal/ premium thermal coal								
Coal sales *(millions of tonnes)*	**0.04**	**-**	0.01	0.06	0.03	0.23	0.50	0.54
Average realized selling price *(per tonne)*	**$ 30.41**	**$ -**	$ 34.84	$ 33.56	$ 36.71	$ 35.17	$ 31.66	$ 30.80
Washed coal								
Coal sales *(millions of tonnes)*	**0.01**	**-**	-	-	-	0.01	0.07	0.10
Average realized selling price *(per tonne)*	**$ 79.02**	**$ -**	$ -	$ -	$ -	$ 49.62	$ 42.51	$ 41.30
Total								
Coal sales *(millions of tonnes)*	**0.09**	**-**	0.02	0.17	0.11	0.64	0.95	0.99
Average realized selling price *(per tonne)*	**$ 66.55**	**$ -**	$ 55.44	$ 53.52	$ 47.93	$ 43.46	$ 35.53	$ 31.63
Raw coal production *(millions of tonnes)*	**-**	**-**	0.06	0.26	-	1.04	0.96	0.52
Cost of sales of product sold *(per tonne)*	**$ 56.32**		$ 76.95	$ 40.39	$ 41.38	$ 28.67	$ 23.36	$ 20.23
Direct cash costs of product sold *(per tonne)* (i)	**$ 33.10**	***(iii)***	$ 17.47	$ 17.50	$ 16.39	$ 18.15	$ 14.78	$ 12.38
Mine administration cash costs of product sold *(per tonne)* (i)	**$ 1.20**		$ 1.23	$ 1.62	$ 4.26	$ 1.04	$ 1.07	$ 1.15
Total cash costs of product sold (*per tonne)* (i)	**$ 34.30**		$ 18.70	$ 19.12	$ 20.65	$ 19.19	$ 15.85	$ 13.53
Other Operational Data								
Production waste material moved *(millions of bank cubic meters)*	**-**	**-**	0.31	0.59	-	5.04	3.10	1.67
Strip ratio *(bank cubic meters of waste material per tonne of coal produced)*	**-**	**-**	5.61	2.23	-	4.83	3.24	3.20
Lost time injury frequency rate (ii)	**0.00**	**0.00**	0.00	0.00	0.00	0.00	0.00	0.00

(i) *A non-IFRS financial measure, refer to section 3. Cash costs of product sold exclude idled mine asset cash costs.*
(ii) *Per 200,000 man hours and calculated based on a rolling 12-month average.*
(iii) *Not presented as nil sales was noted for the quarter.*

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	2022		2021				2020	
Quarter Ended	**30-Jun**	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep
Financial Results								
Revenue (i)	**$ 5,790**	**$ -**	$ 848	$ 9,295	$ 5,191	$ 28,064	$ 33,879	$ 30,960
Cost of sales (i)	**(5,069)**	**(1,005)**	(1,539)	(6,866)	(4,552)	(18,347)	(22,193)	(20,027)
Gross profit/(loss) excluding idled mine asset costs	**940**	**(561)**	(51)	3,269	1,565	10,228	12,610	11,789
Gross profit/(loss) including idled mine asset costs	**721**	**(1,005)**	(691)	2,429	639	9,717	11,686	10,933
Other operating income/(expenses), net	**3,778**	**2,058**	(1,078)	100	(113)	(335)	434	(575)
Administration expenses	**(1,772)**	**(1,206)**	(1,336)	(1,467)	(1,484)	(1,781)	(2,120)	(1,789)
Evaluation and exploration expenses	**(66)**	**(24)**	(75)	(36)	(47)	(65)	(55)	(63)
Profit/(loss) from operations	**2,661**	**(177)**	(3,180)	1,026	(1,005)	7,536	9,945	8,506
Finance costs	**(10,247)**	**(10,036)**	(9,702)	(11,457)	(8,870)	(14,637)	(7,442)	(9,885)
Finance income	**1,160**	**13**	3,178	2,040	2,494	21,001	13	2,583
Share of earnings/(loss) of a joint venture	**(109)**	**(152)**	(137)	(261)	(35)	274	431	660
Current income tax credit/(expenses)	**(518)**	**(420)**	(1,579)	(78)	139	(1,120)	(5,174)	(793)
Net profit/(loss)	**(7,053)**	**(10,772)**	(11,420)	(8,730)	(7,277)	13,054	(2,227)	1,071
Basic earnings/(loss) per share	**$ (0.03)**	**$ (0.04)**	$ (0.04)	$ (0.03)	$ (0.03)	$ 0.05	$ (0.01)	$ -
Diluted earnings/(loss) per share	**$ (0.03)**	**$ (0.04)**	$ (0.04)	$ (0.03)	$ (0.03)	$ 0.02	$ (0.01)	$ -

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

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, 2022 and June 30, 2021. 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	**2022**	**2021**	**2022**	**2021**
Cash costs				
Cost of sales determined in accordance with IFRS	**$ 5,069**	$ 4,552	**$ 6,074**	$ 22,899
Less royalties	**(1,531)**	(1,135)	**(1,531)**	(5,335)
Less non-cash expenses	**(232)**	(220)	**(294)**	(1,576)
Less non-cash idled mine asset costs	**(219)**	(926)	**(663)**	(1,437)
Total cash costs	**3,087**	2,271	**3,586**	14,551
Less idled mine asset cash costs	**-**	-	**-**	-
Total cash costs excluding idled mine asset cash costs	**3,087**	2,271	**3,586**	14,551
Coal sales *(millions of tonnes)*	**0.09**	0.11	**0.09**	0.75
Total cash costs of product sold *(per tonne)* [(i)]	**$ 34.30**	$ 20.65	**$ 39.84**	$ 19.40

$ in thousands, except per tonne information	Three months ended June 30, 2022	Three months ended June 30, 2021	Six months ended June 30, 2022	Six months ended June 30, 2021
Cash costs				
Direct cash costs of product sold *(per tonne)* [(i)]	**$ 33.10**	$ 16.39	**$ 38.54**	$ 17.89
Mine administration cash costs of product sold *(per tonne)* [(i)]	**1.20**	4.26	**1.30**	1.51
Total cash costs of product sold *(per tonne)* [(i)]	**$ 34.30**	$ 20.65	**$ 39.84**	$ 19.40

The cash cost of product sold per tonne was $34.3 for the second quarter of 2022, which has increased from $20.7 per tonne for the second quarter of 2021. The reasons for the increase are primarily related to (i) diseconomies of scale given the decreased sales volume; and (ii) higher logistic costs incurred by the Company in response to the re-opening of the Ceke Port of Entry for coal export in May 2022.

Idle Mine Asset Costs

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

The following table provides a reconciliation of the gross profit/(loss) disclosed for the three and six months ended June 30, 2022 and June 30, 2021.

$ in thousands, except per tonne information	Three months ended June 30, 2022	Three months ended June 30, 2021	Six months ended June 30, 2022	Six months ended June 30, 2021
Idled mine asset costs				
Gross profit excluding idled mine asset costs	**$ 940**	$ 1,565	**$ 379**	$ 11,793
Less non-cash idled mine asset costs	**$ (219)**	$ (926)	**$ (663)**	$ (1,437)
Gross profit/(loss) including idled mine asset costs	**$ 721**	$ 639	**$ (284)**	$ 10,356

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, 2022, SGS employed 232 employees in Mongolia. Of the 232 employees, 25 are employed in the Ulaanbaatar office and 207 at the Ovoot Tolgoi Mine site. Of the 232 employees based in Mongolia, 231 (99%) are Mongolian nationals, and of those, 107 (46%) 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

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

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

As at June 30, 2022, the amount of reimbursable costs and fees claimed by Turquoise Hill (the "TRQ Reimbursable Amount") amounted to $6.8 million (such amount is included in the trade and other payables).

Going concern considerations

The Company's condensed consolidated interim financial statements have been prepared on a going concern basis which assumes that the Company will continue to operate until at least June 30, 2023 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. However, in order to continue as a going concern, the Company must generate sufficient operating cash flows, secure additional capital or otherwise pursue a strategic restructuring, refinancing or other transactions to provide it with sufficient liquidity.

Several adverse conditions and material uncertainties cast significant doubt upon the Company's ability to continue as a going concern and the going concern assumption used in the preparation of the Company's condensed consolidated interim financial statements. The Company incurred a loss attributable to equity holders of the Company of $17.8 million for the first six months of 2022 (compared to a profit attributable to equity holders of the Company of $5.8 million for the first six months of 2021), and as of that date, had a deficiency in assets of $121.2 million as at June 30, 2022 as compared to a deficiency in assets of $90.5 million as at December 31, 2021 while the working capital deficiency (excess current liabilities over current assets) reached $43.6 million as at June 30 ,2022 compared to a working capital deficiency of $42.5 million as at December 31, 2021.

