SOUTHGOBI RESOURCES LTD.
南戈壁資源有限公司*

(A company continued under the laws of British Columbia, Canada with limited liability)
(Hong Kong Stock Code: 1878)
(Toronto Stock Code: SGQ)

SouthGobi announces fourth quarter and full year 2020 financial and operating results

SouthGobi Resources Ltd. ("**SouthGobi**") today announces its financial and operating results for the quarter and the year ended December 31, 2020.

Please see the attached announcement for more details. The information per the attached announcement is available on the SEDAR website at www.sedar.com and the website of the Hong Kong Stock Exchange at www.hkexnews.hk.

By order of the Board
SouthGobi Resources Ltd.
Mao Sun
Lead Director

Vancouver, March 30, 2021
Hong Kong, March 30, 2021

As at the date of this announcement, the executive director of the Company is Mr. Dalanguerban; the independent non-executive directors are Messrs. Yingbin Ian He, Mao Sun and Ms. Jin Lan Quan; and the non-executive directors are Messrs. Jianmin Bao, Zhiwei Chen, Ben Niu and Ms. Ka Lee Ku.

* *For identification purpose only*

March 30, 2021

SOUTHGOBI RESOURCES ANNOUNCES FOURTH QUARTER AND FULL YEAR 2020 FINANCIAL AND OPERATING RESULTS

HONG KONG – SouthGobi Resources Ltd. (**Toronto Stock Exchange ("TSX"): SGQ, Hong Kong Stock Exchange ("HKEX"): 1878**) (the "Company" or "SouthGobi") today announces its financial and operating results for the quarter and the year ended December 31, 2020. All figures are in U.S. dollars ("USD") unless otherwise stated.

The Board of Directors (the "Board") wish to inform that the Company's independent auditors, BDO Limited ("BDO"), have completed their audit of the consolidated financial statements of the Company for the year ended December 31, 2020 in accordance with Canadian generally accepted auditing standards and would like to announce the audited annual results of the Company for the year ended December 31, 2020 together with the comparative figures for the previous year and the respective notes in this announcement.

SIGNIFICANT EVENTS AND HIGHLIGHTS

The Company's significant events and highlights for the year ended December 31, 2020 and the subsequent period to March 30, 2021 are as follows:

- ***Operating Results*** – The Company's sales volume decreased from 3.7 million tonnes in 2019 to 2.6 million tonnes in 2020 due to the impact of the Coronavirus Disease 2019 ("COVID-19") pandemic. The average selling price of coal decreased from $34.9 per tonne in 2019 to $33.0 per tonne in 2020. The decrease in the average selling price was principally attributable to a higher portion of sales made at the mine gate instead of transporting the coal to the Company's Inner Mongolia subsidiary and selling to third party customers within China.

- ***Financial Results*** – The Company recorded a $15.3 million profit from operations in 2020 compared to a $29.8 million profit in 2019. The financial results were impacted by (i) the closure of the Mongolia-China border beginning as of February 11, 2020 which resulted in the Company being unable to export its coal products to China during the first quarter of 2020; (ii) the export volume limitation imposed following the reopening of the Mongolia-China border on a trial basis on March 28, 2020; and (iii) the provision for commercial arbitration of $4.6 million recorded in connection with the Company entering into a settlement agreement with First Concept Industrial Group Limited ("First Concept") on June 7, 2020.

- ***Impact of the COVID-19 Pandemic*** – The Company was informed that effective as of February 11, 2020, the Mongolian State Emergency Commission closed Mongolia's southern border with China in order to prevent the spread of COVID-19. Accordingly, the Company suspended coal exports to China beginning as of February 11, 2020 as a result of the border closure.

  On March 28, 2020, the Mongolia-China border was re-opened for coal export on a trial basis, with a limit imposed on the total volume of coal that was permitted to be exported during this trial period. The Company has experienced a continuous improvement in the volume of coal exported to China since March 28, 2020.

  The border closure had an adverse impact on the Company's sales and cash flows in the first and second quarter of 2020. In order to mitigate the financial impact of the border closure and preserve its working capital, the Company temporarily ceased major mining operations (including coal mining), reduced production to only coal-blending activities and placed approximately half of its workforce on furlough in February 2020. On August 2, 2020, the Company resumed its mining operations. Although the export of coal from Mongolia to China continues as of the date hereof, there can be no guarantee that the Company will be able to continue exporting coal to China, or the 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 will continue to closely monitor the development of the COVID-19 pandemic and the impact it has on coal exports to China and will react promptly to preserve the working capital of the Company.

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

- ***China Investment Corporation (together with its wholly-owned subsidiaries and affiliates, "CIC") convertible debenture ("CIC Convertible Debenture")*** – On February 19, 2020, the Company and CIC entered into an agreement (the "2020 February Deferral Agreement") pursuant to which CIC agreed to grant the Company a deferral of: (i) deferred cash interest and deferral fees of $1.3 million and $2.0 million (collectively, the "2020 February Deferral Amounts") which were due and payable to CIC on January 19, 2020 and February 19, 2020, respectively, under the deferral agreement signed on April 23, 2019 (the "2019 Deferral Agreement"); and (ii) approximately $0.7 million of fees (the "Management Fee") which was due and payable on February 14, 2020 to CIC under the amended and restated mutual cooperation agreement dated November 19, 2009 (the "Amended and Restated Cooperation Agreement"). The 2020 February Deferral Agreement became effective on March 10, 2020, being the date on which the Company obtained the requisite acceptance of the 2020 February Deferral Agreement from the TSX as required under applicable TSX rules.

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

- Payment of the 2020 February Deferral Amounts will be deferred until June 20, 2020, while the Management Fee will be deferred until they are repaid by the Company.

- As consideration for the deferral of these amounts, the Company agreed to pay CIC: (i) a deferral fee equal to 6.4% per annum on the 2020 February Deferral Amounts, commencing on the date on which each such 2020 February Deferral Amounts would otherwise have been due and payable under the 2019 Deferral Agreement; and (ii) a deferral fee equal to 2.5% per annum on the Management Fee, commencing on the date on which the 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.

- As the Company anticipated prior to agreeing to the 2020 February Deferral Agreement that a deferral was likely required in respect of the monthly payments due and payable in the period between April 2020 and June 2020 under the 2019 Deferral Agreement and Amended and Restated Cooperation Agreement, the Company and CIC agreed to discuss in good faith a deferral of these payments on a monthly basis as they become due.

- The Company agreed to comply with all of its obligations under the 2019 Deferral Agreement and the Amended and Restated Cooperation Agreement, as amended by the 2020 February Deferral Agreement.

- The Company and CIC agreed that nothing in the 2020 February Deferral Agreement prejudices CIC's rights to pursue any of its remedies at any time pursuant to the 2019 Deferral Agreement and Amended and Restated Cooperation Agreement, respectively.

On March 10, 2020, the Company agreed with CIC (the "2020 March Deferral Agreement") that the $2.0 million of deferred cash interest and deferral fees which were due and payable to CIC on March 19, 2020 under the 2019 Deferral Agreement (the "2020 March Deferral Amount") will be deferred until June 20, 2020. The terms of the 2020 March Deferral Agreement are substantially the same as the terms of the 2020 February Deferral Agreement, including that the Company agreed to pay CIC a deferral fee equal to 6.4% per annum on the 2020 March Deferral Amount, commencing on March 19, 2020. The 2020 March Deferral Agreement became effective on March 25, 2020, being the date on which the Company obtained the requisite acceptance of the 2020 March Deferral Agreement from the TSX as required under applicable TSX rules.

On April 10, 2020, the Company agreed with CIC (the "2020 April Deferral Agreement") that the $2.0 million of deferred cash interest and deferral fees which were due and payable to CIC on April 19, 2020 under the 2019 Deferral Agreement (the "2020 April Deferral Amount") will be deferred until June 20, 2020. The terms of the 2020 April Deferral Agreement are substantially the same as the terms of the 2020 February Deferral Agreement, including that the Company agreed to pay CIC a deferral fee equal to 6.4% per annum on the 2020 April Deferral Amount, commencing on April 19, 2020. The 2020 April Deferral Agreement became effective on April 29, 2020, being the date on which the Company obtained the requisite acceptance of the 2020 April Deferral Agreement from the TSX as required under applicable TSX rules.

On May 8, 2020, the Company agreed with CIC (the "2020 May Deferral Agreement") that the deferred cash interest and deferral fees of $2.0 million which were due and payable to CIC on May 19, 2020 under the 2019 Deferral Agreement; and approximately $0.2 million of Management Fee which were due and payable on May 15, 2020 to CIC under the Amended and Restated Cooperation Agreement (collectively, the "2020 May Deferral Amount") will be deferred until June 20, 2020. The terms of the 2020 May Deferral Agreement are substantially the same as the terms of the 2020 February Deferral Agreement, including that the Company agreed to pay CIC a deferral fee equal to 6.4% per annum on the deferred cash interest and deferral fees commencing on May 19, 2020 and a deferral fee equal to 2.5% per annum on the deferred Management Fee commencing on May 15, 2020. The 2020 May Deferral Agreement became effective on June 8, 2020, being the date on which the Company obtained the requisite acceptance of the 2020 May Deferral Agreement from the TSX as required under applicable TSX rules.

On June 19, 2020, the Company agreed with CIC (the "2020 June Deferral Agreement") that the deferred cash interest and deferral fees in the aggregate amount of approximately $74.0 million (the "2020 June Deferral Amount") which were due and payable to CIC on June 19, 2020 under the 2019 Deferral Agreement and the prior deferral agreements entered into during the period between February and May 2020 will be deferred until September 14, 2020. The terms of the 2020 June Deferral Agreement are substantially the same as the terms of the 2020 February Deferral Agreement, including that the Company agreed to pay CIC a deferral fee equal to 6.4% per annum on the 2020 June Deferral Amount commencing on June 19, 2020. The 2020 June Deferral Agreement became effective on July 17, 2020, being the date on which the Company obtained the requisite acceptance of the 2020 June Deferral Agreement from the TSX as required under applicable TSX rules.

