SouthGobi Resources Ltd.
Consolidated Financial Statements

December 31, 2021
(Expressed in U.S. dollars)

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of SouthGobi Resources Ltd.

Opinion

We have audited the consolidated financial statements of SouthGobi Resources Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 6 to 9 which comprise the consolidated statements of financial position as at December 31, 2021 and 2020, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2021 and 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Material Uncertainty Related to Going Concern

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

Key Audit Matters

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

Impairment of property, plant and equipment
(Refer to note 3.23(b) and 16 to the consolidation financial statements)

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

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

How the matter was addressed in our audit

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

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

Other Information

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

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

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

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

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

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

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

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

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

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

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements - Continued

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

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

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

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

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

BDO Limited

Certified Public Accountants
Lee Alfred
Practising Certificate Number P04960

Hong Kong, May 30, 2022

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Additional stock exchange information

SOUTHGOBI RESOURCES LTD.

Consolidated Statements of Comprehensive Income

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

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

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

SOUTHGOBI RESOURCES LTD.

Consolidated Statements of Financial Position

(Expressed in thousands of U.S. dollars)

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

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

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

APPROVED BY THE BOARD:

"Mao Sun"	***"Dalanguerban"***
Director	Director

SOUTHGOBI RESOURCES LTD.

Consolidated Statements of Changes in Equity

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

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

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

SOUTHGOBI RESOURCES LTD.

Consolidated Statements of Cash Flows

(Expressed in thousands of U.S. dollars)

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

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

1. CORPORATE INFORMATION AND GOING CONCERN

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

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

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

Impact of the Covid-19 pandemic

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

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

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

1. CORPORATE INFORMATION AND GOING CONCERN (CONTINUED)

Going concern assumption

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

Several adverse conditions and material uncertainties cast significant doubt upon the Company's ability to continue as a going concern and the going concern assumption used in the preparation of the Company's consolidated financial statements. The Company incurred a loss attributable to equity holders of the Company of $14,373 for the year ended December 31, 2021 (compared to a loss attributable to equity holders of the Company of $20,089 for the year ended December 31, 2020), and as of that date, had a deficiency in assets of $90,450 as at December 31, 2021 as compared to a deficiency in assets of $76,237 as at December 31, 2020 while the working capital deficiency (excess current liabilities over current assets) reached $42,535 as at December 31,2021 as compared to a working capital deficiency of $217,607 as at December 31, 2020.

Included in the working capital deficiency as at December 31, 2021 are significant obligations, represented by trade and other payables of $67,327, which includes $22,075 in unpaid taxes that are repayable on demand to the Mongolian Tax Authority ("MTA").

The Company may not be able to settle all trade and other payables on a timely basis, and as a result any continuing postponement in settling certain trade and other payables owed to suppliers and creditors may impact the ability of the Company to resume its mining operations of the Company and may result in potential lawsuits and/or bankruptcy proceedings being filed against the Company. Except as disclosed elsewhere in these consolidated financial statements, no such lawsuits or proceedings were pending as at May 30, 2022.

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

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

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 December 31, 2021. The cash flow projection has considered the anticipated cash flows to be generated from the Company's business during the period under projection including cost saving measures. In particular, the Company has taken into account the following measures for improvement of the Company's liquidity and financial position, which include: (a) entering into three deferral agreements with CIC on November 19, 2020 (the "2020 November Deferral Agreement") for a deferral of (i) deferred cash interest and deferral fees of $75,194 which were due and payable to CIC on or before September 14, 2020, under the 2020 June Deferral Agreement; (ii) semi-annual cash interest payments in the aggregate amount of $16,000 payable to CIC on November 19, 2020 and May 19, 2021; (iii) $4,000 worth of payment in kind interest ("PIK Interest") shares issuable to CIC on November 19, 2020 under the CIC convertible debenture; and (iv) the management fee which payable to CIC on November 14, 2020, February 14, 2021, May 15, 2021, August 14, 2021 and November 14, 2021 under the Amended and Restated Cooperation Agreement (collectively, the "2020 November Deferral Amounts"), on July 30, 2021 (the "2021 July Deferral Agreement") for a deferral of (i) semi-annual cash interest payments of $8,065 payable to CIC on November 19, 2021; and (ii) $4,000 in PIK Interest shares (collectively, the "2021 Deferral Amounts") and on May 13, 2022 (the "2022 May Deferral Agreement") for a deferral of semi-annual cash interest payments of $7,934 payable to CIC (the "Deferred Amounts") on May 19, 2022 respectively until August 31, 2023; (b) communicating with vendors in agreeing repayment plans of the outstanding payable; (c) continuously assessing through communication with MTA its acceptability to a prolonged settlement schedule of the outstanding tax payable and making settlement based on that assessment and the liquidity position of the Group; (d) In light of the uncertainty brought by the pandemic which may impact the openness of the border, management has kept the mining operations temporary suspended despite the above-mentioned re-opening of the Chinese-Mongolian border for coal export since May 25, 2022, in order to preserve the working capital that is required to resume the mining operations. The management expected that the existing inventory level on hand is sufficient to cater the demand for approximately a quarter and this provides flexibility to the Company in managing the timing of resumption of the mining operations and related sales strategy and its liquidity; and (e) obtaining an avenue of financial support from a prospective shareholder for a maximum amount of $73,000 during the period covered in the cash flow projection. There is no guarantee that the suppliers and MTA would agree the settlement plan as communicated by the Group, Nevertheless, after considering the above, the directors of the Company believe that there will be sufficient financial resources to continue its operations and to meet its financial obligations as and when they fall due in the next 12 months from December 31, 2021 and therefore are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

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

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

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

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

2.2 Basis of presentation

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

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

2.3 Adoption of new and revised standards and interpretations

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

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

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

2.4 Standard issued but not yet effective

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

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

2. BASIS OF PREPARATION (CONTINUED)

2.4 Standard issued but not yet effective (continued)

[1] Effective for annual periods beginning on or after 1 January 2022.
[2] Effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022.
[3] Effective for annual periods beginning on or after 1 January 2023.
[4] Effective for annual periods beginning on or after 1 January 2024.
[5] The amendments shall be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of consolidation

The consolidated financial statements include the financial statements of SouthGobi Resources Ltd. and its major controlled subsidiaries (Note 29).

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate. All intercompany transactions, balances, income and expenses are eliminated on consolidation.

The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

3.2 Foreign currencies

The consolidated financial statements are presented in the U.S. dollar, which is the functional currency of SouthGobi Resources Ltd. Each entity in the Company has its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the U.S. dollar rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the U.S. dollar rate of exchange ruling at the end of each reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate prevailing at the date of the transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value is determined.

At the end of the reporting period, the assets and liabilities of an entity with the functional currency in a foreign currency are translated into the U.S. dollar at the exchange rates prevailing at the end of the reporting period and the profit or loss is translated into the U.S. dollar at the weighted average exchange rate for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. All other borrowing costs are expensed and included in profit or loss.

3.4 Inventories

Coal stockpile inventories are measured at the lower of production cost and net realizable value. Production cost is determined by the weighted average cost method and includes direct and indirect labor, operating materials and supplies, processing costs, transportation costs and an appropriate portion of fixed and variable overhead expenses. Fixed and variable overhead expenses include depreciation and depletion. Net realizable value represents the future estimated selling price of the product, less estimated costs to complete production and costs necessary to bring the product to sale.

Materials and supplies inventory consists of consumable parts and supplies which are valued at the lower of weighted average cost and net realizable value, less allowances for obsolescence. Replacement cost is used as the best available measure of net realizable value. Supplies used in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost.

3.5 Leases

All leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the consolidated statement of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalize (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Company has elected not to recognize right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

<u>Right-of-use asset</u>
The right-of-use asset is recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (refer to below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Except for right-of-use asset that meets the definition of an investment property or a class of property, plant and equipment to which the Company applies the revaluation model, the Company measures the right-of-use assets applying a cost model. Under the cost model, the Company measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability. Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. For right-of-use asset that meets the definition of an investment property, they are carried at fair value and for right-of-use asset that meets the definition of a leasehold land and buildings held for own use, they are carried at fair value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Leases (continued)

Lease liability
The lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company uses the Company's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable: (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, the Company measures the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

3.6 Property, plant and equipment

Property, plant and equipment includes the Company's operating equipment and infrastructure, construction in progress and mineral properties. Property, plant and equipment is stated at cost less accumulated depreciation and depletion and accumulated impairment losses.

Initial recognition

The cost of an item of operating equipment and infrastructure consists of the purchase price or construction cost, including vendor prepayments, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, an initial estimate of the decommissioning liability and capitalised borrowing costs.

Construction in progress is classified to the appropriate category of property, plant and equipment when it is completed and is ready for its intended use.

All direct costs related to the acquisition of mineral property interests are capitalised on a property by property basis. The cost of mineral properties also includes mineral property development costs (Note 3.7), certain production stripping costs (Note 3.8) and decommissioning liabilities related to the reclamation of the Company's mineral properties (Note 3.10).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Property, plant and equipment (continued)

Depreciation and depletion

Depreciation and depletion are recorded based on the cost of an item of property, plant and equipment, less its estimated residual value, using the straight-line method or unit-of-production method over the following estimated useful lives:

Mobile equipment	5 to 7 years
Other operating equipment	1 to 10 years
Buildings and roads	5 to 20 years
Construction in progress	not depreciated
Mineral properties	unit-of-production basis based on proven and probable reserves

Upon disposal, reclassification to assets held for sale or when no future economic benefits are expected to arise from the continued use of an asset the original cost and related accumulated depreciation is removed from property, plant and equipment. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognised in profit or loss.

The Company conducts an annual assessment of the residual balances, estimated useful lives and depreciation methods being used for property, plant and equipment and any changes arising from the assessment are applied by the Company prospectively.

3.7 Mineral properties

Evaluation and exploration expenses

Evaluation and exploration expenses are charged to profit or loss in the period incurred until such time as it has been determined that a mineral property has technically feasibility and commercially viability.

