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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 2019 financial and operating results

SouthGobi Resources Ltd. (the "**Company**" or "**SouthGobi**") today announces its financial and operating results for the quarter and the year ended December 31, 2019.

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, November 26, 2020
Hong Kong, November 26, 2020

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 and Ben Niu.

* *For identification purposes only*

SouthGobi RESOURCES

November 26, 2020

SOUTHGOBI RESOURCES ANNOUNCES FOURTH QUARTER AND FULL YEAR 2019 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, 2019. All figures are in U.S. dollars ("USD") unless otherwise stated.

Reference is made to the announcement of the Company dated March 30, 2020 in relation to the unaudited financial and operating results for the year ended December 31, 2019 (the "Unaudited Annual Results Announcement") and the announcements dated April 27, 2020, May 17, 2020, June 30, 2020, July 24, 2020 and August 12, 2020 in relation to, among other things, the further delay in publication of the audited annual results announcement and the dispatch of the annual report for the year ended December 31, 2019 (collectively the "Announcements"). Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the Unaudited Annual Results Announcement and the Announcements.

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 31 December 2019 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, 2019 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, 2019 and the subsequent period to November 26, 2020 are as follows:

- ***Operating Results*** – The Company's sales volume increased from 2.8 million tonnes in 2018 to 3.7 million tonnes in 2019. The average selling price of coal decreased from $37.1 per tonne in 2018 to $34.9 per tonne in 2019. The decrease in the average selling price was principally attributable to (i) a change of the Company's product mix, as sales of premium semi-soft coking coal represented a smaller proportion of total sales in 2019; and (ii) 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 $29.8 million profit from operations in 2019 compared to a $10.5 million loss from operations in 2018. The improvement in profit from operations was principally attributable to (i) a lower provision for doubtful trade and other receivables being made during the year ($0.5 million and $20.9 million for 2019 and 2018, respectively); and (ii) increased sales volume.

- ***Impact of the Coronavirus Disease 2019 ("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 Mongolian-Chinese 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. During the period between April to October 2020, an aggregate of 1.9 million tonnes of coal was exported by the Company from Mongolia to China, as compared to an aggregate of 2.0 million tonnes of coal during the same period in the 2019 calendar year.

  The border closure has 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 closures 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 effective as of February 2020. Since August 2, 2020, the Company has resumed its mining operations, which includes mining, blending and washing of coal. As at October 31, 2020, SouthGobi Sands LLC ("SGS"), a subsidiary of the Company, employed 208 employees at the Ovoot Tolgoi Mine site (December 31, 2019: 383 employees). The Company produced 1.1 million tonnes from August to October 2020, as compared to 1.3 million tonnes from August to October 2019. There were a few COVID-19 cases reported in Ulaanbaatar (being the capital city of Mongolia) on November 11, 2020. As a result, the Mongolian local authorities have taken certain precautionary steps to minimize further transmission and announced a lockdown for the city until December 2, 2020. Although the mining operations and 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 closures 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 react promptly to preserve the working capital of the Company.

Based on a preliminary review of the information and operational data of the Company currently available, the Company expects to record a net loss for the three months ended March 31, 2020 and for the six months ended June 30, 2020. The anticipated net loss was principally attributable to decreased sales volumes in the first quarter of 2020 as a result of the closure of the Mongolian-Chinese border crossings which took effect in February 2020 and therefore, the Company was unable to export coal into China as a result. 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 Mongolian-Chinese 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 April 23, 2019, the Company executed a deferral agreement (the "2019 Deferral Agreement") with CIC in relation to a deferral and revised repayment schedule in respect of (i) $41.8 million of outstanding cash and payment in kind interest ("PIK Interest") and associated costs due and payable to CIC on November 19, 2018 (the "Outstanding Interest Payable") under the CIC Convertible Debenture and a deferral agreement executed with CIC on June 12, 2017 (the "June 2017 Deferral Agreement"); and (ii) $27.9 million of cash and PIK Interest payments payable to CIC under the CIC Convertible Debenture from April 23, 2019 to and including May 19, 2020 (the "Deferral"). Pursuant to Section 501(c) of the TSX Company Manual, the 2019 Deferral Agreement was approved at the Company's adjourned annual and special meeting of shareholders on June 13, 2019.

  The key repayment terms of the 2019 Deferral Agreement are: (i) the Company agreed to pay a total of $14.3 million over eight instalments from November 2019 to June 2020; (ii) the Company agreed to pay the PIK Interest covered by the Deferral by way of cash payments, rather than the issuance of Common Shares; and (iii) the Company agreed to pay the remaining balance of $62.6 million on June 20, 2020. The Company agreed to pay a deferral fee at a rate of 6.4% per annum in consideration of the deferred amounts.

As a condition to agreeing to the Deferral, CIC required that the mutual co-operation agreement (the "Cooperation Agreement") dated November 19, 2019 between SGS and CIC, be amended and restated (the "Amended and Restated Cooperation Agreement") to clarify the manner in which the service fee (the "Management Fee") payable to CIC under the Cooperation Agreement is calculated, with effect as of January 1, 2017. Specifically, the Management Fee under the Amended and Restated Cooperation Agreement is determined based on the net revenues realized by the Company and all of its subsidiaries derived from sales into China (rather than the net revenues realized by the Company and its Mongolian subsidiaries as currently contemplated under the Cooperation Agreement). As consideration for deferring payment of the additional Management Fee payable to CIC as a result of the Amended and Restated Cooperation Agreement, the Company agreed to pay to CIC a deferral fee at the rate of 2.5% on the outstanding Management Fee. Pursuant to the Amended and Restated Cooperation Agreement, the Company agreed to pay CIC the total outstanding Management Fee and related accrued deferral fee of $4.2 million over six instalments from June 2019 to November 2019. The Company executed the Amended and Restated Cooperation Agreement with CIC on April 23, 2019.

Pursuant to their terms, both the 2019 Deferral Agreement and the Amended and Restated Cooperation Agreement became effective on June 13, 2019, being the date on which the 2019 Deferral Agreement was approved by shareholders at the Company's adjourned annual and special meeting of shareholders.

In connection with the 2019 Deferral Agreement, the Company also announced that it intends to discuss a potential debt restructuring plan with respect to amounts owing to CIC which is mutually beneficial to the Company and CIC; and to form a special committee comprised of independent directors to ensure that the interests of its minority shareholders are fairly considered in the negotiation and review of any such restructuring; however, there can be no assurance that a favorable outcome will be reached. As of the date hereof, there has not been any significant progress in relations to the restructuring plan.

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 which were due and payable to CIC on January 19, 2020 and February 19, 2020, respectively, under the 2019 Deferral Agreement (collectively, 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 Deferral Amount 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 fees 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 fees 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 to 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 PIK Interest shares ("2020 November PIK Interest") issuable to CIC on November 19, 2020 under the CIC Convertible Debenture; and (iv) the Management Fees 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"). The effectiveness of the 2020 November Deferral Agreement and the respective covenants, agreements and obligations of each party under the 2020 November Deferral Agreement are subject to the Company obtaining the requisite approval of the 2020 November Deferral Agreement from Company shareholders in accordance with applicable TSX rules. On October 29, 2020, the Company obtained an order from the British Columbia Securities Commission ("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 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 Amount 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 Industrial Group Limited ("First Concept")*** – On June 7, 2020, SGS 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.

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

  According to the Notice Letter, the Soumber Licenses have been terminated pursuant to Clause 56.1.5 of Article 56 of the Minerals Law, Clauses 4.2.1 and 4.2.5 of Article 4 and Clause 28.1.1 of Article 28 of the General Administrative Law and a decision order of a working group established under an order of the Minister of Environment and Tourism (Mongolia). According to this decision order, the working group determined that SGS had violated its environmental reclamation obligations with respect to the Soumber Deposit. The Soumber Deposit is an undeveloped coal deposit covering approximately 22,263 hectares located approximately 20 kilometers east of the Company's Ovoot Tolgoi coal mine in Mongolia. The Company owned a 100% interest in the Soumber Deposit.

  The Company believes the cancellation of the Soumber Licenses is without merit. The Company is not aware of any failure on its part to fulfill its environmental reclamation duties as they relate to the Soumber Deposit. On October 4, 2019, SGS filed a claim against MRAM and the Ministry of Environment and Tourism of Mongolia in the Administration Court of the Capital City (the "Administration Court") seeking an order to restore the Soumber Licenses. The Appeal Court issued the ruling in October 2020 and made an order to accept SGS's claim and restore the Soumber Licenses. The case was transferred to the High Court of the Capital City (the "High Court") for final ruling. The Company anticipates that the High Court will issue its ruling before the end of the first quarter of 2021. The Company will take all such actions, including additional legal actions, as it considers necessary to reinstate the Soumber Licenses. However, there can be no assurance that a favorable outcome will be reached. The termination of the Soumber Licenses does not have any impact on the Company's current mining operations at the Ovoot Tolgoi mine site.

- ***Key Findings of Formal Investigation*** – Following the learning of certain information relating to past conduct engaged in by former senior executive officers and employees of the Company ("Former Management and Employees") which raised suspicions of serious fraud, misappropriation of Company assets and other criminal acts by the Former Management and Employees relating to prior transactions ("Suspicious Transactions") between 2016 and the first half of 2018 involving the Company, Inner Mongolia SouthGobi Energy Co. Ltd. ("IMSGE"), a subsidiary of the Company and certain coal trading and transportation companies, some of which are allegedly related to or controlled by the Former Management and Employees or their related persons, the Company's board of directors (the "Board") expanded the mandate of its special committee of independent non-executive directors (the "Special Committee") to include a formal investigation (the "Formal Investigation") of the Suspicious Transactions, the implicated Former Management and Employees, and their impact, if any, on the business and affairs of the Company. The Special Committee engaged Blake, Cassels & Graydon LLP as independent Canadian legal counsel, and Ernst & Young (China) Advisory Limited (the "Forensic Accountant"), as forensic accountants, to assist in the Formal Investigation. The Special Committee and the Forensic Accountant jointly engaged Zhong Lun Law Firm, as independent Chinese legal counsel.

  On March 30, 2019, the Company announced that the Special Committee concluded the Formal Investigation and delivered a final report summarizing its key findings to the Board, which was adopted and approved at a meeting held on March 30, 2019. Please refer to the Company's unaudited Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") for the three months ended March 31, 2019 for a summary of the key findings of the Formal Investigation, a copy of which is available under the Company's profile on SEDAR at www.sedar.com.