On November 19, 2020, the Company and CIC entered into an agreement (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 approximately $75.2 million which were due and payable to CIC on or before September 14, 2020, under the 2020 June Deferral Agreement; (ii) semi-annual cash interest payments in the aggregate amount of $16.0 million payable to CIC on November 19, 2020 and May 19, 2021; (iii) $4.0 million worth of payment in kind interest ("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 CTO (as defined below) 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, International Accounting Standard ("IAS") 1 requires the Company to classify the entire balance of the CIC Convertible Debenture as a current liability as at December 31, 2020.

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

- Payment of the 2020 November Deferral Amounts will be deferred until August 31, 2023.

- CIC agreed to waive its rights arising from any default or event 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.

- ***Settlement with First Concept*** – On June 7, 2020, SouthGobi Sands LLC ("SGS"), a subsidiary of the Company, entered into a settlement agreement with First Concept, pursuant to which SGS agreed to pay to First Concept a settlement sum in the amount of $8.0 million in full and final settlement of any and all claims which First Concept may have against SGS in relation to Arbitration Award (as defined below), the subject matter of the Arbitration Award including any claims for interests and costs and the fees and expenses of the Arbitration Award, and any and all enforcement proceedings and applications in any jurisdictions, and in relation to the deed of settlement with First Concept (the "Full Settlement Sum"). The Full Settlement Sum was fully satisfied by the Company in June 2020 and the outstanding payable to First Concept as of the date hereof is $nil.

- ***Cease Trade Order and Halt Trading on TSX*** – On June 19, 2020, the BCSC issued a general "failure to file" cease trade order ("CTO"), to prohibit the trading by any person of any securities of the Company in Canada. Trading in the Common Shares on the TSX was halted as a result of the CTO. The CTO was issued as a result of the Company's failure to file: (i) its annual consolidated financial statements for the year ended December 31, 2019 and the accompanying Management's Discussion and Analysis of Financial Condition and Result of Operations ("MD&A"); (ii) its Annual Information Form for the year ended December 31, 2019; and (iii) its condensed consolidated interim financial statements for the three-month period ended March 31, 2020 and accompanying MD&A, in each case prior to the filing deadline of June 15, 2020.

  On February 5, 2021, the BCSC and the Ontario Securities Commission granted a full revocation of the CTO. Trading in the Common Shares resumed on the TSX on February 8, 2021.

- ***Suspension of Trading on HKEX*** – At the request of the Company, trading in the Common Shares on the HKEX was suspended with effect as of August 17, 2020 pending the publication of the audited annual results of the Company for the year ended December 31, 2019.

  On February 9, 2021, the Company confirmed that it has fulfilled all the conditions stated in the resumption guidance to the satisfaction of the HKEX. Trading in the Common Shares resumed on the HKEX on February 10, 2021.

- ***TSX Delisting Review*** – On September 11, 2020, the TSX notified the Company that it is reviewing the eligibility for continued listing of the Common Shares on the TSX pursuant to the TSX's Remedial Review Process ("TSX Delisting Review"). On December 16, 2020, the TSX accepted the Company's request for a 60 day extension of the TSX Delisting Review process and the Company has been granted until February 16, 2021 to remedy the following delisting criteria, as well as any other delisting criteria that become applicable during the Remedial Review Process: (i) financial condition and/or operating results; (ii) adequate working capital and appropriate capital structure; and (iii) disclosure issues.

  On February 15, 2021, the Company announced that the TSX Continued Listing Committee determined that the Company satisfies the TSX's applicable requirements for continued listing.

- ***Restoration of Soumber Deposit Mining Licenses*** – On August 26, 2019, SGS received a letter (the "Notice Letter") from the Mineral Resource Authority of Mongolia ("MRAM") notifying that the Company's three mining licenses (MV-016869, MV-020436 and MV-020451) (the "Soumber Mining Licenses") for the Soumber Deposit have been terminated by the Head of Cadastre Division of MRAM effective as of August 21, 2019.

  On March 2, 2021, SGS received a notice from the Mongolian governmental authority that the Soumber Mining Licenses have been reinstated effective as of March 2, 2021.

- ***Changes in Management and Directors***

  Mr. Wen Yao: Mr. Yao resigned as a non-executive director on March 11, 2020.

  Mr. Jianmin Bao: Mr. Bao was appointed as a non-executive director on March 18, 2020.

  Mr. Shougao Wang: Mr. Wang resigned as Chief Executive Officer and an executive director on March 31, 2020.

  Mr. Dalanguerban: Mr. Dalanguerban was appointed as Chief Executive Officer and an executive director on March 31, 2020.

  Mr. Xiaoxiao Li: Mr. Li resigned as a non-executive director on November 13, 2020.

  Ms. Ka Lee Ku: Ms. Ku was appointed as a non-executive director on December 9, 2020.

  Mr. Weiguo Zhang: Mr. Zhang resigned as Chief Financial Officer on February 10, 2021.

  Mr. Alan Ho: Mr. Ho was appointed as acting Chief Financial Officer on February 10, 2021.

  Mr. Aiming Guo: Mr. Guo resigned as Chief Operating Officer on February 10, 2021.

Mr. Tao Zhang: Mr. Zhang has been re-designated from Vice President to Vice President of Sales on February 10, 2021.

Mr. Munkhbat Chuluun: Mr. Chuluun was appointed as Vice President of Public Relations on February 10, 2021.

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

  Refer to section "Liquidity and Capital Resources" for details.

OVERVIEW OF OPERATIONAL DATA AND FINANCIAL RESULTS

Summary of Annual Operational Data

	Year ended December 31, 2020	2019
Sales Volumes, Prices and Costs		
Premium semi-soft coking coal		
Coal sales *(millions of tonnes)*	**1.01**	0.67
Average realized selling price *(per tonne)*	**$ 33.22**	$ 32.96
Standard semi-soft coking coal/premium thermal coal		
Coal sales *(millions of tonnes)*	**1.43**	2.35
Average realized selling price *(per tonne)*	**$ 31.69**	$ 33.54
Standard thermal coal		
Coal sales *(millions of tonnes)*	**–**	0.09
Average realized selling price *(per tonne)*	**$ –**	$ 29.43
Washed coal		
Coal sales *(millions of tonnes)*	**0.19**	0.63
Average realized selling price *(per tonne)*	**$ 41.96**	$ 43.05
Total		
Coal sales *(millions of tonnes)*	**2.63**	3.74
Average realized selling price *(per tonne)*	**$ 33.01**	$ 34.88
Raw coal production *(millions of tonnes)*	**1.49**	5.05
Cost of sales of product sold *(per tonne)*	**$ 22.30**	$ 22.57
Direct cash costs of product sold *(per tonne)* (i)	**$ 12.73**	$ 14.84
Mine administration cash costs of product sold *(per tonne)* (i)	**$ 1.33**	$ 1.08
Total cash costs of product sold *(per tonne)* (i)	**$ 14.06**	$ 15.92
Other Operational Data		
Production waste material moved *(millions of bank cubic meters)*	**5.34**	18.22
Strip ratio *(bank cubic meters of waste material per tonne of coal produced)*	**3.59**	3.61
Lost time injury frequency rate (ii)	**0.03**	0.06

(i) A Non-International Financial Reporting Standards ("non-IFRS") financial measure, which does not have a standardized meaning according to International Financial Reporting Stardards ("IFRS"). See "Non-IFRS Financial Measures" section. Cash costs of product sold exclude idled mine asset cash costs.

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

Overview of Annual Operational Data

As at December 31, 2020, the Company had a lost time injury frequency rate of 0.03 per 200,000 man hours based on a rolling 12-month average.

The Company experienced a decrease in the average selling price of coal from $34.9 per tonne in 2019 to $33.0 per tonne in 2020 as a result of a higher portion of sales made at the mine gate instead of transporting the coal to the Company's Inner Mongolia subsidiary and selling to third party customers within China.

The product mix for 2020 consisted of approximately 39% of premium semi-soft coking coal, 54% of standard semi-soft coking coal/premium thermal coal and 7% of washed coal compared to approximately 18% of premium semi-soft coking coal, 63% of standard semi-soft coking coal/premium thermal coal, 17% of washed coal and 2% of standard thermal coal in 2019.

Sales volume decreased from 3.7 million tonnes in 2019 to 2.6 million tonnes in 2020.

The Company's production in 2020 was lower than 2019 as a result of the temporary cessation of the Company's major mining operations (including coal mining) during February to August 2020 for the purpose of mitigating the financial impact of the border closure and preserving the Company's working capital, yielding 1.5 million tonnes for 2020 as compared to 5.1 million tonnes for 2019.

The Company's unit cost of sales of product sold for 2020 was $22.3 per tonne, which is similar to $22.6 per tonne for 2019.

Summary of Annual Financial Results

$ in thousands, except per share information		**Year ended December 31, 2020**		**2019**
Revenue (i)	**$**	**85,951**	$	129,712
Cost of sales (i)		**(58,657)**		(84,400)
Gross profit excluding idled mine asset costs (ii)		**32,147**		49,310
Gross profit		**27,294**		45,312
Other operating expenses		**(4,821)**		(5,581)
Administration expenses		**(6,971)**		(9,447)
Evaluation and exploration expenses		**(226)**		(452)
Profit from operations		**15,276**		29,832
Finance costs		**(31,692)**		(28,010)
Finance income		**2,613**		4,417
Share of earnings of a joint venture		**1,313**		1,329
Current income tax expense		**(7,599)**		(3,367)
Net profit/(loss) attributable to equity holders of the Company		**(20,089)**		4,201
Basic and diluted earnings/(loss) per share	**$**	**(0.07)**	$	0.02

(i) Revenue and cost of sales related to the Company's Ovoot Tolgoi Mine within the Coal Division operating segment. Refer to note 2 of the selected information from the notes to the consolidated financial statements for further analysis regarding the Company's reportable operating segments.