Included in the working capital deficiency as at June 30, 2022 are significant obligations, represented by trade and other payables of $64.6 million, which includes $23.0 million in unpaid taxes that are repayable on demand to the Mongolian Tax Authority ("MTA").

Furthermore, the Company may not be able to settle all trade and other payables on a timely basis, and as a result any continuing postponement in settling of certain trade and other payables owed to suppliers and creditors may impact the ability of the Company to resume its mining operations and may result in potential lawsuits and/or bankruptcy proceedings being filed against the Company. Except as disclosed elsewhere in this MD&A, no such lawsuits or proceedings were pending as at August 12, 2022. However, there can be no assurance that no such lawsuits or proceedings will be filed by the Company's creditors in the future and the Company's suppliers and contractors will continue to supply and provide services to the Company uninterrupted.

As disclosed in the section "Impact of the COVID-19 pandemic" above, the Chinese-Mongolian border was re-opened for coal export on a trial basis on May 25, 2022 but there can be no guarantee that the Company will be able to continue exporting coal to China, or the Chinese-Mongolian border crossings would not be the subject of additional closure as a result of COVID-19 or any variants thereof in the future. The Company has been proactively adjusting its sales strategy and exploring opportunities to expand its sales.

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.

For the purpose of assessing the appropriateness of the use of the going concern basis to prepare the financial statements, management of the Company has prepared a cash flow projection covering a period of 12 months from June 30, 2022. The cash flow projection has considered the anticipated cash flows to be generated from the Company's business during the period under projection including cost saving measures. In particular, the Company has taken into account the following measures for improvement of the Company's liquidity and financial position, which include: (a) entering into three deferral agreements with CIC on November 19, 2020, (the "2020 November Deferral Agreement") for a deferral of (i) deferred cash interest and deferral fees of $75.2 million which were due and payable to CIC on or before September 14, 2020, under the deferral agreement signed on June 19, 2020 (the "2020 June Deferral Agreement"); (ii) semi-annual cash interest payments in the aggregate amount of $16.0 million payable to CIC on November 19, 2020 and May 19, 2021; (iii) $4.0 million worth of PIK Interest shares ("2020 November PIK Interest") issuable to CIC on November 19, 2020 under the Convertible Debenture; and (iv) the management fee which payable to CIC on November 14, 2020, February 14, 2021, May 15, 2021, August 14, 2021 and November 14, 2021 under the Amended and Restated Cooperation Agreement (collectively, the "2020 November Deferral Amounts"), on July 30, 2021, the 2021 July Deferral Agreement for a deferral of the 2021 Deferral Amounts and on May 13, 2022, the 2022 May Deferral Agreement for a deferral of the 2022 Deferral Amounts respectively until August 31, 2023; (b) communicating with vendors in agreeing repayment plans of the outstanding payable; (c) continuously assessing through communication with MTA its acceptability to a prolonged settlement schedule of the outstanding tax payable and making settlement based on that assessment and the liquidity position of the Company; and (d) obtaining an avenue of financial support from a prospective shareholder for a maximum amount of $73.0 million during the period covered in the cash flow projection. Regarding these plans and measures, there is no guarantee that the suppliers and MTA would agree the settlement plan as communicated by the Company, Nevertheless, after considering the above, the directors of the Company believe that there will be sufficient financial resources to continue its operations and to meet its financial obligations as and when they fall due in the next 12 months from June 30, 2022 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, the impact of the COVID-19 pandemic, restrictions on the Company's ability to import its coal products for sale in China, Chinese economic growth, market prices of coal, production levels, operating cash costs, capital costs, exchange rates of currencies of countries where the Company operates and exploration and discretionary expenditures.

As at June 30, 2022 and December 31, 2021, the Company was not subject to any externally imposed capital requirements.

Impact of the COVID-19 Pandemic

In response to the increase in the number of COVID-19 cases in Ejinaqi, a region in China's Inner Mongolia Autonomous Region, reported in late October 2021, the local government authorities imposed stringent preventive measures throughout the region, including the temporary closure of the Ceke Port of Entry located at the border of Mongolia and China. Accordingly, the Company's coal exports into China were suspended from November 2021 to May 2022.

On May 25, 2022, the Ceke Port of Entry re-opened for coal export on a trial basis, with a limited number of trucks permitted to cross the border during the trial period.

Since May 25, 2022, the number of trucks permitted to cross the Chinese-Mongolian border, as well as the volume of coal exports, have increased. As a result, the Company has gradually resumed mining operations beginning on July 15, 2022. The Company's major mining operations, including coal mining, have resumed and the Company expects to increase the volume of coal production in a gradual manner, while coal processing shall remain suspended for the time being. The Company will revisit the possibility of resuming coal processing at a later date.

The Company has been proactively adjusting its sales strategy and exploring opportunities to expand its sales. Although the export of coal from Mongolia to China has resumed as of the date hereof, there can be no guarantee that the Company will be able to continue exporting coal to China, or the Chinese-Mongolian border crossings would not be the subject of additional closure as a result of COVID-19 or any variants thereof in the future. The Company anticipates that its revenue, liquidity and profitability will continue to be adversely impacted until such time as the coal exports into China are allowed to resume at normal levels.

The Company will continue to closely monitor the development of the COVID-19 pandemic and the situation at the Ceke Port of Entry, including the number of trucks that are permitted to cross the border and the impact on the operations and financials of the Company.

Convertible Debenture

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

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

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

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

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

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

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

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

- Payment of the 2022 Deferral Amounts will be deferred until August 31, 2023.
- As consideration for the deferral of the 2022 Deferral Amounts, the Company agreed to pay CIC a deferral fee equal to 6.4% per annum on the Deferred Amounts payable under the Convertible Debenture, commencing on May 19, 2022.
- As consideration for the deferral of the Deferred Management Fees, the Company agreed to pay CIC a deferral fee equal to 2.5% per annum on the outstanding balance of the Deferred Management Fees payable under the Amended and Restated Cooperation Agreement, commencing on the date on which each such 2022 May Deferred Management Fee would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.
- The Company agreed to provide CIC with monthly updates regarding its operational and financial affairs.
- If at any time before the 2022 Deferral Amounts and related deferral fee are fully repaid, the Company proposes to appoint, replace or terminate one or more of its chief executive officer, its chief financial officer or any other senior executive(s) in charge of its principal business function or its principal subsidiary, the Company will first consult with, and obtain written consent (such consent shall not be unreasonably withheld) from CIC prior to effecting such appointment, replacement or termination.
- The Company and CIC agreed that nothing in the 2022 May Deferral Agreement prejudices CIC's rights to pursue any of its remedies at any time pursuant to the prior deferral agreements.

Cash Flow Highlights

	Six months ended June 30,	
$ in thousands	**2022**	**2021**
Net cash flows from/(used in) operating activities	**$ 4,008**	$ (3,387)
Cash used in investing activities	**(48)**	(5,774)
Cash used in financing activities	**(165)**	(3,884)
Effect of foreign exchange rate changes on cash	**(2,046)**	(351)
Increase/(decrease) in cash for the period	**1,749**	(13,396)
Cash balance, beginning of period	**723**	20,121
Cash balance, end of period	**$ 2,472**	$ 6,725

Net cash flows from/(used in) Operating Activities

The Company's net cash flows from operating activities was an inflow of $4.0 million in the first six months of 2022 compared to an outflow of $3.4 million in the first six months of 2021. This is primarily due to the collection of prepayments from coal sales during the first six months of 2022.

Cash used in Investing Activities

The Company used $0.1 million of cash during the first six months of 2022 in investing activities compared to $5.8 million during the first six months of 2021. In the first six months of 2021, expenditures on property, plant and equipment totaled $6.5 million (first six months of 2022: negligible).

Cash used in Financing Activities

Cash used in financing activities was $0.2 million in the first six months of 2022 (first six months of 2021: $3.9 million). The balance for the first six months of 2021 was principally attributable to the repayment of an interest-bearing loan of $2.8 million.

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, 2022, the Company's operating and capital commitments were:

	Within 1 year	2-3 years	Over 3 years	Total
As at June 30, 2022				
Capital expenditure commitments	$ -	$ -	$ -	$ -
Operating expenditure commitments	1,888	43	265	2,196
Commitments	**$ 1,888**	**$ 43**	**$ 265**	**$ 2,196**

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, 2022. The impairment indicator was the fact that the Company suffered continuous loss for the period and potential closure of border crossings due to the COVID-19 pandemic 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, 2022.