  Based on the key findings of and information obtained from the Formal Investigation, the Company considered the resulting financial impact on its prior financial statements and restated certain items in the Company's financial statements for the years ended December 31, 2016 and December 31, 2017 (the "Prior Restatement"), as disclosed in the Company's audited annual consolidated financial statements and related MD&A for the year ended December 31, 2018, copies of which are available under the Company's profile on SEDAR at www.sedar.com. The Prior Restatement reflects the impact of the misappropriation of assets as well as the reclassification of certain balances of assets in the prior years.

- ***Remedial Actions and Preventative Measures*** – On April 30, 2019, the Company announced that the Special Committee, with the assistance of the Forensic Accountant, completed its assessment of the potential remedial actions and preventative measures to improve and strengthen the Company's commitment to a culture of honesty, integrity and accountability and compliance with the highest standards of professional and ethical conduct. The Special Committee delivered its report setting out a set of recommended remedial actions and preventative measures (the "Remedial Actions and Preventative Measures") to the Board which was approved at a meeting of the Board held on April 28, 2019. Please refer to the Company's MD&A for the three months ended March 31, 2019 for a summary of the Remedial Actions and Preventative Measures which were adopted and approved by the Board and the actions that the Company has taken to implement the Remedial Actions and Preventative Measures, a copy of which is available under the Company's profile on SEDAR at www.sedar.com.

- ***Resumption of Trading on HKEX and TSX in May 2019*** – On May 30, 2019, the Company announced that it had fulfilled the trading resumption guidance to the satisfaction of the HKEX and the HKEX and the TSX had accepted the Company's trading resumption application. Trading in the Common Shares on the TSX and the HKEX resumed on May 30, 2019 and May 31, 2019, respectively.

- ***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 of result of the Company's failure to file: (i) its annual consolidated financial statements for the year ended December 31, 2019 and the accompanying MD&A; (ii) its Annual Information Form for the year ended December 31, 2019; and (iii) its interim consolidated 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.

  The CTO will remain in effect until such time as the Company fully remedies its filing defaults under applicable Canadian securities laws, including filing of its 2019 Annual Information Form and its interim financial statements for the three month periods ended March 31, 2020 and three and six-month period ended June 30, 2020 and the accompanying MD&A, and makes a successful application to the BCSC to have the CTO revoked. While the Company is taking such actions as it considers necessary in order to remedy its filing defaults as soon as possible, there can be no assurance that the Company will have the CTO lifted in a timely manner or at all. For so long as the CTO remains in effect, it will have a significant adverse impact on the liquidity of the Common Shares and shareholders may suffer a significant decline or total loss in value of its investment in the Common Shares as a result.

- ***Suspension of Trading on HKEX*** – At the request of the Company, trading in the shares of the Company 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 September 2, 2020, the Company received a letter from the HKEX setting out the following resumption guidance for the resumption of trading in the Common Shares on the HKEX (the "Resumption Guidance"): (i) publish all outstanding financial results and address any audit modifications; (ii) inform the market of all material information for the Company's shareholders and investors to appraise its position; and (iii) announce quarterly updates on the Company's developments under Rules 13.24A of the HKEX's Listing Rules, including, amongst other relevant matters, its business operations, its resumption plan and the progress of implementation.

  On September 30, 2020, the Company was notified by the HKEX of the following additional condition which must be satisfied in order for trading in the Common Shares on the HKEX to resume: resolve issues arising from the CTO and/or the TSX Delisting Review (as defined below), or take steps to the satisfaction of the HKEX that the Company will be eligible for a primary listing on the HKEX.

  If the Company fails to remedy the issues causing its trading suspension, fully comply with the Listing Rules to the HKEX's satisfaction and resume trading in its shares on the HKEX by February 16, 2022, the HKEX's Listing Division will recommend to the HKEX's Listing Committee that it proceed with the cancellation of the Company's HKEX listing. Under Rules 6.01 and 6.10 of the Listing Rules, the HKEX also has the right to impose a shorter specific remedial period, where appropriate.

- ***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"). The Company has been granted until January 11, 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 (collectively, the "Delisting Criteria").

  The TSX Continued Listing Committee has scheduled a meeting to be held on January 7, 2021 to consider whether or not to suspend trading in and delist the Common Shares on the TSX. If the Company fails to demonstrate to the TSX that it has remedied the Delisting Criteria on or before January 11, 2021, the Common Shares will be delisted from the TSX 30 days from such date, unless an extension is granted by the TSX prior to the January 11, 2021 deadline.

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

  Ms. Lan Cheng: Ms. Cheng did not stand for re-election at the Company's annual and special meeting of shareholders (the "AGM") held on May 30, 2019 and ceased to be a non-executive director following the conclusion of the AGM.

  Mr. Ben Niu: On May 30, 2019, Mr. Niu was elected as a non-executive director of the Company at the AGM.

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

  Mr. Jianmin Bao: On March 18, 2020, Mr. Bao was appointed as a non-executive director of the Company by CIC pursuant to a securityholders' agreement by and among the Company, CIC and Turquoise Hill Resources Ltd.

  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.

- ***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.

  See section "Liquidity and Capital Resources" for details.

OVERVIEW OF OPERATIONAL DATA AND FINANCIAL RESULTS

Summary of Annual Operational Data

	Year ended December 31,	
	2019	2018
Sales Volumes, Prices and Costs		
Premium semi-soft coking coal		
Coal sales *(millions of tonnes)*	**0.67**	0.59
Average realized selling price *(per tonne)*	**$ 32.96**	$ 50.34
Standard semi-soft coking coal/ premium thermal coal		
Coal sales *(millions of tonnes)*	**2.35**	1.26
Average realized selling price *(per tonne)*	**$ 33.54**	$ 37.61
Standard thermal coal		
Coal sales *(millions of tonnes)*	**0.09**	0.78
Average realized selling price *(per tonne)*	**$ 29.43**	$ 25.07
Washed coal		
Coal sales *(millions of tonnes)*	**0.63**	0.15
Average realized selling price *(per tonne)*	**$ 43.05**	$ 44.02
Total		
Coal sales *(millions of tonnes)*	**3.74**	2.78
Average realized selling price *(per tonne)*	**$ 34.88**	$ 37.12
Raw coal production *(millions of tonnes)*	**5.05**	4.34
Cost of sales of product sold *(per tonne)*	**$ 22.57**	$ 28.72
Direct cash costs of product sold *(per tonne)* *(i)*	**$ 14.84**	$ 14.90
Mine administration cash costs of product sold *(per tonne)* *(i)*	**$ 1.08**	$ 1.50
Total cash costs of product sold *(per tonne)* *(i)*	**$ 15.92**	$ 16.40
Other Operational Data		
Production waste material moved *(millions of bank cubic meters)*	**18.22**	18.16
Strip ratio *(bank cubic meters of waste material per tonne of coal produced)*	**3.61**	4.17
Lost time injury frequency rate *(ii)*	**0.06**	0.05

(i) A non-IFRS financial measure, see section "Non-IFRS financial measures". 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, 2019, the Company had a lost time injury frequency rate of 0.06 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 $37.1 per tonne in 2018 to $34.9 per tonne in 2019. The decrease in the average selling price was principally attributable to (i) a change of the Company's product mix, as sales of premium semi-soft coking coal represented a smaller proportion of total sales in 2019; and (ii) 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 2019 consisted of 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 compared to approximately 21% of premium semi-soft coking coal, 46% of standard semi-soft coking coal/premium thermal coal, 5% of washed coal and 28% of standard thermal coal in 2018.

Sales volume increased from 2.8 million tonnes in 2018 to 3.7 million tonnes in 2019. The Company's production in 2019 was higher than that in 2018 as a result of a decrease in strip ratio for 2019, yielding 5.1 million tonnes for 2019 as compared to 4.3 million tonnes for 2018.

The Company's unit cost of sales of product sold decreased from $28.7 per tonne in 2018 to $22.6 per tonne in 2019. The decrease was mainly driven by a higher amount of impairment of coal stockpile inventories being recorded in 2018 (2018: impairment of $5.4 million; 2019: reversal of impairment of $1.8 million).

Summary of Annual Financial Results

$ in thousands, except per share information	**Year ended December 31, 2019**	2018
Revenue [(i)]	**$ 129,712**	$ 103,804
Cost of sales [(i)]	**(84,400)**	(79,835)
Gross profit excluding idled mine asset costs [(ii)]	**49,310**	36,829
Gross profit	**45,312**	23,969
Other operating expenses	**(5,581)**	(23,607)
Administration expenses	**(9,447)**	(10,540)
Evaluation and exploration expenses	**(452)**	(356)
Profit/(loss) from operations	**29,832**	(10,534)
Finance costs	**(28,010)**	(28,578)
Finance income	**4,417**	184
Share of earnings of a joint venture	**1,329**	1,631
Income tax expense	**(3,367)**	(3,828)
Net profit/(loss) attributable to equity holders of the Company	**4,201**	(41,125)
Basic and diluted earnings/(loss) per share	**$ 0.02**	$ (0.15)

(i) Revenue and cost of sales related to the Company's Ovoot Tolgoi Mine within the Coal Division operating segment. Refer to note 4 of 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 $29.8 million profit from operations in 2019 compared to a $10.5 million loss from operations in 2018. The improvement in profit from operations was principally attributable to (i) the lower provision for doubtful trade and other receivables being made during the year ($0.5 million and $20.9 million for 2019 and 2018, respectively); and (ii) increased sales volume.

Revenue was $129.7 million in 2019 compared to $103.8 million in 2018. The Company's effective royalty rate for 2019, based on the Company's average realized selling price of $34.9 per tonne, was 8.9% or $3.1 per tonne, compared to 7.9% or $3.0 per tonne in 2018 (based on the average realized selling price of $37.1 per tonne in 2018).

Royalty expenses were $11.6 million in 2019 compared to $8.2 million in 2018. The increase in royalty expenses 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 February 1, 2016, the Government of Mongolia issued a resolution in connection with the royalty regime. From February 1, 2016 onwards, royalties are to be calculated based on the actual contract price including transportation costs to the Mongolia border. If such transportation costs have not been included in the contract, the relevant transportation costs, customs documentation fees, insurance and loading costs should be estimated for the calculation of royalties. In the event that the calculated sales price as described above differs from the contract sales price of other entities in Mongolia (same quality of coal and same border crossing) by more than 10%, the calculated sales price will be deemed to be "non-market" under Mongolian tax law and the royalty will then be calculated based on a reference price as determined by the Government of Mongolia.

