



# **SouthGobi Resources Ltd.**

## **Condensed Consolidated Interim Financial Statements**

**June 30, 2022**

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

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# SOUTHGOBI RESOURCES LTD.

## Condensed Consolidated Interim Statement of Comprehensive Income

(Unaudited)

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

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

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

# SOUTHGOBI RESOURCES LTD.

## Condensed Consolidated Interim Statement of Financial Position

(Unaudited)

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

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

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

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

APPROVED BY THE BOARD:

"Mao Sun"  
Director

"Dalanguerban"  
Director

# SOUTHGOBI RESOURCES LTD.

## Condensed Consolidated Interim Statement of Changes in Equity

(Unaudited)

(Expressed in thousands of U.S. Dollars and shares/units in thousands)

	Number of shares/units	Share capital	Share option reserve	Capital reserve	Exchange fluctuation reserve	Accumulated deficit	Total
Balances, January 1, 2021	272,703	\$ 1,098,634	\$ 52,702	\$ 396	\$ (30,271)	\$ (1,197,698)	\$ (76,237)
Net profit for the period	-	-	-	-	-	5,776	5,776
Exchange differences on translation of foreign operations	-	-	-	-	(224)	-	(224)
Total comprehensive income attributable to equity holders of the Company	-	-	-	-	(224)	5,776	5,552
Shares issued for:							
Exercise of stock options	921	126	(28)	-	-	-	98
Share-based compensation credited to operations	-	-	(5)	-	-	-	(5)
<b>Balances, June 30, 2021</b>	<b>273,624</b>	<b>\$ 1,098,760</b>	<b>\$ 52,669</b>	<b>\$ 396</b>	<b>\$ (30,495)</b>	<b>\$ (1,191,922)</b>	<b>\$ (70,592)</b>
<b>Balances, January 1, 2022</b>	<b>274,116</b>	<b>\$ 1,098,835</b>	<b>\$ 52,858</b>	<b>\$ 396</b>	<b>\$ (30,468)</b>	<b>\$ (1,212,071)</b>	<b>\$ (90,450)</b>
Net loss for the period	-	-	-	-	-	(17,825)	(17,825)
Exchange differences on translation of foreign operations	-	-	-	-	(12,994)	-	(12,994)
Total comprehensive loss attributable to equity holders of the Company	-	-	-	-	(12,994)	(17,825)	(30,819)
Shares issued for:							
Employee share purchase plan	139	25	-	-	-	-	25
Share-based compensation charged to operations	-	-	92	-	-	-	92
<b>Balances, June 30, 2022</b>	<b>274,255</b>	<b>\$ 1,098,860</b>	<b>\$ 52,950</b>	<b>\$ 396</b>	<b>\$ (43,462)</b>	<b>\$ (1,229,896)</b>	<b>\$ (121,152)</b>

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

**SOUTHGOBI RESOURCES LTD.**  
**Condensed Consolidated Interim Statement of Cash Flows**  
*(Unaudited)*  
*(Expressed in thousands of U.S. Dollars)*

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

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

# SOUTHGOBI RESOURCES LTD.

## Additional Stock Exchange Information

(Unaudited)

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

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### 1. CORPORATE INFORMATION AND GOING CONCERN

SouthGobi Resources Ltd. is a publicly listed company incorporated in Canada with limited liability under the legislation of the Province of British Columbia and its shares are listed for trading on the Toronto Stock Exchange ("TSX") (Symbol: SGQ) and Hong Kong Stock Exchange ("HKEX") (Symbol: 1878). The company, together with its subsidiaries (collectively referred to as the "Company"), is an integrated coal mining, development and exploration company. At June 30, 2022, to the Company's best knowledge, Land Breeze II S.à.r.l., a wholly-owned subsidiary of China Investment Corporation (together with its wholly-owned subsidiaries and affiliates, "CIC") owned approximately 23.6% of the outstanding common shares of the Company. Novel Sunrise Investments Limited ("Novel Sunrise"), a wholly-owned subsidiary of China Cinda (HK) Investments Management Company Limited ("Cinda"), and Voyage Wisdom Limited owned approximately 16.9% and 9.4% of the outstanding common shares of the Company, respectively.