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

$ in thousands **Financial assets**		As at June 30, 2022		As at December 31, 2021
Cash	**$**	**2,472**	$	723
Restricted cash		**1,194**		1,259
Trade and other receivables		**91**		141
Total financial assets	**$**	**3,757**	$	2,123

$ in thousands **Financial liabilities**		As at June 30, 2022		As at December 31, 2021
Fair value through profit or loss				
Convertible debenture - embedded derivatives	**$**	**121**	$	53
Other financial liabilities				
Trade and other payables		**64,585**		67,327
Interest-bearing borrowings		**48**		53
Lease liabilities		**695**		881
Convertible debenture - debt host and interest payable		**209,261**		191,573
Total financial liabilities	**$**	**274,710**	$	259,887

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 defendants have agreed on and the case management judge has ordered a trial to commence in December 2022 (subject to court availability). To accomplish all steps necessary for trial preparation, counsels have agreed to the following proposed schedule under the case management of the judge: (i) document production and pleading amendments by October 31, 2021; (ii) oral examinations for discovery ending by December 31, 2022; (iii) expert reports of plaintiff complete by April 25, 2022 and expert reports of defendants complete by August 22, 2022; and (iv) pre-trial agreements, filings and motions by August 31, 2022. The Company has urged for a trial to begin as early as possible.

The Company firmly believes that it has a strong defense on the merits and will continue to vigorously defend itself against the Class Action through independent Canadian litigation counsel retained by the Company for this purpose. Due to the inherent uncertainties of litigation, it is not possible to predict the final outcome of the Class Action or determine the amount of potential losses, if any. However, the Company has determined that a provision for this matter as at June 30, 2022 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, 2022 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, SouthGobi Sands LLC, a wholly owned subsidiary of the Company ("SGS"), and the chairman of the CRKh, in his capacity as the respondent's representative, reached an agreement (the "Amicable Resolution Agreement") to exclude the License Areas from the territory of the SNT in full, subject to confirmation of the Amicable Resolution Agreement by the session of the CRKh. The parties formally submitted the Amicable Resolution Agreement to the appointed judge of the Administrative Court for her approval and requested a dismissal of the case in accordance with the Law of Mongolia on Administrative Court Procedure. On July 10, 2015, the judge issued her order approving the Amicable Resolution Agreement and dismissing the case, while reaffirming the obligation of CRKh to take necessary actions at its next session to exclude the License Areas from the SNT and register the new map of the SNT with the relevant authorities. Mining activities at the Soumber property cannot proceed unless and until the Company obtains a court order restoring the Soumber mining licenses and until the License Areas are removed from the SNT.

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

The Company will continue to work with the Mongolian authorities regarding the license area covered by the mining license (MV-020436).

Importing F-Grade Coal into China

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

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 12, 2022, approximately 274.3 million Common Shares were issued and outstanding. There are also incentive share options outstanding to acquire approximately 5.6 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 12, 2022, to the best of the Company's knowledge:

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

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, 2021.

Refer to Note 2.3 of the Company's condensed consolidated interim financial statements of the quarter ended June 30, 2022 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, 2021, 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 truck volume crossing the Mongolian border into China imposed by Chinese Authorities at the Ceke Port of Entry, the Company anticipates that it will continue to be negatively impacted by the COVID-19 pandemic for the foreseeable future until restrictions on trucking volume crossing are allowed to resume at normal levels, which will have an adverse effect on the Company's sales, production, logistics and financials. In particular, the restriction of the number of trucks crossing the Mongolian border into China implemented will limit the Company's ability to increase revenue despite the improved market conditions in China.

The Company decided to gradually resume mining operations beginning on July 15, 2022. The Company's major mining operations, including coal mining, have resumed and the Company expects to increase the volume of coal production in a gradual manner, while coal processing shall remain suspended for the time being. The Company will revisit the possibility of resuming coal processing at a later date. The Company will continue to closely monitor the COVID-19 pandemic and the impact it has on coal exports to China, and will continue to react promptly to preserve the working capital of the Company and mitigate any negative impacts on the business and operations of the Company.

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

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

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

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

- **Expand customer base** – The Company will endeavour to increase sales volume and sales price by: (i) expanding its sales network and diversifying its customer base; (ii) increasing its coal logistics capacity to resolve the bottleneck in the distribution channel; and (iii) setting and adjusting the sales price based on a more market-oriented approach in order to maximize profit while maintaining sustainable long-term business relationships with customers.

- **Optimize cost structure** – The Company will aim to reduce its production costs and optimize its cost structure through engaging third party contract mining companies to enhance its operation efficiency, strengthening procurement management, ongoing training and productivity enhancement.

- **Operate in a safe and socially responsible manner** – The Company will continue to maintain the highest standards in health, safety and environmental performance and operate in a corporate socially responsible manner, and continue to strictly implement its COVID-19 precautionary measures at the mine site and across all offices.

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 12, 2022

SouthGobi Resources Ltd.
Condensed Consolidated Interim Financial Statements

June 30, 2022
(Expressed in U.S. Dollars)
(Unaudited)

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CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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)

		Three months ended June 30,		Six months ended June 30,	
	Notes	2022	2021	2022	2021
Revenue	4	$ 5,790	$ 5,191	$ 5,790	$ 33,255
Cost of sales	6	(5,069)	(4,552)	(6,074)	(22,899)
Gross profit/(loss)		721	639	(284)	10,356
Other operating income/(expenses), net	7	3,778	(113)	5,836	(448)
Administration expenses		(1,772)	(1,484)	(2,978)	(3,266)
Evaluation and exploration expenses		(66)	(47)	(90)	(112)
Profit/(loss) from operations		2,661	(1,005)	2,484	6,530
Finance costs	8	(10,247)	(8,870)	(20,283)	(21,027)
Finance income	8	1,160	2,494	1,173	21,015
Share of earnings/(loss) of a joint venture		(109)	(35)	(261)	239
Profit/(loss) before tax		(6,535)	(7,416)	(16,887)	6,757
Current income tax credit/(expenses)	9	(518)	139	(938)	(981)
Net profit/(loss) attributable to equity holders of the Company		(7,053)	(7,277)	(17,825)	5,776
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods					
Exchange difference on translation of foreign operation		(8,262)	94	(12,994)	(224)
Net comprehensive income/(loss) attributable to equity holders of the Company		$ (15,315)	$ (7,183)	$ (30,819)	$ 5,552
Basic earnings/(loss) per share	10	$ (0.03)	$ (0.03)	$ (0.07)	$ 0.02
Diluted earnings/(loss) per share	10	$ (0.03)	$ (0.03)	$ (0.07)	$ 0.01

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

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, 2022	As at December 31, 2021
Assets			
Current assets			
Cash and cash equivalents		**$ 2,472**	$ 723
Restricted cash		**1,194**	1,259
Trade and other receivables	11	**91**	141
Inventories	12	**45,798**	51,606
Prepaid expenses		**1,514**	1,571
Total current assets		**51,069**	55,300
Non-current assets			
Property, plant and equipment	13	**124,892**	135,145
Investment in a joint venture		**13,990**	15,668
Total non-current assets		**138,882**	150,813
Total assets		**$ 189,951**	$ 206,113
Equity and liabilities			
Current liabilities			
Trade and other payables	14	**$ 64,585**	$ 67,327
Deferred revenue		**27,248**	26,477
Interest-bearing borrowing	15	**48**	53
Lease liabilities		**299**	296
Income tax payable		**2,457**	3,682
Total current liabilities		**94,637**	97,835
Non-current liabilities			
Lease liabilities		**396**	585
Convertible debenture	16	**209,382**	191,626
Decommissioning liability		**6,688**	6,517
Total non-current liabilities		**216,466**	198,728
Total liabilities		**311,103**	296,563
Equity			
Common shares		**1,098,860**	1,098,835
Share option reserve		**52,950**	52,858
Capital reserve		**396**	396
Exchange fluctuation reserve		**(43,462)**	(30,468)
Accumulated deficit		**(1,229,896)**	(1,212,071)
Total deficiency in assets		**(121,152)**	(90,450)
Total equity and liabilities		**$ 189,951**	$ 206,113
Net current liabilities		**$ (43,568)**	$ (42,535)
Total assets less current liabilities		**$ 95,314**	$ 108,278