(ii) A non-IFRS financial measure, idled mine asset costs represents the depreciation expense relates to the Company's idled plant and equipment.

Overview of Annual Financial Results

The Company recorded a $15.3 million profit from operations in 2020 compared to a $29.8 million profit in 2019. The financial results were impacted by (i) the closure of the Mongolia-China border beginning as of February 11, 2020 which resulted in the Company being unable to export its coal products to China during the first quarter of 2020; (ii) the export volume limitation imposed following the reopening of the Mongolia-China border on a trial basis on March 28, 2020; and (iii) the provision for commercial arbitration of $4.6 million recorded in connection with the Company entering into a settlement agreement with First Concept on June 7, 2020.

Revenue was $86.0 million in 2020 compared to $129.7 million in 2019. The Company's effective royalty rate for 2020, based on the Company's average realized selling price of $33.0 per tonne, was 12.2% or $4.0 per tonne, compared to 8.9% or $3.1 per tonne in 2019 (based on the average realized selling price of $34.9 per tonne). The increase in effective royalty rate was mainly due to the new royalty regime introduced by the Government of Mongolia in the third quarter of 2019.

Royalty regime in Mongolia

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

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

Cost of sales was $58.7 million in 2020 compared to $84.4 million in 2019. The decrease in cost of sales in 2020 was mainly due to the effect of decreased sales volume. Cost of sales consists of operating expenses, share-based compensation expense, equipment depreciation, depletion of mineral properties, royalties, coal stockpile inventory impairment/(reversal of impairment) and idled mine asset costs. Operating expenses in cost of sales reflect the total cash costs of product sold (a non-IFRS financial measure, refer to section "Non-IFRS Financial Measures" for further analysis) during the year.

$ in thousands	**Year ended December 31, 2020**	2019
Operating expenses	**$ 36,974**	$ 59,549
Share-based compensation expense	**24**	9
Depreciation and depletion	**6,243**	11,028
Royalties	**10,563**	11,639
Reversal of impairment of coal stockpile inventories	**–**	(1,823)
Cost of sales from mine operations	**53,804**	80,402
Cost of sales related to idled mine assets	**4,853**	3,998
Cost of sales	**$ 58,657**	$ 84,400

Operating expenses in cost of sales were $37.0 million in 2020 compared to $59.5 million in 2019. The overall decrease in operating expenses was primarily due to the decreased sales volume from 3.7 million tonnes in 2019 to 2.6 million tonnes in 2020.

Cost of sales in 2019 included a reversal of impairment of coal stockpile inventories of $1.8 million, to increase the carrying value of the Company's coal stockpiles to the lower of the cost and the net realizable value. The reversal of impairment of coal stockpile inventories recorded in 2019 reflected the enhancement in the wash plant capacity and its continuous operation at the expected level.

Cost of sales related to idled mine assets in 2020 included $4.9 million related to depreciation expenses for idled equipment (2019: $4.0 million).

Other operating expenses were $4.8 million in 2020 (2019: $5.6 million), which mainly comprises of the provision for commercial arbitration of $4.6 million recorded in connection with the Company entering into a settlement agreement with First Concept on June 7, 2020.

$ in thousands		**Year ended December 31, 2020**		2019
CIC management fee	**$**	**4,634**	$	485
Other taxes on foreign payments		**2,170**		3,185
Provision/(reversal of provision) for doubtful trade and other receivables		**8**		253
Provision of commercial arbitration		**(336)**		501
Impairment of prepaid expenses		**(1,586)**		(706)
Loss on disposal of properties for resale		**(69)**		(29)
Foreign exchange gain, net		**–**		1,881
Gain on disposal of property, plant and equipment, net		**–**		36
Others		**–**		(25)
Other operating expenses	**$**	**4,821**	$	5,581

Administration expenses were $7.0 million in 2020 as compared to $9.4 million in 2019, as follows:

$ in thousands		**Year ended December 31, 2020**		2019
Corporate administration	**$**	**1,268**	$	2,111
Legal and professional fees		**1,363**		3,076
Salaries and benefits		**3,518**		3,522
Share-based compensation expense		**89**		38
Depreciation		**733**		700
Administration expenses	**$**	**6,971**	$	9,447

Administration expenses were lower for 2020 compared to 2019 primarily due to decrease in legal and professional fees incurred during the year.

The Company continued to minimize evaluation and exploration expenditures in 2020 in order to preserve the Company's financial resources. Evaluation and exploration activities and expenditures in 2020 were limited to ensuring that the Company met the Mongolian Minerals Law requirements in respect of its mining licenses.

Finance costs were $31.7 million and $28.0 million in 2020 and 2019, respectively, which primarily consisted of interest expense on the $250.0 million CIC Convertible Debenture.

Summary of Quarterly Operational Data

Quarter Ended	**2020** **31-Dec**	2020 30-Sep	2020 30-Jun	2020 31-Mar	2019 31-Dec	2019 30-Sep	2019 30-Jun	2019 31-Mar
Sales Volumes, Prices and Costs								
Premium semi-soft coking coal								
Coal sales *(millions of tonnes)*	**0.38**	0.35	0.21	0.07	0.39	0.05	0.12	0.11
Average realized selling price *(per tonne)*	**$ 39.34**	$ 30.17	$ 28.69	$ 28.46	$ 29.18	$ 31.49	$ 32.72	$ 47.34
Standard semi-soft coking coal/ premium thermal coal								
Coal sales *(millions of tonnes)*	**0.50**	0.54	0.26	0.13	0.40	0.51	0.59	0.85
Average realized selling price *(per tonne)*	**$ 31.66**	$ 30.80	$ 33.12	$ 32.71	$ 31.88	$ 31.67	$ 35.67	$ 33.34
Standard thermal coal								
Coal sales *(millions of tonnes)*	**–**	–	–	–	–	–	–	0.09
Average realized selling price *(per tonne)*	**$ –**	$ –	$ –	$ –	$ –	$ –	$ –	$ 34.88
Washed coal								
Coal sales *(millions of tonnes)*	**0.07**	0.10	0.02	–	0.20	0.25	0.17	0.01
Average realized selling price *(per tonne)*	**$ 42.51**	$ 41.30	$ 43.26	$ –	$ 42.95	$ 42.37	$ 44.20	$ 45.07
Total								
Coal sales *(millions of tonnes)*	**0.95**	0.99	0.49	0.20	0.99	0.81	0.88	1.06
Average realized selling price *(per tonne)*	**$ 35.53**	$ 31.63	$ 31.66	$ 31.18	$ 33.04	$ 34.98	$ 36.80	$ 34.91
Raw coal production *(millions of tonnes)*	**0.96**	0.52	–	0.01	1.48	1.21	1.33	1.03
Cost of sales of product sold *(per tonne)*	**$ 23.36**	$ 20.23	$ 21.16	$ 30.36	$ 23.68	$ 19.16	$ 25.04	$ 22.08
Direct cash costs of product sold *(per tonne)* (i)	**$ 14.78**	$ 12.38	$ 9.90	$ 11.69	$ 13.61	$ 18.03	$ 17.18	$ 10.82
Mine administration cash costs of product sold *(per tonne)* (i)	**$ 1.07**	$ 1.15	$ 1.70	$ 2.50	$ 1.29	$ 1.09	$ 1.39	$ 1.41
Total cash costs of product sold *(per tonne)* (i)	**$ 15.85**	$ 13.53	$ 11.60	$ 14.19	$ 14.90	$ 19.12	$ 18.57	$ 12.23
Other Operational Data								
Production waste material moved *(millions of bank cubic meters)*	**3.10**	1.67	–	0.57	3.61	4.36	5.34	4.91
Strip ratio *(bank cubic meters of waste material per tonne of coal produced)*	**3.24**	3.20	–	85.08	2.44	3.61	4.01	4.76
Lost time injury frequency rate (ii)	**0.00**	0.00	0.04	0.09	0.08	0.08	0.06	0.00

(i) A non-IFRS financial measure, refer to "Non-IFRS Financial Measures" section. Cash costs of product sold exclude idled mine asset cash costs.

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

Overview of Quarterly Operational Data

The Company ended the fourth quarter of 2020 without a lost time injury.

The Company experienced an increase in the average selling price of coal from $33.0 per tonne in the fourth quarter of 2019 to $35.5 per tonne in the fourth quarter of 2020. The product mix for the fourth quarter of 2020 consisted of approximately 40% of premium semi-soft coking coal, 53% of standard semi-soft coking coal/premium thermal coal and 7% of washed coal compared to approximately 39% of premium semi-soft coking coal, 41% of standard semi-soft coking coal/premium thermal coal and 20% of washed coal in the fourth quarter of 2019.

The Company sold 1.0 million tonnes for the fourth quarter of 2020, which is the same as the fourth quarter of 2019.

The Company's production in the fourth quarter of 2020 was lower than the fourth quarter of 2019 as a result of management's decision to pace production to meet expected sales, yielding 1.0 million tonnes for the fourth quarter of 2020 as compared to 1.5 million tonnes for the fourth quarter of 2019.

The Company's unit cost of sales of product sold for the fourth quarter of 2020 was $23.4 per tonne in the fourth quarter of 2020, which is similar to $23.7 per tonne for the fourth quarter of 2019.