Production phase

Upon a mine development being ready for its intended use it enters the production phase and depletion of the mineral property is recorded on a unit-of-production basis, using the estimated resources that are expected to be mined in the mine plan as the depletion base. Management's determination of when an asset is ready for its intended use is based on several qualitative and quantitative factors including, but not limited to, the following:

- the elevation or bench where the coal to be mined has been reached; and
- the commissioning of major operating equipment and infrastructure is completed.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Development and production stripping costs

Once a property is determined to have reached technical feasibility and commercial viability, the Company's subsequent exploration and evaluation and development expenses are capitalised as mineral property costs within property, plant and equipment.

Production stripping activity assets are recognised when the following three criteria are met:

- it is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;
- the entity can identify the component of the ore body for which access has been improved; and
- the costs relating to the stripping activity associated with that component can be measured reliably.

If not all of the criteria are met, the stripping activity costs are included in the cost of inventory produced during the period incurred.

3.9 Leasing

<u>The Group as a lessor</u>

The Group has leased out its warehouse and containers to suppliers and subcontractors. Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on the straight-line basis over the lease term.

3.10 Decommissioning, restoration and similar liabilities

The Company recognizes provisions for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of mineral properties, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a provision for a decommissioning liability is recognised as its present value in the period in which it is incurred. Upon initial recognition of the liability, a corresponding amount is added to the carrying amount of the related asset and the cost is amortised as an expense over the estimated useful life of the asset using the unit-of-production method. Following the initial recognition of the decommissioning liability, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the discount rate and the amount or timing of the underlying cash flows required to settle the obligation. The discount rate used is a credit adjusted risk free rate.

3.11 Joint arrangements

The Company classifies joint arrangements as either joint operations or joint ventures, depending on the rights and obligations of the parties involved in the joint arrangement. Joint arrangements that are classified as joint operations require the venturers to recognize the individual assets, liabilities, revenues and expenses to which they have legal rights or are responsible. Joint arrangements that are classified as a joint venture are accounted for using the equity method of accounting.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Share-based payments

Share-based payment transactions

Employees (including directors and senior executives) of the Company receive a portion of their remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

In situations where equity instruments are issued to non-employees and the value of some or all of the goods or services received by the entity as consideration cannot be measured reliably, they are measured at the fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

Equity-settled transactions

The cost of equity-settled transactions with employees are measured by reference to the fair value at the date on which the awards are granted.

The cost of equity-settled transactions are recognised, together with a corresponding increase in the share option reserve, over the period in which the performance and/or service conditions are fulfilled and end on the date on which the relevant employees become fully entitled to the award. The cumulative expense recognised for equity-settled transactions at each reporting date reflects the Company's best estimate of the number of equity instruments that will ultimately vest. No expense is recognised for awards that do not ultimately vest.

When the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of the modification.

3.13 Earnings/(loss) per share

Basic earnings/(loss) per share is calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of shares outstanding during the reporting period.

Diluted earnings/(loss) per share is calculated by adjusting the profit or loss attributable to equity holders of the Company divided by the weighted average number of shares outstanding for the effects of all dilutive share equivalents. The Company's dilutive share equivalents include stock options and convertible debt.

3.14 Taxation

Income tax expense represents the sum of tax currently payable and deferred tax.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are substantively enacted at the end of each reporting period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14 Taxation (continued)

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences, at the end of each reporting period, between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled by the parent, investor or venturer and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognised deferred income tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been substantively enacted at the end of each reporting period.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss.

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 Financial instruments

(a) Financial assets

All financial assets are initially recorded at fair value and categorized upon inception into one of the following categories: those to be measured subsequently at fair value either through other comprehensive income ("FVOCI") or through profit or loss ("FVTPL"), and those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity investments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

The Company reclassifies debt investments when and only when its business model for managing those assets changes.

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as other operating expenses in the consolidated statements of comprehensive income.

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as other operating expenses in the consolidated statements of comprehensive income.

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 Financial instruments (continued)

(b) Financial liabilities

Financial liabilities are categorized, at initial recognition, as financial liabilities at FVTPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in case of loans and borrowings and payables, net of directly attributable costs.

Financial liabilities categorized as financial liabilities measured at amortised cost are initially recognised at fair value less directly attributable transaction costs. After initial recognition, financial liabilities at amortised cost are subsequently measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Financial liabilities categorized as FVTPL include financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives, are also classified as FVTPL unless they are designated as effective hedging instruments. Transaction costs on financial liabilities classified as FVTPL are expensed as incurred. At the end of each reporting period subsequent to initial recognition, financial liabilities classified as FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities. For liabilities designated at FVTPL, changes due to credit risk are recognised in other comprehensive income.

3.16 Impairment of financial assets

The Company's trade and other receivables are subject to IFRS 9's expected credit loss ("ECL") model.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all trade and other receivables. The Company's definition of a default scenario is if receivables from a customer are over six months past due, or if there is reasonable and supportable evidence that a customer will no longer be able to settle its receivables with the Company.

3.17 Derecognition of financial assets and financial liabilities

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.18 Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the assets belong.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing fair value less costs to sell, recent market transactions are taken into account. The Company also considers the results of an appropriate valuation model which would generally be determined based on the present value of estimated future cash flows arising from the continued use and eventual disposal of the asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior periods.

3.19 Cash and cash equivalents

Cash and cash equivalents include cash at banks and short term money market instruments with original maturities of three months or less.

3.20 Revenue recognition

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Company's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Company performs; or
- does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.20 Revenue recognition (continued)

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Company and the customer at contract inception. Where the contract contains a financing component which provides a significant financing benefit to the Company, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

Sales of mining coal

Income from sales of mining coal is recognised at a point in time when the goods are delivered to customers and title has passed.

Other income

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

Rental income under operating leases is recognised on a straight-line basis over the term of the relevant lease.

Deferred revenue

Deferred revenue represents the Company's obligation to transfer services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer.

3.21 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to the passage of time is recognised as a finance cost.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22 Related party transactions

(a) A person or a close member of that person's family is related to the Company if that person:

- (i) has control or joint control over the Company;
- (ii) has significant influence over the Company; or
- (iii) is a member of key management personnel of the Company or the Company's parent.

(b) An entity is related to the Company if any of the following conditions apply:

- (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of the employees of the Company or an entity related to the Company.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the Company's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

3.23 Significant accounting judgments and estimates

Information about judgments and estimates in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are as follows:

(a) Going concern assumption

The directors of the Company have prepared the consolidated financial statements on the assumption that the Company will be able to operate as a going concern in the foreseeable future, which is a critical judgement that has the most significant effect on the amounts recognised in the consolidated financial statements. The assessment of the going concern assumption involves making a judgement by the directors about the future outcome of events or conditions which are inherently uncertain. The directors consider that, after taking into account of all major events or conditions, which may give rise to business risks, that individually or collectively may cast significant doubt upon the going concern assumption as set out in Note 1 to the consolidated financial statements, the Company has the capability to continue as a going concern.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.23 Significant accounting judgments and estimates (continued)

(b) Review of carrying value of assets and impairment charges

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

Ovoot Tolgoi Mine cash generating unit

The Company determined that an indicator of impairment existed for its Ovoot Tolgoi Mine cash generating unit as at December 31, 2021. The impairment indicator was the fact that the Company suffered continuous loss for the year and temporary closure of border crossings as a result of COVID-19 since the end of October 2021.

Therefore, the Company conducted an impairment test whereby the carrying value of the Company's Ovoot Tolgoi Mine cash generating unit was compared to the recoverable amount (being the "fair value less costs of disposal") using a discounted future cash flow valuation model. The Company's cash flow valuation model takes into consideration the latest available information to the Company, including but not limited to, sales prices, sales volumes, washing production, operating costs and life of mine coal production estimates as at December 31, 2021. The carrying value of the Company's Ovoot Tolgoi Mine cash generating unit was $133,103 as at December,31 2021.

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

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

Key sensitivities in the valuation model are as follows:

- For each 1% increase/(decrease) in the long term price estimates, the calculated fair value of the cash generating unit increases/(decreases) by approximately $13,951/(14,004);
- For each 1% increase/(decrease) in the post-tax discount rate, the calculated fair value of the cash generating unit (decreases)/increases by approximately $(16,929)/17,900 ;
- For each 1% increase/(decrease) in the cash mining cost estimates, the calculated fair value of the cash generating unit (decreases)/increases by approximately $(7,626)/7,574; and
- For each 1% increase/(decrease) in Mongolian inflation rate, the calculated fair value of the cash generating unit (decreases)/increases by approximately $(3,300)/3,400.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.23 Significant accounting judgments and estimates (continued)

(b) Review of carrying value of assets and impairment charges (continued)

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

(c) Expected credit losses for trade and other receivables

The Company applies the IFRS 9 simplified approach to measuring expected credit losses on its trade receivables and estimates expected credit loss based on the possible default events on its trade and other receivables. The Company has determined that the loss allowance on its trade and other receivables was $23,841 (2020: $23,055) as at December 31, 2021.

(d) Estimated resources

The Company estimates its mineral resources based on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the ore body, and requires complex geological judgments to interpret the data. Changes in resource estimates may impact the carrying value of mining interests, mine restoration provisions, recognition of deferred tax assets, and depreciation and amortization charges.

(e) Estimated recoverable reserves

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.23 Significant accounting judgments and estimates (continued)

(f) Long term F-grade coal inventory

As a result of import restrictions established by Chinese authorities at the Ceke border, the Company has been barred from transporting its F-grade coal products into China for sale since December 15, 2018. The Company intends to realize the value of the F-grade coal inventory upon the coal washing and coal blending in order to meet the import standards from Chinese authorities. Due to the limitation of coal washing and blending capacities, a portion of F-grade coal products was classified as non-current inventory. As at December 31, 2021, none of F-grade coal products was classified as non-current (December 31, 2020: $680).