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 $84.4 million in 2019 compared to $79.8 million in 2018. The increase in cost of sales in 2019 was mainly due to the effect of (i) increased sales volume; and (ii) a reversal of impairment of coal stockpile inventories of $1.8 million was recorded for 2019 as compared to $5.4 million of impairment being recorded in 2018. 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, see section Non-IFRS financial measure for further analysis) during the year.

	Year ended December 31,	
$ in thousands	**2019**	2018
Operating expenses	**$ 59,549**	$ 45,604
Share-based compensation expense	**9**	4
Depreciation and depletion	**11,028**	7,693
Royalties	**11,639**	8,237
Impairment/(reversal of impairment) of coal stockpile inventories	**(1,823)**	5,437
Cost of sales from mine operations	**80,402**	66,975
Cost of sales related to idled mine assets	**3,998**	12,860
Cost of sales	**$ 84,400**	$ 79,835

Operating expenses in cost of sales were $59.5 million in 2019 compared to $45.6 million in 2018. The overall increase in operating expenses was primarily due to the combined effect of: (i) increased sales volume from 2.8 million tonnes in 2018 to 3.7 million tonnes in 2019; and (ii) higher inventory carrying costs given less deferred stripping cost was capitalized in 2019.

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. A coal stockpile impairment of $5.4 million was recorded in 2018 to reduce the carrying value of the Company's stockpile to their net realizable value. The coal stockpile impairments recorded primarily related to the Company's higher-ash content products.

Cost of sales related to idled mine assets in 2019 included $4.0 million related to depreciation expenses for idled equipment (2018: $12.9 million).

Other operating expenses were $5.6 million in 2019 (2018: $23.6 million), as follows:

	Year ended December 31,	
$ in thousands	**2019**	2018
CIC management fee	**$ 3,185**	$ 2,098
Other taxes on foreign payments	**1,881**	599
Provision for doubtful trade and other receivables	**501**	20,892
Provision for commercial arbitration	**485**	124
Impairment of prepaid expenses	**253**	134
Loss on disposal of properties for resale	**36**	179
Foreign exchange loss/(gain)	**(706)**	643
Gain on disposal of property, plant and equipment	**(29)**	(994)
Impairment of properties for resale	**–**	2,239
Penalty on late settlement of trade payables	**–**	427
Gain on settlement of trade payables	**–**	(2,392)
Net reversal of impairment of items of property, plant and equipment	**–**	(346)
Others	**(25)**	4
Other operating expenses	**$ 5,581**	$ 23,607

The Company made a provision for doubtful trade and other receivables of $0.5 million in 2019 (2018: $20.9 million) for certain long aged receivables based on its expected credit loss model.

Administration expenses were $9.4 million in 2019 as compared to $10.5 million in 2018, as follows:

	Year ended December 31,	
$ in thousands	**2019**	2018
Corporate administration	**$ 2,111**	$ 2,639
Professional fees	**3,076**	2,685
Salaries and benefits	**3,522**	5,004
Share-based compensation expense	**38**	75
Depreciation	**700**	137
Administration expenses	**$ 9,447**	$ 10,540

Administration expenses were lower for 2019 compared to 2018 primarily due to lower salaries and benefits incurred during the year.

Evaluation and exploration expenses were $0.5 million and $0.4 million in 2019 and 2018, respectively. The Company continued to minimize evaluation and exploration expenditures in 2019 in order to preserve the Company's financial resources. Evaluation and exploration activities and expenditures in 2019 were limited to ensuring that the Company met the Mongolian Minerals Law requirements in respect of its mining licenses.

Finance costs were $28.0 million and $28.6 million in 2019 and 2018, respectively, which primarily consisted of interest expense on the $250.0 million CIC Convertible Debenture.

Summary of Quarterly Operational Data

Quarter Ended	**2019** **31-Dec**	30-Sep	30-Jun	31-Mar	2018 31-Dec	30-Sep	30-Jun	31-Mar
Sales Volumes, Prices and Costs								
Premium semi-soft coking coal								
Coal sales *(millions of tonnes)*	**0.39**	0.05	0.12	0.11	0.24	0.25	0.07	0.03
Average realized selling price *(per tonne)*	**$ 29.18**	$ 31.49	$ 32.72	$ 47.34	$ 47.37	$ 48.15	$ 59.98	$ 67.94
Standard semi-soft coking coal/premium thermal coal								
Coal sales *(millions of tonnes)*	**0.40**	0.51	0.59	0.85	0.40	0.26	0.19	0.41
Average realized selling price *(per tonne)*	**$ 31.88**	$ 31.67	$ 35.67	$ 33.34	$ 32.60	$ 34.40	$ 33.80	$ 46.34
Standard thermal coal								
Coal sales *(millions of tonnes)*	**–**	–	–	0.09	0.12	0.22	0.32	0.12
Average realized selling price *(per tonne)*	**$ –**	$ –	$ –	$ 34.88	$ 24.26	$ 23.49	$ 26.32	$ 25.40
Washed coal								
Coal sales *(millions of tonnes)*	**0.20**	0.25	0.17	0.01	0.15	–	–	–
Average realized selling price *(per tonne)*	**$ 42.95**	$ 42.37	$ 44.20	$ 45.07	$ 44.02	$ –	$ –	$ –
Total								
Coal sales *(millions of tonnes)*	**0.99**	0.81	0.88	1.06	0.91	0.73	0.58	0.56
Average realized selling price *(per tonne)*	**$ 33.04**	$ 34.98	$ 36.80	$ 34.91	$ 37.32	$ 35.77	$ 32.81	$ 43.02
Raw coal production *(millions of tonnes)*	**1.48**	1.21	1.33	1.03	1.87	1.11	0.98	0.38
Cost of sales of product sold *(per tonne)*	**$ 23.68**	$ 19.16	$ 25.04	$ 22.08	$ 30.80	$ 23.44	$ 29.27	$ 31.64
Direct cash costs of product sold *(per tonne)* [(i)]	**$ 13.61**	$ 18.03	$ 17.18	$ 10.82	$ 14.41	$ 11.90	$ 14.93	$ 19.60
Mine administration cash costs of product sold *(per tonne)* [(i)]	**$ 1.29**	$ 1.09	$ 1.39	$ 1.41	$ 2.19	$ 1.24	$ 1.00	$ 1.24
Total cash costs of product sold *(per tonne)* [(i)]	**$ 14.90**	$ 19.12	$ 18.57	$ 12.23	$ 16.60	$ 13.14	$ 15.93	$ 20.84
Other Operational Data								
Production waste material moved *(millions of bank cubic meters)*	3.61	4.36	5.34	4.91	5.54	4.56	5.18	2.88
Strip ratio *(bank cubic meters of waste material per tonne of coal produced)*	2.44	3.61	4.01	4.76	2.97	4.11	5.26	7.55
Lost time injury frequency rate [(ii)]	0.08	0.08	0.06	0.00	0.00	0.00	0.06	0.13

(i) A non-IFRS financial measure, see section "Non-IFRS financial measures". 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

For the fourth quarter of 2019, the Company had a lost time injury frequency rate of 0.08 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 $37.3 per tonne in the fourth quarter of 2018 to $33.0 per tonne in the fourth quarter of 2019. The product mix for the fourth quarter of 2019 consisted of approximately 39% of premium semi-soft coking coal, 41% of standard semi-soft coking coal/premium thermal coal and 20% of washed coal compared to approximately 27% of premium semi-soft coking coal, 44% of standard semi-soft coking coal/premium thermal coal, 16% of washed coal and 13% of standard thermal coal in the fourth quarter of 2018.

The Company sold 1.0 million tonnes for the fourth quarter of 2019 as compared to 0.9 million tonnes for the fourth quarter of 2018.

The Company's production in the fourth quarter of 2019 was lower than the fourth quarter of 2018 as a result of management's decision to pace production to meet expected sales, yielding 1.5 million tonnes for the fourth quarter of 2019 as compared to 1.9 million tonnes for the fourth quarter of 2018.

The Company's unit cost of sales of product sold decreased to $23.7 per tonne in the fourth quarter of 2019 from $30.8 per tonne in the fourth quarter of 2018. The decrease was mainly driven by a higher amount of impairment of coal stockpile inventories being recorded in the fourth quarter of 2018 (fourth quarter of 2018: $5.4 million; fourth quarter of 2019: $nil).

Summary of Quarterly Financial Results

The Company's annual financial statements are reported under International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board (the "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	**2019**				2018			
Quarter Ended	**31-Dec**	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep (Restated)	30-Jun (Restated)	31-Mar (Restated)
Financial Results								
Revenue [(i)]	**$ 32,113**	$ 28,309	$ 32,479	$ 36,811	$ 33,814	$ 26,277	$ 19,278	$ 24,435
Cost of sales [(i)]	**(23,446)**	(15,518)	(22,031)	(23,405)	(28,027)	(17,110)	(16,979)	(17,719)
Gross profit excluding idled mine asset costs	**9,971**	13,664	11,318	14,357	7,305	13,195	6,079	10,250
Gross profit including idled mine asset costs	**8,667**	12,791	10,448	13,406	5,787	9,167	2,299	6,716
Other operating expenses	**(1,589)**	(1,245)	(2,333)	(414)	(2,921)	(3,417)	(16,512)	(757)
Administration expenses	**(1,386)**	(2,074)	(2,878)	(3,109)	(1,583)	(2,724)	(3,856)	(2,377)
Evaluation and exploration expenses	**(382)**	(22)	(23)	(25)	(36)	(40)	(156)	(124)
Profit/(loss) from operations	**5,310**	9,450	5,214	9,858	1,247	2,986	(18,225)	3,458
Finance costs	**(7,095)**	(7,184)	(7,001)	(6,739)	(10,899)	(5,758)	(5,958)	(6,006)
Finance income	**36**	68	4,305	17	13	106	8	100
Share of earnings of a joint venture	**225**	277	375	452	416	247	628	340
Income tax expense	**(659)**	(468)	(801)	(1,439)	(1,023)	(267)	(1,609)	(929)
Net profit/(loss)	**(2,183)**	2,143	2,092	2,149	(10,246)	(2,686)	(25,156)	(3,037)
Basic and diluted earnings/(loss) per share	**$ (0.01)**	$ 0.01	$ 0.01	$ 0.01	$ (0.04)	$ (0.01)	$ (0.09)	$ (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 4 of the consolidated financial statements for further analysis regarding the Company's reportable operating segments.