Summary of Quarterly Financial Results

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

$ in thousands, except per share information	**2020**				2019			
Quarter Ended	**31-Dec**	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
Financial Results								
Revenue [i]	**$ 33,879**	$ 30,960	$ 14,975	$ 6,137	$ 32,113	$ 28,309	$ 32,479	$ 36,811
Cost of sales [i]	**(22,193)**	(20,027)	(10,366)	(6,071)	(23,446)	(15,518)	(22,031)	(23,405)
Gross profit excluding idled mine asset costs	**12,610**	11,789	6,286	1,462	9,971	13,664	11,318	14,357
Gross profit including idled mine asset costs	**11,686**	10,933	4,609	66	8,667	12,791	10,448	13,406
Other operating income/(expenses)	**434**	(575)	(5,150)	470	(1,589)	(1,245)	(2,333)	(414)
Administration expenses	**(2,120)**	(1,789)	(1,291)	(1,771)	(1,386)	(2,074)	(2,878)	(3,109)
Evaluation and exploration expenses	**(55)**	(63)	(52)	(56)	(382)	(22)	(23)	(25)
Profit/(loss) from operations	**9,945**	8,506	(1,884)	(1,291)	5,310	9,450	5,214	9,858
Finance costs	**(7,442)**	(9,885)	(7,258)	(7,135)	(7,095)	(7,184)	(7,001)	(6,739)
Finance income	**13**	2,583	2	43	36	68	4,305	17
Share of earnings/(loss) of a joint venture	**431**	660	268	(46)	225	277	375	452
Current income tax expense	**(5,174)**	(793)	(900)	(732)	(659)	(468)	(801)	(1,439)
Net profit/(loss)	**(2,227)**	1,071	(9,772)	(9,161)	(2,183)	2,143	2,092	2,149
Basic and diluted earnings/(loss) per share	**$ (0.01)**	$ –	$ (0.04)	$ (0.03)	$ (0.01)	$ 0.01	$ 0.01	$ 0.01

[i] Revenue and cost of sales relate to the Company's Ovoot Tolgoi Mine within the Mongolian Coal Division operating segment. Refer to note 2 of the selected information from the notes to the consolidated financial statements for further analysis regarding the Company's reportable operating segments.

Overview of Quarterly Financial Results

The Company recorded a $9.9 million profit from operations in the fourth quarter of 2020 compared to a $5.3 million profit from operations in the fourth quarter of 2019. The improvement was principally attributable to the higher average realized selling price achieved for the fourth quarter of 2020.

Revenue was $33.9 million in the fourth quarter of 2020 compared to $32.1 million in the fourth quarter of 2019. The Company's effective royalty rate for the fourth quarter of 2020, based on the Company's average realized selling price of $35.5 per tonne, was 12.3% or $4.4 per tonne, compared to 14.7% or $4.8 per tonne in the fourth quarter of 2019 (based on the average realized selling price of $33.0 per tonne).

Cost of sales was $22.2 million in the fourth quarter of 2020 compared to $23.4 million in the fourth quarter of 2019.

Cost of sales consists of operating expenses, share-based compensation expense, equipment depreciation, depletion of mineral properties, royalties and idled mine asset costs. Operating expenses in cost of sales reflect the total cash costs of product sold (a non-IFRS financial measure, refer to section "Non-IFRS Financial Measures" for further analysis) during the quarter.

	Three months ended December 31,	
$ in thousands	**2020**	2019
Operating expenses	**$ 15,062**	$ 14,754
Share-based compensation expense	**1**	2
Depreciation and depletion	**2,080**	2,649
Royalties	**4,126**	4,737
Cost of sales from mine operations	**21,269**	22,142
Cost of sales related to idled mine assets	**924**	1,304
Cost of sales	**$ 22,193**	$ 23,446

Operating expenses in cost of sales were $15.1 million in the fourth quarter of 2020 compared to $14.8 million in the fourth quarter of 2019, as the sales volume in both quarters were at similar levels.

Cost of sales related to idled mine assets in the fourth quarter of 2020 included $0.9 million related to depreciation expenses for idled equipment (fourth quarter of 2019: $1.3 million).

Other operating income was $0.4 million in the fourth quarter of 2020 (fourth quarter of 2019: other operating expenses of $1.6 million). The increase was mainly due to the foreign exchange gain during the fourth quarter of 2020.

$ in thousands	Three months ended December 31, 2020		2019
CIC management fee	$	(771)	$	(853)
Reversal of provision/(provision) for doubtful trade and other receivables		136		(60)
Other taxes on foreign payments		–		(858)
Foreign exchange gain, net		947		228
Gain on disposal of property, plant and equipment, net		130		–
Provision for commercial arbitration		–		(79)
Others		(8)		33
Other operating income/(expenses)	$	434	$	(1,589)

Administration expenses were $2.1 million in the fourth quarter of 2020 as compared to $1.4 million in the fourth quarter of 2019. The salaries and benefits expenses for the fourth quarter of 2019 included a reversal in relations to the staff bonus over-provision.

$ in thousands		Three months ended December 31, 2020		2019
Corporate administration	$	427	$	554
Legal and professional fees		418		408
Salaries and benefits		1,070		208
Share-based compensation expense		5		9
Depreciation		200		207
Administration expenses	$	2,120	$	1,386

The Company continued to minimize evaluation and exploration expenditures in the fourth quarter of 2020 in order to preserve the Company's financial resources. Evaluation and exploration activities and expenditures in the fourth quarter of 2020 were limited to ensuring that the Company met the Mongolian Minerals Law requirements in respect of its mining licenses.

Finance costs were $7.4 million in the fourth quarter of 2020 compared to $7.1 million in the fourth quarter of 2019, which primarily consisted of interest expense on the CIC Convertible Debenture.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Capital Management

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

Bank Loan

On May 15, 2018, SGS obtained a bank loan (the "2018 Bank Loan") in the principal amount of $2.8 million from a Mongolian bank (the "Bank") with the key commercial terms as follows:

- Maturity date set at 24 months from drawdown (subsequently extended for 12 months on May 18, 2020);
- Interest rate of 15% per annum and interest is payable monthly; and
- Certain items of property, plant and equipment were pledged as security for the 2018 Bank Loan. As at December 31, 2020, the net carrying amount of the pledged items of property, plant and equipment was $0.1 million (December 31, 2019: $0.4 million).

As at December 31, 2020, the outstanding principal balance of the 2018 Bank Loan was $2.8 million (December 31, 2019: $2.8 million) and the accrued interest owed by the Company was negligible (December 31, 2019: negligible).

In February 2021, $2.8 million was repaid to the Bank by the Company in full settlement of the outstanding principal balance of the 2018 Bank Loan and the accrued interest thereon.

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

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

As at December 31, 2020, the amount of reimbursable costs and fees claimed by Turquoise Hill (the "TRQ Reimbursable Amount") amounted to $8.1 million (such amount is included in the trade and other payables). No agreement on repayment had been reached between the Company and Turquoise Hill as at December 31, 2020.

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

Going concern considerations

The Company's consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue operating until at least December 31, 2021 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. However, 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 $20.1 million for the year ended December 31, 2020 (compared to a profit attributable to equity holders of the Company for the year ended December 31, 2019), and as of that date, had a deficiency in assets of $76.2 million as compared to a deficiency in assets of $49.2 million as at December 31, 2019 while the working capital deficiency (excess current liabilities over current assets) reached $217.6 million as compared to a working capital deficiency of $114.7 million as at December 31, 2019.

Included in the working capital deficiency as at December 31, 2020 are significant obligations, which include the interest amounting to $91.1 million in relation to the CIC Convertible Debenture and trade and other payables of $78.7 million, which includes the unpaid taxes of $36.1 million that are repayable on demand to the Mongolian Tax Authority ("MTA").

The Company failed to make payment of convertible debenture interest to CIC in according to the terms of convertible debenture agreement. This constituted an event of default of the relevant convertible debenture agreements as at December 31, 2020 and the 2020 November Deferral Agreement became effective on January 21, 2021. As a result, the entire balance of the CIC Convertible Debenture was classified as current liability as at December 31, 2020.

The Company may not be able to settle all trade and other payables on a timely basis, while continuing postponement in settling certain trade payables owed to suppliers and creditors may impact the mining operations of the Company and result in potential lawsuits and/or bankruptcy proceedings being filed against the Company. Except as disclosed elsewhere in this press release, no such lawsuits or proceedings are pending as at March 30, 2021. However, there can be no assurance that no such lawsuits or proceedings will be filed by the Company's creditors in the future and the Company's suppliers and contractors will continue to supply and provide services to the Company uninterrupted.

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

Management of the Company has prepared a cash flow projection covering a period of 12 months from December 31, 2020. The cash flow projection has taken into account the anticipated cash flows to be generated from the Company's business during the period under projection including cost saving measures. In particular, the Company has taken into account the following measures for improvement of the Company's liquidity and financial position, which include: (i) entering into the 2020 November Deferral Agreement with CIC for a deferral of the 2020 November Deferral Amounts until August 31, 2023; (ii) agreeing to deferral arrangements and improved payment terms with certain vendors; (iii) reducing the outstanding tax payable by making monthly payments to MTA beginning as of June 2020; and (iv) reducing the inventory of low quality coal by wet washing and coal blending. After considering the above measures, and given the re-opening of the Mongolia-China border since March 28, 2020, the Directors 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, 2020 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, 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, 2020 and December 31, 2019, the Company was not subject to any externally imposed capital requirements.

Impact of the COVID-19 Pandemic

The Company was informed that effective as of February 11, 2020, the Mongolian State Emergency Commission closed Mongolia's southern border with China in order to prevent the spread of COVID-19. Accordingly, the Company suspended coal exports to China beginning as of February 11, 2020 as a result of the border closure.

On March 28, 2020, the Mongolia-China border was re-opened for coal export on a trial basis, with a limit imposed on the total volume of coal that was permitted to be exported during this trial period. The Company has experienced a continuous improvement in the volume of coal exported to China since March 28, 2020.

The border closure had an adverse impact on the Company's sales and cash flows in the first and second quarter of 2020. In order to mitigate the financial impact of the border closure and preserve its working capital, the Company temporarily ceased major mining operations (including coal mining), reduced production to only coal-blending activities and placed approximately half of its workforce on furlough in February 2020. On August 2, 2020, the Company resumed its mining operations. Although the mining operations and the export of coal from Mongolia to China continues, there can be no guarantee that the Company will be able to continue exporting coal to China, or the border crossings would not be the subject of additional closure as a result of COVID-19 in the future. The Company will continue to closely monitor the development of the COVID-19 pandemic and the impact it has on coal exports to China and will reach promptly to preserve the working capital of the Company.