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

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

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

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

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

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

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

# SOUTHGOBI RESOURCES LTD.

## Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited)

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

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### 1. CORPORATE INFORMATION AND GOING CONCERN (CONTINUED)

#### Going concern assumption

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

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

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

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

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

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

# **SOUTHGOBI RESOURCES LTD.**

## **Notes to the Condensed Consolidated Interim Financial Statements**

*(Unaudited)*

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

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### **1. CORPORATE INFORMATION AND GOING CONCERN (CONTINUED)**

#### **Going concern assumption (continued)**

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

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

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

### **2. BASIS OF PREPARATION**

#### **2.1 Statement of compliance**

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

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

# **SOUTHGOBI RESOURCES LTD.**

## **Notes to the Condensed Consolidated Interim Financial Statements**

*(Unaudited)*

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

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## **2. BASIS OF PREPARATION (CONTINUED)**

### **2.2 Basis of presentation**

These condensed consolidated interim financial statements have been prepared using accounting policies and methods of computation consistent with those applied in the Company's December 31, 2021 consolidated annual financial statements. These condensed consolidated interim financial statements do not include all the information and note disclosures required by IFRS for annual financial statements and therefore should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2021.

### **2.3 Significant accounting judgments and estimates**

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

### **Review of carrying value of assets and impairment charges**

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

### ***Ovoot Tolgoi Mine cash generating unit***

The Company determined that an indicator of impairment existed for its Ovoot Tolgoi Mine cash generating unit as at June 30, 2022. The impairment indicator was the fact that the Company suffered continuous loss for the period and potential closure of border crossings as a result of COVID-19 in the future. Since the recoverable amount was higher than carrying value of the Ovoot Tolgoi Mine cash generating unit, there was no impairment of non-financial asset recognised during the six months ended June 30, 2022.

### **Expected credit losses for trade and other receivables**

The Company applies the IFRS 9 simplified approach to measuring expected credit losses on its trade receivables and estimates expected credit loss based on the possible default events on its trade and other receivables. The Company has determined that the loss allowance on its trade and other receivables was \$22,954 as at June 30, 2022 (December 31, 2021: \$23,841).

### **Estimated resources**

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

# **SOUTHGOBI RESOURCES LTD.**

## **Notes to the Condensed Consolidated Interim Financial Statements**

*(Unaudited)*

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

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## **2. BASIS OF PREPARATION (CONTINUED)**

### **2.3 Significant accounting judgments and estimates (continued)**

#### **Estimated recoverable reserves**

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

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

#### **Long term F-grade coal inventory**

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

#### **Useful lives and depreciation rates for property, plant and equipment**

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

## **3. SEGMENTED INFORMATION**

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

The Company's resources are integrated and as a result, no discrete operating segment financial information is available. Since this is the only reportable and operating segment of the Company, no further analysis thereof is presented. All the revenue of the Company is generated from trading of coal for the six months ended June 30, 2022 and 2021.

# SOUTHGOBI RESOURCES LTD.

## Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited)

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

### 3. SEGMENTED INFORMATION (CONTINUED)

#### 3.1 Information about major customers

During the six months ended June 30, 2022, the Coal Division had eleven active customers. Three customers with respective revenues contributed over 10% of the total revenue during the six months ended June 30, 2022, with the largest customer accounting for 20% of revenues, the second largest customer accounting for 19% of revenues and the third largest customer accounting for 13% of revenues. Two customers with respective revenues contributed over 10% of the total revenue during the six months ended June 30, 2021, with the largest customer accounting for 38% of revenues and the second largest customer accounting for 17% of revenues.