(ii) The financial results for the three months ended September 30, 2018, June 30, 2018 and March 31, 2018 were restated as a result of the net effect of the Prior Restatement. Refer to section entitled "Key Findings of Formal Investigation", as well as the press release for the periods ended September 30, 2019, June 30, 2019 and March 31, 2019 for details.

Overview of Quarterly Financial Results

The Company recorded a $5.3 million profit from operations in the fourth quarter of 2019 compared to a $1.2 million profit from operations in the fourth quarter of 2018. The improvement in overall financial results was principally attributable to the Company recognizing a lower amount of impairment charges and provisions during the fourth quarter of 2019 as compared to the fourth quarter in 2018. In particular, during the fourth quarter of 2018, an impairment charge of $5.4 million was recorded on coal stockpile inventories (fourth quarter of 2019: $nil).

Revenue was $32.1 million in the fourth quarter of 2019 compared to $33.8 million in the fourth quarter of 2018. The Company's effective royalty rate for the fourth quarter of 2019, based on the Company's average realized selling price of $33.0 per tonne, was 14.7% or $4.8 per tonne, compared to 9.9% or $3.7 per tonne in the fourth quarter of 2018 (based on the average realized selling price of $37.3 per tonne in the fourth quarter of 2018). The increase was mainly attributed to the new Mongolian royalty regime which became effective in September 2019. Please see section Royalty Regime in Mongolia of this press release for details.

Cost of sales was $23.4 million in the fourth quarter of 2019 compared to $28.0 million in the fourth quarter of 2018. The decrease in cost of sales was mainly due to a lower amount of impairment of coal stockpile inventories being made during the fourth quarter of 2019 (fourth quarter of 2018: $5.4 million, fourth quarter of 2019: $nil).

Cost of sales consists of operating expenses, share-based compensation expense, equipment depreciation, depletion of mineral properties, royalties, coal stockpile inventory 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, see section Non-IFRS financial measure for further analysis) during the quarter.

	Three months ended December 31,	
$ in thousands	**2019**	2018
Operating expenses	**$ 14,754**	$ 15,110
Share-based compensation expense	**2**	3
Depreciation and depletion	**2,649**	2,626
Royalties	**4,737**	3,333
Impairment of coal stockpile inventories	**–**	5,437
Cost of sales from mine operations	**22,142**	26,509
Cost of sales related to idled mine assets	**1,304**	1,518
Cost of sales	**$ 23,446**	$ 28,027

Operating expenses in cost of sales were $14.8 million in the fourth quarter of 2019 compared to $15.1 million in the fourth quarter of 2018, as the sales volume in both quarters were at similar levels.

Cost of sales in the fourth quarter of 2018 included coal stockpile impairment of $5.4 million to reduce the carrying value of the Company's coal stockpiles to their net realizable value. The coal stockpile impairment recorded in the fourth quarter of 2018 primarily related to the Company's higher-ash content products.

Cost of sales related to idled mine assets in the fourth quarter of 2019 included $1.3 million related to depreciation expenses for idled equipment (fourth quarter of 2018: $1.5 million).

Other operating expenses were $1.6 million in the fourth quarter of 2019 (fourth quarter of 2018: $2.9 million).

	Three months ended December 31,	
$ in thousands	**2019**	2018
Provision for doubtful trade and other receivables	**$ 60**	$ 1,588
Impairment of properties for resale	**–**	866
Impairment of prepaid expenses	**–**	134
CIC management fee	**853**	761
Other taxes on foreign payments	**858**	599
Foreign exchange loss/(gain)	**(228)**	1,373
Loss/(gain) on disposal of properties for resale	**(1)**	179
Gain on disposal of property, plant and equipment	**–**	(2,167)
Provision/(reversal of provision) for commercial arbitration	**79**	(562)
Net reversal of impairment of items of property, plant and equipment	**–**	(346)
Adjustment on gain on settlement of trade payables	**–**	564
Others	**(32)**	(68)
Other operating expenses	**$ 1,589**	$ 2,921

Administration expenses were $1.4 million in the fourth quarter of 2019 as compared to $1.6 million in the fourth quarter of 2018. The decrease in salaries and benefits was mainly due to the overprovision of staff bonus for past periods.

	Three months ended December 31,	
$ in thousands	**2019**	2018
Corporate administration	**$ 554**	$ 308
Professional fees	**408**	52
Salaries and benefits	**208**	1,184
Share-based compensation expense	**9**	28
Depreciation	**207**	11
Administration expenses	**$ 1,386**	$ 1,583

Evaluation and exploration expenses were $0.4 million for the fourth quarter of 2019 (fourth quarter of 2018: negligible). The Company continued to minimize evaluation and exploration expenditures in 2019 in order to preserve the Company's financial resources. Evaluation and exploration activities and expenditures in the fourth quarter of 2019 were limited to ensuring that the Company met the Mongolian Minerals Law requirements in respect of its mining licenses.

Finance costs were $7.1 million in the fourth quarter of 2019 compared to $10.9 million in the fourth quarter of 2018, 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, 2019, the net carrying amount of the pledged items of property, plant and equipment was $0.4 million (December 31, 2018: $2.6 million).

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

Costs reimbursable to Turquoise Hill Resources Ltd ("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, 2019, 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 aging profile of trade and other payables set out below). On October 12, 2016, the Company received a letter from Turquoise Hill, which proposed an arrangement for regular payments of the outstanding TRQ Reimbursable Amount. On November 12, 2020, the Company received communication from Turquoise Hill advising that Turquoise Hill wishes to re-engage in discussions with the Company regarding a repayment plan for the outstanding TRQ Reimbursable Amount. No agreement on repayment has been reached between the Company and Turquoise Hill as of the date of this press release.

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, 2020 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 had a deficiency in assets of $49.2 million as at December 31, 2019 compared to a deficiency in assets of $48.1 million as at December 31, 2018 while the working capital deficiency (excess current liabilities over current assets) reached $114.7 million as at December 31, 2019 compared to a working capital deficiency of $203.1 million as at December 31, 2018.

Included in the working capital deficiency as at December 31, 2019 are significant obligations, which include the interest amounting to $67.1 million in relation to the 2019 Deferral Agreement, the 2020 February Deferral Agreement, the 2020 March Deferral Agreement, the 2020 April Deferral Agreement, the 2020 May Deferral Agreement, the 2020 June Deferral Agreement, and the 2020 November Deferral Agreement.

In addition, the Common Shares have been suspended from trading since June 19, 2020 on the TSX and August 17, 2020 on the HKEX. As of the date hereof, certain conditions of the Resumption Guidance, including but not limited to the issuance of the audited financial statements for the year ended December 31, 2019, have been fulfilled. However, if the Common Shares become delisted from either the TSX or the HKEX, which would be an event of default under the CIC Convertible Debenture, which could result in the automatic termination of the deferral periods under the 2020 November Deferral Agreement and the acceleration of all principal, interest and other amounts owing under the CIC Convertible Debenture and the 2020 November Deferral Agreement becoming immediately due and payable, in each case without the necessity of any demand upon or notice to the Company by CIC.

The Company also has current liabilities, including trade and other payables of $87.0 million, provision for commercial arbitration of $5.6 million and interest payable under the CIC Convertible Debenture of $67.1 million as at December 31, 2019. Out of trade and other payables, which require settlement in the short-term, unpaid taxes of $31.8 million are repayable on demand by SGS to the Mongolian Tax Authority ("MTA").

The Company may not be able to settle all trade and other payables on a timely basis, while continuing postponement in settling certain trade payables owed to suppliers and creditors may impact the mining operations of the Company and 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 November 26, 2020. 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.

Further, 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 had suspended coal exports to China since February 11, 2020 as a result of the border closure and the closure remained in effect until March 27, 2020.

On March 28, 2020, the Mongolian-Chinese 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. During the period between April to October 2020, an aggregate of 1.9 million tonnes of coal was exported by the Company from Mongolia to China, as compared to an aggregate of 2.0 million tonnes of coal during the same period in the 2019 calendar year.

The border closure has 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 closures 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 from February 2020. Since August 2, 2020, the Company has resumed its mining operations, which includes mining, blending and washing of coal. As at October 31, 2020, SGS employed 208 employees at the Ovoot Tolgoi Mine site (December 31, 2019: 383 employees). The Company produced 1.1 million tonnes from August to October 2020, as compared to 1.3 million tonnes from August to October 2019. There were a few COVID-19 cases reported in Ulaanbaatar (being the capital city of Mongolia) on November 11, 2020. As a result, the Mongolian local authorities have taken certain precautionary steps to minimize further transmission and announced a lockdown for the city until December 2, 2020. Although the mining operations and 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 closures 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 react promptly to preserve the working capital of the Company.

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, 2019. 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 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, subject to conditions precedent therein; (ii) agreeing to deferral arrangements and improved payment terms with certain vendors; (iii) SGS planned to reduce the outstanding tax payable by monthly payments to MTA starting from June 2020; (iv) reducing the inventory of low quality coal by wet washing and coal blending; and (v) resuming coal mining activities beginning as of August 2020 to enhance coal supply. In addition, management of the Company assessed that the Company would be able to issue all outstanding financial results, being one of the conditions of the Resumption Guidance which must be satisfied in order to avoid a delisting of the Common Shares from the HKEX, which is in turn an event of default under the CIC Convertible Debenture. After considering the above measures, and given the re-opening of the Mongolian-Chinese 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, 2019 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, 2019 and December 31, 2018, 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 Mongolian-Chinese 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. During the period between April to October 2020, an aggregate of 1.9 million tonnes of coal was exported by the Company from Mongolia to China, as compared to an aggregate of 2.0 million tonnes of coal during the same period in the 2019 calendar year.