CIC Convertible Debenture

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

On March 29, 2010, the Company exercised its right to call for the conversion of up to $250.0 million of the CIC Convertible Debenture into approximately 21.5 million shares at a conversion price of $11.64 (CAD$11.88). As at December 31, 2020 CIC owned approximately 23.8% of the issued and outstanding Common Shares of the Company.

On February 19, 2020, the Company and CIC entered into the 2020 February Deferral Agreement pursuant to which CIC agreed to grant the Company a deferral of: (i) the 2020 February Deferral Amounts; and (ii) approximately $0.7 million of the Management Fee which was due and payable on February 14, 2020 to CIC under the Amended and Restated Cooperation Agreement. The 2020 February Deferral Agreement became effective on March 10, 2020, being the date on which the Company obtained the requisite acceptance of the 2020 February Deferral Agreement from the TSX as required under applicable TSX rules.

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

- Payment of the 2020 February Deferral Amounts will be deferred until June 20, 2020, while the Management Fee will be deferred until they are repaid by the Company.

- As consideration for the deferral of these amounts, the Company agreed to pay CIC: (i) a deferral fee equal to 6.4% per annum on the 2020 February Deferral Amounts, commencing on the date on which each such 2020 February Deferral Amounts would otherwise have been due and payable under the 2019 Deferral Agreement; and (ii) a deferral fee equal to 2.5% per annum on the Management Fee, commencing on the date on which the 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.

- As the Company anticipated prior to agreeing to the 2020 February Deferral Agreement that a deferral was likely required in respect of the monthly payments due and payable in the period between April 2020 and June 2020 under the 2019 Deferral Agreement and Amended and Restated Cooperation Agreement, the Company and CIC have agreed to discuss in good faith a deferral of these payments on a monthly basis as they become due. There can be no assurance, however, that a favorable outcome will be reached either at all or on favorable terms.

- The Company agreed to comply with all of its obligations under the 2019 Deferral Agreement and the Amended and Restated Cooperation Agreement, as amended by the 2020 February Deferral Agreement.

- The Company and CIC agreed that nothing in the 2020 February Deferral Agreement prejudices CIC's rights to pursue any of its remedies at any time pursuant to the 2019 Deferral Agreement and Amended and Restated Cooperation Agreement, respectively.

On March 10, 2020, the Company agreed with CIC that the 2020 March Deferral Amount which was due and payable to CIC on March 19, 2020 under the 2019 Deferral Agreement will be deferred until June 20, 2020. The terms of the 2020 March Deferral Agreement are substantially the same as the terms of the 2020 February Deferral Agreement, including that the Company agreed to pay CIC a deferral fee equal to 6.4% per annum on the 2020 March Deferral Amount, commencing on March 19, 2020. The 2020 March Deferral Agreement became effective on March 25, 2020, being the date on which the Company obtained the requisite acceptance of the 2020 March Deferral Agreement from the TSX as required under applicable TSX rules.

On April 10, 2020, the Company agreed with CIC that the 2020 April Deferral Amount which was due and payable to CIC on April 19, 2020 under the 2019 Deferral Agreement will be deferred until June 20, 2020. The terms of the 2020 April Deferral Agreement are substantially the same as the terms of the 2020 February Deferral Agreement, including that the Company agreed to pay CIC a deferral fee equal to 6.4% per annum on the 2020 April Deferral Amount, commencing on April 19, 2020. The 2020 April Deferral Agreement became effective on April 29, 2020, being the date on which the Company obtained the requisite acceptance of the 2020 April Deferral Agreement from the TSX as required under applicable TSX rules.

On May 8, 2020, the Company agreed with CIC that the 2020 May Deferral Amount which was due and payable to CIC on May 19, 2020 and May 15, 2020 under the 2019 Deferral Agreement and the Amended and Restated Cooperation Agreement, respectively, will be deferred until June 20, 2020. The terms of the 2020 May Deferral Agreement are substantially the same as the terms of the 2020 February Deferral Agreement, including that the Company agreed to pay CIC a deferral fee equal to 6.4% per annum on the deferred cash interest and deferral fees commencing on May 19, 2020 and a deferral fee equal to 2.5% per annum on the deferred Management Fee commencing on May 15, 2020. The 2020 May Deferral Agreement became effective on June 8, 2020, being the date on which the Company obtained the requisite acceptance of the 2020 May Deferral Agreement from the TSX as required under applicable TSX rules.

On June 19, 2020, the Company agreed with CIC that the 2020 June Deferral Amount which was due and payable to CIC on June 19, 2020 under the 2019 Deferral Agreement and the prior deferral agreements entered into during the period between February and May 2020 will be deferred until September 14, 2020. The terms of the 2020 June Deferral Agreement are substantially the same as the terms of the 2020 February Deferral Agreement, including that the Company agreed to pay CIC a deferral fee equal to 6.4% per annum on the 2020 June Deferral Amount commencing on June 19, 2020. The 2020 June Deferral Agreement became effective on July 17, 2020, being the date on which the Company obtained the requisite acceptance of the 2020 June Deferral Agreement from the TSX as required under applicable TSX rules.

On November 19, 2020, the Company and CIC entered into the 2020 November Deferral Agreement pursuant to which CIC agreed to grant the Company a deferral of the 2020 November Deferral Amounts.

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

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

- Payment of the 2020 November Deferral Amounts will be deferred until August 31, 2023.

- CIC agreed to waive its rights arising from any default or event of default under the CIC Convertible Debenture as a result of trading in the Common Shares being halted on the TSX beginning as of June 19, 2020 and suspended on the HKEX beginning as of August 17, 2020, in each case for a period of more than five trading days.

- 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.

Commercial Arbitration in Hong Kong

On June 24, 2015, First Concept served a notice of arbitration (the "Notice") on SGS in respect of a coal supply agreement dated May 19, 2014 as amended on June 27, 2014 (the "Coal Supply Agreement") for a total consideration of $11.5 million.

On January 10, 2018, the Company received a confidential partial ruling (final except as to costs) with respect to the commercial arbitration (the "Arbitration Award"). Pursuant to the Arbitration Award, SGS was ordered to repay the sum of $11.5 million (which SGS had received as a prepayment for the purchase of coal) to First Concept, together with accrued interest at a simple interest rate of 6% per annum from the date which the prepayment was made until the date of the Arbitration Award, and then at a simple interest rate of 8% per annum until full payment. The Arbitration Award is final, except as to costs which were reserved for a future award.

On November 14, 2018, the Company executed the Settlement Deed with First Concept in respect of the Arbitration Award. The Settlement Deed provides for the full and final satisfaction of the Arbitration Award as well as the settlement of the issue of costs relating to the Arbitration and any other disputes arising out of the Coal Supply Agreement. Pursuant to the Settlement Deed, which provides for the full and final satisfaction of the Arbitration Award as well as the settlement of the issue of costs relating to the Arbitration and any other disputes arising out of the Coal Supply Agreement, SGS agreed to pay to First Concept the sum of $13.9 million, together with simple interest thereon at the rate of 6% per annum from November 1, 2018 until full payment, in 12 monthly instalments commencing in November 2018. Provided that SGS complies with the terms of the Settlement Deed, First Concept agreed to waive its costs in connection with the Arbitration and Arbitration Award and interest for the period from January 4, 2018 to October 31, 2018.

On October 16, 2019, SGS received a notice from First Concept claiming that the Company is default under the Settlement Deed and demanding payment of the full amount of the Outstanding Settlement Deed Payments due under the Settlement Deed, otherwise First Concept intends to commence legal action against SGS pursuant to the Settlement Deed.

On February 7, 2020, SGS was informed by its Mongolian banks that they received a request from the Court Decision Implementing Agency of Mongolia (the "CDIA") to freeze the respective bank accounts of SGS in Mongolia in relation to the enforcement of the Arbitration Award. Approximately $0.8 million in cash was frozen by the banks as at February 7, 2020 and such amount was subsequently transferred to the CDIA on March 6, 2020.

On June 7, 2020, SGS entered into a settlement agreement with First Concept, pursuant to which SGS agreed to pay to First Concept the Full Settlement Sum of $8.0 million in full. The Full Settlement Sum was fully satisfied by the Company in June 2020 and the outstanding payable to First Concept as of the date hereof is $nil.

Ovoot Tolgoi Mine Impairment Analysis

The Company determined that an indicator of impairment existed for its Ovoot Tolgoi Mine cash generating unit as at December 31, 2020. The impairment indicator was the fact that the Company suffered loss for the year.

Therefore, the Company conducted an impairment test whereby the carrying value of the Company's Ovoot Tolgoi Mine cash generating unit was compared to the recoverable amount (being the "fair value less costs of disposal") using a discounted future cash flow valuation model. The Company's cash flow valuation model takes into consideration the latest available information to the Company, including but not limited to, sales prices, sales volumes, washing production, operating costs and life of mine coal production estimates as at December 31, 2020. The carrying value of the Company's Ovoot Tolgoi Mine cash generating unit was $129.4 million.

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 16% 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 $12.1/(12.2) million;

- For each 1% increase/(decrease) in the post-tax discount rate, the calculated fair value of the cash generating unit (decreases)/increases by approximately $(14.0)/14.8 million;

- For each 1% increase/(decrease) in the cash mining cost estimates, the calculated fair value of the cash generating unit (decreases)/increases by approximately $(7.0)/6.9 million; and

- For each 1% increase/(decrease) in Mongolian inflation rate, the calculated fair value of the cash generating unit (decreases)/increases by approximately $(0.9)/0.8 million.

The impairment analysis did not result in the identification of an impairment loss or an impairment reversal and no charge or reversal was required as at December 31, 2020. A decline of 15% (2019: 19%) in the long-term price estimates, an increase of more than 20% (2019: 35%) in the post-tax discount rate, an increase of 25% (2019: 29%) in the cash mining cost estimates or an increase of 264% (2019: 73%) 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.