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" — Director

"Dalanguerban" — 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, 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)
Balances, January 1, 2022	**274,116**	**$ 1,098,835**	**$ 52,858**	**$ 396**	**$ (30,468)**	**$ (1,212,071)**	**$ (90,450)**
Net loss for the period	**-**	**-**	**-**	**-**	**-**	**(17,825)**	**(17,825)**
Exchange differences on translation of foreign operations	**-**	**-**	**-**	**-**	**(12,994)**	**-**	**(12,994)**
Total comprehensive loss attributable to equity holders of the Company	**-**	**-**	**-**	**-**	**(12,994)**	**(17,825)**	**(30,819)**
Shares issued for:							
Employee share purchase plan	**139**	**25**	**-**	**-**	**-**	**-**	**25**
Share-based compensation charged to operations	**-**	**-**	**92**	**-**	**-**	**-**	**92**
Balances, June 30, 2022	**274,255**	**$ 1,098,860**	**$ 52,950**	**$ 396**	**$ (43,462)**	**$ (1,229,896)**	**$ (121,152)**

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, 2022	Six months ended June 30, 2021
Operating activities			
Profit/(loss) before tax		**$ (16,887)**	$ 6,757
Adjustments for:			
Depreciation and depletion	5	**1,154**	3,378
Share-based compensation		**92**	(5)
Interest expense on convertible debenture	8	**18,846**	18,803
Interest expense on borrowings	8	**5**	61
Interest elements on leased assets	8	**48**	34
Accretion of decommissioning liability	8	**361**	171
Fair value loss on embedded derivatives in convertible debenture	8	**68**	826
Interest income	8	**(15)**	(45)
Share of loss/(earnings) of a joint venture		**261**	(239)
Gain on disposal of items of property, plant and equipment, net	7	**(33)**	(270)
Provision/(reversal of provision) for doubtful trade and other receivables	11	**(554)**	220
Reversal of impairment on materials and supplies inventories	7	**(10)**	(25)
Discount on settlement of trade payables	7	**-**	(381)
Written off of other payables	7	**(2,805)**	-
Gain on contract offsetting arrangement	7	**(667)**	-
Gain on extinguishment of convertible debenture	8	**-**	(20,970)
Gain on modification of convertible debenture	8	**(1,158)**	-
Operating cash flows before changes in working capital items		**(1,294)**	8,315
Net change in working capital items	18	**6,188**	(11,272)
Cash generated from/(used in) operating activities		**4,894**	(2,957)
Interest paid		**(5)**	(59)
Income tax paid		**(881)**	(371)
Net cash flows from/(used in) operating activities		**4,008**	(3,387)
Investing activities			
Expenditures on property, plant and equipment		**(96)**	(6,492)
Proceeds from disposal of property, plant and equipment		**33**	271
Interest received	8	**15**	45
Dividend from a joint venture		**-**	402
Net cash flows used in investing activities		**(48)**	(5,774)
Financing activities			
Interest payment of convertible debenture	16.4	**-**	(1,000)
Repayment of interest-bearing loan		**-**	(2,800)
Proceeds from exercise of share options		**-**	97
Capital elements of lease rental paid		**(142)**	(181)
Interest elements of lease rentals paid		**(48)**	-
Proceed from issued shares for employee share purchase plan		**25**	-
Net cash flows used in financing activities		**(165)**	(3,884)
Effect of foreign exchange rate changes, net		**(2,046)**	(351)
Increase/(decrease) in cash and cash equivalents		**1,749**	(13,396)
Cash and cash equivalents, beginning of period		**723**	20,121
Cash and cash equivalents, end of period		**$ 2,472**	$ 6,725

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, 2022, to the Company's best knowledge, Land Breeze II S.à.r.l., a wholly-owned subsidiary of China Investment Corporation (together with its wholly-owned subsidiaries and affiliates, "CIC") owned approximately 23.6% of the outstanding common shares of the Company. Novel Sunrise Investments Limited ("Novel Sunrise"), a wholly-owned subsidiary of China Cinda (HK) Investments Management Company Limited ("Cinda"), and Voyage Wisdom Limited owned approximately 16.9% and 9.4% of the outstanding common shares of the Company, respectively.

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

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

Impact of the Coronavirus Disease 2019 ("COVID-19") pandemic

On May 25, 2022, the Ceke Port of Entry re-opened for coal export on a trial basis, with a limited number of trucks permitted to cross the border during the trial period.

Since May 25, 2022, the number of trucks permitted to cross the Chinese-Mongolian border, as well as the volume of coal exports, have increased. As a result, the Company decided to gradually resume mining operations beginning on July 15, 2022. The Company's major mining operations, including coal mining, have resumed and the Company expects to increase the volume of coal production in a gradual manner, while coal processing shall remain suspended for the time being. The Company will revisit the possibility of resuming coal processing at a later date.

The Company has been proactively adjusting its sales strategy in response and exploring opportunities to expand its sales accordingly. Although the export of coal from Mongolia to China has resumed as of the date hereof, there can be no guarantee that the Company will be able to continue exporting coal to China, or the Chinese-Mongolian border crossings would not be the subject of additional closure as a result of COVID-19 or any variants thereof in the future. The Company anticipates that its revenue, liquidity and profitability will continue to be adversely impacted until such time as the coal exports into China are allowed to resume at normal levels.

The Company will continue to closely monitor the development of the COVID-19 pandemic and the situation at the Ceke Port of Entry, including the number of trucks that are permitted to cross the border and the impact on the operations and financials of the Company.

1. CORPORATE INFORMATION AND GOING CONCERN (CONTINUED)

Going concern assumption

The Company's condensed consolidated interim financial statements have been prepared on a going concern basis which assumes that the Company will continue to operate until at least June 30, 2023 and will be able to realise its assets and discharge its liabilities in the normal course of operations as they come due. However, in order to continue as a going concern, the Company must generate sufficient operating cash flows, secure additional capital or otherwise pursue a strategic restructuring, refinancing or other transactions to provide it with sufficient liquidity.

Several adverse conditions and material uncertainties cast significant doubt upon the Company's ability to continue as a going concern and the going concern assumption used in the preparation of the Company's condensed consolidated interim financial statements. The Company incurred a loss attributable to equity holders of the Company of $17,825 for the first six months of 2022 (compared to a profit attributable to equity holders of the Company of $5,776 for the first six months of 2021), and as of that date, had a deficiency in assets of $121,152 as at June 30, 2022 as compared to a deficiency in assets of $90,450 as at December 31, 2021 while the working capital deficiency (excess current liabilities over current assets) reached $43,568 as at June 30 ,2022 compared to a working capital deficiency of $42,535 as at December 31, 2021.

Included in the working capital deficiency as at June 30, 2022 are significant obligations, represented by trade and other payables of $64,585, which includes $23,044 in unpaid taxes that are repayable on demand to the Mongolian Tax Authority ("MTA").

Furthermore, the Company may not be able to settle all trade and other payables on a timely basis, and as a result any continuing postponement in settling of certain trade and other payables owed to suppliers and creditors may impact the ability of the Company to resume its mining operations and may result in potential lawsuits and/or bankruptcy proceedings being filed against the Company. Except as disclosed elsewhere in this condensed consolidated interim financial statements, no such lawsuits or proceedings were pending as at August 12, 2022.

As disclosed in the section "Impact of the COVID-19 pandemic" above, the Chinese-Mongolian border was re-opened for coal export on a trial basis on May 25, 2022 but there can be no guarantee that the Company will be able to continue exporting coal to China, or the Chinese-Mongolian border crossings would not be the subject of additional closure as a result of COVID-19 or any variants thereof in the future. The Company has been proactively adjusting its sales strategy in response and exploring opportunities to expand its sales accordingly.

There are significant uncertainties as to the outcomes of the above events or conditions that may cast significant doubt on the Company's ability to continue as a going concern and, therefore, the Company may be unable to realise its assets and discharge its liabilities in the normal course of business. Should the use of the going concern basis in preparation of the condensed consolidated interim financial statements be determined to be not appropriate, adjustments would have to be made to write down the carrying amounts of the Company's assets to their 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)

Going concern assumption (continued)

For the purpose of assessing the appropriateness of the use of the going concern basis to prepare the financial statements, management of the Company has prepared a cash flow projection covering a period of 12 months from June 30, 2022. The cash flow projection has considered the anticipated cash flows to be generated from the Company's business during the period under projection including cost saving measures. In particular, the Company has taken into account the following measures for improvement of the Company's liquidity and financial position, which include: (a) entering into three deferral agreements with CIC including (i) entering into a deferral agreement on November 19, 2020 (the "2020 November Deferral Agreement"); (ii) entering into a deferral agreement on July 30, 2021 (the "2021 July Deferral Agreement") and (iii) entering into a deferral agreement on May 13, 2022 (the "2022 May Deferral Agreement"). Please refer to Note 16.5 for further details of these three deferral agreements; (b) communicating with vendors in agreeing repayment plans of the outstanding payable; (c) continuously assessing through communication with MTA its acceptability to a prolonged settlement schedule of the outstanding tax payable and making settlement based on that assessment and the liquidity position of the Company; and (d) obtaining an avenue of financial support from a prospective shareholder for a maximum amount of $73,000 during the period covered in the cash flow projection. Regarding these plans and measures, there is no guarantee that the suppliers and MTA would agree the settlement plan as communicated by the Company, Nevertheless, after considering the above, the directors of the Company believe that there will be sufficient financial resources to continue its operations and to meet its financial obligations as and when they fall due in the next 12 months from June 30, 2022 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, the impact of the COVID-19 pandemic, restrictions on the Company's ability to import its coal products for sale in China, Chinese economic growth, market prices of coal, production levels, operating cash costs, capital costs, exchange rates of currencies of countries where the Company operates and exploration and discretionary expenditures.