The border closure has 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 closures 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 from February 2020. Since August 2, 2020, the Company has resumed its mining operations, which includes mining, blending and washing of coal. As at October 31, 2020, SGS employed 208 employees at the Ovoot Tolgoi Mine site (December 31, 2019: 383 employees). The Company produced 1.1 million tonnes from August to October 2020, as compared to 1.3 million tonnes from August to October 2019. There were a few COVID-19 cases reported in Ulaanbaatar (being the capital city of Mongolia) on November 11, 2020. As a result, the Mongolian local authorities have taken certain precautionary steps to minimize further transmission and announced a lockdown for the city until December 2, 2020. 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 as of the date hereof, or the border crossings would not be the subject of additional closures 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 react promptly to preserve the working capital of the Company.

Based on a preliminary review of the information and operational data of the Company currently available, the Company expects to record a net loss for the three months ended March 31, 2020 and for the six months ended June 30, 2020. The anticipated net loss is principally attributable to decreased sales volumes in the first quarter of 2020 as a result of the closure of the Mongolian-Chinese border crossings which took effect in February 2020 and therefore, the Company was unable to export coal into China as a result. 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 Mongolian-Chinese border crossing, this is expected to have a material adverse effect on the business and operations of the Company and may negatively affect the price and volatility of the Common Shares and any investment in such shares could suffer a significant decline or total loss in value.

CIC Convertible Debenture

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 debt, 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, 2019, CIC owned approximately 23.8% of the issued and outstanding Common Shares.

On June 12, 2017, the Company executed the June 2017 Deferral Agreement with CIC for a revised repayment schedule on the $22.3 million of cash interest and associated costs originally due under the CIC Convertible Debenture on May 19, 2017. The key repayment terms of the June 2017 Deferral Agreement are: (i) the Company was required to repay on average $2.2 million of the cash interest and associated costs monthly during the period from May 2017 to October 2017; and (ii) the Company was required to repay $9.7 million of cash interest and associated costs on November 19, 2017.

On April 23, 2019, the Company executed the 2019 Deferral Agreement with CIC in relation to a deferral and revised repayment schedule in respect of (i) $41.8 million of outstanding cash and PIK Interest and associated costs due and payable to CIC on November 19, 2018 under the CIC Convertible Debenture and the June 2017 Deferral Agreement; and (ii) $27.9 million of cash and PIK Interest payments payable to CIC under the CIC Convertible Debenture from April 23, 2019 to and including May 19, 2020. Pursuant to Section 501(c) of the TSX Company Manual, the 2019 Deferral Agreement was approved at the Company's adjourned annual and special meeting of shareholders on June 13, 2019.

The key repayment terms of the 2019 Deferral Agreement are: (i) the Company agreed to pay a total of $14.3 million over eight instalments from November 2019 to June 2020; (ii) the Company agreed to pay the PIK Interest covered by the Deferral by way of cash payments, rather than the issuance of Common Shares; and (iii) the Company agreed to pay the remaining balance of $62.6 million on June 20, 2020. The Company agreed to pay a deferral fee at a rate of 6.4% per annum in consideration of the Deferral.

At any time before the payment under the terms of the 2019 Deferral Agreement is fully repaid, the Company is required to consult with and obtain written consent from CIC prior to effecting a replacement or termination of either or both of its Chief Executive Officer and its Chief Financial Officer, otherwise this will constitute an event of default under the CIC Convertible Debenture, but CIC shall not withhold its consent if the Board proposes to replace either or both such officers with nominees selected by the Board, provided that the Board acted honestly and in good faith with a view to the best interests of the Company in the selection of the applicable replacements.

As a condition to agreeing to the Deferral, CIC required that the Cooperation Agreement dated November 19, 2009 between SGS and CIC, be amended and restated to clarify the manner in which the Management Fee payable to CIC under the Cooperation Agreement is calculated, with effect as of January 1, 2017. Specifically, the Management Fee under the Amended and Restated Cooperation Agreement is determined based on the net revenues realized by the Company and all of its subsidiaries derived from sales into China (rather than the net revenues realized by the Company and its Mongolian subsidiaries as currently contemplated under the Cooperation Agreement). As consideration for deferring payment of the additional Management Fee payable to CIC as a result of the Amended and Restated Cooperation Agreement, the Company agreed to pay to CIC a deferral fee at the rate of 2.5% on the outstanding Management Fee. Pursuant to the Amended and Restated Cooperation Agreement, the Company agreed to pay CIC the total outstanding Management Fee and related accrued deferral fee of $4.2 million over six instalments from June 2019 to November 2019. The Company executed the Amended and Restated Cooperation Agreement with CIC on April 23, 2019.

Pursuant to their terms, both the 2019 Deferral Agreement and the Amended and Restated Cooperation Agreement became effective on June 13, 2019, being the date on which the 2019 Deferral Agreement was approved by shareholders at the Company's adjourned annual and special meeting of shareholders.

In connection with the 2019 Deferral Agreement, the Company also announced that it intends to discuss a potential debt restructuring plan with respect to amounts owing to CIC; which is mutually beneficial to the Company and CIC; and to form a special committee comprised of independent directors to ensure that the interests of its minority shareholders are fairly considered in the negotiation and review of any such restructuring; however, there can be no assurance that a favorable outcome will be reached. As of the date hereof, there has not been any significant progress in relations to the restructuring plan.

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 Deferral Amount 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 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 that the 2020 March Deferral Amount which were 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 Fees 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 to 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. The effectiveness of the 2020 November Deferral Agreement and the respective covenants, agreements and obligations of each party under the 2020 November Deferral Agreement are subject to the Company obtaining the requisite approval of the 2020 November Deferral Agreement from the Company's shareholders in accordance with applicable TSX rules. On October 29, 2020, the Company obtained an order from the BCSC which partially revoked the CTO to, amongst other things, permit the Company to execute the 2020 November Deferral Agreement.

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 Amount 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 installments 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 (the "Waived Costs").

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.

As at December 31, 2019, the outstanding amount payable to First Concept amounted to $5.6 million (December 31, 2018: $12.5 million).

On February 7, 2020, SGS was informed by its Mongolian banks that they received a request from 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 has been frozen by the banks as at February 7, 2020 and such amount was subsequently being 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, 2019. The impairment indicators were the uncertainty of future coal prices in China and the lower than budgeted production.

Therefore, the Company conducted an impairment test whereby the carrying value of the Company's Ovoot Tolgoi Mine cash generating unit was compared to its "fair value less costs of disposal" ("FVLCTD") 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, coal washing capacity, operating costs and life of mine coal production estimates as at December 31, 2019. The carrying value of the cash generating unit of the Company's Ovoot Tolgoi Mine was $136.4 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 11% 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 $20.3/(20.2) 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 $(28.7)/31.4 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 $(13.3)/13.4 million; and

- For each 1% increase/(decrease) in Mongolian inflation rate, the calculated fair value of the cash generating unit (decreases)/increases by approximately $(4.5)/4.5 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, 2019. A decline of 19% in the long term price estimates, an increase of more than 35% in the post-tax discount rate, an increase of 29% in the cash mining cost estimates or an increase of 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, 2019 was not required.

Toll Wash Plant Agreement with Ejin Jinda

In 2011, the Company entered into an agreement with Ejin Jinda, a subsidiary of China Mongolia Coal Co. Ltd. to toll-wash coal from the Ovoot Tolgoi Mine. The agreement had a duration of five years from 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, 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 Licenses and until the License Areas are removed from the SNT.

On June 29, 2016, the Mongolian Parliament and CRKh election was held. As a result, the Company was aware that additional action may be taken in respect of the SNT; however, the Company has not yet received any indication on the timing of the next session of the CRKh.

Termination 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.

According to the Notice Letter, the Soumber Licenses have been terminated pursuant to Clause 56.1.5 of Article 56 of the Minerals Law, Clauses 4.2.1 and 4.2.5 of Article 4 and Clause 28.1.1 of Article 28 of the General Administrative Law and a decision order of a working group established under an order of the Minister of Environment and Tourism (Mongolia). According to this decision order, the working group determined that SGS had violated its environmental reclamation obligations with respect to the Soumber Deposit. The Soumber Deposit is an undeveloped coal deposit covering approximately 22,263 hectares located approximately 20 kilometers east of the Company's Ovoot Tolgoi coal mine in Mongolia. The Company owned a 100% interest in the Soumber Deposit.

The Company believes the cancellation of the Soumber Licenses is without merit. The Company is not aware of any failure on its part to fulfill its environmental reclamation duties as they relate to the Soumber Deposit. On October 4, 2019, SGS filed a claim against MRAM and the Ministry of Environment and Tourism of Mongolia in the Administration Court seeking an order to restore the Soumber Licenses. The Appeal Court issued the ruling in October 2020 and made an order to accept SGS's claim and restore the Soumber Licenses. The case was transferred to the High Court for final ruling. The Company anticipates that the High Court will issue its Final ruling before the end of the first quarter of 2021. The Company will take all such actions, including additional legal actions, as it considers necessary to reinstate the Soumber Licenses. However, there can be no assurance that a favorable outcome will be reached. The termination of the Soumber Licenses does not have any impact on the Company's current mining operations at the Ovoot Tolgoi mine site.

Mongolian royalties

During 2017, the Company was ordered by the Mongolian tax authority to apply the "reference price" determined by the Government of Mongolia, as opposed to calculated sales price that is derived based on the actual contract price, in calculating the royalties payable to the Government of Mongolia. Although no official letter has been received by the Company in respect of this matter as of the date hereof, there can be no assurance that the Government of Mongolia will not disagree with the methodology employed by the Company in determining the calculated sales price and deem such price "non-market" under Mongolian tax law. Management believes that its interpretation of the relevant legislation is appropriate and the Company's positions related to the royalty will be sustained.

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. The Company, together with other Mongolian coal companies, have been in discussions with Chinese authorities regarding a potential amendment or withdrawal of these import restrictions to allow for the importation of F-grade coal into China; however, there can be no assurance that a favorable outcome will be reached.

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, 2019, RDCC LLC recognized toll fee revenue of $1.4 million (2018: $1.9 million) and $6.8 million (2018: $7.3 million), respectively.

PLEDGE OF ASSETS

As at December 31, 2019, certain of the Company's property, plant and equipment of $0.4 million (December 31, 2018: $2.6 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, 2019.