#### 3.2 Geographical information

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

	Mongolia	Hong Kong	China	Consolidated Total
<b>Revenue</b> <sup>(i)</sup>				
For the three months ended June 30, 2022	\$ -	\$ -	\$ 5,790	\$ 5,790
For the three months ended June 30, 2021	-	-	5,191	5,191
For the six months ended June 30, 2022	\$ -	\$ -	\$ 5,790	\$ 5,790
For the six months ended June 30, 2021	-	-	33,255	33,255
<b>Non-current assets</b>				
As at June 30, 2022	\$ 138,329	\$ 333	\$ 220	\$ 138,882
As at December 31, 2021	150,136	430	247	150,813

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

### 4. REVENUE

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

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### 5. EXPENSES BY NATURE

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

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

### 6. COST OF SALES

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

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

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

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

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### 7. OTHER OPERATING EXPENSES/(INCOME), NET

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

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

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

### 8. FINANCE COSTS AND INCOME

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

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

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

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

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### 9. TAXES

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

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

### 10. EARNINGS/(LOSS) PER SHARE

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

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Net profit/(loss)	\$ (7,053)	\$ (7,277)	\$ (17,825)	\$ 5,776
Weighted average number of shares	274,205	273,289	274,205	273,289
<b>Basic earnings/(loss) per share</b>	<b>\$ (0.03)</b>	<b>\$ (0.03)</b>	<b>\$ (0.07)</b>	<b>\$ 0.02</b>
<b>Earnings/(loss)</b>				
Profit/(Loss) for the purposes of basic earnings/(loss) per share	\$ (7,053)	\$ (7,277)	\$ (17,825)	\$ 5,776
Effect of dilutive potential ordinary shares:				
- Interest expenses on convertible debenture (Note 8)	-	-	-	18,803
- Fair value loss on embedded derivatives in convertible debenture (Note 8)	-	-	-	826
- Gain on extinguishment of convertible debenture (Note 8)	-	-	-	(20,970)
Profit/(loss) for the purposes of diluted earnings/(loss) per share	\$ (7,053)	\$ (7,277)	\$ (17,825)	\$ 4,435
<b>Number of shares</b>				
Weighted average number of shares for the purposes of basic earnings/(loss) per share	274,205	273,289	274,205	273,289
Effect of dilutive potential ordinary shares:				
- Convertible debenture	-	-	-	34,893
- Share options	-	-	-	6,974
Weighted average number of ordinary shares for the purposes of diluted earnings/(loss) per share	274,205	273,289	274,205	315,156
<b>Diluted earnings/(loss) per share</b>	<b>\$ (0.03)</b>	<b>\$ (0.03)</b>	<b>\$ (0.07)</b>	<b>\$ 0.01</b>

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

# SOUTHGOBI RESOURCES LTD.

## Notes to the Condensed Consolidated Interim Financial Statements

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### 11. TRADE AND OTHER RECEIVABLES

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

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

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

Less than 1 month	\$ 88	\$ 112
1 to 3 months	3	6
3 to 6 months	-	23
Over 6 months	-	-
<b>Total trade and other receivables</b>	<b>\$ 91</b>	<b>\$ 141</b>

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

The Company has determined that the loss allowance on its trade and other receivables was \$22,954 (December 31, 2021: \$23,841) as at June 30, 2022, based upon an expected loss rate of 10% for trade and other receivables 90 days past due and 100% for trade and other receivables 180 days past due. The closing allowances for trade and other receivables as at June 30, 2022 reconcile to the opening loss allowances as follows:

#### Loss allowance for trade and other receivables

<b>Opening loss allowance as at January 1, 2022</b>	<b>\$ 23,841</b>
Decrease in loss allowance recognised in profit or loss during the period (Note 7)	(554)
Exchange realignment	(333)
<b>Loss allowance as at June 30, 2022</b>	<b>\$ 22,954</b>

<b>Opening loss allowance as at January 1, 2021</b>	<b>\$ 23,055</b>
Increase in loss allowance recognised in profit or loss during the period (Note 7)	220
Exchange realignment	465
<b>Loss allowance as at June 30, 2021</b>	<b>\$ 23,740</b>