(g) Useful lives and depreciation rates for property, plant and equipment

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

3.24 Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: (i) power over the investee, (ii) exposure, or rights, to variable returns from the investee, and (iii) the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

De-facto control exists in situations where the Company has the practical ability to direct the relevant activities of the investee without holding the majority of the voting rights. In determining whether de-facto control exists, the Company considers all relevant facts and circumstances, including:

- the size of the Company’s voting rights relative to both the size and dispersion of other parties who hold voting rights;
- substantive potential voting rights held by the Company and other parties who hold voting rights;
- other contractual arrangements; and
- historic patterns in voting attendance.

In the Company’s statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of investment in subsidiaries are fully impaired as at December 31, 2021 and 2020.

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

4. SEGMENT INFORMATION

The Company's Chief Executive Officer (chief operating decision maker) reviews the financial information in order to make decisions about resources to be allocated to the segment and to assess its performance. No operating segment identified by the Board of Directors has been aggregated in arriving at the reporting segments of the Company. For management's purpose, the Company has only one reportable operating segment, which is the coal division. The division is principally engaged in coal mining, development and exploration in Mongolia, and logistics and trading of coal in Mongolia and China for the years ended December 31, 2021 and 2020.

The Company's resources are integrated and as a result, no discrete operating segment financial information is available. Since this is the only reportable and operating segment of the Company, no further analysis thereof is presented. All the revenue of the Company is generated from trading of coal for the years ended December 31, 2021 and 2020.

Information about major customers

During the years ended December 31, 2021 and 2020, the Coal Division had 22 and 14 active customers, respectively. 3 and 4 customers with respective revenues contributed over 10% of the total revenue during the years ended December 31, 2021 and 2020, with the largest customer accounting for 35% of revenues (2020: 26%), the second largest customer accounting for 17% of revenues (2020: 18%) and the third largest customer accounting for 10% of revenues (2020: 15%).

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

	Mongolia	Hong Kong	China	Consolidated Total
Revenue (i)				
For the year ended December 31, 2021	**$ -**	**$ -**	**$ 43,398**	**$ 43,398**
For the year ended December 31, 2020	-	-	85,951	85,951
Non-current assets				
As at December 31, 2021	**$ 150,136**	**$ 430**	**$ 247**	**$ 150,813**
As at December 31, 2020	147,675	84	480	148,239

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

5. REVENUE

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

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

6. EXPENSES BY NATURE

The Company's loss before tax is arrived at after charging/(crediting):

	Year ended December 31, 2021	Year ended December 31, 2020
Depreciation	**$ 5,611**	$ 8,736
Auditors' remuneration	**465**	317
Employee benefit expense (including directors' remuneration)		
Wages and salaries	**$ 5,404**	$ 7,639
Equity-settled share option expense (Note 25)	**203**	113
Pension scheme contributions	**401**	531
	$ 6,008	$ 8,283
Lease payments under operating leases	**$ 147**	$ 101
Foreign exchange loss/(gain)	**325**	(1,586)
Impairment on materials and supplies inventories (Note 14)	**2,411**	-
Royalties	**8,125**	10,563
CIC management fee (Note 29)	**967**	2,170
Provision of commercial arbitration	**-**	4,634
Provision/(reversal of provision) for doubtful trade and other receivables (Note 13)	**191**	(336)
Impairment of prepaid expenses (Note 15)	**-**	8
Gain on disposal of property, plant and equipment	**(299)**	(69)
Rental income from short term leases (Note 8)	**(587)**	-
Discount on settlement of trade payables (Note 8)	**(891)**	-
Written off of other payables (Note 8)	**(691)**	-
Mine operating costs and others	**17,239**	37,854
Total operating expenses	**$ 39,021**	$ 70,675

7. COST OF SALES

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

	Year ended December 31, 2021	Year ended December 31, 2020
Operating expenses	**$ 18,176**	$ 36,974
Share-based compensation expense (Note 25)	**52**	24
Depreciation and depletion	**2,034**	6,243
Royalties	**8,125**	10,563
Cost of sales from mine operations	**28,387**	53,804
Cost of sales related to idled mine assets (i)	**2,917**	4,853
Cost of sales	**$ 31,304**	$ 58,657

(i) Cost of sales related to idled mine assets for the year ended December 31, 2021 includes $2,917 of depreciation expense (2020: includes $4,853 of depreciation expense). The depreciation expense relates to the Company's idled plant and equipment.

Cost of inventories recognised as expense in cost of sales for the year ended December 31, 2021 totaled $17,000 (2020: $38,499), including depreciation and depletion totaled $3,981 (2020:$6,243).

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

8. OTHER OPERATING EXPENSES

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

	Year ended December 31, 2021	Year ended December 31, 2020
CIC management fee (Note 29)	**$ 967**	$ 2,170
Provision/(reversal of provision) for doubtful trade and other receivables (Note 13)	**191**	(336)
Provision for commercial arbitration	**-**	4,634
Impairment of prepaid expenses (Note 15)	**-**	8
Foreign exchange loss/(gain), net	**325**	(1,586)
Gain on disposal of items of property, plant and equipment, net	**(299)**	(69)
Impairment on materials and supplies inventories	**2,411**	-
Rental income from short term leases	**(587)**	-
Discount on settlement of trade payables	**(891)**	-
Written off of other payables	**(691)**	-
Other operating expenses	**$ 1,426**	$ 4,821

9. ADMINISTRATION EXPENSES

The Company's administration expenses consist of the following amounts:

	Year ended December 31, 2021	Year ended December 31, 2020
Corporate administration	**$ 1,312**	$ 1,268
Legal and professional fees	**1,098**	1,363
Salaries and benefits	**2,847**	3,518
Share-based compensation expense (Note 25)	**151**	89
Depreciation	**660**	733
Administration expenses	**$ 6,068**	$ 6,971

10. FINANCE COSTS AND INCOME

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

	Year ended December 31, 2021	Year ended December 31, 2020
Interest expense on convertible debenture (Note 22)	**$ 36,301**	$ 27,726
Value added tax on interest from intercompany loan	**2,153**	2,900
Interest expense on borrowing	**61**	413
Interest elements on leased assets	**93**	69
Accretion of decommissioning liability (Note 23)	**510**	584
Finance costs	**$ 39,118**	$ 31,692

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

10. FINANCE COSTS AND INCOME (CONTINUED)

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

	Year ended December 31,	
	2021	**2020**
Fair value gain on embedded derivatives in convertible debenture (Note 22)	**$ 100**	$ 44
Gain on extinguishment of convertible debenture (Note 22)	**20,970**	-
Gain on modification of convertible debenture (Note 22)	**2,016**	2,545
Interest income	**79**	24
Finance income	**$ 23,165**	$ 2,613

11. TAXES

11.1 Income tax recognised in profit or loss

The Canadian statutory tax rate was 27% (2020: 27%). A reconciliation between the Company's tax expense and the product of the Company's loss) before tax multiplied by the Company's domestic tax rate is as follows:

	Year ended December 31,	
	2021	**2020**
Loss before tax	**$ (11,735)**	$ (12,490)
Statutory tax rate	**27%**	27%
Income tax recovery based on combined Canadian federal and provincial statutory rates	**(3,168)**	(3,372)
Lower effective tax rate in foreign jurisdictions	**440**	377
Tax effect of tax losses and temporary differences not recognized	**13,421**	10,352
Withholding tax on intercompany interest	**2,153**	2,881
Profit/(loss) attributable to joint venture	**(40)**	328
Income not subject to tax	**(10,891)**	(6,281)
Non-deductible expenses	**723**	3,314
Income tax expenses	**$ 2,638**	$ 7,599

11.2 Unrecognised deductible temporary differences and unused tax losses

The Company's deductible temporary differences and unused tax losses for which no deferred tax asset is recognised consist of the following amounts:

	As at December 31,	
	2021	**2020**
Non-capital losses	**$ 165,730**	$ 169,173
Capital losses	**30,049**	30,049
Foreign exchange and others	**446,762**	463,778
Total unrecognized amounts	**$ 642,541**	$ 663,000

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

11. TAXES (CONTINUED)

11.3 Expiry dates

The expiry dates of the Company's unused tax losses are as follows:

	As at December 31, 2021		
	U.S. Dollar Equivalent		Expiry dates
Non-capital losses			
Canada	**$**	**161,113**	2039 - 2041
China		**4,617**	2026
	$	**165,730**	
Capital losses			
Canada	**$**	**30,049**	Indefinite

	As at December 31, 2020		
	U.S. Dollar Equivalent		Expiry dates
Non-capital losses			
Canada	$	165,184	2038 - 2040
China		3,989	2025
	$	169,173	
Capital losses			
Canada	$	30,049	Indefinite

12. LOSS PER SHARE

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

	Year ended December 31,			
	2021		2020	
Net loss	**$**	**(14,373)**	$	(20,089)
Weighted average number of shares		**273,380**		272,703
Basic and diluted loss per share	**$**	**(0.05)**	$	(0.07)

Potentially dilutive items not included in the calculation of diluted earnings per share for the year ended December 31, 2021 include the underlying shares comprised in the convertible debenture (Note 22) and stock options (Note 25) that were anti-dilutive.

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

13. TRADE AND OTHER RECEIVABLES

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

	As at December 31, 2021	2020
Trade receivables	$ -	$ 995
Other receivables	141	310
Total trade and other receivables	**$ 141**	$ 1,305

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

	2021	2020
Less than 1 month	$ 112	$ 1,260
1 to 3 months	6	20
3 to 6 months	23	25
Over 6 months	-	-
Total trade and other receivables	**$ 141**	$ 1,305

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

The Company has determined that the loss allowance on its trade and other receivables was $23,841 (December 31, 2020: $23,055) as at December 31, 2021, based upon an expected loss rate of 10% for trade and other receivables 90 days past due and 100% for trade and other receivables 180 days past due. The closing allowances for trade and other receivables as at December 31, 2021 reconcile to the opening loss allowances as follows:

Loss allowance for trade and other receivables	
Opening loss allowance as at January 1, 2021	**$ 23,055**
Increase in loss allowance recognised in profit or loss during the year	191
Exchange realignment	595
Loss allowance as at December 31, 2021	**$ 23,841**
Opening loss allowance as at January 1, 2020	$ 21,976
Decrease in loss allowance recognised in profit or loss during the year	(336)
Exchange realignment	1,415
Loss allowance as at December 31, 2020	$ 23,055

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

14. INVENTORIES

The Company's inventories consist of the following amounts:

	As at December 31,	
	2021	**2020**
Current inventories		
Coal stockpiles	**$ 40,270**	$ 28,778
Materials and supplies	**11,336**	13,605
	$ 51,606	$ 42,383
Non-current inventories		
Coal stockpiles	**-**	680
Total inventories	**$ 51,606**	$ 43,063

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

Other operating expenses for the year ended December 31, 2021 includes an impairment loss of $2,411 related to the Company's materials and supplies inventories (2020: $nil).