COMPLIANCE WITH CORPORATE GOVERNANCE

The Company has, throughout the year ended December 31, 2019, 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.2.7 of the Corporate Governance Code, the chairman of the board should at least annually hold meetings with the non-executive directors (including independent non-executive directors) without the executive directors present. The Company does not have a Chairman since the conclusion of the AGM held on June 30, 2017. There were no meetings between the Independent Lead Director, who is fulfilling the duties of the Chairman, and the non-executive directors without the presence of other executive directors during the year ended December 31, 2019. 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, 2019.

OUTLOOK

Looking forward, market conditions in China are expected to be challenging for coal companies, as there are a number prevailing uncertainties, including the risk that the COVID-19 pandemic and its negative impact on the Chinese economy becomes protracted, the possibility that the border crossings between Mongolia and China become the subject of additional closures and the continued restrictions on importing F-grade coal into China. The Company will continue to closely monitor these developments and the resulting impacts they have on coal exports to China and will take all necessary action to mitigate the potential operational and financial impact on the Company.

In the long run, the Company remains cautiously optimistic regarding the Chinese coal market as coal is still considered to be the primary energy source which China will rely on in the foreseeable future. The expected benefit from the reducing supply of low quality coal and increasing capacity of railway transportation capacity in China are anticipated to be offset by the uncertain circumstances of the Chinese macroeconomic environment.

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

- **Enhance product mix** – The Company will focus on improving the product mix and increase production of higher quality coal by: (i) washing lower quality coal in the Company's coal wash plant; (ii) blending lower quality coal with higher quality coal; and (iii) improving mining operations and employing enhanced mining technique and equipment.

- **Expand customer base** – The Company will endeavor to increase sales volume, expand its sales network and diversify its customer base so as to enhance the pricing competency of the Company.

- **Optimize cost structure** – The Company will aim to reduce its production costs and optimize its cost structure through innovation, training and productivity enhancement.

- **Operate in a socially responsible manner** – The Company will continue to maintain the highest standards in health, safety and environmental performance in a corporate socially responsible manner.

Going forward, the Company will continue to focus on creating 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 resources and reserves base** – The Ovoot Tolgoi Deposit has mineral reserves of 114.1 million tonnes, while the aggregate coal resources include measured and indicated mineral resources of 194.6 million tonnes and inferred resources of 32.1 million tonnes.

- **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 (i.e., CIC and Cinda), which are both state-owned-enterprises in China, and its strong operational record for the past twelve years 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,	
	2019	2018
Revenue	**$ 129,712**	$ 103,804
Cost of sales	**(84,400)**	(79,835)
Gross profit	**45,312**	23,969
Other operating expenses	**(5,581)**	(23,607)
Administration expenses	**(9,447)**	(10,540)
Evaluation and exploration expenses	**(452)**	(356)
Profit/(loss) from operations	**29,832**	(10,534)
Finance costs	**(28,010)**	(28,578)
Finance income	**4,417**	184
Share of earnings of a joint venture	**1,329**	1,631
Profit/(loss) before tax	**7,568**	(37,297)
Current income tax expense	**(3,367)**	(3,828)
Net profit/(loss) attributable to equity holders of the Company	**4,201**	(41,125)
Other comprehensive loss to be reclassified to profit or loss in subsequent periods		
Exchange difference on translation of foreign operation	**(5,129)**	(13,020)
Net comprehensive loss attributable to equity holders of the Company	**$ (928)**	$ (54,145)
Basic and diluted earnings/(loss) per share	**$ 0.02**	$ (0.15)

Consolidated Statement of Financial Position

(Expressed in thousands of USD)

	As at December 31, 2019	2018
Assets		
Current assets		
Cash and cash equivalents	**$ 7,164**	$ 6,959
Restricted cash	**862**	872
Trade and other receivables	**1,778**	5,046
Notes receivables	**–**	2,500
Inventories	**52,237**	47,109
Prepaid expenses	**2,312**	3,295
Total current assets	**64,353**	65,781
Non-current assets		
Property, plant and equipment	**137,221**	138,901
Inventories	**9,332**	–
Properties for resale	**–**	4,093
Investments in joint ventures	**17,521**	18,831
Total non-current assets	**164,074**	161,825
Total assets	**$ 228,427**	$ 227,606
Equity and liabilities		
Current liabilities		
Trade and other payables	**$ 87,013**	$ 99,576
Provision for commercial arbitration	**5,593**	12,508
Deferred revenue	**16,057**	12,658
Interest-bearing borrowings	**2,835**	4,138
Lease liabilities	**460**	83
Current portion of convertible debenture	**67,106**	139,901
Total current liabilities	**179,064**	268,864
Non-current liabilities		
Lease liabilities	**108**	30
Convertible debenture	**89,868**	–
Decommissioning liability	**8,605**	6,852
Total non-current liabilities	**98,581**	6,882
Total liabilities	**277,645**	275,746
Equity		
Common shares	**1,098,634**	1,098,634
Share option reserve	**52,589**	52,542
Capital reserve	**396**	396
Exchange reserve	**(23,228)**	(18,099)
Accumulated deficit	**(1,177,609)**	(1,181,613)
Total deficiency in assets	**(49,218)**	(48,140)
Total equity and liabilities	**$ 228,427**	$ 227,606
Net current liabilities	**$ (114,711)**	$ (203,083)
Total assets less current liabilities	**$ 49,363**	$ (41,258)

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, 2020 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 going concern assumption used in the preparation of the Company's consolidated financial statements. The Company had a deficiency in assets of $49,218 as at December 31, 2019 compared to a deficiency in assets of $48,140 as at December 31, 2018 while the working capital deficiency (excess of current liabilities over current assets) reached $114,711 as at December 31, 2019 compared to a working capital deficiency of $203,083 as at December 31, 2018.

Included in the working capital deficiency as at December 31, 2019 are significant obligations, which include interest amounting to $67,106 in relation to the CIC Convertible Debenture under the 2019 Deferral Agreement, the 2020 February Deferral Agreement, the 2020 March Deferral Agreement, the 2020 April Deferral Agreement, the 2020 May Deferral Agreement, the 2020 June Deferral Agreement and the 2020 November Deferral Agreement.

In addition, the Common Shares have been suspended from trading since June 19, 2020 on the TSX and August 17, 2020 on the HKEX. As of the date hereof, certain conditions of the Resumption Guidance, including but not limited to the issuance of the audited financial statements for the year ended December 31, 2019, have been fulfilled. However, if the Common Shares become delisted from either the TSX or the HKEX, which would be an event of default under the CIC Convertible Debenture, which could result in the automatic termination of the deferral periods under the 2020 November Deferral Agreement and the acceleration of all principal, interest and other amounts owing under the CIC Convertible Debenture and the 2020 November Deferral Agreement becoming immediately due and payable, in each case without the necessity of any demand upon or notice to the Company by CIC.

The Company also has current liabilities, including trade and other payables of $87,013, provision for commercial arbitration of $5,593 and interest payable under the CIC Convertible Debenture of $67,106 as at December 31, 2019. Out of trade and other payables, which require settlement in the short-term, unpaid taxes of $31,843 are repayable on demand by SGS to MTA.

The Company may not be able to settle all trade and other payables on a timely basis, and as a result continuing postponement in settling certain trade and other payables owed to suppliers and creditors may impact the mining operations of the Company and may result in potential lawsuits and/or bankruptcy proceedings being filed against the Company. Except as disclosed elsewhere in these consolidated financial statements, no such lawsuits or proceedings were pending as at November 26, 2020.

Further, 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 had suspended coal exports to China since February 11, 2020 as a result of the border closure and the closure remained in effect until March 27, 2020.

On March 28, 2020, the Mongolian-Chinese 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. During the period between April to October 2020, an aggregate of 1.9 million tonnes of coal was exported by the Company from Mongolia to China, as compared to an aggregate of 2.0 million tonnes of coal during the same period in the 2019 calendar year.

The border closure has 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 closures 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 from February 2020. Since August 2, 2020, the Company has resumed its mining operations, which includes mining, blending and washing of coal. As at October 31, 2020, SGS employed 208 employees at the Ovoot Tolgoi Mine site (December 31, 2019: 383 employees). The Company produced 1.1 million tonnes from August to October 2020, as compared to 1.3 million tonnes from August to October 2019. 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.

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, 2019. 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 followings 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, subject to conditions precedent therein; (ii) agreeing to deferral arrangements and improved payment terms with certain vendors; (iii) SGS planned to reduce the outstanding tax payable by monthly payments to MTA starting from June 2020; (iv) reducing the inventory of low quality coal by wet washing and coal blending; and (v) resuming coal mining activities beginning as of August 2020 to enhance coal supply. In addition, management of the Company assessed that the Company would be able to issue all outstanding financial results, being one of the conditions of the Resumption Guidance which must be satisfied in order to avoid a delisting of the Common Shares from the HKEX, which is in turn an event of default under the CIC Convertible Debenture. After considering the above measures, and given the re-opening of the Mongolian-Chinese 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, 2019 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 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, 2019 and December 31, 2018, 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, 2019 were approved and authorized for issue by the Board of Directors of the Company on November 26, 2020.

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, 2019.

IFRS 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features and Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	Annual Improvements to IFRSs 2015 – 2017 Cycle

The Company has adopted IFRS 16 retrospectively from January 1, 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening consolidated statement of financial position on January 1, 2019.

There have been no other new IFRSs or IFRIC interpretations that is not yet effective that would be expected to have a material impact on the Company, except those disclosed in the Company's annual consolidated financial statements for the year ended December 31, 2019.

Adjustments recognized on adoption of IFRS 16

On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 of 15%.

For leases previously classified as finance leases, the Company recognized the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date. The remeasurements to the lease liabilities were recognized as adjustments to the related right-of-use assets immediately after the date of initial application.

Operating lease commitments disclosed as at December 31, 2018	$	1,393
Discounted using the lessee's incremental borrowing rate of at the date of initial application	$	1,118
Add: finance lease liabilities recognized as at December 31, 2018		113
Less: short-term leases recognized on a straight-line basis as expense		(20)
Lease liability recognized as at January 1, 2019	$	1,211
Of which are:		
Current lease liabilities	$	631
Non-current lease liabilities		580
	$	1,211

Other right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the consolidated statement of financial position as at December 31, 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognized right-of-use assets relate to the buildings:

	As at	
	December 31, 2019	January 1, 2019
Buildings	**$ 605**	$ 1,159
Total right-of-use assets	**$ 605**	$ 1,159

The change in accounting policy affected the following items in the balance sheet as at January 1, 2019:

- Property, plant and equipment – increase by $1,159
- Trade and other payables – decrease by $9
- Prepaid expenses – decrease by $267
- Lease liabilities – increase by $1,098

The net impact on accumulated deficit on January 1, 2019 was an increase of $197.