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### 12. INVENTORIES

The Company's inventories consist of the following amounts:

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

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

### 13. PROPERTY, PLANT AND EQUIPMENT

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

#### 13.1 Non-depreciable assets

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

#### 13.2 Pledge on items of property, plant and equipment

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

#### 13.3 Right-of-use assets

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

#### 13.4 Impairment charges

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

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### 14. TRADE AND OTHER PAYABLES

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

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

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

### 15. INTEREST-BEARING BORROWING

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

	As at	
	June 30, 2022	December 31, 2021
Bank loan	\$ 48	\$ 53
<b>Total interest-bearing borrowing</b>	<b>\$ 48</b>	<b>\$ 53</b>

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

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

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

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### 16. CONVERTIBLE DEBENTURE

#### 16.1 Key commercial terms

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

The key commercial terms of the financing include:

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

#### 16.2 Debt host and embedded derivatives

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

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### 16. CONVERTIBLE DEBENTURE (CONTINUED)

#### 16.2 Debt host and embedded derivatives (continued)

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

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

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

#### 16.3 Valuation assumptions

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

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

#### 16.4 Presentation

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

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

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### 16. CONVERTIBLE DEBENTURE (CONTINUED)

#### 16.4 Presentation (continued)

A gain on extinguishment of substantially modified terms of \$20,970 was recognised in profit or loss for the period ended June 30, 2021 for the difference between the derecognition of original convertible debenture and recognition of the convertible debenture under 2020 November Deferral Agreement as defined in Note 16.5 discounted at the new effective interest rate.

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

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Balance, beginning of period	\$ 200,840	\$ 174,207	\$ 191,626	\$ 181,411
Interest expense on convertible debenture (Note 8)	9,676	8,342	18,846	18,803
Increase/(decrease) in fair value of embedded derivatives (Note 8)	24	(2,479)	68	826
Gain on extinguishment of convertible debenture (Note 8)	-	-	-	(20,970)
Gain on modification of convertible debenture (Note 8)	(1,158)	-	(1,158)	-
Interest paid	-	(1,000)	-	(1,000)
<b>Balance, end of period</b>	<b>\$ 209,382</b>	<b>\$ 179,070</b>	<b>\$ 209,382</b>	<b>\$ 179,070</b>

The convertible debenture balance consists of the following amounts:

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

#### 16.5 Interest deferral and settlement

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

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### 16. CONVERTIBLE DEBENTURE (CONTINUED)

#### 16.5 Interest deferral and settlement (continued)

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

- Payment of the 2020 November Deferral Amounts will be deferred until August 31, 2023.
- CIC agreed to waive its rights arising from any default or event of default under the CIC convertible debenture as a result of trading in the common shares being halted on the TSX beginning as of June 19, 2020 and suspended on the HKEX beginning as of August 17, 2020, in each case for a period of more than five trading days.
- As consideration for the deferral of the 2020 November Deferral Amounts, the Company agreed to pay CIC: (i) a deferral fee equal to 6.4% per annum on the 2020 November Deferral Amounts payable under the CIC convertible debenture and the 2020 June Deferral Agreement, commencing on the date on which each such 2020 November Deferral Amounts would otherwise have been due and payable under the CIC convertible debenture or the June 2020 Deferral Agreement, as applicable; and (ii) a deferral fee equal to 2.5% per annum on the 2020 November Deferral Amounts payable under the Amended and Restated Cooperation Agreement, commencing on the date on which the management fee would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.
- The 2020 November Deferral Agreement does not contemplate a fixed repayment schedule for the 2020 November Deferral Amounts and related deferral fees. Instead, the Company and CIC would agree to assess in good faith the Company's financial condition and working capital position on a monthly basis and determine the amount, if any, of the 2020 November Deferral Amounts and related deferral fees that the Company is able to repay under the CIC convertible debenture, the June 2020 Deferral Agreement or the Amended and Restated Cooperation Agreement, having regard to the working capital requirements of the Company's operations and business at such time and with the view of ensuring that the Company's operations and business would not be materially prejudiced as a result of any repayment.
- Commencing as of November 19, 2020 and until such time as the November 2020 PIK Interest is fully repaid, CIC reserves the right to require the Company to pay and satisfy the amount of the November 2020 PIK Interest, either in full or in part, by way of issuing and delivering PIK interest shares in accordance with the CIC convertible debenture provided that, on the date of issuance of such shares, the common shares are listed and trading on at least one stock exchange.
- If at any time before the 2020 November Deferral Amounts and related deferral fees are fully repaid, the Company proposes to appoint, replace or terminate one or more of its chief executive officer, its chief financial officer or any other senior executive(s) in charge of its principal business function or its principal subsidiary, then the Company must first consult with, and obtain written consent from CIC prior to effecting such appointment, replacement or termination.

