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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 second quarter 2020 financial and operating results

SouthGobi Resources Ltd. (the “**Company**” or “**SouthGobi**”) today announces its financial and operating results for the three and six months ended June 30, 2020.

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

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

Vancouver, December 23, 2020
Hong Kong, December 23, 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, Ben Niu and Ms. Ka Lee Ku.

* *For identification purposes only*



December 23, 2020

SouthGobi Resources announces second quarter 2020 financial and operating results

HONG KONG – SouthGobi Resources Ltd. (**Toronto Stock Exchange (“TSX”): SGQ, Hong Kong Stock Exchange (“HKEX”): 1878**) (the “Company” or “SouthGobi”) today announces its financial and operating results for the three and six months ended June 30, 2020. All figures are in U.S. dollars (“USD”) unless otherwise stated.

SIGNIFICANT EVENTS AND HIGHLIGHTS

The Company’s significant events and highlights for the three months ended June 30, 2020 and the subsequent period up to December 23, 2020 are as follows:

- **Operating Results** – The Company suspended coal exports to China beginning as of February 11, 2020 as a result of the closure of Mongolia’s southern border with China in order to prevent the spread of Coronavirus Disease 2019 (“COVID-19”). 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 resumed coal exports to China gradually thereafter. As a result, the Company’s sales volume decreased from 0.9 million tonnes for the second quarter of 2019 to 0.5 million tonnes for the second quarter of 2020.

Despite an improvement of the product mix, the average selling price of coal decreased from \$36.8 per tonne in the second quarter of 2019 to \$31.7 per tonne in the second quarter of 2020 as a result of a higher portion of sales made at the mine gate instead of transporting the coal to the Company’s Inner Mongolia subsidiary and selling to third party customers within China.

- **Financial Results** – The Company recorded a \$1.9 million loss from operations in the second quarter of 2020 compared to a \$5.2 million profit from operations in the second quarter of 2019. The financial results were impacted by (i) the decreased sales resulting from the export volume limitation imposed following the reopening of the Mongolian-Chinese border on a trial basis on March 28, 2020; and (ii) the provision for commercial arbitration of \$4.6 million recorded in connection with the Company entering into a settlement agreement with First Concept Industrial Group Limited (“First Concept”) on June 7, 2020.

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

On March 28, 2020, the 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, 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 of Ulaanbaatar effective as of November 12, 2020. Although the Company's 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.

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 (“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, 2009 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 (collectively, the “2020 February Deferral Amounts”) which were due and payable to CIC on January 19, 2020 and February 19, 2020, respectively, under the 2019 Deferral Agreement; and (ii) approximately \$0.7 million of the Management Fee which was due and payable on February 14, 2020 to CIC under the Amended and Restated Cooperation Agreement. The 2020 February Deferral Agreement became effective on March 10, 2020, being the date on which the Company obtained the requisite acceptance of the 2020 February Deferral Agreement from the TSX as required under applicable TSX rules.

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

- Payment of the 2020 February Deferral Amounts will be deferred until June 20, 2020, while the Management Fee will be deferred until they are repaid by the Company.
- As consideration for the deferral of these amounts, the Company agreed to pay CIC: (i) a deferral fee equal to 6.4% per annum on the 2020 February Deferral Amounts, commencing on the date on which each such 2020 February Deferral Amounts would otherwise have been due and payable under the 2019 Deferral Agreement; and (ii) a deferral fee equal to 2.5% per annum on the Management Fee, commencing on the date on which the Management Fee would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.
- The Company agreed to provide CIC with monthly updates regarding its operational and financial affairs.
- As the Company anticipated prior to agreeing to the 2020 February Deferral Agreement that a deferral was likely required in respect of the monthly payments due and payable in the period between April 2020 and June 2020 under the 2019 Deferral Agreement and Amended and Restated Cooperation Agreement, the Company and CIC agreed to discuss in good faith a deferral of these payments on a monthly basis as they become due.

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

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

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

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

On June 19, 2020, the Company agreed with CIC (the “2020 June Deferral Agreement”) that the deferred cash interest and deferral fees in the aggregate amount of approximately \$74.0 million (the “2020 June Deferral Amount”) which were due and payable to CIC on June 19, 2020 under the 2019 Deferral Agreement and the prior deferral agreements entered into during the period between February 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 Fee which payable to CIC on November 14, 2020, February 14, 2021, May 15, 2021, August 14, 2021 and November 14, 2021 under the Amended and Restated Cooperation Agreement (collectively, the “2020 November Deferral Amounts”). 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 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 of default under the CIC Convertible Debenture as a result of trading in the Common Shares being halted on the TSX beginning as of June 19, 2020 and suspended on the HKEX beginning as of August 17, 2020, in each case for a period of more than five trading days.