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Reliance on previous assessments on whether leases are onerous;
- The accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases; and
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Company has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Company relied on its assessment made applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease*.

The Company's leasing activities and how these are accounted for

The Company leases various office spaces and premises. Rental contracts are typically made for fixed periods of 3 to 5 years but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight line basis over the period of the lease.

From January 1, 2019, leases are recognized as right-of-use assets and corresponding liabilities at the date at which the leased assets are available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;

- Variable lease payment that are based on an index or a rate;

- Amounts expected to be payable by the lessee under residual value guarantees;

- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and

- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability;

- Any lease payments made at or before the commencement date less any lease incentives received;

- Any initial direct costs; and

- Restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. There is no extension or termination option included in the leases across the Company.

2. SEGMENTED INFORMATION

The Company's one reportable operating segment is its Coal Division. The Company's Chief Executive Officer (chief operating decision maker) reviews the Coal Division's discrete financial information in order to make decisions about resources to be allocated to the segment and to assess its performance. The division is principally engaged in coal mining, development and exploration in Mongolia, and logistics and trading of coal in Mongolia and China. The Company's Corporate Division does not earn revenues and therefore does not meet the definition of an operating segment.

During the year ended December 31, 2019, the Coal Division had 13 active customers with the largest customer accounting for 42% of revenues, the second largest customer accounting for 36% of revenues, the third largest customer accounting for 9% of revenues, the fourth largest customer accounting for 6% of revenues and the other customers accounting for the remaining 7% of revenues. The Company's disaggregation of revenue from contracts with customers represented the sales of coals which is recognized at a point in time during the years ended December 31, 2019 and 2018.

The carrying amounts of the Company's assets, liabilities, reported income or loss and revenues analyzed by operating segment are as follows:

Operating Segments

	Coal Division	Total
Year ended December 31, 2019		
Segment results	$ 35,350	$ 35,350
Reconciliation:		
Finance income		4,293
Finance costs		(23,858)
Corporate and other unallocated expenses		(8,217)
Profit before tax		$ 7,568
Segment assets		
Property, plant and equipment	$ 136,371	$ 136,371
Investments in joint ventures	17,521	17,521
Inventories	61,569	61,569
Other segment assets	11,599	11,599
Reconciliation:		
Elimination of intersegment receivables		(599,479)
Corporate and other unallocated assets		600,846
Total assets		$ 228,427
Segment liabilities		
Trade and other payables	$ 74,344	$ 74,344
Deferred revenue	16,057	16,057
Provision for commercial arbitration	5,593	5,593
Interest-bearing borrowings	2,835	2,835
Decommissioning liability	8,605	8,605
Other segment liabilities	596,697	596,697
Reconciliation:		
Elimination of intersegment payables		(599,479)
Corporate and other unallocated liabilities		172,993
Total liabilities		$ 277,645

	Coal Division
Year ended December 31, 2019	
Other segment information	
Segment revenues	$ 129,712
Reversal of impairment on assets (ii)	$ (1,069)
Depreciation and amortization	$ 22,596
Share of earnings of a joint venture	$ 1,329
Finance costs	$ 4,152
Finance income	$ 124
Current income tax charge	$ 3,367

	Coal Division	Total
Year ended December 31, 2018		
Segment results	$ (11,503)	$ (11,503)
Reconciliation:		
Finance income		137
Finance costs		(22,209)
Corporate and other unallocated expenses		(3,722)
Loss before tax		$ (37,297)
Segment assets		
Property, plant and equipment	$ 138,455	$ 138,455
Investments in joint ventures	18,831	18,831
Inventories	47,109	47,109
Other segment assets	18,805	18,805
Reconciliation:		
Elimination of intersegment receivables		(583,988)
Corporate and other unallocated assets		588,394
Total assets		$ 227,606
Segment liabilities		
Trade and other payables	$ 85,079	$ 85,079
Deferred revenue	12,658	12,658
Provision for commercial arbitration	12,508	12,508
Interest-bearing borrowings	4,138	4,138
Decommissioning liability	6,852	6,852
Other segment liabilities	586,982	586,982
Reconciliation:		
Elimination of intersegment payables		(583,988)
Corporate and other unallocated liabilities		151,517
Total liabilities		$ 275,746

	Coal Division
Year ended December 31, 2018	
Other segment information	
Segment revenues	$ 103,804
Impairment charge on assets (ii)	$ 28,356
Depreciation and amortization	$ 36,668
Share of earnings of a joint venture	$ 1,631
Finance costs	$ 6,369
Finance income	$ 47
Current income tax charge	$ 3,828

(i) The corporate and other unallocated expenses mainly included the wages and salaries of $2,714 and $4,357, legal and professional fees of $2,345 and $2,350 and corporate administration for the year ended December 31, 2019 and December 31, 2018, respectively. An insurance compensation of $4,850 in relation to the broken machineries was credited to the corporate and other unallocated expenses during the year ended December 31, 2018.

(ii) Other segment assets mainly included cash and cash equivalents and restricted cash of $7,924 and $5,448 and trade and other receivables of $1,762 and $4,309 as at December 31, 2019 and December 31, 2018, respectively. As at December 31, 2018, other segment assets also included notes receivables of $2,500 and properties for resale of $4,093.

(iii) The corporate and other unallocated assets mainly included the intersegment receivables which are intercompany in nature.
(iv) Other segment liabilities mainly included the intersegment payables which are financing in nature.
(v) The corporate and other unallocated liabilities mainly included the convertible debenture and trade and other payables of $12,669 and $14,497 as at December 31, 2019 and December 31, 2018, respectively.
(vi) The impairment charge/(reversal of impairment) on assets for the year ended December 31, 2019 relates to trade and other receivables, inventories and prepaid expenses. The impairment charge on assets for the year ended December 31, 2018 relates to trade and other receivables, properties for resale, inventories, prepaid expenses and property, plant and equipment.

3. REVENUE

Revenue represents the value of goods sold which arises from the trading of coal.

4. EXPENSES BY NATURE

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

		Year ended December 31,		
		2019		2018
Depreciation	**$**	**15,726**	$	20,690
Auditors' remuneration		**764**		493
Employee benefit expense (including directors' remuneration)				
Wages and salaries	**$**	**9,790**	$	9,838
Equity-settled share option expense		**47**		79
Pension scheme contributions		**1,302**		966
	$	**11,139**	$	10,883
Lease payments under operating leases	**$**	**128**	$	925
Foreign exchange loss/(gain)		**(706)**		643
Impairment/(reversal of impairment) of coal stockpile inventories		**(1,823)**		5,437
Royalties		**11,639**		8,237
CIC management fee		**3,185**		2,098
Other taxes on foreign payments		**1,881**		599
Provision of commercial arbitration		**485**		124
Provision for doubtful trade and other receivables		**501**		20,892
Impairment of prepaid expenses		**253**		134
Loss on disposal of properties for resale		**36**		179
Gain on disposal of property, plant and equipment		**(29)**		(994)
Net reversal of impairment of property, plant and equipment		**–**		(346)
Penalty on late settlement of trade payables		**–**		427
Gain on settlement of trade payables		**–**		(2,392)
Impairment of properties for resale		**–**		2,239
Mine operating costs and other		**56,701**		44,070
Total operating expenses	**$**	**99,880**	$	114,338

5. COST OF SALES

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

	Year ended December 31, 2019	2018
Operating expenses	**$ 59,549**	$ 45,604
Share-based compensation expense	**9**	4
Depreciation and depletion	**11,028**	7,693
Royalties	**11,639**	8,237
Impairment/(reversal of impairment) of coal stockpile inventories	**(1,823)**	5,437
Cost of sales from mine operations	**80,402**	66,975
Cost of sales related to idled mine assets (i)	**3,998**	12,860
Cost of sales	**$ 84,400**	$ 79,835

(i) Cost of sales related to idled mine assets for the year ended December 31, 2019 includes $3,998 of depreciation expense (2018: includes $12,860 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, 2019 totaled $67,892 (2018: $48,204).

6. OTHER OPERATING EXPENSES

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

	Year ended December 31, 2019	2018
CIC management fee	$ **3,185**	$ 2,098
Other taxes on foreign payments	**1,881**	599
Provision for doubtful trade and other receivables	**501**	20,892
Provision of commercial arbitration	**485**	124
Impairment of prepaid expenses	**253**	134
Loss on disposal of properties for resale	**36**	179
Foreign exchange loss/(gain)	**(706)**	643
Gain on disposal of property, plant and equipment	**(29)**	(994)
Impairment of properties for resale	**–**	2,239
Penalty on late settlement of trade payables	**–**	427
Gain on settlement of trade payables	**–**	(2,392)
Net reversal of impairment of items of property, plant and equipment	**–**	(346)
Others	**(25)**	4
Other operating expenses	$ **5,581**	$ 23,607

7. FINANCE COSTS AND INCOME

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

	Year ended December 31, 2019	2018
Interest expense on convertible debenture	$ **23,751**	$ 22,195
Interest expense on borrowings	**742**	2,788
Value added tax on interest from intercompany loan	**2,986**	3,038
Finance costs on leased assets	**129**	–
Loan arrangement fee	**–**	21
Accretion of decommissioning liability	**402**	536
Finance costs	$ **28,010**	$ 28,578

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

	Year ended December 31, 2019	2018
Unrealized gain on embedded derivatives in convertible debenture	$ **69**	$ 137
Interest income	**55**	47
IFRS 9 adjustment on convertible debenture	**4,293**	–
Finance income	$ **4,417**	$ 184

8. TAXES

8.1 Income tax recognized in profit or loss

The Canadian statutory tax rate was 27% (2018: 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, **2019**	2018
Profit/(loss) before tax	**$ 7,568**	$ (37,297)
Statutory tax rate	**27%**	27%
Income tax expense/(recovery) based on combined Canadian federal and provincial statutory rates	**2,044**	(10,071)
Lower effective tax rate in foreign jurisdictions	**186**	1,222
Underprovision/(overprovision) in prior year	**(258)**	261
Tax effect of tax losses and temporary differences not recognized	**8,314**	6,394
Withholding tax on intercompany interest	**2,881**	3,038
Profits or losses attributable to joint venture	**332**	408
Income not subject to tax	**(10,256)**	(7,774)
Non-deductible expenses	**124**	10,350
Income tax expenses	**$ 3,367**	$ 3,828