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

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### 16. CONVERTIBLE DEBENTURE (CONTINUED)

#### 16.5 Interest deferral and settlement (Continued)

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

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

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

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

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

# SOUTHGOBI RESOURCES LTD.

## Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited)

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

### 17. RELATED PARTY TRANSACTIONS

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

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

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

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

- CIC – CIC is a major shareholder of the Company, CIC holds approximately 23.6% of the issued and outstanding common shares of the Company as at June 30, 2022. The Amended and Restated Cooperation Agreement with CIC states that the management fee calculated based on 2.5% of the revenue shall be paid to CIC on a quarterly basis. During the three and six months ended June 30, 2022, \$131 and \$155 were recorded in profit or loss, respectively (three and six months ended June 30, 2021: \$120 and \$733, respectively).

#### 17.1 Related party expenses

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

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Finance costs	\$ 9,676	\$ 8,342	\$ 18,846	\$ 18,803
Management fee	131	120	155	733
<b>Related party expenses</b>	<b>\$ 9,807</b>	<b>\$ 8,462</b>	<b>\$ 19,001</b>	<b>\$ 19,536</b>

# SOUTHGOBI RESOURCES LTD.

## Notes to the Condensed Consolidated Interim Financial Statements

(Unaudited)

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

### 18. SUPPLEMENTAL CASH FLOW INFORMATION

#### 18.1 Non-cash financing and investing activities

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

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

#### 18.2 Net change in non-cash working capital items

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

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

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

### 19. COMMITMENTS FOR EXPENDITURE

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

	2-3			
	Within 1 year	years	Over 3 years	Total
<b>As at June 30, 2022</b>				
Capital expenditure commitments	\$ -	\$ -	\$ -	\$ -
Operating expenditure commitments	1,888	43	265	2,196
<b>Commitments</b>	<b>\$ 1,888</b>	<b>\$ 43</b>	<b>\$ 265</b>	<b>\$ 2,196</b>
<b>As at December 31, 2021</b>				
Capital expenditure commitments	\$ -	\$ -	\$ -	\$ -
Operating expenditure commitments	1,642	47	277	1,966
<b>Commitments</b>	<b>\$ 1,642</b>	<b>\$ 47</b>	<b>\$ 277</b>	<b>\$ 1,966</b>

# SOUTHGOBI RESOURCES LTD.

## Additional Stock Exchange Information

(Unaudited)

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

### ADDITIONAL STOCK EXCHANGE INFORMATION

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

#### A1. FINANCIAL INSTRUMENTS

##### Cash

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

	As at	
	June 30, 2022	December 31, 2021
Denominated in U.S. Dollars	\$ 793	\$ 63
Denominated in Chinese Renminbi	1,445	511
Denominated in Mongolian Tugriks	77	37
Denominated in Canadian Dollars	2	23
Denominated in Hong Kong Dollars	155	89
<b>Cash</b>	<b>\$ 2,472</b>	<b>\$ 723</b>