15. PREPAID EXPENSES

The Company's prepaid expenses consist of the following amounts:

	As at December 31,	
	2021	**2020**
Vendor prepayments	**$ 628**	$ 710
Other prepaid expenses	**943**	956
Total prepaid expenses	**$ 1,571**	$ 1,666

For the year ended December 31, 2021, the Company recorded an impairment of $nil on the vendor prepayments (2020: $8).

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

16. PROPERTY, PLANT AND EQUIPMENT

The Company's property, plant and equipment consist of the following amounts:

	Mobile equipment	Other operating equipment	Buildings and roads	Right-of-use assets	Mineral properties	Non-depreciable assets	Total
Cost							
As at January 1, 2021	$ 266,273	$ 25,042	$ 68,544	$ 942	$ 212,138	$ 982	$ 573,921
Additions	**3,311**	**1,169**	**-**	**566**	**7,232**	**-**	**12,278**
Disposals	**(92)**	**(2,395)**	**-**	**-**	**-**	**-**	**(2,487)**
Exchange realignment	**44**	**20**	**7**	**2**	**19**	**-**	**92**
As at December 31, 2021	**$ 269,536**	**$ 23,836**	**$ 68,551**	**$ 1,510**	**$ 219,389**	**$ 982**	**$ 583,804**
Accumulated depreciation and impairment charges							
As at January 1, 2021	$ (258,172)	$ (23,630)	$ (56,062)	$ (151)	$ (104,481)	$ -	$ (442,496)
Depreciation for the year	**(3,495)**	**(542)**	**(1,523)**	**(624)**	**(1,374)**	**-**	**(7,558)**
Eliminated on disposals	**91**	**1,358**	**-**	**-**	**-**	**-**	**1,449**
Exchange realignment	**(31)**	**(13)**	**(3)**	**(1)**	**(6)**	**-**	**(54)**
As at December 31, 2021	**$ (261,607)**	**$ (22,827)**	**$ (57,588)**	**$ (776)**	**$ (105,861)**	**$ -**	**$ (448,659)**
Carrying amount							
As at January 1, 2021	$ 8,101	$ 1,412	$ 12,482	$ 791	$ 107,657	$ 982	$ 131,425
As at December 31, 2021	**$ 7,929**	**$ 1,009**	**$ 10,963**	**$ 734**	**$ 113,528**	**$ 982**	**$ 135,145**

	Mobile equipment	Other operating equipment	Buildings and roads	Right-of-use assets	Mineral properties	Non-depreciable assets	Total
Cost							
As at January 1, 2020	$ 278,736	$ 25,663	$ 70,834	$ 1,126	$ 211,418	$ 24,742	$ 612,519
Additions	3,187	6	-	603	8,693	-	12,489
Disposals	(4,326)	(98)	-	(815)	-	-	(5,239)
Written off	-	-	-	-	-	(23,759)	(23,759)
Exchange realignment	(11,324)	(529)	(2,290)	28	(7,973)	(1)	(22,089)
As at December 31, 2020	$ 266,273	$ 25,042	$ 68,544	$ 942	$ 212,138	$ 982	$ 573,921
Accumulated depreciation and impairment charges							
As at January 1, 2020	$ (264,803)	$ (23,662)	$ (55,900)	$ (521)	$ (106,653)	$ (23,759)	$ (475,298)
Depreciation for the year	(8,336)	(589)	(1,089)	(386)	(1,429)	-	(11,829)
Eliminated on disposals	4,253	24	-	776	-	-	5,053
Eliminated on written off	-	-	-	-	-	23,759	23,759
Exchange realignment	10,714	597	927	(20)	3,601	-	15,819
As at December 31, 2020	$ (258,172)	$ (23,630)	$ (56,062)	$ (151)	$ (104,481)	$ -	$ (442,496)
Carrying amount							
As at January 1, 2020	$ 13,933	$ 2,001	$ 14,934	$ 605	$ 104,765	$ 983	$ 137,221
As at December 31, 2020	$ 8,101	$ 1,412	$ 12,482	$ 791	$ 107,657	$ 982	$ 131,425

16.1 Non-depreciable assets

The non-depreciable assets mainly include the construction in progress. Depreciation on these assets will commence once they are ready for their intended use.

16.2 Pledge on items of property, plant and equipment

As at December 31, 2021, one of the Company's property, plant and equipment with a carrying value of $nil (2020: $44) was pledged as security for a bank loan granted to the Company (Note 20) and the Company's mobile equipment and other operating equipment with a carrying value of $2,863 (2020:$4,275) were pledged as security of CIC convertible debenture.

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

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

16.3 Right-of-use assets

The right-of-use assets relate to the buildings as at December 31, 2021 and 2020.

16.4 Impairment charges

No impairment nor reversal of impairment was made during the year ended December 31, 2021 (2020: nil).

17. INVESTMENT IN JOINT VENTURE

The Company's investment consists of the following amounts:

	As at December 31, 2021	As at December 31, 2020
Non-current investment in joint venture		
Investment in RDCC LLC	**$ 15,668**	$ 16,134
Total investment	**$ 15,668**	$ 16,134

The Company has a 40% interest in RDCC LLC, a joint venture. RDCC LLC has a concession agreement with the State Property Committee of Mongolia to construct a paved highway from the Company's Ovoot Tolgoi Mine to the Mongolia-China border for the exclusive use of third party coal transport companies. In October 2012, the concession agreement was structured as a 17-year build, operate and transfer agreement. The construction was completed in 2014 and operations commenced in the second quarter of 2015. On September 17, 2015, the Invest Mongolia Agency signed an amendment to the concession agreement with RDCC LLC to extend the exclusive right of ownership to 30 years.

The movement of the Company's investment in RDCC LLC is as follows:

	2021	2020
Balance, beginning of year	**$ 16,134**	$ 17,521
Dividend received	**(402)**	(1,994)
Share of earnings/(loss) of a joint venture	**(159)**	1,313
Share of other comprehensive income/(loss) of a joint venture (i)	**95**	(706)
Balance, end of year	**$ 15,668**	$ 16,134

(i) The share of other comprehensive income of a joint venture of $95 (2020: loss of $706) included exchange fluctuation reserve.

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

17. INVESTMENT IN JOINT VENTURE (CONTINUED)

Summarized financial statement information of RDCC LLC is as follows (presented on a 100% basis of RDCC LLC in which the Company has a 40% investment):

	As at December 31,	
	2021	**2020**
Current assets	**$ 1,023**	$ 1,955
Non-current assets	**26,387**	29,537
Total assets	**$ 27,410**	$ 31,492
Current liabilities	**$ 1,954**	$ -
Total liabilities	**$ 1,954**	$ -

	Year ended December 31,	
	2021	**2020**
Revenue	**$ 2,129**	$ 5,684
Gross profit/(loss) margin	**(172)**	3,740
Other operating and finance costs	**(225)**	(235)
Profit/(loss) before tax	**(397)**	3,505
Net profit/(loss)	**$ (397)**	$ 3,282
Other comprehensive income/(loss)	**$ (11)**	$ 90
Total comprehensive income/(loss)	**$ (408)**	$ 3,372

18. TRADE AND OTHER PAYABLES

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

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

	As at	
	December 31, 2021	**December 31, 2020**
Less than 1 month	**$ 17,185**	$ 22,803
1 to 3 months	**8,332**	4,935
3 to 6 months	**6,791**	6,365
Over 6 months	**35,019**	40,262
Total trade and other payables	**$ 67,327**	$ 74,365

The trade and other payables of $67,327 (2020: $74,365) included other tax payables of $22,075 (2020: $31,742).

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

19. DEFERRED REVENUE

At December 31, 2021, the Company had deferred revenue of $26,477, which represents cash prepayments from customers for future coal sales (2020: $20,831).

The movement of the Company's deferred revenue is as follows:

	Year ended December 31, 2021	2020
Balance, beginning of year	**$ 20,831**	$ 16,057
Revenue recognized that was included in the deferred revenue balance at beginning of the year	**(20,911)**	(15,486)
Increase due to trade deposits received, excluding amounts recognized as revenue during the year	**26,553**	20,913
Exchange realignment	**4**	(653)
Balance, end of year	**$ 26,477**	$ 20,831

The performance obligation related to the revenue from customers for contracts that are unsatisfied (or partially unsatisfied) are expected to be recognised within one year after the reporting date. The Company applies the practical expedient and does not disclose information about any remaining performance obligation that is a part of contract that has original expected duration of one year or less.

20. INTEREST-BEARING BORROWING

As at December 31, 2020, the outstanding principal balance of the bank loan obtained in 2018 was $2,800 and the Company owed accrued interest of $26.

In February 2021, $2,826 was repaid to a Mongolian bank by the Company in full settlement of the outstanding principal balance of the bank loan of $2,800 obtained in 2018 and the accrued interest of $26.

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

- Maturity date set at 3 months from drawdown;
- Interest rate of 16% per annum and interest is payable at the maturity date; and
- One item of property, plant and equipment was pledged as security for the 2021 Bank Loan. As at December 31, 2021, the net book value of the pledged item of property, plant and equipment was $nil.

As at December 31, 2021, the outstanding principal balance for the 2021 Bank Loan was $53 and the Company owed accrued interest of $nil.