REGULATORY ISSUES AND CONTINGENCIES

Class Action Lawsuit

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

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

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

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

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

Since December 2018, counsels for the parties have proceeded with the action as follows: (1) two case conferences before the motions judge; (2) production of certain documents by the Company to the plaintiffs; (3) review of those documents by plaintiffs' counsel from May 2020 to November 2020; and (4) setting down examinations for discovery for February and March 2021. The Company is urging an early trial.

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, 2020 and December 31, 2019 is not required.

Toll Wash Plant Agreement with Ejin Jinda

In 2011, the Company entered into an agreement with Ejin Jinda, a subsidiary of China Mongolia Coal Co. Ltd., to toll-wash coal from the Ovoot Tolgoi Mine. The agreement had a duration of five years from commencement of the contract and provided for an annual wet 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 wet washing facility to commence on October 1, 2011, the additional fees payable by the Company under the wet washing contract would have been $18.5 million. At each reporting date, the Company assesses the agreement with Ejin Jinda and has determined it is not probable that this $18.5 million will be required to be paid. Accordingly, the Company has determined a provision for this matter at December 31, 2020 and December 31, 2019 is not required.

Special Needs Territory in Umnugobi

On February 13, 2015, the entire Soumber mining license and a portion of SGS' exploration license 9443X (9443X was converted to mining license MV-020436 in January 2016) (the "License Areas") were included into a special protected area (to be further referred as Special Needs Territory, the "SNT") newly set up by the Umnugobi Aimag's Civil Representatives Khural (the "CRKh") to establish a strict regime on the protection of natural environment and prohibit mining activities in the territory of the SNT.

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

The Company will continue to liaise and work with CRKh to have the License Areas excluded from the SNT, however, the Company has not yet received any indication on the timing of the next session of the CRKh.

Restoration of Soumber Deposit Mining Licenses

On August 26, 2019, SGS received the Notice Letter from MRAM notifying that the Company's three mining licenses (MV-016869, MV-020436 and MV-020451) for the Soumber Deposit have been terminated by the Head of Cadastre Division of MRAM effective as of August 21, 2019.

On March 2, 2021, SGS received a notice from the Mongolian governmental authority that the Soumber Mining Licenses have been reinstated effective as of March 2, 2021.

Mongolian royalties

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

Restrictions on Importing F-Grade Coal into China

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.

TRANSPORTATION INFRASTRUCTURE

On August 2, 2011, the State Property Committee of Mongolia awarded the tender to construct a paved highway from the Ovoot Tolgoi Mine to the Shivee Khuren Border Crossing (the "Paved Highway") to consortium partners NTB LLC and SGS (together referred to as "RDCC LLC") with an exclusive right of ownership of the Paved Highway for 30 years. The Company has an indirect 40% interest in RDCC LLC through its Mongolian subsidiary SGS. The toll rate is MNT 1,500 per tonne.

The Paved Highway has a carrying capacity in excess of 20 million tonnes of coal per year.

For the three months ended and the year ended December 31, 2020, RDCC LLC recognized toll fee revenue of $1.9 million (2019: $1.4 million) and $5.7 million (2019: $6.8 million), respectively.

PLEDGE OF ASSETS

As at December 31, 2020, certain items of the Company's property, plant and equipment of $0.1 million (December 31, 2019: $0.4 million) were pledged as security for a bank loan granted to the Company.

PURCHASE, SALE OR REDEMPTION 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 year ended December 31, 2020.

COMPLIANCE WITH CORPORATE GOVERNANCE

The Company has, throughout the year ended December 31, 2020, applied the principles and complied with the requirements of its corporate governance practices as defined by the Board 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 of the Corporate Governance Code, the Chairman of the Board should be responsible for the overall management of the Board. The Company has not had a Chairman since November 2017. The Board has appointed an Independent Lead Director, who is fulfilling the duties of the Chairman; and

- pursuant to code provision E.1.2 of the Corporate Governance Code, the Chairman of the Board of Directors should attend the annual general meeting ("AGM"). Mr. Mao Sun, an INED and the Independent Lead Director, attended and acted as Chairman of the Company's annual general and special meeting held on January 21, 2021 (the "2020 AGM") to ensure effective communication with shareholders of the Company ("Shareholders").

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 presence of the executive director. During 2020, two (2) meetings between the Independent Lead Director, who is fulfilling the duties of the Chairman, and the non-executive directors were held. The opportunity for such communication channel is offered at the end of each Board meeting.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted policies regarding Directors' securities transactions in its Corporate Disclosure, Confidentiality and Securities Trading Policy that have terms that are no less exacting than those set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Hong Kong Listing Rules.

In response to a specific enquiry made by the Company on each of the directors, all directors confirmed that they had complied with the required standards as set out in the Model Code and the Company's Corporate Disclosure, Confidentiality and Securities Trading Policy throughout the year ended December 31, 2020.

OUTLOOK

The Company anticipates that 2021 will be a year of both opportunities and difficulties for SouthGobi. The COVID-19 pandemic has caused unprecedented challenges around the world and adversely impacted the global economy. In Mongolia, the Mongolian State Emergency Commission closed Mongolia's southern border with China between February 11, 2020 and March 27, 2020 in order to prevent the spread of COVID-19, which forced the Company to suspend all coal transport into China during this period. In order to mitigate the financial impact of the border closure and preserve its working capital, the Company temporarily ceased major mining operations (including coal mining), reduced production to only coal-blending activities and placed approximately half of its workforce on furlough in February 2020. Even though the Mongolia-China border has re-opened and the Company's mining operations resumed on August 2, 2020, the Company anticipates that it will continue to be negatively impacted by the COVID-19 pandemic for the foreseeable future, which will have an adverse effect on the Company's sales, production, logistics and financials. The Company has adopted and will continue to implement strict COVID-19 precautionary measures at the mine site as well as in all of its offices in order to maintain operations in the normal course, while also complying with the advice or orders of local public health authorities. In order to further enhance its operational efficiencies, the Company has recently adopted a new flat management structure and has undertaken various improvements to its sales, logistics and production processes. The Company's Management is confident that these changes will allow the Company to operate successfully during these difficult times and drive the Company forward.

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

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

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

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

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

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

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

In the long term, the Company will continue to focus on creating and maximizing shareholders value by leveraging its key competitive strengths, including:

- **Strategic location** – The Ovoot Tolgoi Mine is located approximately 40km from China, which represents the Company's main coal market. The Company has an infrastructure advantage, being approximately 50km from a major Chinese coal distribution terminal with rail connections to key coal markets in China.

- **A large reserves base** – The Ovoot Tolgoi Deposit has mineral reserves of more than 100 million tonnes. The Company also has several development options in its Zag Suuj coal deposit and Soumber coal deposit.

- **Bridge between Mongolia and China** – The Company is well positioned to capture the resulting business opportunities between China and Mongolia under the Belt and Road Initiative. The Company will seek potential strategic support from its two largest shareholders, which are both state-owned-enterprises in China, and its strong operational record for the past decade in Mongolia, being one of the largest enterprises and taxpayers in Mongolia.

NON-IFRS FINANCIAL MEASURES

Cash Costs

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(Expressed in thousands of USD, except for share and per share amounts)

	Year ended December 31, 2020	2019
Revenue	**$ 85,951**	$ 129,712
Cost of sales	**(58,657)**	(84,400)
Gross profit	**27,294**	45,312
Other operating expenses	**(4,821)**	(5,581)
Administration expenses	**(6,971)**	(9,447)
Evaluation and exploration expenses	**(226)**	(452)
Profit from operations	**15,276**	29,832
Finance costs	**(31,692)**	(28,010)
Finance income	**2,613**	4,417
Share of earnings of a joint venture	**1,313**	1,329
Profit/(loss) before tax	**(12,490)**	7,568
Current income tax expense	**(7,599)**	(3,367)
Net profit/(loss) attributable to equity holders of the Company	**(20,089)**	4,201
Other comprehensive loss to be reclassified to profit or loss in subsequent periods		
Exchange difference on translation of foreign operation	**(7,043)**	(5,129)
Net comprehensive loss attributable to equity holders of the Company	**$ (27,132)**	$ (928)
Basic and diluted earnings/(loss) per share	**$ (0.07)**	$ 0.02

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in thousands of USD)

	As at December 31, **2020**	2019
Assets		
Current assets		
Cash and cash equivalents	**$ 20,121**	$ 7,164
Restricted cash	**918**	862
Trade and other receivables	**1,305**	1,778
Inventories	**42,383**	52,237
Prepaid expenses	**1,666**	2,312
Total current assets	**66,393**	64,353
Non-current assets		
Property, plant and equipment	**131,425**	137,221
Inventories	**680**	9,332
Investment in a joint venture	**16,134**	17,521
Total non-current assets	**148,239**	164,074
Total assets	**$ 214,632**	$ 228,427
Equity and liabilities		
Current liabilities		
Trade and other payables	**$ 78,730**	$ 87,013
Provision for commercial arbitration	**–**	5,593
Deferred revenue	**20,831**	16,057
Interest-bearing borrowing	**2,826**	2,835
Lease liabilities	**202**	460
Current portion of convertible debenture	**181,411**	67,106
Total current liabilities	**284,000**	179,064
Non-current liabilities		
Lease liabilities	**424**	108
Convertible debenture	**–**	89,868
Decommissioning liability	**6,445**	8,605
Total non-current liabilities	**6,869**	98,581
Total liabilities	**290,869**	277,645

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(Expressed in thousands of USD)

	As at December 31, 2020	2019
Equity		
Common shares	**1,098,634**	1,098,634
Share option reserve	**52,702**	52,589
Capital reserve	**396**	396
Exchange reserve	**(30,271)**	(23,228)
Accumulated deficit	**(1,197,698)**	(1,177,609)
Total deficiency in assets	**(76,237)**	(49,218)
Total equity and liabilities	**$ 214,632**	$ 228,427
Net current liabilities	**$ (217,607)**	$ (114,711)
Total assets less current liabilities	**$ (69,368)**	$ 49,363

SELECTED INFORMATION FROM THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Additional information required by the HKEX and not disclosed elsewhere in this press release is as follows. All amounts are expressed in thousands of USD and shares and options in thousands, unless otherwise indicated.