- As consideration for the deferral of the 2020 November Deferral Amounts, the Company agreed to pay CIC: (i) a deferral fee equal to 6.4% per annum on the 2020 November Deferral Amounts payable under the CIC Convertible Debenture and the 2020 June Deferral Agreement, commencing on the date on which each such 2020 November Deferral Amount would otherwise have been due and payable under the CIC Convertible Debenture or the 2020 June Deferral Agreement, as applicable; and (ii) a deferral fee equal to 2.5% per annum on the 2020 November Deferral Amounts payable under the Amended and Restated Cooperation Agreement, commencing on the date on which the Management Fee would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.
- The 2020 November Deferral Agreement does not contemplate a fixed repayment schedule for the 2020 November Deferral Amounts and related deferral fees. Instead, the Company and CIC would agree to assess in good faith the Company's financial condition and working capital position on a monthly basis and determine the amount, if any, of the 2020 November Deferral Amounts and related deferral fees that the Company is able to repay under the CIC Convertible Debenture, the 2020 June Deferral Agreement or the Amended and Restated Cooperation Agreement, having regard to the working capital requirements of the Company's operations and business at such time and with the view of ensuring that the Company's operations and business would not be materially prejudiced as a result of any repayment.
- Commencing as of November 19, 2020 and until such time as the 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.

Until such time as the 2020 November Deferral Agreement is approved by the Company's shareholders and the deferral and waiver thereunder in favour of the Company become effective, the Company remains in default under the CIC Convertible Debenture and 2020 June Deferral Agreement and CIC may declare the amounts owing thereunder immediately due and payable, and may take steps to enforce payment thereof, which would have a material adverse effect on the business and operations of the Company and could 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.

- ***Settlement with 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.
- ***Cease Trade Order and Halt Trading on TSX*** – On June 19, 2020, the BCSC issued a general “failure to file” cease trade order (“CTO”), to prohibit the trading by any person of any securities of the Company in Canada. Trading in the Common Shares on the TSX was halted as a result of the CTO. The CTO was issued as a result of the Company’s failure to file: (i) its annual consolidated financial statements for the year ended December 31, 2019 and the accompanying Management’s Discussion and Analysis of Financial Condition and Results of Operations (“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 interim financial statements for the three and nine-month periods ended September 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.

On December 8, 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: demonstrate compliance with Rule 13.24 of the HKEX listing rules which requires that an issuer carries out a business with a sufficient level of operations and assets of sufficient value to support its operations to warrant the continued listing of the issuer’s securities.

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”). On December 16, 2020, the TSX accepted the Company’s request for a 60 day extension of the TSX Delisting Review process and the Company has been granted until February 16, 2021 to remedy the following delisting criteria, as well as any other delisting criteria that become applicable during the Remedial Review Process: (i) financial condition and/or operating results; (ii) adequate working capital and appropriate capital structure; and (iii) disclosure issues (collectively, the “Delisting Criteria”).

The TSX Continued Listing Committee has scheduled a meeting to be held on February 11, 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 February 16, 2021, the Common Shares will be delisted from the TSX 30 days from such date.

- **Changes in Directors**

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

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

- **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” of this press release for details.

OVERVIEW OF OPERATIONAL DATA AND FINANCIAL RESULTS

Summary of Operational Data

	Three months ended June 30, 2020			2019	Six months ended June 30, 2020			2019
Sales Volumes, Prices and Costs								
Premium semi-soft coking coal								
Coal sales (<i>millions of tonnes</i>)		0.21		0.12		0.28		0.23
Average realized selling price (<i>per tonne</i>)	\$	28.69	\$	32.72	\$	28.63	\$	39.72
Standard semi-soft coking coal/premium thermal coal								
Coal sales (<i>millions of tonnes</i>)		0.26		0.59		0.39		1.44
Average realized selling price (<i>per tonne</i>)	\$	33.12	\$	35.67	\$	32.98	\$	34.29
Standard thermal coal								
Coal sales (<i>millions of tonnes</i>)		–		–		–		0.09
Average realized selling price (<i>per tonne</i>)	\$	–	\$	–	\$	–	\$	33.92
Washed coal								
Coal sales (<i>millions of tonnes</i>)		0.02		0.17		0.02		0.18
Average realized selling price (<i>per tonne</i>)	\$	43.26	\$	44.20	\$	43.26	\$	44.20
Total								
Coal sales (<i>millions of tonnes</i>)		0.49		0.88		0.69		1.94
Average realized selling price (<i>per tonne</i>)	\$	31.66	\$	36.80	\$	31.52	\$	35.77
Raw coal production (<i>millions of tonnes</i>)		–		1.33		0.01		2.36
Cost of sales of product sold (<i>per tonne</i>)	\$	21.16	\$	25.04	\$	23.82	\$	23.42
Direct cash costs of product sold (<i>per tonne</i>) ⁽ⁱ⁾	\$	9.90	\$	17.18	\$	10.42	\$	13.71
Mine administration cash costs of product sold (<i>per tonne</i>) ⁽ⁱ⁾	\$	1.70	\$	1.39	\$	1.93	\$	1.40
Total cash costs of product sold (<i>per tonne</i>) ⁽ⁱ⁾	\$	11.60	\$	18.57	\$	12.35	\$	15.11
Other Operational Data								
Production waste material moved (<i>millions of bank cubic meters</i>)		–		5.34		0.57		10.25
Strip ratio (<i>bank cubic meters of waste material per tonne of coal produced</i>)		–		4.01		85.08		4.34
Lost time injury frequency rate ⁽ⁱⁱ⁾		0.04		0.06		0.06		0.03

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

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

Overview of Operational Data

For the three months ended June 30, 2020

As at June 30, 2020, the Company had a lost time injury frequency rate of 0.04 per 200,000 man hours based on a rolling 12-month average.