As at June 30, 2022 and December 31, 2021, 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 and Interpretations of the IFRS Interpretations Committee.

The condensed consolidated interim financial statements of the Company for the period ended June 30, 2022 were approved and authorised for issue by the Board of Directors of the Company (the "Board") on August 12, 2022.

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, 2021 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, 2021.

2.3 Significant accounting judgments and estimates

Information about judgments and estimates in applying accounting policies that have the most significant effect on the amounts recognised in the Company's condensed consolidated interim financial statements are included in Note 3.23 to the Company's December 31, 2021 consolidated annual financial statements. The significant accounting judgments and estimates remain substantially unchanged from December 31, 2021.

Review of carrying value of assets and impairment charges

In the determination of carrying values and impairment charges, management of the Company reviews the recoverable amount (the higher of the fair value less costs of disposal or the value in use) in the case of non-financial assets. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period. Changes in these assumptions may alter the results of non-financial asset and financial asset impairment testing, impairment charges recognised in profit or loss and the resulting carrying amounts of assets.

Ovoot Tolgoi Mine cash generating unit

The Company determined that an indicator of impairment existed for its Ovoot Tolgoi Mine cash generating unit as at June 30, 2022. The impairment indicator was the fact that the Company suffered continuous loss for the period and potential closure of 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 recognised during the six months ended June 30, 2022.

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 $22,954 as at June 30, 2022 (December 31, 2021: $23,841).

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.

2. BASIS OF PREPARATION (CONTINUED)

2.3 Significant accounting judgments and estimates (continued)

Estimated recoverable reserves

Reserve estimates involve expressions of judgment based on various factors such as knowledge, experience and industry practice, and the accuracy of these estimates may be affected by many factors, including estimates and assumptions with respect to coal prices, operating costs, mine plan and life, coal quality and recovery, foreign currency exchange rates and inflation rates. Reserve estimates are made by qualified persons, but will be impacted by changes in the above estimates and assumptions.

Estimated recoverable reserves are used to determine the depletion of mineral properties, in accounting for deferred production stripping costs, in performing impairment testing and for forecasting the timing of the payment of decommissioning, restoration and similar costs. Therefore, changes in the estimates and assumptions used to determine recoverable reserves could impact the carrying value of assets, depletion expense and impairment charges recognised in profit or loss and the carrying value of the decommissioning, restoration and similar liabilities.

Long term F-grade coal inventory

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

Useful lives and depreciation rates for property, plant and equipment

Depreciation expense is allocated based on estimated property, plant and equipment useful lives and depreciation rates except the mineral properties are depreciated on unit-of production basis based on proven and probable reserves. Therefore, changes in the useful life or depreciation rates from the initial estimate could impact the carrying value of property, plant and equipment and an adjustment would be recognised in profit or loss.

3. SEGMENTED INFORMATION

The Company’s chief executive officer (chief operating decision maker) reviews the financial information in order to make decisions about resources to be allocated to the segment and to assess its performance. No operating segment identified by the Board of Directors has been aggregated in arriving at the reporting segments of the Company. For management’s purpose, the Company has only one reportable operating segment, which is the coal division. The division is principally engaged in coal mining, development and exploration in Mongolia, and logistics and trading of coal in Mongolia and China for the six months ended June 30, 2022 and 2021.

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, 2022 and 2021.

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

3. SEGMENTED INFORMATION (CONTINUED)

3.1 Information about major customers

During the six months ended June 30, 2022, the Coal Division had eleven active customers. Three customers with respective revenues contributed over 10% of the total revenue during the six months ended June 30, 2022, with the largest customer accounting for 20% of revenues, the second largest customer accounting for 19% of revenues and the third largest customer accounting for 13% of revenues. 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.

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, 2022	**$ -**	**$ -**	**$ 5,790**	**$ 5,790**
For the three months ended June 30, 2021	-	-	5,191	5,191
For the six months ended June 30, 2022	**$ -**	**$ -**	**$ 5,790**	**$ 5,790**
For the six months ended June 30, 2021	-	-	33,255	33,255
Non-current assets				
As at June 30, 2022	**$ 138,329**	**$ 333**	**$ 220**	**$ 138,882**
As at December 31, 2021	150,136	430	247	150,813

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

4. REVENUE

Revenue represents the value of goods sold which arises from the trading of coal. The Company recognises all revenue from the trading of coal at a point in time when the customer obtains control of the goods or services.

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

5. EXPENSES BY NATURE

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

	Three months ended June 30,				Six months ended June 30,			
	2022		2021		2022		2021	
Depreciation	**$**	**548**	$	1,499	**$**	**1,154**	$	3,378
Auditors' remuneration		**36**		31		**72**		62
Employee benefit expense (including directors' remuneration)								
Wages and salaries	**$**	**1,249**	$	1,332	**$**	**2,373**	$	2,921
Equity-settled share option expense		**45**		3		**92**		(5)
Pension scheme contributions		**130**		127		**241**		351
	$	**1,424**	$	1,462	**$**	**2,706**	$	3,267
Lease payments under operating leases	**$**	**87**	$	48	**$**	**108**	$	69
Foreign exchange loss/(gain), net (Note 7)		**(1,415)**		189		**(1,896)**		171
Reversal of impairment on materials and supplies inventories (Note 7)		**(10)**		-		**(10)**		(25)
CIC management fee (Note 17)		**131**		120		**155**		733
Royalties (Note 6)		**1,531**		1,135		**1,531**		5,335
Provision/(reversal of provision) for doubtful trade and other receivables (Note 7)		**(249)**		29		**(554)**		220
Gain on disposal of property, plant and equipment, net (Note 7)		**-**		-		**(33)**		(270)
Rental income from short term leases (Note 7)		**(12)**		-		**(26)**		-
Discount on settlement of trade payables (Note 7)		**-**		(225)		**-**		(381)
Written off of other payables (Note 7)		**(1,556)**		-		**(2,805)**		-
Gain on contract offsetting arrangement (Note 7)		**(667)**		-		**(667)**		-
Mine operating costs and others		**3,281**		1,908		**3,571**		14,166
Total operating expenses	**$**	**3,129**	$	6,196	**$**	**3,306**	$	26,725

6. COST OF SALES

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

	Three months ended June 30,				Six months ended June 30,			
	2022		2021		2022		2021	
Operating expenses	**$**	**3,087**	$	2,271	**$**	**3,586**	$	14,551
Share-based compensation expense/(recovery)		**10**		1		**21**		(1)
Depreciation and depletion		**222**		219		**273**		1,577
Royalties		**1,531**		1,135		**1,531**		5,335
Cost of sales from mine operations		**4,850**		3,626		**5,411**		21,462
Cost of sales related to idled mine assets (i)		**219**		926		**663**		1,437
Cost of sales	**$**	**5,069**	$	4,552	**$**	**6,074**	$	22,899

(i) Cost of sales related to idled mine assets for the period ended June 30, 2022 includes $663 of depreciation expense (2021: includes $1,437 of depreciation expense). The depreciation expense relates to the Company's idled plant and equipment.

Cost of inventories recognised as expense in cost of sales for the three months ended June 30, 2021 totaled $2,593 (2021: $1,951), including depreciation and depletion totaled $394 (2021: $283). Cost of inventories recognised as expense in cost of sales for the six months ended June 30, 2022 totaled $2,610 (2021: $13,751), including depreciation and depletion totaled $896 (2021: $1,065).