##### Exposure to fluctuations in foreign exchange rates

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

	As at	
	June 30, 2022	December 31, 2021
Increase/decrease in foreign exchange rate against respective functional currency		
+5%	\$ 1,256	\$ 945
-5%	\$ (1,256)	\$ (945)

#### A2. COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has, throughout the six months ended June 30, 2022, applied the principles and complied with the requirements of its corporate governance practices as defined by the Board of Directors and all applicable statutory, regulatory and stock exchange listings standards, which include the code provisions set out in the Corporate Governance Code (the "Corporate Governance Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Hong Kong Listing Rules"), except for the following:

Pursuant to code provision A.2.7 of the Corporate Governance Code, the Chairman of the Board should at least annually hold meetings with the non-executive directors (including independent non-executive directors) without the executive director present. The Company has not had a Chairman since the conclusion of the annual general meeting held on June 30, 2017. During the period of January 1, 2022 to June 30, 2022 there were no meetings between the Independent Lead Director, who is fulfilling the duties of the Chairman, and the non-executive directors without the presence of the executive director. The opportunity for such communication channel is offered at the end of each Board meeting.

# SOUTHGOBI RESOURCES LTD.

## Additional Stock Exchange Information

(Unaudited)

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

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### A3. COMPLIANCE WITH MODEL CODE

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

The Board of Directors confirms that all of the directors of the Company have complied with the required policies in the Company's Corporate Disclosure, Confidentiality and Securities Trading policy throughout the six months ended June 30, 2022.

### A4. PURCHASE, SALE OR REDEEMPTION OF LISTED SECURITIES OF THE COMPANY

The Company did not redeem its listed securities, nor did the Company or any of its subsidiaries purchase or sell such securities during the six months ended June 30, 2022.

### A5. INTERIM DIVIDEND

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

### A6. SUBSTANTIAL SHAREHOLDERS

As at June 30, 2022, the persons or corporations (not being a director or chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register of interests in shares required to be kept by the Company were as follows:

Name	Nature of interest	Shares held (a)(e)	Approximate % of issued shares (d)
Land Breeze II S.a.r.l. (b)	Beneficial	64,766,591	23.62%
Fullbloom (b)	Interest of controlled corporation	64,766,591	23.62%
CIC (b)	Interest of controlled corporation	64,766,591	23.62%
Novel Sunrise (c)	Beneficial	46,358,978	16.90%
Hope Rosy Limited (c)	Interest of controlled corporation	46,358,978	16.90%
China Cinda (HK) Investments Management Company Limited (c)	Interest of controlled corporation	46,358,978	16.90%
China Cinda (HK) Holdings Company Limited (c)	Interest of controlled corporation	46,358,978	16.90%
China Cinda Asset Management Co., Ltd. (c)	Interest of controlled corporation	46,358,978	16.90%
The Ministry of Finance of the People's Republic of China ("MOF") (c)	Interest of controlled corporation	46,358,978	16.90%
Voyage Wisdom Limited	Beneficial	25,768,162	9.40%

# SOUTHGOBI RESOURCES LTD.

## Additional Stock Exchange Information

(Unaudited)

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

### A6. SUBSTANTIAL SHAREHOLDERS (CONTINUED)

Notes:

- (a) The information as to the Shares beneficially owned or controlled or directed that is not within the knowledge of the Company, its Directors or its officers has been furnished by the applicable Shareholders or has been extracted from the public filings.
- (b) Land Breeze II S.a.r.l. is a wholly-owned subsidiary of Fullbloom, which is wholly owned by CIC. Accordingly, Fullbloom and CIC are deemed to be interested in shares held by Land Breeze II S.a.r.l. and CIC.
- (c) Novel Sunrise is a wholly-owned subsidiary of Hope Rosy Limited, which is a wholly-owned subsidiary of China Cinda (HK) Investments Management Company Limited. China Cinda (HK) Investments Management Company Limited is a wholly-owned subsidiary of China Cinda (HK) Holdings Company Limited, which is wholly owned by China Cinda Asset Management Co. Ltd. China Cinda Asset Management Co., Ltd. is indirectly controlled by MOF. Accordingly, each of Hope Rosy Limited, China Cinda (HK) Investments Management Company Limited, China Cinda (HK) Holdings Company Limited, China Cinda Asset Management Co., Ltd. and MOF was deemed to be interested in shares held by Novel Sunrise.
- (d) The percentage represents the total number of the Shares and the underlying Shares interested divided by the number of issued Shares as at June 30, 2022 (i.e. 274,254,426 Shares).
- (e) All interests stated above are long positions.