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

21. LEASE LIABILITIES

The Company leases certain of its office premises for daily operations. These leases have remaining lease terms ranging from 3 to 4 years.

At December 31, 2021, the total future minimum lease payments and their present values were as follows:

	Minimum lease payments As at December 31,		Present value of minimum lease payments As at December 31,	
	2021	**2020**	**2021**	**2020**
Amounts payable:				
Within one year	**$ 379**	$ 272	**$ 296**	$ 202
In the second year	**379**	174	**326**	112
In the third to fifth year, inclusive	**284**	418	**259**	312
Total minimum lease payments	**$ 1,042**	$ 864	**$ 881**	$ 626
Future finance charges	**(161)**	(238)		
Total net lease payables	**$ 881**	$ 626		
Portion classified as current liabilities	**(296)**	(202)		
Non-current portion	**$ 585**	$ 424		

22. CONVERTIBLE DEBENTURE

22.1 Key commercial terms

On November 19, 2009, the Company issued a convertible debenture to CIC for $500,000. The convertible debenture bears interest at 8.0% per annum (6.4% payable semi-annually in cash and 1.6% payable annually in the Company's Common Shares) and has a maximum term of 30 years. The convertible debenture is secured by a first ranking charge over the Company's assets, including shares of its material subsidiaries. During 2010, the Company exercised a right within the debenture to call and convert $250,000 of the debenture for 21,471 common shares. Following the conversion, the outstanding principal balance was $250,000 and has remained unchanged at that balance to December 31, 2021.

The key commercial terms of the financing include:

- Interest - 8% per annum (6.4% payable semi-annually in cash and 1.6% payable annually in the Company's common shares, where the number of shares to be issued is calculated based on the 50-day volume-weighted average price ("VWAP")).
- Term - Maximum of 30 years.
- Security - First charge over the Company's assets, including shares of its material subsidiaries.
- Conversion price - The conversion price is set as the lower of CAD$11.88 or the 50-day VWAP at the date of conversion, with a floor price of CAD$8.88 per share.
- Representation on the Company's Board - While the convertible debenture is outstanding, or while CIC has a minimum 15% direct or indirect stake in the Company, CIC has the right to nominate one director to the Company's Board of Directors. As of the date hereof, the Company currently has eight Board of Directors members of which two (Mr. Ben Niu and Mr. Jianmin Bao) were nominated by CIC.
- 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.

22. CONVERTIBLE DEBENTURE (CONTINUED)

22.1 Key commercial terms (continued)

- Pre-emption rights - While the convertible debenture is outstanding, or while CIC has a 15% direct or indirect stake in the Company, CIC has certain pre-emption rights on a pro-rata basis to subscribe for any new shares to be allotted and issued by the Company for the period which the convertible debenture is outstanding. The pre-emption rights will not apply to new shares issued pursuant to pro-rata public equity offerings made to all shareholders, exercise of stock options and shares issued to achieve a 25% public float.
- Registration rights - CIC has registration rights under applicable Canadian provincial securities laws in connection with the common shares issuable upon conversion of the convertible debenture.
- Event of default – CIC could demand for the principal and corresponding interest from the Company immediately when certain events, including default of interest payment, suspension of trading and delisting of its shares from the TSX and the HKEX have occurred.

22.2 Debt host and embedded derivatives

The convertible debenture is presented as a liability since it contains no equity components. The convertible debenture is a hybrid instrument, containing a debt host component and three embedded derivatives - the investor's conversion option, the issuer's conversion option and the equity based interest payment provision (the 1.6% share interest payment) (the "embedded derivatives"). The debt host component is classified as other financial liabilities and is measured at amortised cost using the effective interest rate method and the embedded derivatives are classified as FVTPL and all changes in fair value are recorded in profit or loss. The difference between the debt host component and the principal amount of the loan outstanding is accreted to profit or loss over the expected life of the convertible debenture.

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

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

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

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

22. CONVERTIBLE DEBENTURE (CONTINUED)

22.3 Valuation assumptions

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

	As at December 31,	
	2021	**2020**
Floor conversion price	**CAD$8.88**	CAD$8.88
Ceiling conversion price	**CAD$11.88**	CAD$11.88
Common share price	**CAD$0.88**	CAD$0.09
Historical volatility	**28%**	82%
Risk free rate of return	**2.18%**	1.35%
Foreign exchange spot rate (CAD$ to U.S. Dollar)	**0.79**	0.79
Forward foreign exchange rate curve (CAD$ to U.S. Dollar)	**0.741 to 0.791**	0.779 - 0.786

22.4 Presentation

Based on the Company's valuation as at December 31, 2021, the fair value of the embedded derivatives decreased by $100 (2020: $44) compared to December 31, 2020. The decrease was recorded as finance income for the year ended December 31, 2021.

For the year ended December 31, 2021, the Company recorded interest expense of $36,301 related to the convertible debenture as a finance cost (2020: $27,726). The interest expense consists of the interest at the contract rate and the accretion of the debt host component of the convertible debenture. To calculate the accretion expense, the Company uses the contract life of 30 years and an effective interest rate of 22.2%.

A gain on extinguishment of substantially modified terms of $20,970 was recognised in profit or loss for the year ended December 31, 2021 for the difference between the derecognition of original convertible debenture and recognition of the convertible debenture under 2020 November Deferral Agreement as defined in Note 22.5 discounted at the new effective interest rate.

A modification gain of $2,016 was recognised in profit or loss for the year ended December 31, 2021 (2020: $2,545) for the difference between the original contractual cash flows and modified cash flows under the 2021 July Deferral Agreement discounted at the original effective interest rate.

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

22. CONVERTIBLE DEBENTURE (CONTINUED)

22.4 Presentation (continued)

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

	Year ended December 31,	
	2021	**2020**
Balance, beginning of year	**$ 181,411**	$ 156,974
Interest expense on convertible debenture	**36,301**	27,726
Decrease in fair value of embedded derivatives	**(100)**	(44)
Gain on extinguishment of convertible debenture	**(20,970)**	-
Gain on modification of convertible debenture	**(2,016)**	(2,545)
Interest paid	**(3,000)**	(700)
Balance, end of year	**$ 191,626**	$ 181,411

The convertible debenture balance consists of the following amounts:

	As at December 31,	
	2021	**2020**
Current convertible debenture		
Debt host and interest payable	**$ -**	$ 181,259
Fair value of embedded derivatives	**-**	152
	-	181,411
Non-current convertible debenture		
Debt host and interest payable	**191,573**	-
Fair value of embedded derivatives	**53**	-
	191,626	-
Total convertible debenture	**$ 191,626**	$ 181,411

22.5 Interest deferral and settlement

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

On October 29, 2020, the Company obtained an order from the British Columbia Securities Commission (the “BCSC”), the Company’s principal securities regulator in Canada, which partially revoked the cease trade order (“CTO”) to, amongst other things, permit the Company to execute the 2020 November Deferral Agreement. The 2020 November Deferral Agreement became effective on January 21, 2021, being the date on which the 2020 November Deferral Agreement was approved by shareholders at the Company’s annual and special meeting of shareholders. As a consequence of the Company not entering into a deferral agreement with CIC as at December 31, 2020, IAS 1 requires the Company to classify the entire balance of the CIC convertible debenture as a current liability as at December 31, 2020.

22. CONVERTIBLE DEBENTURE (CONTINUED)

22.5 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 the 2021 Deferral Amounts issuable to CIC on November 19, 2021 under the CIC convertible debenture.

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

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

22. CONVERTIBLE DEBENTURE (CONTINUED)

22.5 Interest deferral and settlement (continued)

On May 15, 2022, the Company and CIC entered into the 2022 May Deferral Agreement, pursuant to which CIC agreed to grant the Company a deferral of the Deferred Amounts and the management fee which payable to CIC on February 14, 2022 and August 14, 2021 (the "Deferred Management Fee") under the Amended and Restated Cooperation Agreement (collectively, the "2022 Deferral Amounts") under the CIC convertible debenture.

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 and options in thousands, unless otherwise indicated)

23. DECOMMISSIONING LIABILITY

At December 31, 2021, the decommissioning liability relates to reclamation and closure costs of the Company's Ovoot Tolgoi Mine.

The Ovoot Tolgoi Mine decommissioning liability is calculated as the net present value of the estimated future reclamation and closure costs, which as at December 31, 2021 totaled $10,897 (2020: $10,613). The estimated future reclamation and closure costs are inflated using an estimated inflation rate of 6.5% (2020: 6.6%) and discounted at 17% per annum (2020: 16% per annum) to determine the year end decommissioning liability. The settlement of the decommissioning liability will occur through to 2030.

The movements in the decommissioning liability during the years ended December 31, 2021 and 2020 were as follows:

	Year ended December 31, 2021	2020
Balance, beginning of year	**$ 6,445**	$ 8,605
Adjustments	**(282)**	(1,910)
Accretion	**510**	584
Exchange realignment	**(156)**	(834)
Balance, end of year	**$ 6,517**	$ 6,445

24. EQUITY

24.1 Share capital

The Company has authorized an unlimited number of common and preferred shares with no par value. At December 31, 2021, the Company had 274,116 common shares outstanding (2020: 272,703) and no preferred shares outstanding (2020: nil).

	As at December 31,			
	2021		2020	
Ordinary share issued at fully paid	Number of shares/units	Share capital	Number of shares/units	Share capital
Balance, beginning of year	**272,703**	**$ 1,098,634**	272,703	$ 1,098,634
Shares issued under share options	**1,368**	**190**	-	-
Shares issued under employee share purchase plan	**45**	**11**	-	-
Balance, end of year	**274,116**	**$ 1,098,835**	272,703	$ 1,098,634

24.2 Exchange fluctuation reserve

Gains/losses arising on retranslating the net assets of foreign operations into presentation currency.

24.3 Accumulated deficit and dividends

At December 31, 2021, the Company has accumulated a deficit of $1,212,071 (2020: $1,197,698). No dividend has been paid or declared by the Company since inception.

The Board did not recommend the payment of any dividend for the year ended December 31, 2021 (2020: nil).