1. BASIS OF PREPARATION

1.1 Corporate information and liquidity

The Company's consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue operating until at least December 31, 2021 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. However, 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 $20,089 for the year ended December 31, 2020 (compared to a profit attributable to equity holders of the Company for the year ended December 31, 2019), and as of that date, had a deficiency in assets of $76,237 compared to a deficiency in assets of $49,218 as at December 31, 2019 while the working capital deficiency (excess current liabilities over current assets) reached $217,607 as at December 31, 2020 compared to a working capital deficiency of $114,711 as at December 31, 2019.

Included in the working capital deficiency as at December 31, 2020 are significant obligations, which include the interest amounting to $91,059 in relation to the convertible debenture with CIC and trade and other payables of $78,730, which includes the unpaid taxes of $36,107 that are repayable on demand to MTA.

The Company failed to make payment of convertible debenture interest to CIC in according to the terms of convertible debenture agreement. This constituted an event of default of the relevant convertible debenture agreements as at December 31, 2020 and the 2020 November Deferral Agreement became effective on January 21, 2021. As a result, the entire balance of the CIC Convertible Debenture was classified as current liability as at December 31, 2020.

The Company may not be able to settle all trade and other payables on a timely basis, and as a result any continuing postponement in settling certain trade and other payables owed to suppliers and creditors may impact the mining operations of the Company and may result in potential lawsuits and/or bankruptcy proceedings being filed against the Company. Except as disclosed elsewhere in this press release, no such lawsuits or proceedings were pending as at March 30, 2021.

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

Management of the Company has prepared a cash flow projection covering a period of 12 months from December 31, 2020. The cash flow projection has taken into account the anticipated cash flow to be generated from the Company's business during the period under projection including cost saving measures. In particular, the Company has taken into account the following measures for improvement of the Company's liquidity and financial position, which include: (i) entering into the 2020 November Deferral Agreement with CIC for a deferral of the 2020 November Deferral Amounts until August 31, 2023; (ii) agreeing to deferral arrangements and improved payment terms with certain vendors; (iii) reducing the outstanding tax payable by making monthly payments to MTA beginning as of June 2020; and (iv) reducing the inventory of low quality coal by wet washing and coal blending. After considering the above and given the re-opening of the Mongolia-China border since March 28, 2020, the Directors 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, 2020 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, 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, 2020 and December 31, 2019, the Company was not subject to any externally imposed capital requirements.

1.2 Statement of compliance

The consolidated financial statements, including comparatives, have been prepared in accordance with the IFRS issued by the IASB.

The consolidated financial statements of the Company for the year ended December 31, 2020 were approved and authorized for issue by the Board of the Company on March 30, 2021.

1.3 Basis of presentation

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.

1.4 Adoption of new and revised standards and interpretations

The following new IFRS standards and interpretations were adopted by the Company on January 1, 2020.

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform
Amendments to IFRS 3	Revised Conceptual Framework for Financial Reporting

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, 2020. The Company has not early applied any new or amended IFRSs that is not yet effective for the year ended December 31, 2020.

2. 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, 2020 and 2019.

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, 2020 and 2019.

During the years ended December 31, 2020 and 2019, the Coal Division had 14 and 13 active customers, respectively. 4 customers with respective revenues contributed over 10% of the total revenue during the year ended December 31, 2020 and 2019, with the largest customer accounting for 26% of revenues (2019: 42%), the second largest customer accounting for 18% of revenues (2019: 36%), the third largest customer accounting for 15% of revenues (2019: 9%) and the fourth largest customer accounting for 12% of revenues (2019: 6%).

3. 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.

4. EXPENSES BY NATURE

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

	Year ended December 31, 2020	2019
Depreciation	**$ 8,736**	$ 15,726
Auditors' remuneration	**637**	764
Employee benefit expense (including directors' remuneration)		
Wages and salaries	**$ 7,639**	$ 9,790
Equity-settled share option expense	**113**	47
Pension scheme contributions	**531**	1,302
	$ 8,283	$ 11,139
Lease payments under operating leases	**$ 101**	$ 128
Foreign exchange gain, net	**(1,586)**	(706)
Reversal of impairment of coal stockpile inventories	**–**	(1,823)
Royalties	**10,563**	11,639
CIC management fee	**2,170**	3,185
Other taxes on foreign payments	**–**	1,881
Provision of commercial arbitration	**4,634**	485
Provision/(reversal of provision) for doubtful trade and other receivables	**(336)**	501
Impairment of prepaid expenses	**8**	253
Loss on disposal of properties for resale	**–**	36
Gain on disposal of property, plant and equipment, net	**(69)**	(29)
Mine operating costs and others	**37,534**	56,701
Total operating expenses	**$ 70,675**	$ 99,880

5. COST OF SALES

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

	Year ended December 31, 2020	2019
Operating expenses	**$ 36,974**	$ 59,549
Share-based compensation expense	**24**	9
Depreciation and depletion	**6,243**	11,028
Royalties	**10,563**	11,639
Reversal of impairment of coal stockpile inventories	**–**	(1,823)
Cost of sales from mine operations	**53,804**	80,402
Cost of sales related to idled mine assets [(i)]	**4,853**	3,998
Cost of sales	**$ 58,657**	$ 84,400

[(i)] Cost of sales related to idled mine assets for the year ended December 31, 2020 includes $4,853 of depreciation expense (2019: includes $3,998 of depreciation expense). The depreciation expense relates to the Company's idled plant and equipment.

Cost of inventories recognized as expense in cost of sales for the year ended December 31, 2020 totaled $38,499 (2019: $67,892).

6. OTHER OPERATING EXPENSES

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

	Year ended December 31, 2020	2019
CIC management fee	**$ 2,170**	$ 3,185
Other taxes on foreign payments	**–**	1,881
Provision/(reversal of provision) for doubtful trade and other receivables	**(336)**	501
Provision of commercial arbitration	**4,634**	485
Impairment of prepaid expenses	**8**	253
Loss on disposal of properties for resale	**–**	36
Foreign exchange gain, net	**(1,586)**	(706)
Gain on disposal of property, plant and equipment, net	**(69)**	(29)
Others	**–**	(25)
Other operating expenses	**$ 4,821**	$ 5,581

7. FINANCE COSTS AND INCOME

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

	Year ended December 31, **2020**	2019
Interest expense on convertible debenture	**$ 27,726**	$ 23,751
Interest expense on borrowing	**413**	742
Value added tax on interest from intercompany loan	**2,900**	2,986
Interest elements on leased assets	**69**	129
Accretion of decommissioning liability	**584**	402
Finance costs	**$ 31,692**	$ 28,010

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

	Year ended December 31, **2020**	2019
Unrealized gain on embedded derivatives in convertible debenture	**$ 44**	$ 69
Interest income	**24**	55
Modification of convertible debenture	**2,545**	4,293
Finance income	**$ 2,613**	$ 4,417

8. TAXES

8.1 Income tax recognized in profit or loss

The Canadian statutory tax rate was 27% (2019: 27%). A reconciliation between the Company's tax expense and the product of the Company's profit/(loss) before tax multiplied by the Company's domestic tax rate is as follows:

	Year ended December 31, **2020**	2019
Profit/(loss) before tax	**$ (12,490)**	$ 7,568
Statutory tax rate	**27%**	27%
Income tax expense/(recovery) based on combined Canadian federal and provincial statutory rates	**(3,372)**	2,044
Lower effective tax rate in foreign jurisdictions	**377**	186
Over-provision in prior year	**–**	(258)
Tax effect of tax losses and temporary differences not recognized	**10,352**	4,271
Withholding tax on intercompany interest	**2,881**	2,881
Profit or loss attributable to a joint venture	**328**	332
Income not subject to tax	**(6,281)**	(6,213)
Non-deductible expenses	**3,314**	124
Income tax expenses	**$ 7,599**	$ 3,367

8.2 Unrecognized deductible temporary differences and unused tax losses

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

	As at December 31, **2020**	2019
Non-capital losses	**$ 169,173**	$ 163,632
Capital losses	**30,049**	30,049
Foreign exchange and others	**463,778**	487,102
Total unrecognized amounts	**$ 663,000**	$ 680,783

8.3 Expiry dates

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

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

	As at December 31, 2019 U.S. Dollars Equivalent	Expiry dates
Non-capital losses		
Canada	$ 159,892	2037 – 2039
China	3,740	2024
	$ 163,632	
Capital losses		
Canada	$ 30,049	indefinite

9. EARNINGS/(LOSS) PER SHARE

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

	Year ended December 31, 2020	2019
Net profit/(loss)	**$ (20,089)**	$ 4,201
Weighted average number of shares	**272,703**	272,703
Basic and diluted earnings/(loss) per share	**$ (0.07)**	$ 0.02

Potentially dilutive items not included in the calculation of diluted earnings per share for the year ended December 31, 2020 include the underlying shares comprised in the convertible debenture and stock options that were anti-dilutive.

10. TRADE AND OTHER RECEIVABLES

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

	As at December 31, 2020	2019
Trade receivables	**$ 995**	$ 1,081
Other receivables	**310**	697
Total trade and other receivables	**$ 1,305**	$ 1,778

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

	As at December 31, 2020	2019
Less than 1 month	**$ 1,260**	$ 1,623
1 to 3 months	**20**	23
3 to 6 months	**25**	132
Over 6 months	**–**	–
Total trade and other receivables	**$ 1,305**	$ 1,778

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 $23,055 (December 31, 2019: $21,976) as at December 31, 2020, 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, 2020 reconcile to the opening loss allowances as follows:

Loss allowance for trade and other receivables		
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**
Opening loss allowance as at January 1, 2019	$	20,005
Increase in loss allowance recognised in profit or loss during the year		501
Loss allowance included in specific provision made during the year ended December 31, 2018		1,791
Exchange realignment		(321)
Loss allowance as at December 31, 2019	$	21,976

11. 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,	
	2020	2019
Less than 1 month	**$ 27,168**	$ 29,750
1 to 3 months	**4,935**	13,165
3 to 6 months	**6,365**	12,218
Over 6 months	**40,262**	31,880
Total trade and other payables	**$ 78,730**	$ 87,013

The trade and other payables of $78,730 (2019: $87,013) included the income tax payable $4,365 (2019: $400) and other tax payables of $31,742 (2019: $31,443).