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, **2019**	2018
Non-capital losses	**$ 163,632**	$ 191,307
Capital losses	**30,049**	30,049
Foreign exchange and others	**487,102**	477,656
Total unrecognized amounts	**$ 680,783**	$ 699,012

8.3 Expiry dates

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

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

	As at December 31, 2018		
		U.S. Dollar Equivalent	Expiry dates
Non-capital losses			
Canada	$	184,254	2036 – 2038
Mongolia		4,337	2021
China		2,715	2023
	$	191,306	
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,			
		2019		2018
Net profit/(loss)	**$**	**4,201**	$	(41,125)
Weighted average number of shares		**272,703**		272,661
Basic and diluted earnings/(loss) per share	**$**	**0.02**	$	(0.15)

Potentially dilutive items not included in the calculation of diluted earnings per share for the year ended December 31, 2019 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, 2019	2018
Trade receivables	**$ 1,081**	$ 2,710
Other receivables	**697**	2,336
Total trade and other receivables	**$ 1,778**	$ 5,046

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, 2019	2018
Less than 1 month	**$ 1,623**	$ 4,952
1 to 3 months	**23**	49
3 to 6 months	**132**	45
Over 6 months	**–**	–
Total trade and other receivables	**$ 1,778**	$ 5,046

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 $21,976 (December 31, 2018: $20,005) as at December 31, 2019, based upon an expected loss rate of 10% for trade and other receivables 60 days past due and 100% for trade and other receivables 180 days past due. A specific provision of certain trade and other receivables of $1,814 was made due to the challenges in collecting the trade and other receivables during the year ended December 31, 2018. The closing allowances for trade and other receivables as at December 31, 2019 reconcile to the opening loss allowances as follows:

Loss allowance for trade and other receivables

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**
Opening loss allowance as at January 1, 2018	$	1,278
Increase in loan allowance recognised in profit or loss during the year		19,119
Reversal of loan allowance		(41)
Exchange realignment		(351)
Loss allowance as at December 31, 2018	$	20,005

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, was as follows:

	As at December 31,	
	2019	2018
Less than 1 month	**$ 29,750**	$ 34,927
1 to 3 months	**13,165**	16,336
3 to 6 months	**12,218**	5,446
Over 6 months	**31,880**	42,867
Total trade and other payables	**$ 87,013**	$ 99,576

12. DEFERRED REVENUE

At December 31, 2019, the Company had deferred revenue of $16,057, which represents cash prepayments from customers for future coal sales (December 31, 2018: $12,658).

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

	Year ended December 31, 2019	2018
Balance, beginning of year	**$ 12,658**	$ 23,225
Revenue recognized that was included in the deferred revenue balance at beginning of the year	**(12,385)**	(8,056)
Derecognition of deferred revenue that was included in the balance at beginning of the year due to contract cancellation	**–**	(13,509)
Increase due to trade deposits received or receivable, excluding amounts recognized as revenue during the year	**16,155**	12,757
Exchange realignment	**(371)**	(1,759)
Balance, end of year	**$ 16,057**	$ 12,658

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 dates. 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 BORROWINGS

The Company's interest-bearing borrowings consist of the following amounts:

	As at December 31,	
	2019	2018
Bank loan (i)	**$ 2,835**	$ 3,543
Turquoise Hill Loan Facility	**–**	595
Total interest-bearing borrowings	**$ 2,835**	$ 4,138

(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, 2019, the net book value of the pledged items of property, plant and equipment was $439 (December 31, 2018: $2,643).

As at December 31, 2019, the outstanding principal balance for the 2018 Bank Loan was $2,800 (December 31, 2018: $2,800) and the Company owed accrued interest of $35 (December 31, 2018: $35). $700 outstanding principal balance of another bank loan from the Bank, which was settled during the first quarter of 2019, was included in the balance as at December 31, 2018.

14. LEASE LIABILITIES

The Company leases certain of its mobile equipment and office premises for daily operations. These leases have remaining lease terms ranging from 1 to 3 years.

At December 31, 2019, the total future minimum lease payments and their present values were as follows:

	Minimum lease payments As at December 31,		Present value of minimum lease payments As at December 31,	
	2019	2018	**2019**	2018
Amounts payable:				
Within one year	**$ 509**	$ 90	**$ 460**	$ 83
In the second year	**101**	25	**108**	24
In the third to fifth year, inclusive	**–**	6	**–**	6
Total minimum finance lease payments	**$ 610**	$ 121	**$ 568**	$ 113
Future finance charges	**(42)**	(8)		
Total net lease finance payables	**$ 568**	$ 113		
Portion classified as current liabilities	**(460)**	(83)		
Non-current portion	**$ 108**	$ 30		

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, 2019, the fair value of the embedded derivatives decreased by $69 compared to December 31, 2018. The decrease was recorded as finance income for the year ended December 31, 2019.

For the year ended December 31, 2019, the Company recorded interest expense of $23,751 related to the convertible debenture as a finance cost (2018: $22,195). 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%.

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

	Year ended December 31,	
	2019	2018
Balance, beginning of year	**$ 139,901**	$ 116,374
Interest expense on convertible debenture	**23,751**	22,195
Decrease in fair value of embedded derivatives	**(69)**	(137)
Fair value adjustment upon adoption of IFRS 9	**(4,293)**	1,469
Interest paid	**(2,316)**	–
Balance, end of year	**$ 156,974**	$ 139,901

The convertible debenture balance consists of the following amounts:

	As at December 31, 2019	2018
Current convertible debenture		
Interest payable	**$ 67,106**	$ 46,096
Debt host	**–**	93,540
Fair value of embedded derivatives	**–**	265
	67,106	139,901
Non-current convertible debenture		
Debt host	**89,672**	–
Fair value of embedded derivatives	**196**	–
	89,868	–
Total convertible debenture	**$ 156,974**	$ 139,901

16. ACCUMULATED DEFICIT AND DIVIDENDS

At December 31, 2019, the Company has accumulated a deficit of $1,177,609 (2018: $1,181,613). No dividend has been paid or declared by the Company since inception.

The Board did not recommend the payment of any final dividend for the year ended December 31, 2019 (2018: $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 year ended December 31, 2019.

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 Company 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 Company's current liabilities exceeded its current assets by $114.7 million as at December 31, 2019. This condition, 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 Company'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, 2019 were reviewed by the Audit Committee of the Company and approved and authorized for issue by the Board on November 26, 2020.

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, 2019, as set out in this press release have been agreed by the Company's independent auditor, 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, 2019 are contained in the audited consolidated financial statements and MD&A, which will be available on November 26, 2020 on the SEDAR website at www.sedar.com and the Company's website at www.southgobi.com. Copies of the Company's 2019 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 2019 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 projects 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
Zag Suuj	Merryl Peterson	Resources	Independent Consultant

Disclosure of a scientific or technical nature relating to the Ovoot Tolgoi Mine is derived from 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.

Disclosure of a scientific or technical nature relating to the Zag Suuj Deposit is derived from a technical report (the "Zag Suuj Technical Report") prepared in accordance with NI 43-101 on the Zag Suuj Deposit dated March 25, 2013, prepared by Minarco-MineConsult. A copy of the Zag Suuj Technical Report is available under the Company's profile on SEDAR at www.sedar.com. The Zag Suuj Technical Report is effective as at March 25, 2013. Minarco-MineConsult has not reviewed or updated the Zag Suuj 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 June Deferral Agreement, the 2020 May Deferral Agreement, the 2020 April Deferral Agreement, the 2020 March Deferral Agreement, the 2020 February Deferral Agreement, the 2020 November Deferral Agreement, the 2019 Deferral Agreement, the Amended and Restated Cooperation Agreement and the 2018 Bank Loan, as the same become due;

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

- the ability of the Company to successfully apply for a revocation of the CTO;

- the possibility of the TSX granting an extension to the deadline date for the Company to demonstrate that it has remedied the Delisting Criteria;

- the resumption of trading in the Common Shares on the TSX or HKEX;

- 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 impact of the internal investigation conducted by the Special Committee on the Suspicious Transactions engaged in by Former Management and Employees;

- 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 successfully recover the balance of its doubtful trade and notes receivables;

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

- the ability of the Company to successfully appeal MRAM's decision to terminate the Soumber Licenses and the anticipated timing of the High Court's ruling on the appeal;

- the ability of the Company 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;

- the ability of the Company to successfully reinstate the Soumber Licenses;

- the future demand for coal in China;

- future trends in the Chinese coal industry;

- the Company's outlook and objectives for 2020 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 2020 and beyond; currency exchange rates; operating, labour and fuel costs; the ability of the Company to successfully apply for a revocation of the CTO; the ability to remedy the Delisting Criteria of the TSX and to satisfy the Resumption Guidance of the HKEX; 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 that the Company is unable to successfully apply for a revocation of the CTO; the risk that the TSX does not grant an extension to the deadline date for the Company to demonstrate that it has remedied the Delisting Criteria; the risk that the Company is unable to remedy the Delisting Criteria within the deadline established by the TSX and the Common Shares becoming delisted from the TSX; the risk that the Company is unable to fulfill the conditions of the Resumption Guidance and the Common Shares becoming delisted from the HKEX; 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 closures; the negative impact of the COVID-19 pandemic on the demand for coal and the economy generally in China; the risk that the outbreak of 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 Resources Ltd*"); the risk of CIC accelerating all amounts outstanding under the CIC Convertible Debenture and enforcing payment thereof; the risk of the Company or its subsidiaries defaulting under its existing debt obligations, including the 2020 June Deferral Agreement, the 2020 May Deferral Agreement, the 2020 April Deferral Agreement, the 2020 March Deferral Agreement, the 2020 February Deferral Agreement, the 2020 November Deferral Agreement, the 2019 Deferral Agreement, the Amended and Restated Cooperation Agreement and the 2018 Bank Loan; 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 impact of the internal investigation conducted by the Special Committee; 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; risks relating to the Company's ability to successfully appeal MRAM's decision to terminate the Soumber Licenses and delays in receiving the High Court's ruling on the appeal; 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.