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

7. OTHER OPERATING EXPENSES/(INCOME), NET

The Company's other operating expenses/(income) consist of the following amounts:

	Three months ended June 30, 2022	Three months ended June 30, 2021	Six months ended June 30, 2022	Six months ended June 30, 2021
CIC management fee (Note 17)	**$ 131**	$ 120	**$ 155**	$ 733
Provision/(reversal of provision) for doubtful trade and other receivables (Note 11)	**(249)**	29	**(554)**	220
Foreign exchange loss/(gain), net	**(1,415)**	189	**(1,896)**	171
Gain on disposal of items of property, plant and equipment, net (Note 13)	**-**	-	**(33)**	(270)
Reversal of impairment on materials and supplies inventories (Note 12)	**(10)**	-	**(10)**	(25)
Rental income from short term leases	**(12)**	-	**(26)**	-
Discount on settlement of trade payables	**-**	(225)	**-**	(381)
Written off of other payables (i)	**(1,556)**	-	**(2,805)**	-
Gain on contract offsetting arrangement	**(667)**	-	**(667)**	-
Other operating expenses/(income), net	**$ (3,778)**	$ 113	**$ (5,836)**	$ 448

(i) The Company has determined that the written off of a significant vendor payable of $2,805 which the contractual claim limitation period is expired as of the end of the reporting period pursuant to the relevant laws and regulations.

8. FINANCE COSTS AND INCOME

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

	Three months ended, June 30, 2022	Three months ended, June 30, 2021	Six months ended, June 30, 2022	Six months ended, June 30, 2021
Interest expense on convertible debenture (Note 16.4)	**$ 9,676**	$ 8,342	**$ 18,846**	$ 18,803
Fair value loss on embedded derivatives in convertible debenture (Note 16.4)	**24**	-	**68**	826
Value added tax on interest from intercompany loan	**439**	430	**955**	1,132
Interest expense on borrowing	**4**	-	**5**	61
Interest elements on leased assets	**23**	11	**48**	34
Accretion of decommissioning liability	**81**	87	**361**	171
Finance costs	**$ 10,247**	$ 8,870	**$ 20,283**	$ 21,027

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

	Three months ended, June 30, 2022	Three months ended, June 30, 2021	Six months ended, June 30, 2022	Six months ended, June 30, 2021
Fair value gain on embedded derivatives in convertible debenture (Note 16.4)	**$ -**	$ 2,479	**$ -**	$ -
Gain on extinguishment of convertible debenture (Note 16.4)	**-**	-	**-**	20,970
Gain on modification of convertible debenture (Note 16.4)	**1,158**	-	**1,158**	-
Interest income	**2**	15	**15**	45
Finance income	**$ 1,160**	$ 2,494	**$ 1,173**	$ 21,015

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

9. TAXES

The Canadian statutory tax rate was 27% (2021: 27%). A reconciliation between the Company's tax expense and the product of the Company's loss before tax multiplied by the Company's domestic tax rate is as follows:

	Three months ended, June 30, 2022	Three months ended, June 30, 2021	Six months ended, June 30, 2022	Six months ended, June 30, 2021
Current - Canada				
Charge for the period	**$ -**	$ -	**$ -**	$ -
Current - elsewhere				
Charge for the period	**518**	-	**938**	981
Overprovision in prior periods	**-**	(139)	**-**	-
Total tax credit/(charge) for the period	**$ 518**	$ (139)	**$ 938**	$ 981

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, 2022	Three months ended June 30, 2021	Six months ended June 30, 2022	Six months ended June 30, 2021
Net profit/(loss)	**$ (7,053)**	$ (7,277)	**$ (17,825)**	$ 5,776
Weighted average number of shares	**274,205**	273,289	**274,205**	273,289
Basic earnings/(loss) per share	**$ (0.03)**	$ (0.03)	**$ (0.07)**	$ 0.02
Earnings/(loss)				
Profit/(Loss) for the purposes of basic earnings/(loss) per share	**$ (7,053)**	$ (7,277)	**$ (17,825)**	$ 5,776
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	**$ (7,053)**	$ (7,277)	**$ (17,825)**	$ 4,435
Number of shares				
Weighted average number of shares for the purposes of basic earnings/(loss) per share	**274,205**	273,289	**274,205**	273,289
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	**274,205**	273,289	**274,205**	315,156
Diluted earnings/(loss) per share	**$ (0.03)**	$ (0.03)	**$ (0.07)**	$ 0.01

Potentially dilutive items not included in the calculation of diluted earnings per share for the period ended June 30, 2022 include the underlying shares comprised in the convertible debenture (Note 16) and stock options that were anti-dilutive.

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

11. TRADE AND OTHER RECEIVABLES

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

	As at June 30, 2022	As at December 31, 2021
Trade receivables	$ -	$ -
Other receivables	91	141
Total trade and other receivables	$ 91	$ 141

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

	June 30, 2022	December 31, 2021
Less than 1 month	$ 88	$ 112
1 to 3 months	3	6
3 to 6 months	-	23
Over 6 months	-	-
Total trade and other receivables	$ 91	$ 141

Overdue balances are reviewed regularly by senior management. The Company does not hold any collateral or other credit enhancements over its trade and other receivable balances.

The Company has determined that the loss allowance on its trade and other receivables was $22,954 (December 31, 2021: $23,841) as at June 30, 2022, 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, 2022 reconcile to the opening loss allowances as follows:

Loss allowance for trade and other receivables	
Opening loss allowance as at January 1, 2022	$ 23,841
Decrease in loss allowance recognised in profit or loss during the period (Note 7)	(554)
Exchange realignment	(333)
Loss allowance as at June 30, 2022	$ 22,954
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

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

12. INVENTORIES

The Company's inventories consist of the following amounts:

	As at	
	June 30, 2022	December 31, 2021
Current inventories		
Coal stockpiles	**$ 35,388**	$ 40,270
Materials and supplies	**10,410**	11,336
	$ 45,798	$ 51,606

Other operating income for the period ended June 30, 2022 included a reversal of impairment loss of $10 (2021: $25) related to the Company's coal stockpile inventories.

13. PROPERTY, PLANT AND EQUIPMENT

During the six months ended June 30, 2022, the Company acquired items of plant and equipment with a cost including mineral properties of approximately $3,252 (six months ended June 30, 2021: $9,072). Items of plant and equipment with cost of approximately $nil (six months ended June 30, 2021: $1) were disposed during the six months ended June 30, 2022 and with sales proceeds of $33 (six months ended June 30, 2021: $271), resulting in a gain on disposal of $33 (six months ended June 30, 2021: $270).

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

As at June 30, 2022, one of the Company's property, plant and equipment with a carrying value of $nil (December 31, 2021: $nil) was pledged as security for a bank loan granted to the Company (Note 15) and most of the Company's mobile equipment and other operating equipment with carrying value of $2,068 (December 31, 2021: $2,863) were pledged as security of CIC convertible debenture.

13.3 Right-of-use assets

The right-of-use assets relate to the buildings as at June 30, 2022 and December 31, 2021.

13.4 Impairment charges

No impairment nor reversal of impairment was made during the six months ended June 30, 2022 (December 31, 2021: nil).

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

14. TRADE AND OTHER PAYABLES

Trade and other payables of the Company primarily consist of amounts outstanding for trade purchases relating to coal mining, development and exploration activities and mining royalties payable. The usual credit period taken for trade purchases is between 30 to 90 days.

The aging of the Company's trade and other payables, based on invoice date, is as follows:

	As at	
	June 30, 2022	December 31, 2021
Less than 1 month	**$ 6,217**	$ 17,185
1 to 3 months	**1,073**	8,332
3 to 6 months	**1,284**	6,791
Over 6 months	**56,011**	35,019
Total trade and other payables	**$ 64,585**	$ 67,327

15. INTEREST-BEARING BORROWING

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

	As at	
	June 30, 2022	December 31, 2021
Bank loan	**$ 48**	$ 53
Total interest-bearing borrowing	**$ 48**	$ 53

On December 30, 2021, SouthGobi Sands LLC, a wholly owned subsidiary of the Company, obtained a bank loan (the "2021 Bank Loan") in the principal amount of $53 from a Mongolian bank with the key commercial terms as follows:

- Maturity date set at 3 months from drawdown (subsequently extended until September 30, 2022);
- Interest rate of 16.8% per annum and interest is payable monthly; and
- One item of property, plant and equipment was pledged as security for the 2021 Bank Loan. As at June 30, 2022, the net book value of the pledged item of property, plant and equipment was $nil.

As at June 30, 2022, the outstanding principal balance for the 2021 Bank Loan was $48 and the Company owed accrued interest of $nil.