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

25. SHARE-BASED PAYMENTS

25.1 Stock option plan

The Company has a stock option plan which permits the Board of Directors of the Company to grant options to acquire common shares of the Company at the volume weighted average closing price for the five days preceding the date of grant. The Company is authorized to issue stock options for a maximum of 10% of the issued and outstanding common shares pursuant to the stock option plan. The stock option plan permits the Board of Directors of the Company to set the terms for each stock option grant; however, the general terms of stock options granted under the plan include a maximum exercise period of 5 years and a vesting period of 3 years with 33% of the grant vesting on the first anniversary of the grant, 33% vesting on the second anniversary of the grant and 34% vesting on the third anniversary of the grant.

For the year ended December 31, 2021, the Company granted 3,543 stock options to officers, employees, directors and other eligible persons at an exercise prices HK$1.41 and expiry dates on June 29, 2026. The weighted average fair value of the options granted in the year ended December 31, 2021 was estimated at $0.09 (HKD$0.72) per option at the grant date using the Black-Scholes option pricing model. For the year ended December 31, 2020, the Company did not grant any stock options to officers, employees, directors and other eligible persons.

The weighted average assumptions used for the Black-Scholes option pricing model were as follows:

	Year ended December 31,	
	2021	**2020**
Risk free interest rate	**0.87%**	1.68%
Expected life	**3.4 years**	3.4 years
Expected volatility (i)	**79%**	38%
Expected dividend per share	**$nil**	$nil

(i) Expected volatility has been calculated based on historical volatility of the Company's publicly traded shares over a period equal to the expected life of the options.

The total share-based compensation expense for the year ended December 31, 2021 was $203 (2020: $113). Share-based compensation expense of $151 (2020: $89) has been allocated to administration expenses and share-based compensation expense of $52 (2020: $24) has been allocated to cost of sales.

25.2 Outstanding stock options

The option transactions under the stock option plan are as follows:

	Year ended December 31, 2021		Year ended December 31, 2020	
	Number of options	Weighted average exercise price (CAD$)	Number of options	Weighted average exercise price (CAD$)
Balance, beginning of year	**6,299**	**$ 0.16**	6,854	$ 0.21
Options granted	**3,543**	**0.22**	-	-
Options exercised	**(1,368)**	**0.13**	-	-
Options forfeited	**(761)**	**0.18**	(176)	0.13
Options expired	**(1,464)**	**0.19**	(379)	0.54
Balance, end of year	**6,249**	**$ 0.17**	6,299	$ 0.16

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

25. SHARE-BASED PAYMENTS (CONTINUED)

25.2 Outstanding stock options (continued)

The stock options outstanding and exercisable are as follows:

	As at December 31, 2021							
	Options Outstanding				Options Exercisable			
Exercise price (CAD$)	Options outstanding		Weighted average exercise price (CAD$)	Weighted average remaining contractual life (years)	Options outstanding and exercisable		Weighted average exercise price (CAD$)	Weighted average remaining contractual life (years)
$0.11 - $0.13	**2,211**		**0.13**	**2.36**	**1,812**	**$**	**0.12**	**2.25**
$0.33 - $0.39	**600**		**0.34**	**0.48**	**600**		**0.34**	**0.48**
	2,811	**$**	**0.17**	**1.96**	**2,412**	**$**	**0.18**	**1.81**
Exercise price (HKD$)	Options outstanding		Weighted average exercise price (HKD$)	Weighted average remaining contractual life (years)	Options outstanding and exercisable		Weighted average exercise price (HKD$)	Weighted average remaining contractual life (years)
$1.41	**3,438**	**$**	**1.41**	**4.50**	**-**	**$**	**-**	**-**
Total	**6,249**			**3.35**	**2,412**			**1.81**

	As at December 31, 2020							
	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	5,349	$	0.13	3.26	3,138	$	0.13	3.04
$0.33 - $0.39	950		0.34	1.26	950		0.34	1.26
	6,299	$	0.16	2.96	4,088	$	0.18	2.63

25.3 Employee Share Purchase Plan

Share purchase plan as part of a long term employee retention program equity incentive plan, which allows the Company's eligible employees to contribute up to 7% of their basic annual salary to purchase shares in the Company. The Company contributes 50% of the employee's contribution and at the end of each calendar quarter shares are purchased on behalf of the employee. At the end of each quarter, the Company's share will be issued. For the year ended 31 December 2021, eligible employees paid $8 and the Company contributed $3 to purchase 45 ordinary shares) of the Company under the employee share purchase plan (2020: Nil).

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

26. RESERVES

26.1 Share option reserve

The Company's share option reserve relates to stock options granted by the Company to officers, employees, directors and other eligible persons under its stock option plan. Details about the Company's share-based payments are further disclosed in Note 25.

The share option reserve transactions for the years ended December 31, 2021 and 2020 are as follows:

	Year ended December 31,	
	2021	**2020**
Balance, beginning of year	**$ 52,702**	$ 52,589
Exercise of stock options	**(47)**	-
Share-based compensation charged to operations	**203**	113
Balance, end of year	**$ 52,858**	$ 52,702

26.2 Capital reserve

Pursuant to the applicable laws and regulations of the People's Republic of China, a portion of the profits of a subsidiary has been transferred to reserve funds (i.e. capital reserve), which the Company is restricted from using.

27. CAPITAL RISK MANAGEMENT

The Company's capital risk management objectives are to safeguard the Company's ability to continue as a going concern in order to support the Company's normal operating requirements, continue the development and exploration of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares, acquire previously issued shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents. In order to facilitate management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including capital deployment, results from operations, results from the exploration and development of its properties and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

At December 31, 2021, the Company's capital structure consists of convertible debenture (Note 22), interest-bearing borrowing (Note 20), lease liabilities (Note 21) and the equity of the Company (Note 24). Except for disclosed elsewhere in the consolidated financial statements, the Company is not subject to any externally imposed capital requirements. In order to maximize ongoing development efforts, the Company does not pay dividends.

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

27. CAPITAL RISK MANAGEMENT (CONTINUED)

The gearing ratio at the end of the reporting period was as follows:

	As at December 31,	
	2021	2020
Debt	$ 296,563	$ 290,869
Cash and cash equivalents	(723)	(20,121)
Net debt	$ 295,840	$ 270,748
Equity	$ (90,450)	$ (76,237)
Net debt to equity ratio	-327%	-355%

For the year ended December 31, 2021, there were no significant changes in the processes used by the Company or in the Company's objectives and policies for managing its capital. As at December 31, 2021, the Company had cash of $723 (December 31, 2020: $20,121).

28. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

28.1 Categories of financial instruments

The Company's financial assets and financial liabilities are categorized as follows:

	As at December 31,	
	2021	2020
Financial assets		
At amortised cost		
Cash and cash equivalents	$ 723	$ 20,121
Restricted cash	1,259	918
Trade and other receivables (Note 13)	141	1,305
Total financial assets	$ 2,123	$ 22,344
Financial liabilities		
Fair value through profit or loss		
Convertible debenture - embedded derivatives (Note 22)	$ 53	$ 152
At amortised cost		
Trade and other payables (Note 18)	67,327	74,365
Interest-bearing borrowing (Note 20)	53	2,826
Lease liabilities (Note 21)	881	626
Convertible debenture - debt host (Note 22)	191,573	181,259
Total financial liabilities	$ 259,887	$ 259,228

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

28. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

28.2 Fair value

The fair value of financial assets and financial liabilities measured at amortised cost is determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions. The Company considers that the carrying amount of all its financial assets and financial liabilities measured at amortised cost approximates their fair value, except as disclosed below.

The fair values of the Company's financial instruments classified as FVTPL are determined as follows:

- The fair value of financial instruments that are not traded in an active market are determined using generally accepted valuation models using inputs that are directly (i.e. prices) or indirectly (i.e. derived from prices) observable. The fair value of the embedded derivatives within the convertible debenture (Note 22) is determined using a Monte Carlo simulation. None of the fair value change in the embedded derivatives for the year ended December 31, 2021 is related to a change in the credit risk of the convertible debenture. All of the change in fair value is associated with changes in market conditions.

The fair value of all the other financial instruments of the Company, approximates their carrying value because of the demand nature or short-term maturity of these instruments.

The following table provides an analysis of the Company's financial instruments that are measured and disclosed subsequent to initial recognition at fair value, grouped into Level 1 to 3 based on the degree to which the inputs used to determine the fair value are observable.

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1, that are observable either directly or indirectly.
- Level 3 fair value measurements are those derived from valuation techniques that include inputs that are not based on observable market data.

	As at December 31, 2021			
Recurring measurements	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial liabilities measured at fair value				
Convertible debenture - embedded derivatives	$ -	$ -	$ 53	$ 53
Total financial liabilities measured at fair value	$ -	$ -	$ 53	$ 53

	As at December 31, 2020			
Recurring measurements	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial liabilities measured at fair value				
Convertible debenture - embedded derivatives	$ -	$ -	$ 152	$ 152
Total financial liabilities measured at fair value	$ -	$ -	$ 152	$ 152

There were no transfers between Level 1, 2 and 3 for the year ended December 31, 2021 (2020: nil).

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

28. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

28.3 Financial risk management objectives and policies

The financial risk arising from the Company's operations are currency risk, interest rate risk, credit risk, liquidity risk and commodity price risk. These risks arise from the normal course of operations and all transactions undertaken are to support the Company's ability to continue as a going concern. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management of the Company manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

The Company is exposed to foreign currency risk on its sales or purchases in currencies other than the U.S. dollar. The Company manages this risk by matching receipts and payments in the same currency.

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

	As at December 31,	
	2021	**2020**
Increase/decrease in foreign exchange rate against respective functional currency		
+5%	**$ 945**	$ 877
–5%	**$ (945)**	$ (877)

Interest rate risk

The Company is exposed to interest rate risk on the variable rate of interest earned on its cash. However, the rate of interest earned on these instruments is below 3% (2020: 3%); therefore, the interest rate risk is not significant.