Other than as disclosed above, the Company has not been notified of any relevant interests or short positions in the issued share capital of the Company as at June 30, 2022.

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

As at June 30, 2022, the interests of the Company's directors in the shares, underlying shares and debentures of the Company and its associated corporations were as follows:

#### Number of Shares and underlying Shares held, capacity and nature of interest <sup>(1)</sup>

Name of directors	Directly beneficially owned	Number of Shares interested			Number of underlying Shares interested	Total <sup>(3)</sup>	Percentage interest in the company <sup>(4)</sup>
		Through spouse or minor children	Through controlled company	Beneficiary of a trust			
Dalanguerban	77,999	-	-	-	450,000	527,999	0.19%
Mao Sun	-	-	-	-	800,000	800,000	0.29%
Jin Lan Quan	-	-	-	-	600,000	600,000	0.22%
Yingbin Ian He	27,000	-	-	-	450,000	477,000	0.17%

# SOUTHGOBI RESOURCES LTD.

## Additional Stock Exchange Information

*(Unaudited)*

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

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

Notes:

- (1) The information as to the Shares beneficially owned or controlled or directed that is not within the knowledge of the Company, its Directors or its officers has been furnished by the applicable Shareholders or has been extracted from the public filings.
- (2) These interests represented the underlying Shares comprised in the share options granted by the Company .
- (3) All interests stated above are long positions .
- (4) The percentage represents the total number of the Shares and the underlying Shares interested divided by the number of issued Shares as at June 30, 2022 (i.e. 274,254,426 Shares).

Other than the shareholdings disclosed in the preceding table, none of the Directors of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at June 30, 2022

### A8. STOCK OPTION PLAN

The Company has a stock option plan which permits the Board of Directors of the Company to grant options to acquire common shares of the Company at the volume weighted average closing price for the five days preceding the date of grant. The Company is authorised to issue stock options for a maximum of 10% of the issued and outstanding common shares pursuant to the stock option plan. The stock option plan permits the Board of Directors of the Company to set the terms for each stock option grant; however, the general terms of stock options granted under the plan to eligible employees include a maximum exercise period of 5 years and a vesting period of 3 years with 33% of the grant vesting on the first anniversary of the grant, 33% vesting on the second anniversary of the grant and 34% vesting on the third anniversary of the grant. The general terms of stock options granted under the plan to independent non-executive directors include a maximum exercise period of 5 years and a vesting period of 100% of the grant vesting on the first anniversary of the date of grant.

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

# SOUTHGOBI RESOURCES LTD.

## Additional Stock Exchange Information

(Unaudited)

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

### A8. STOCK OPTION PLAN (CONTINUED)

The stock options outstanding and exercisable as at June 30, 2022 are as follows:

Exercise price	Options Outstanding			Options Exercisable		
	Options outstanding	Weighted average exercise price (CAD\$)	Weighted average remaining contractual life (years)	Options outstanding and exercisable	Weighted average exercise price (CAD\$)	Weighted average remaining contractual life (years)
\$0.11 - \$0.29	2,212	\$ 0.13	1.86	1,812	\$ 0.12	1.75
\$0.33 - \$0.39	500	0.33	0.00	500	0.33	0.00
	<b>2,712</b>	<b>\$ 0.16</b>	<b>1.52</b>	<b>2,312</b>	<b>\$ 0.17</b>	<b>1.37</b>

  