12. DEFERRED REVENUE

At December 31, 2020, the Company had deferred revenue of $20,831, which represents cash prepayments from customers for future coal sales (December 31, 2019: $16,057).

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

	Year ended December 31,	
	2020	2019
Balance, beginning of year	**$ 16,057**	$ 12,658
Revenue recognized that was included in the deferred revenue balance at beginning of the year	**(15,486)**	(12,385)
Increase due to trade deposits received, excluding amounts recognized as revenue during the year	**20,913**	16,155
Exchange realignment	**(653)**	(371)
Balance, end of year	**$ 20,831**	$ 16,057

The performance obligation related to the revenue from customers for contracts that are unsatisfied (or partially unsatisfied) are expected to be recognized 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.

13. INTEREST-BEARING BORROWING

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

	As at December 31,	
	2020	2019
Bank loan (i)	**$ 2,826**	$ 2,835
Total interest-bearing borrowing	**$ 2,826**	$ 2,835

(i) Bank Loan

On May 15, 2018, SGS obtained a bank loan (the "2018 Bank Loan") in the principal amount of $2,800 from a Mongolian bank (the "Bank") with the key commercial terms as follows:

- Maturity date set at 24 months from drawdown (subsequently extended for 12 months on May 18, 2020);
- Interest rate of 15% per annum and interest is payable monthly; and
- Certain items of property, plant and equipment were pledged as security for the 2018 Bank Loan. As at December 31, 2020, the net book value of the pledged items of property, plant and equipment was $44 (December 31, 2019: $439).

As at December 31, 2020, the outstanding principal balance for the 2018 Bank Loan was $2,800 (December 31, 2019: $2,800) and the Company owed accrued interest of $26 (December 31, 2019: $35).

In February 2021, $2,826 was repaid to the Bank by the Company in full settlement of the outstanding principal balance of the 2018 Bank Loan and the accrued interest thereon.

14. LEASE LIABILITIES

The Company leases certain of its office premises for daily operations. These leases have remaining lease terms ranging from 1 to 5 years.

At December 31, 2020, the total future minimum lease payments and their present values were as follows:

	Minimum lease payments As at December 31, 2020	2019	Present value of minimum lease payments As at December 31, 2020	2019
Amounts payable:				
Within one year	**$ 272**	$ 509	**$ 202**	$ 460
In the second year	**174**	101	**112**	108
In the third to fifth year, inclusive	**418**	–	**312**	–
Total minimum finance lease payments	**$ 864**	$ 610	**$ 626**	$ 568
Future finance charges	**(238)**	(42)		
Total net lease finance payables	**$ 626**	$ 568		
Portion classified as current liabilities	**(202)**	(460)		
Non-current portion	**$ 424**	$ 108		

15. CONVERTIBLE DEBENTURE

On November 19, 2009, the Company issued a convertible debenture to a wholly owned subsidiary of CIC for $500,000.

The convertible debenture is presented as a liability since it contains no equity components. The convertible debenture is a hybrid instrument, containing a debt host component and three embedded derivatives – the investor's conversion option, the issuer's conversion option and the equity based interest payment provision (the 1.6% share interest payment) (the "embedded derivatives"). The debt host component is classified as other-financial-liabilities and is measured at amortized cost using the effective interest rate method and the embedded derivatives are classified as fair value through profit or loss 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.

15.1 Partial conversion

On March 29, 2010, the Company exercised a right within the debenture to call and convert $250,000 of the debenture for 21,471 Common Shares.

15.2 Presentation

Based on the Company's valuation as at December 31, 2020, the fair value of the embedded derivatives decreased by $44 compared to December 31, 2019. The decrease was recorded as finance income for the year ended December 31, 2020.

For the year ended December 31, 2020, the Company recorded interest expense of $27,726 related to the convertible debenture as a finance cost (2019: $23,751). 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 modification gain of $2,545 was recognised in profit or loss for the year ended December 31, 2020 (2019: $4,293) for the difference between the original contractual cash flows and the modified cash flows under six (2019: four) Deferral Agreements discounted at the original effective interest rate.

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

	Year ended December 31, **2020**	2019
Balance, beginning of year	**$ 156,974**	$ 139,901
Interest expense on convertible debenture	**27,726**	23,751
Decrease in fair value of embedded derivatives	**(44)**	(69)
Modification of convertible debenture	**(2,545)**	(4,293)
Interest paid	**(700)**	(2,316)
Balance, end of year	**$ 181,411**	$ 156,974

The convertible debenture balance consists of the following amounts:

	As at December 31, **2020**	2019
Current portion		
Interest payable	**$ 91,059**	$ 67,106
Debt host	**90,200**	–
Fair value of embedded derivatives	**152**	–
	181,411	67,106
Non-current portion		
Debt host	**–**	89,672
Fair value of embedded derivatives	**–**	196
	–	89,868
Total	**$ 181,411**	$ 156,974

16. ACCUMULATED DEFICIT AND DIVIDENDS

At December 31, 2020, the Company has accumulated a deficit of $1,197,698 (2019: $1,177,609). 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, 2020 (2019: nil).

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

BDO was engaged to audit the consolidated financial statements of the Company. The section below sets out an extract of the independent auditor's report regarding the consolidated financial statements of the Company for the years ended December 31, 2020 and 2019.

"Opinion

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, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards 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's incurred a loss attributable to equity holders of the Company of $20.1 million for the year ended December 31, 2020, and as of that date, had a deficiency in assets of $76.2 million while the working capital deficiency reached $217.6 million. These conditions, along with other matters as set forth in Note 1 to the consolidated financial statements, indicate 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."

REVIEW OF RESULTS AND RELEASE OF AUDITED RESULTS

The annual results of the Company for the year ended December 31, 2020 were reviewed by the Audit Committee of the Company and approved and authorized for issue by the Board on March 30, 2021.

The figures in respect of the Company's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended December 31, 2020, as set out in this press release have been agreed by the Company's independent auditors, BDO, to the amounts set out in the Company's audited consolidated financial statements for the year. The work performed by BDO in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by BDO on this press release.

The Company's results for the year ended December 31, 2020 are contained in the audited consolidated financial statements and MD&A, which will be available on March 30, 2021 on the SEDAR website at www.sedar.com and the Company's website at www.southgobi.com. Copies of the Company's 2020 Annual Report containing the audited consolidated financial statements and the MD&A, and the Annual Information Form will be available at www.southgobi.com. Shareholders with registered addresses in Hong Kong who have elected to receive a copy of the Company's Annual Report will receive one. Other shareholders of the Company may request a hard copy of the 2020 Annual Report free of charge by contacting our Investor Relations department by email at info@southgobi.com.

QUALIFIED PERSONS

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

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

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

ABOUT SOUTHGOBI

SouthGobi, listed on the Toronto and Hong Kong stock exchanges, owns and operates its flagship Ovoot Tolgoi coal mine in Mongolia. It also holds the mining licences of its other metallurgical and thermal coal deposits in South Gobi Region of Mongolia. SouthGobi produces and sells coal to customers in China.

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Except for statements of fact relating to the Company, certain information contained herein constitutes forward-looking statements. Forward-looking statements are frequently characterized by words such as “plan”, “expect”, “project”, “intend”, “believe”, “anticipate”, “could”, “should”, “seek”, “likely”, “estimate” and other similar words or statements that certain events or conditions “may” or “will” occur. Forward-looking statements relate to management’s future outlook and anticipated events or results and are based on the opinions and estimates of management at the time the statements are made. Forward-looking statements in this press release include, but are not limited to, statements regarding:

- the Company continuing as a going concern and its ability to realize its assets and discharge its liabilities in the normal course of operations as they become due;

- adjustments to the amounts and classifications of assets and liabilities in the Company’s consolidated financial statements and the impact thereof;

- the Company’s expectations of sufficient liquidity and capital resources to meet its ongoing obligations and future contractual commitments, including the Company’s ability to settle its trade payables, to secure additional funding and to meet its obligations under each of the CIC Convertible Debenture, the 2020 November Deferral Agreement, and the Amended and Restated Cooperation Agreement, as the same become due;

- the Company’s anticipated financing needs, development plans and future production levels;

- the Company entering into discussions with CIC regarding a potential debt restructuring plan with respect to the amounts owing to CIC;

- the results and impact of the Ontario class action (as described under section Regulatory Issues and Contingencies of this press release under the heading entitled “Class Action Lawsuit”);

- the estimates and assumptions included in the Company’s impairment analysis and the possible impact of changes thereof;

- the agreement with Ejin Jinda and the payments thereunder (as described under section Regulatory Issues and Contingencies of this press release under the heading entitled “Toll Wash Plant Agreement with Ejin Jinda”);

- the ability of the Company to enhance the operational efficiency and output throughput of the washing facilities at Ovoot Tolgoi;

- the ability to enhance the product value by conducting coal processing and coal washing;

- the impact of the Company’s activities on the environment and actions taken for the purpose of mitigation of potential environmental impacts and planned focus on health, safety and environmental performance;

- the impact of the delays in the custom clearance process at the Ceke border on the Company's operations and the restrictions established by Chinese authorities on the import of F-grade coal into China;

- the impact of the COVID-19 pandemic and the potential closure of Mongolia's southern border with China on the Company's business, financial condition and operations;

- the future demand for coal in China;

- future trends in the Chinese coal industry;

- the Company's outlook and objectives for 2021 and beyond (as more particularly described under Outlook of this press release); and

- other statements that are not historical facts.

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

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

The English text of this press release shall prevail over the Chinese text in case of inconsistencies.