The Company has not entered into any derivative instruments to manage interest rate fluctuations, however, management closely monitors interest rate exposure and the risk exposure is limited.

Credit risk

The Company is exposed to credit risk associated with its cash and trade and other receivables. The Company's maximum exposure to credit risk is equal to the carrying amount of these instruments.

The Company applies the IFRS 9 simplified approach to measuring ECL which uses a lifetime expected loss allowance for all trade and other receivables.

To measure the expected credit losses, trade and other receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 2 years before December 31, 2021 or 2020 respectively and the corresponding historical credit losses experienced within this period as well as the forecast regarding the industry environment. On that basis, the loss allowance as at December 31, 2021 and 2020 was determined as follows for trade and others receivables:

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

28. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

28.3 Financial risk management objectives and policies (continued)

	Less than 1 month	1 to 3 months	3 to 6 months	Over 6 months	Total
As at December 31, 2021					
Expected loss rate	(i)	(i)	10%	100%	
Gross carrying amount - trade and other receivables	**$ 112**	**$ 6**	**$ 26**	**$ 23,838**	**$ 23,982**
Loss allowance	**$ -**	**$ -**	**$ 3**	**$ 23,838**	**$ 23,841**
As at December 31, 2020					
Expected loss rate	(i)	(i)	10%	100%	
Gross carrying amount - trade and other receivables	$ 1,260	$ 20	$ 28	$ 23,052	$ 24,360
Loss allowance	$ -	$ -	$ 3	$ 23,052	$ 23,055

(i) The expected credit loss rate is considered insignificant.

The Company's credit risk on cash arises from possible default of the counterparty. The Company limits its exposure to counterparty credit risk on cash by only dealing with financial institutions with high credit ratings.

The Company seeks to manage its credit risk on trade and other receivables by trading with third party customers it considers to be creditworthy. It is the Company's policy that all customers are required to prepay deposits to the Company for future purchasing from the Company, and for those who wish to trade on credit terms are subject to credit verification procedures.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to settle or manage its obligations associated with financial liabilities. Based on the Company's forecasts for the year ending December 31, 2021, the Company is expected to have sufficient capital resources in order to satisfy its ongoing obligations and future contractual commitments. Please refer to Note 1 for further details.

The Company's current and expected remaining contractual maturities for its financial liabilities with agreed repayment periods are as follows. The table includes the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to satisfy the liabilities.

	0 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total contractual undiscounted cash flow	Carrying amount
As at December 31, 2021						
Trade and other payables	**$ 67,327**	**$ -**	**$ -**	**$ -**	**$ 67,327**	**$ 67,327**
Interest-bearing borrowing(i)	**55**	**-**	**-**	**-**	**55**	**53**
Lease liabilities(i)	**190**	**190**	**663**	**-**	**1,043**	**881**
Convertible debenture - cash interest(i)	**-**	**-**	**222,021**	**260,000**	**482,021**	**191,626**
	$ 67,572	**$ 190**	**$ 222,684**	**$ 260,000**	**$ 550,446**	**$ 259,887**
As at December 31, 2020						
Trade and other payables	$ 74,365	$ -	$ -	$ -	$ 74,365	$ 74,365
Interest-bearing borrowing(i)	2,983	-	-	-	$ 2,983	2,826
Lease liabilities(i)	136	136	592	-	$ 864	626
Convertible debenture - cash interest(i)	-	-	188,800	280,000	$ 468,800	181,411
	$ 77,484	$ 136	$ 189,392	$ 280,000	$ 547,012	$ 259,228

(i) The expected undiscounted cash flows of the above noted financial liabilities include the cash interest payment on the interest-bearing borrowing, lease liabilities and convertible debenture for the years ended December 31, 2021 and December 31, 2020. Refer to Note 20, Note 21 and Note 22 for the terms of the interest-bearing borrowings, lease liabilities and convertible debenture, respectively.

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

29. RELATED PARTY TRANSACTIONS

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

Name	Country of incorporation	% equity interest As at December 31, 2021	2020
SouthGobi Resources (Hong Kong) Limited	Hong Kong	**100%**	100%
SouthGobi Sands LLC	Mongolia	**100%**	100%
SGQ Coal Investment Pte. Ltd.	Singapore	**100%**	100%
SouthGobi Trading (Beijing) Co., Ltd. (i)	China	**100%**	100%
Inner Mongolia SouthGobi Energy Co., Ltd.	China	**100%**	100%
Inner Mongolia SouthGobi Mining Development Co., Ltd.	China	**100%**	100%
Inner Mongolia SouthGobi Enterprise Co., Ltd.	China	**70%**	70%

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

In addition to the transactions detailed elsewhere in profit or loss, the Company had related party transactions with the following company related by way of directors or shareholders in common during the year ended December 31, 2021:

- CIC – CIC is a major shareholder of the Company, CIC holds approximately 23.6% of the issued and outstanding common shares of the Company as at December 31, 2020. The Amended and Restated Cooperation Agreement with CIC states that the Management Fee calculated based on 2.5% of the revenue shall be paid to CIC on a quarterly basis. During the year ended December 31, 2021, $967 was recorded in profit or loss (2020: $2,170).

29.1 Related party expenses

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

	Year ended December 31, 2021	2020
Finance costs	**$ 36,301**	$ 27,726
Management fee	**967**	2,170
Related party expenses	**$ 37,268**	$ 29,896

29.2 Key management personnel compensation

The remuneration of the Company's directors and other members of key management, who have the authority and responsibility for planning, directing and controlling the activities of the Company, consists of the following amounts:

	Year ended December 31, 2021	2020
Salaries, fees and other benefits	**$ 1,244**	$ 1,536
Share-based compensation	**170**	-
Total remuneration	**$ 1,414**	$ 1,536

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

30. SUPPLEMENTAL CASH FLOW INFORMATION

30.1 Non-cash financing and investing activities

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

	Year ended December 31, 2021	Year ended December 31, 2020
Depreciation and amortization capitalized in mineral properties	**$ 2,528**	$ 2,794
Decrease in decommissioning liability (Note 23)	**(282)**	(1,910)

30.2 Net change in working capital items

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

	Year ended December 31, 2021	Year ended December 31, 2020
Decrease/(increase) in inventories	**$ (11,137)**	$ 16,411
Decrease/(increase) in trade and other receivables	**1,062**	(823)
Decrease in prepaid expenses	**117**	500
Decrease in trade and other payables	**(7,677)**	(12,441)
Increase in deferred revenue	**5,642**	5,427
Decrease in provision for arbitration	**-**	(10,227)
Net change in working capital items	**$ (11,993)**	$ (1,153)

Depreciation and depletion capitalised in inventories for the year ended December 31, 2021 totaled $706 (2020: $3,093).

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

30. SUPPLEMENTAL CASH FLOW INFORMATION (CONTINUED)

30.3 Reconciliation of liabilities arising from financing activities

	Interest-bearing borrowing	Lease liabilities	Convertible debenture	Total
At January 1, 2020	$ 2,835	$ 568	$ 156,974	$ 160,377
Changes from financing cash flow:				
Interest payments	(423)	-	(700)	(1,123)
Capital element of lease rentals paid	-	(647)	-	(647)
Interest element of lease rentals paid	-	(69)	-	(69)
Total changes from financing cash flows	(423)	(716)	(700)	(1,839)
Other charges:				
Interest expenses	413	69	27,726	28,208
Changes in fair value of embedded derivatives	-	-	(44)	(44)
Gain on modification of convertible debenture	-	-	(2,545)	(2,545)
Increase in finance lease payable	-	700	-	700
	413	769	25,137	26,319
Exchange adjustments	1	5	-	6
At December 31, 2020 and January 1, 2021	$ 2,826	$ 626	$ 181,411	$ 184,863
Changes from financing cash flow:				
Interest payments	**-**	**-**	**(3,000)**	**(3,000)**
Repayment of interest-bearing loan	**(2,800)**	**-**	**-**	**(2,800)**
Proceeds from bank loan	**53**	**-**	**-**	**53**
Capital element of lease rentals paid	**-**	**(324)**	**-**	**(324)**
Interest element of lease rentals paid	**-**	**(93)**	**-**	**(93)**
Total changes from financing cash flows	**(2,747)**	**(417)**	**(3,000)**	**(6,164)**
Other charges:				
Interest expenses	**-**	**93**	**36,301**	**36,394**
Changes in fair value of embedded derivatives	**-**	**-**	**(100)**	**(100)**
Gain on modification of convertible debenture	**-**	**-**	**(2,016)**	**(2,016)**
Gain on extinguishment of convertible debenture	**-**	**-**	**(20,970)**	**(20,970)**
Increase in finance lease payable	**-**	**579**	**-**	**579**
	-	**672**	**13,215**	**13,887**
Exchange adjustments	**(26)**	**-**	-	**(26)**
At December 31, 2021	**$ 53**	**$ 881**	**$ 191,626**	**$ 192,560**

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

31. COMMITMENTS FOR EXPENDITURE

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

	Within 1 year	2-3 years	Over 3 years	Total
As at December 31, 2021				
Capital expenditure commitments	**$ -**	**$ -**	**$ -**	**$ -**
Operating expenditure commitments	**1,642**	**47**	**277**	**1,966**
Commitments	**$ 1,642**	**$ 47**	**$ 277**	**$ 1,966**
As at December 31, 2020				
Capital expenditure commitments	$ 448	$ -	$ -	$ 448
Operating expenditure commitments	1,208	47	324	1,579
Commitments	$ 1,656	$ 47	$ 324	$ 2,027

Management is currently in discussions with the third party contractor who built the wash plant to negotiate certain terms of the contract.

32. CONTINGENCIES

32.1 Class Action Lawsuit

In January 2014, Siskinds LLP, a Canadian law firm, filed a class action (the "Class Action") against the Company, certain of its former senior officers and directors, and its former auditors (the "Former Auditors"), in the Ontario Superior Court in relation to the Company's November 2013 restatement of certain financial statements, which statements were previously disclosed in the Company's earlier public financial statement filings (the "Restatement").