16. CONVERTIBLE DEBENTURE

16.1 Key commercial terms

On November 19, 2009, the Company issued a convertible debenture to CIC for $500,000. The convertible debenture bears interest at 8.0% per annum (6.4% payable semi-annually in cash and 1.6% payable annually in the Company's common shares) and has a maximum term of 30 years. The convertible debenture is secured by a first ranking charge over the Company's assets, including shares of its material subsidiaries. During 2010, the Company exercised a right within the debenture to call and convert $250,000 of the debenture for 21,471 common shares. Following the conversion, the outstanding principal balance was $250,000 and has remained unchanged at that balance to June 30, 2022.

The key commercial terms of the financing include:

- Interest - 8% per annum (6.4% payable semi-annually in cash and 1.6% payable annually in the Company's common shares, where the number of shares to be issued is calculated based on the 50-day volume-weighted average price ("VWAP")).
- Term - Maximum of 30 years.
- Security - First charge over the Company's assets, including shares of its material subsidiaries.
- Conversion price - The conversion price is set as the lower of CAD$11.88 or the 50-day VWAP at the date of conversion, with a floor price of CAD$8.88 per share.
- Representation on the Company's Board - While the convertible debenture is outstanding, or while CIC has a minimum 15% direct or indirect stake in the Company, CIC has the right to nominate one director to the Company's Board of Directors. As of the date hereof, the Company currently has eight Board of Directors members of which two (Mr. Ben Niu and Mr. Jianmin Bao) were nominated by CIC.
- Voting restriction - CIC has agreed that it will not have any voting rights in the Company beyond 29.9% if CIC ever acquires ownership of such a shareholder stake.
- Pre-emption rights - While the convertible debenture is outstanding, or while CIC has a 15% direct or indirect stake in the Company, CIC has certain pre-emption rights on a pro-rata basis to subscribe for any new shares to be allotted and issued by the Company for the period which the convertible debenture is outstanding. The pre-emption rights will not apply to new shares issued pursuant to pro-rata public equity offerings made to all shareholders, exercise of stock options and shares issued to achieve a 25% public float.
- Registration rights - CIC has registration rights under applicable Canadian provincial securities laws in connection with the common shares issuable upon conversion of the convertible debenture.
- Event of default – CIC could demand for the principal and corresponding interest from the Company immediately when certain events, including default of interest payment, suspension of trading and delisting of its shares from the TSX and the HKEX have occurred.

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 amortised cost using the effective interest rate method and the embedded derivatives are classified as FVTPL and all changes in fair value are recorded in profit or loss. The difference between the debt host component and the principal amount of the loan outstanding is accreted to profit or loss over the expected life of the convertible debenture.

(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 embedded derivatives were valued upon initial measurement and subsequent periods using a Monte Carlo simulation valuation model. A Monte Carlo simulation model is a valuation model that relies on random sampling and is often used when modeling systems with a large number of inputs and where there is significant uncertainty in the future value of inputs and where the movement of the inputs can be independent of each other. Some of the key inputs used by the Company in its Monte Carlo simulation include: the floor and ceiling conversion prices, the Company's common share price, the risk-free rate of return, expected volatility of the Company's common share price, forward foreign exchange rate curves (between the CAD$ and U.S. dollar) and spot foreign exchange rates.

The convertible debenture is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing convertible debenture is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original convertible debenture and a recognition of a new convertible debenture, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

The terms of exchanged or modified debt as 'substantially different' if the net present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted at the original effective interest rate is at least 10% different from the discounted present value of the remaining cash flows of the original convertible debenture.

16.3 Valuation assumptions

The specific terms and assumptions used in the Company's valuation models are as follows:

	As at	
	June 30, 2022	**December 31, 2021**
Floor conversion price	**CAD$8.88**	CAD$8.88
Ceiling conversion price	**CAD$11.88**	CAD$11.88
Common share price	**CAD$0.88**	CAD$0.88
Historical volatility	**29%**	28%
Risk free rate of return	**3.84%**	2.18%
Foreign exchange spot rate (CAD$ to U.S. Dollar)	**0.78**	0.79
Forward foreign exchange rate curve (CAD$ to U.S. Dollar)	**0.707 to 0.778**	0.741 to 0.791

16.4 Presentation

Based on the Company's valuation as at June 30, 2022, the fair value of the embedded derivatives increased by $68 compared to December 31, 2021. The increase was recorded as finance costs for the six months ended June 30, 2022.

For the six months ended June 30, 2022, the Company recorded interest expense of $18,846 related to the convertible debenture as a finance cost (2021: $18,803). The interest expense consists of the interest at the contract rate and the accretion of the debt host component of the convertible debenture. To calculate the accretion expense, the Company uses the contract life of 30 years and an effective interest rate of 22.2%.

(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 recognised in profit or loss for the period 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 as defined in Note 16.5 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,	
	2022	**2021**	**2022**	**2021**
Balance, beginning of period	**$ 200,840**	$ 174,207	**$ 191,626**	$ 181,411
Interest expense on convertible debenture (Note 8)	**9,676**	8,342	**18,846**	18,803
Increase/(decrease) in fair value of embedded derivatives (Note 8)	**24**	(2,479)	**68**	826
Gain on extinguishment of convertible debenture (Note 8)	**-**	-	**-**	(20,970)
Gain on modification of convertible debenture (Note 8)	**(1,158)**	-	**(1,158)**	-
Interest paid	**-**	(1,000)	**-**	(1,000)
Balance, end of period	**$ 209,382**	$ 179,070	**$ 209,382**	$ 179,070

The convertible debenture balance consists of the following amounts:

	As at	
	June 30, 2022	**December 31, 2021**
Non-current convertible debenture		
Debt host and interest payable	**$ 209,261**	$ 191,573
Fair value of embedded derivatives	**121**	53
Total convertible debenture	**$ 209,382**	$ 191,626

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: (i) deferred cash interest and deferral fees of $75,194 which were due and payable to CIC on or before September 14, 2020, under the 2020 June Deferral Agreement; (ii) semi-annual cash interest payments in the aggregate amount of $16,000 payable to CIC on November 19, 2020 and May 19, 2021; (iii) $4,000 worth of PIK Interest shares ("2020 November PIK Interest") issuable to CIC on November 19, 2020 under the CIC convertible debenture; and (iv) the management fee which payable to CIC on November 14, 2020, February 14, 2021, May 15, 2021, August 14, 2021 and November 14, 2021 under the Amended and Restated Cooperation Agreement (collectively, the "2020 November Deferral Amounts").

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

On July 30, 2021, the Company and CIC entered into the 2021 July Deferral Agreement which became effective on that day, pursuant to which CIC agreed to grant the Company a deferral of (i) semi-annual cash interest payments of $8,065 payable to CIC on November 19, 2021; and (ii) $4,000 in PIK Interest shares ("collectively, the 2021 Deferral Amounts") issuable to CIC on November 19, 2021 under the CIC convertible debenture.

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.

On May 15, 2022, the Company and CIC entered into the 2022 May Deferral Agreement, pursuant to which CIC agreed to grant the Company a deferral of semi-annual cash interest payments of $7,934 payable to CIC (the “Deferred Amounts”) and the management fee which payable to CIC on February 14, 2022 and August 14, 2021 (the “Deferred Management Fee”) under the Amended and Restated Cooperation Agreement (collectively, the “2022 Deferral Amounts”) under the CIC convertible debenture.

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

- Payment of the 2022 Deferral Amounts will be deferred until August 31, 2023.
- As consideration for the deferral of the Deferred Amounts, the Company agreed to pay CIC a deferral fee equal to 6.4% per annum on the Deferred Amounts payable under the CIC convertible debenture, commencing on May 19, 2022.
- As consideration for the deferral of the Deferred Management Fees, the Company agreed to pay CIC a deferral fee equal to 2.5% per annum on the outstanding balance of the Deferred Management Fees payable under the Amended and Restated Cooperation Agreement, commencing on the date on which each such 2022 May Deferred Management Fee would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.
- The Company agreed to provide CIC with monthly updates regarding its operational and financial affairs.
- If at any time before the 2022 Deferral Amounts and related deferral fee are fully repaid, the Company proposes to appoint, replace or terminate one or more of its chief executive officer, its chief financial officer or any other senior executive(s) in charge of its principal business function or its principal subsidiary, the Company will first consult with, and obtain written consent (such consent shall not be unreasonably withheld) from CIC prior to effecting such appointment, replacement or termination.
- The Company and CIC agreed that nothing in the 2022 May Deferral Agreement prejudices CIC’s rights to pursue any of its remedies at any time pursuant to the prior deferral agreements.