Exercise price (HKD\$)	Options Outstanding			Options Exercisable		
	Options outstanding	Weighted average exercise price (HKD\$)	Weighted average remaining contractual life (years)	Options outstanding and exercisable	Weighted average exercise price (HKD\$)	Weighted average remaining contractual life (years)
\$1.41	3,407	\$ 1.41	4.00	1,459	\$ 1.41	4.00
	<b>3,407</b>	<b>\$ 1.41</b>	<b>4.00</b>	<b>1,459</b>	<b>\$ 1.41</b>	<b>4.00</b>
Total	<b>6,119</b>		<b>2.90</b>	<b>3,771</b>		<b>2.39</b>

# SOUTHGOBI RESOURCES LTD.

## Additional Stock Exchange Information

(Unaudited)

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

### A8. STOCK OPTION PLAN (CONTINUED)

The following table discuss movements in the Company's share options during the six month ended June 30, 2022.

Name	Number of share options					At June 30, 2022	Date of grant of share options	Exercise period of share options	Exercise price per share
	At December 31, 2021	Granted during the period	Exercised during the period	Forfeited during the period	Expired during the period				
<b>Directors</b>									
Mao Sun	200,000	-	-	-	-	200,000	June 30, 2017	June 30, 2018 - June 30, 2022	CAD\$0.33
	200,000	-	-	-	-	200,000	July 03, 2018	July 03, 2019 - July 03, 2023	CAD\$0.13
	200,000	-	-	-	-	200,000	September 11, 2019	September 11, 2020 - September 11, 2024	CAD\$0.11
	200,000	-	-	-	-	200,000	June 29, 2021	June 29 2022 - June 29 2026	HK\$1.41
	<b>800,000</b>	-	-	-	-	<b>800,000</b>			
Jin Lan Quan	150,000	-	-	-	-	150,000	June 30, 2017	June 30, 2018 - June 30, 2022	CAD\$0.33
	150,000	-	-	-	-	150,000	July 03, 2018	July 03, 2019 - July 03, 2023	CAD\$0.13
	150,000	-	-	-	-	150,000	September 11, 2019	September 11, 2020 - September 11, 2024	CAD\$0.11
	150,000	-	-	-	-	150,000	June 29, 2021	June 29 2022 - June 29 2026	HK\$1.41
	<b>600,000</b>	-	-	-	-	<b>600,000</b>			
Yingbin Ian He	100,000	-	-	-	(100,000)	-	June 5, 2017	June 5, 2018 - June 5, 2022	CAD\$0.39
	150,000	-	-	-	-	150,000	June 30, 2017	June 30, 2018 - June 30, 2022	CAD\$0.33
	150,000	-	-	-	-	150,000	September 11, 2019	September 11, 2020 - September 11, 2024	CAD\$0.11
	150,000	-	-	-	-	150,000	June 29, 2021	June 29 2022 - June 29 2026	HK\$1.41
	<b>550,000</b>	-	-	-	<b>(100,000)</b>	<b>450,000</b>			
Dalangerban	<b>450,000</b>	-	-	-	-	<b>450,000</b>	June 29, 2021	June 29 2022 - June 29 2026	HK\$1.41
<b>Total for directors</b>	<b>2,400,000</b>	-	-	-	<b>(100,000)</b>	<b>2,300,000</b>			
<b>Other share option holders</b>	459,000	-	-	-	-	459,000	August 16, 2018	August 16, 2019 - August 16, 2023	CAD\$0.13
	902,750	-	-	-	-	902,750	November 15, 2019	November 15 2020 - November 15 2024	CAD\$0.13
	2,487,500	-	-	(30,000)	-	2,457,500	June 29, 2021	June 29 2022 - June 29 2026	HK\$1.41
<b>Total for other share option holders</b>	<b>3,849,250</b>	-	-	<b>(30,000)</b>	-	<b>3,819,250</b>			
<b>Total</b>	<b>6,249,250</b>	-	-	<b>(30,000)</b>	<b>(100,000)</b>	<b>6,119,250</b>			