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

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

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

32. CONTINGENCIES (CONTINUED)

32.1 Class Action Lawsuit (continued)

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 by defendants complete by August 22, 2022; and (iv) pre-trial agreements, filings and motions by August 31, 2022. The Company has urged for a trial to begin as early as possible.

The Company firmly believes that it has a strong defense on the merits and will continue to vigorously defend itself against the Class Action through independent Canadian litigation counsel retained by the Company for this purpose. Due to the inherent uncertainties of litigation, it is not possible to predict the final outcome of the Class Action or determine the amount of potential losses, if any. However, the Company has judged a provision for this matter as at December 31, 2021 and December 31, 2020 is not required.

32.2 Toll Wash Plant Agreement with Ejin Jinda

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

Under the original agreement with Ejin Jinda, which required the commercial operation of the washing facility to commence on October 1, 2011, the additional fees payable by the Company under the washing contract would have been $18,500. At each reporting date, the Company assesses the agreement with Ejin Jinda and has determined it is not probable that this $18,500 will be required to be paid. Accordingly, the Company has determined a provision for this matter at December 31, 2021 and December 31, 2020 is not required.

32. CONTINGENCIES (CONTINUED)

32.3 Tax legislation

Mongolian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant authorities. The Mongolian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged by tax authorities. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. The Mongolian tax legislation does not provide definitive guidance in certain areas, specifically in areas such as VAT, withholding tax, corporate income tax, personal income tax, transfer pricing and other areas. From time to time, the Company adopts interpretations of such uncertain areas that reduce the overall tax rate of the Company. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices. The impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

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

As of December 31, 2021 and December 31, 2020, management has assessed that recognition of a provision for uncertain tax position is not necessary.

33. EVENTS AFTER THE REPORTING PERIOD

Management Cease Trade Order ("MCTO")

The BCSC imposed the Management Cease Trade Order on the TSX on April 1, 2022 pursuant to National Policy 12-203 - Cease Trade Orders for Continuous Disclosure Defaults ("NP 12-203"). With the granting of the MCTO, the Company has until May 30, 2022, being the expiry date of the MCTO, to file the 2021 Annual Filings. Pursuant to the MCTO, the Chief Executive Officer and the Chief Financial Officer of the Company are not permitted to trade any securities of the Company unless and until such time as the Company files the 2021 Annual Filings. While the MCTO is in effect, the shareholders of the Company will continue to be able to trade the Company's common shares on the TSX and the HKEX. If the Company is unable to file the 2021 Annual Filings prior to the expiry of the MCTO, it is anticipated that the BCSC will issue a general "failure to file" cease trade order prohibiting the trading by any person of any securities of the Company, including trades in the Company's common shares made through the TSX, which would take effect shortly after the expiry of the MCTO and would remain in place until such time as the 2021 Annual Filings have been filed.

33. EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

Sale by CIC of its Interests in the Company

On May 27, 2022, the Company announced that as disclosed in the press release issued by CIC on May 26, 2022. CIC has entered into an agreement to sell (the "Sale Transaction") all of its interests in the Company, including its 64,767 common shares of the Company and the $250,000 convertible debenture dated November 19, 2009 to JD Zhixing Fund LP (the "Buyer"). The Company has been advised that the Buyer is an exempted limited partnership formed under the laws of Cayman Islands. The Buyer’s general partner is JD Dingxing Limited, a coporation formed under the laws of the Cayman Islands. The Buyer’s limited partner is Inner Mongolia Tianyu Trading Limited, a corporation formed under the laws of Hong Kong.

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

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

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

The statement of financial position of the Company prepared on a stand-alone basis is presented below:

	As at December 31, 2021	As at December 31, 2020
Assets		
Current assets		
Cash and cash equivalents	**$ 42**	$ 8,406
Other receivables	**7**	6
Prepaid expenses	**94**	114
Total current assets	**143**	8,526
Total assets	**$ 143**	$ 8,526
Equity and liabilities		
Current liabilities		
Other payables	**$ 14,225**	$ 11,546
Current portion of convertible debenture	**-**	181,411
Total current liabilities	**14,225**	192,957
Non-current liabilities		
Convertible debenture	**191,626**	-
Total non-current liabilities	**191,626**	-
Total liabilities	**205,851**	192,957
Equity		
Common shares	**1,098,835**	1,098,634
Share option reserve	**52,858**	52,702
Accumulated deficit	**(1,357,401)**	(1,335,767)
Total deficiency in assets	**(205,708)**	(184,431)
Total equity and liabilities	**$ 143**	$ 8,526

APPROVED BY THE BOARD:

"Mao Sun"
Director

"Dalanguerban"
Director

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

35. RESERVE AND DEFICIT OF THE COMPANY

The reserve and deficit of the Company prepared on a stand-alone basis is presented below:

	Share option reserve	Accumulated deficit	Total
Balances, January 1, 2020	$ 52,589	$ (1,316,768)	$ (1,264,179)
Net loss for the year	-	(18,999)	(18,999)
Share-based compensation charged to operations	113	-	113
Balances, December 31, 2020	$ 52,702	$ (1,335,767)	$ (1,283,065)
Balances, January 1, 2021	**$ 52,702**	**$ (1,335,767)**	**$ (1,283,065)**
Net loss for the year	**-**	**(21,634)**	**(21,634)**
Share-based compensation charged to operations	**156**	**-**	**156**
Balances, December 31, 2021	**$ 52,858**	**$ (1,357,401)**	**$ (1,304,543)**

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

ADDITIONAL STOCK EXCHANGE INFORMATION

Additional information required by the HKEX and not shown elsewhere in this report is as follows:

A1. DIRECTOR AND EMPLOYEE EMOLUMENTS

Directors' emoluments

The Company's directors' emoluments consist of the following amounts:

	Year ended December 31, 2021	2020
Directors' fees	**$ 260**	$ 279
Other emoluments for executive and non-executive directors		
Salaries and other benefits	**323**	391
Share-based compensation	**88**	-
Directors' emoluments	**$ 671**	$ 670

Year ended December 31, 2021

Name of director	Directors' fees	Salaries and other benefits	Share-based compensation	Total
Executive directors				
Dalanguerban	$ -	$ 323	$ 42	$ 365
	$ -	$ 323	$ 42	$ 365
Non-executive directors				
Jianmin Bao	$ -	$ -	$ -	$ -
Zhiwei Chen	-	-	-	-
Yingbin Ian He	84	-	14	98
Ka Lee Ku	-	-	-	-
Ben Niu	-	-	-	-
Jin Lan Quan	74	-	14	88
Mao Sun	102	-	18	120
	$ 260	$ -	$ 46	$ 306
Directors' emoluments	$ 260	$ 323	$ 88	$ 671

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

A1. DIRECTOR AND EMPLOYEE EMOLUMENTS (CONTINUED)

Year ended December 31, 2020

Name of director	Directors' fees	Salaries and other benefits	Share-based compensation	Total
Executive directors				
Dalanguerban (i)	$ -	$ 301	$ -	$ 301
Shougao Wang (ii)	-	90	-	90
	$ -	$ 391	$ -	$ 391
Non-executive directors				
Jianmin Bao (i)	$ -	$ -	$ -	$ -
Zhiwei Chen	-	-	-	-
Yingbin Ian He	91	-	-	91
Ka Lee Ku (i)	-	-	-	-
Xiaoxiao Li (ii)	-	-	-	-
Ben Niu	-	-	-	-
Jin Lan Quan	81	-	-	81
Mao Sun	107	-	-	107
Wen (Wayne) Yao (ii)	-	-	-	-
	$ 279	$ -	$ -	$ 279
Directors' emoluments	$ 279	$ 391	$ -	$ 670

(i) Appointed to the Board of Directors during the year ended December 31, 2020.
(ii) Resigned from the Board of Directors during the year ended December 31, 2020.

Five highest paid individuals

The five highest paid individuals included one director of the Company for the year ended December 31, 2021 (2020: one director). The emoluments of the five highest paid individuals are as follows:

	Year ended December 31, 2021	2020
Salaries and other benefits	$ 1,102	$ 1,200
Share-based compensation	124	-
Total emoluments	$ 1,226	$ 1,200

The emoluments for the five highest paid individuals were within the following bands:

	Year ended December 31, 2021	2020
HK$ 1,000,001 to HK$ 1,500,000	1	-
HK$ 1,500,001 to HK$ 2,000,000	2	4
HK$ 2,000,001 to HK$ 2,500,000	1	1
HK$ 2,500,001 to HK$ 3,000,000	1	-
	5	5

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

A2. FIVE YEAR SUMMARY

The following table contains a five-year summary of the Company's results, assets and liabilities:

	Year ended December 31,				
	2021	2020	2019	2018	2017 (Restated)
Revenue	**$ 43,398**	$ 85,951	$ 129,712	$ 103,804	$ 120,973
Gross profit	**12,094**	27,294	45,312	23,969	15,115
Net comprehensive loss attributable to equity holders of the Company	**$ (14,570)**	$ (27,132)	$ (928)	$ (54,145)	$ (37,515)
Basic and diluted earnings/(loss) per share	**$ (0.05)**	$ (0.07)	$ 0.02	$ (0.15)	$ (0.14)

	As at December 31,				
	2021	2020	2019	2018	2017 (Restated)
Total assets	**$ 206,113**	$ 214,632	$ 228,427	$ 227,606	$ 253,436
Less: total liabilities	**(296,563)**	(290,869)	(277,645)	(275,746)	(245,608)
Total equity/(deficiency in assets)	**$ (90,450)**	$ (76,237)	$ (49,218)	$ (48,140)	$ 7,828

A3. CASH

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

	As at December 31,	
	2021	2020
Denominated in U.S. Dollars	**$ 63**	$ 9,427
Denominated in Chinese Renminbi	**511**	9,106
Denominated in Mongolian Tugriks	**37**	1,390
Denominated in Canadian Dollars	**23**	17
Denominated in Hong Kong Dollars	**89**	181
Cash	**$ 723**	$ 20,121