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

17. RELATED PARTY TRANSACTIONS

The condensed consolidated interim financial statements include the financial statements of SouthGobi Resources Ltd. and its significant subsidiaries listed in the following table:

		% equity interest As at	
Name	**Country of incorporation**	**June 30, 2022**	**December 31, 2021**
SouthGobi Resources (Hong Kong) Limited	Hong Kong	**100%**	100%
SouthGobi Sands LLC	Mongolia	**100%**	100%
SGQ Coal Investment Pte. Ltd.	Singapore	**100%**	100%
SouthGobi Trading (Beijing) Co., Ltd. (i)	China	**100%**	100%
Inner Mongolia SouthGobi Energy Co., Ltd.	China	**100%**	100%
Inner Mongolia SouthGobi Mining Development Co., Ltd.	China	**100%**	100%
Inner Mongolia SouthGobi Enterprise Co., Ltd.	China	**70%**	70%

(i) SouthGobi Trading (Beijing) Co., Ltd. was registered as a wholly-foreign-owned enterprise under law of China.

In addition to the transactions detailed elsewhere in profit or loss, the Company had related party transactions with the following company related by way of directors or shareholders in common during the six months ended June 30, 2022:

- CIC – CIC is a major shareholder of the Company, CIC holds approximately 23.6% of the issued and outstanding common shares of the Company as at June 30, 2022. The Amended and Restated Cooperation Agreement with CIC states that the management fee calculated based on 2.5% of the revenue shall be paid to CIC on a quarterly basis. During the three and six months ended June 30, 2022, $131 and $155 were recorded in profit or loss, respectively (three and six months ended June 30, 2021: $120 and $733, 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,	
	2022	**2021**	**2022**	**2021**
Finance costs	**$ 9,676**	$ 8,342	**$ 18,846**	$ 18,803
Management fee	**131**	120	**155**	733
Related party expenses	**$ 9,807**	$ 8,462	**$ 19,001**	$ 19,536

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

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, 2022	Six months ended June 30, 2021
Amortisation of deferred stripping capitalised	**$ 1,033**	$ 1,528
Addition to decommissioning liability	**608**	54

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, 2022	Six months ended June 30, 2021
Decrease/(increase) in inventories	**$ 5,927**	$ (5,676)
Decrease in trade and other receivables	**175**	878
Decrease/(increase) in prepaid expenses and deposits	**57**	(436)
Decrease in trade and other payables	**(742)**	(5,205)
Increase/(decrease) in deferred revenue	**771**	(833)
Net change in working capital items	**$ 6,188**	$ (11,272)

Depreciation and depletion utilised from inventories for the period ended June 30, 2022 totaled $188 (2021: capitalised in $334).

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, 2022				
Capital expenditure commitments	**$ -**	**$ -**	**$ -**	**$ -**
Operating expenditure commitments	**1,888**	**43**	**265**	**2,196**
Commitments	**$ 1,888**	**$ 43**	**$ 265**	**$ 2,196**
As at December 31, 2021				
Capital expenditure commitments	$ -	$ -	$ -	$ -
Operating expenditure commitments	1,642	47	277	1,966
Commitments	$ 1,642	$ 47	$ 277	$ 1,966

(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, 2022	**December 31, 2021**
Denominated in U.S. Dollars	**$ 793**	$ 63
Denominated in Chinese Renminbi	**1,445**	511
Denominated in Mongolian Tugriks	**77**	37
Denominated in Canadian Dollars	**2**	23
Denominated in Hong Kong Dollars	**155**	89
Cash	**$ 2,472**	$ 723

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, 2022	**December 31, 2021**
Increase/decrease in foreign exchange rate against respective functional currency		
+5%	**$ 1,256**	$ 945
–5%	**$ (1,256)**	$ (945)

A2. COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has, throughout the six months ended June 30, 2022, 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, 2022 to June 30, 2022 there were no meetings 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, 2022.

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, 2022.

A5. INTERIM DIVIDEND

The Board of Directors do not recommend the payment of an interim dividend for the six months ended June 30, 2022.

A6. SUBSTANTIAL SHAREHOLDERS

As at June 30, 2022, 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	23.62%
Fullbloom [(b)]	Interest of controlled corporation	64,766,591	23.62%
CIC [(b)]	Interest of controlled corporation	64,766,591	23.62%
Novel Sunrise [(c)]	Beneficial	46,358,978	16.90%
Hope Rosy Limited [(c)]	Interest of controlled corporation	46,358,978	16.90%
China Cinda (HK) Investments Management Company Limited [(c)]	Interest of controlled corporation	46,358,978	16.90%
China Cinda (HK) Holdings Company Limited [(c)]	Interest of controlled corporation	46,358,978	16.90%
China Cinda Asset Management Co., Ltd. [(c)]	Interest of controlled corporation	46,358,978	16.90%
The Ministry of Finance of the People's Republic of China ("MOF") [(c)]	Interest of controlled corporation	46,358,978	16.90%
Voyage Wisdom Limited	Beneficial	25,768,162	9.40%

(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, 2022 (i.e. 274,254,426 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, 2022.

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

As at June 30, 2022, 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 and underlying Shares held, capacity and nature of interest [1]						
	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	77,999	-	-	-	450,000	527,999	0.19%
Mao Sun	-	-	-	-	800,000	800,000	0.29%
Jin Lan Quan	-	-	-	-	600,000	600,000	0.22%
Yingbin Ian He	27,000	-	-	-	450,000	477,000	0.17%

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 above are long positions .
(4) The percentage represents the total number of the Shares and the underlying Shares interested divided by the number of issued Shares as at June 30, 2022 (i.e. 274,254,426 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, 2022

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 authorised 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.

Certain amendments to the Company's equity incentive plan which governs the stock option plan have been proposed by the Board of Directors in order to comply with Chapter 17 of the Listing Rules and the rules and policies of TSX-V (the "EIP Amendments"). For details of the EIP Amendments, please refer to the notice of annual and special meeting of the shareholders and management proxy circular of the Company dated June 29, 2022 published on the Hong Kong Stock Exchange's website (www.hkexnews.hk) and the Company's website (www.southgobi.com). The EIP Amendments have subsequently been approved by the shareholders at the annual and special meeting of the shareholders of the Company on July 21, 2022, details of which are available in the poll results announcement of the Company dated July 22, 2022 published on the Hong Kong Stock Exchange's website (www.hkexnews.hk) and the Company's website (www.southgobi.com). The EIP Amendments shall become effective upon completion of the voluntary delisting of the shares from the TSX.

(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, 2022 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$)	Weighted average remaining contractual life (years)
\$0.11 - \$0.29	**2,212**	**\$ 0.13**	**1.86**	**1,812**	**\$ 0.12**	**1.75**
\$0.33 - \$0.39	**500**	**0.33**	**0.00**	**500**	**0.33**	**0.00**
	2,712	**\$ 0.16**	**1.52**	**2,312**	**\$ 0.17**	**1.37**
Exercise price (HKD$)	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	**3,407**	**\$ 1.41**	**4.00**	**1,459**	**\$ 1.41**	**4.00**
	3,407	**\$ 1.41**	**4.00**	**1,459**	**\$ 1.41**	**4.00**
Total	**6,119**		**2.90**	**3,771**		**2.39**

(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, 2022.

	Number of share options								
Name	At December 31, 2021	Granted during the period	Exercised during the period	Forfeited during the period	Expired during the period	At June 30, 2022	Date of grant of share options	Exercise period of share options	Exercise price per share
Directors									
Mao Sun	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	**-**	**-**	**-**	**-**	**800,000**			
Jin Lan Quan	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	**-**	**-**	**-**	**-**	**600,000**			
Yingbin Ian He	100,000	-	-	-	(100,000)	-	June 5, 2017	June 5, 2018 - June 5, 2022	CAD$0.39
	150,000	-	-	-	-	150,000	June 30, 2017	June 30, 2018 - June 30, 2022	CAD$0.33
	150,000	-	-	-	-	150,000	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	**-**	**-**	**-**	**(100,000)**	**450,000**			
Dalanguerban	**450,000**	**-**	**-**	**-**	**-**	**450,000**	June 29, 2021	June 29 2022 - June 29 2026	HK$1.41
Total for directors	**2,400,000**	**-**	**-**	**-**	**(100,000)**	**2,300,000**			
Other share option holders	459,000	-	-	-	-	459,000	August 16, 2018	August 16, 2019 - August 16, 2023	CAD$0.13
	902,750	-	-	-	-	902,750	November 15, 2019	November 15 2020 - November 15 2024	CAD$0.13
	2,487,500	-	-	(30,000)	-	2,457,500	June 29, 2021	June 29 2022 - June 29 2026	HK$1.41
Total for other share option holders	**3,849,250**	**-**	**-**	**(30,000)**	**-**	**3,819,250**			
Total	**6,249,250**	**-**	**-**	**(30,000)**	**(100,000)**	**6,119,250**			