Despite an improvement of the product mix, the average realized selling price decreased from \$36.8 per tonne in the second quarter of 2019 to \$31.7 per tonne in the second quarter of 2020 as a result of a higher portion of sales made at the mine gate instead of transporting the coal to the Company's Inner Mongolia subsidiary and selling to third party customers within China.

The product mix for the second quarter of 2020 consisted of approximately 43% of premium semi-soft coking coal, 53% of semi-soft coking coal/premium thermal coal and 4% of washed coal compared to approximately 14% of premium semi-soft coking coal, 67% of semi-soft coking coal/premium thermal coal and 19% of washed coal in the second quarter of 2019.

The Company suspended coal exports to China beginning as of February 11, 2020 as a result of the closure of Mongolia's southern border with China in order to prevent the spread of COVID-19. 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 resumed coal exports to China gradually thereafter. As a result, the Company's sales volume decreased from 0.9 million tonnes for the second quarter of 2019 to 0.5 million tonnes for the second quarter of 2020.

The Company's production in the second quarter of 2020 was much lower than the second quarter of 2019 as a result of the temporary cessation of the Company's major mining operations (including coal mining) which took effect in February 2020 for the purpose of mitigating the financial impact of the border closures and preserving the Company's working capital.

The Company's unit cost of sales of product sold decreased to \$21.2 per tonne in the second quarter of 2020 from \$25.0 per tonne in the second quarter of 2019. The decrease was mainly driven by 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 during the quarter.

For the six months ended June 30, 2020

The Company sold 0.7 million tonnes for the first six months of 2020 as compared to 1.9 million tonnes for the first six months of 2019 due to suspension of coal exports to China beginning as of February 11, 2020 as a result of the closure of Mongolia's southern border with China in order to prevent the spread of COVID-19 and the subsequent export volume limitation imposed following the reopening of the Mongolian-Chinese border on a trial basis on March 28, 2020. The average selling price decreased from \$35.8 per tonne for the first six months of 2019 to \$31.5 per tonne for the first six months of 2020. The decrease was mainly driven by 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 during the first six months of the 2020.

The Company's production in the first six months of 2020 was much lower than the first six months of 2019 as a result of the temporary cessation of the Company's major mining operations (including coal mining) which took effect in February 2020 for the purpose of mitigating the financial impact of the border closures and preserving the Company's working capital.

The Company's unit cost of sales of product sold for the first six months of 2020 was \$23.8 per tonne, which is similar to the first six months of 2019.

Summary of Financial Results

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
<i>\$ in thousands, except per share information</i>				
Revenue ⁽ⁱ⁾	\$ 14,975	\$ 32,479	\$ 21,112	\$ 69,290
Cost of sales ⁽ⁱ⁾	(10,366)	(22,031)	(16,437)	(45,436)
Gross profit excluding idled mine asset costs ⁽ⁱⁱ⁾	6,286	11,318	7,748	25,675
Gross profit	4,609	10,448	4,675	23,854
Other operating expenses	(5,150)	(2,333)	(4,680)	(2,747)
Administration expenses	(1,291)	(2,878)	(3,062)	(5,987)
Evaluation and exploration expenses	(52)	(23)	(108)	(48)
Profit/(loss) from operations	(1,884)	5,214	(3,175)	15,072
Finance costs	(7,258)	(7,001)	(14,365)	(13,740)
Finance income	2	4,305	17	4,322
Share of earnings of a joint venture	268	375	222	827
Income tax expense	(900)	(801)	(1,632)	(2,240)
Net profit/(loss) attributable to equity holders of the Company	(9,772)	2,092	(18,933)	4,241
Basic and diluted earnings/(loss) per share	\$ (0.04)	\$ 0.01	\$ (0.07)	\$ 0.02

- (i) Revenue and cost of sales relate to the Company's Ovoot Tolgoi Mine within the Coal Division operating segment. Refer to note 3 of the condensed consolidated interim financial statements for further analysis regarding the Company's reportable operating segments. Royalties have been reclassified from revenue to cost of sales.
- (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 Financial Results

For the three months ended June 30, 2020

The Company recorded a \$1.9 million loss from operations in the second quarter of 2020 compared to a \$5.2 million profit from operations in the second quarter of 2019. The financial results were impacted by (i) the decreased sales resulting from the export volume limitation imposed following the reopening of the Mongolian-Chinese border on a trial basis on March 28, 2020; and (ii) the provision for commercial arbitration of \$4.6 million recorded in connection with the Company entering into a settlement agreement with First Concept on June 7, 2020.

Revenue was \$15.0 million in the second quarter of 2020 compared to \$32.5 million in the second quarter of 2019. The Company's effective royalty rate for the second quarter of 2020, based on the Company's average realized selling price of \$31.7 per tonne, was 11.1% or \$3.5 per tonne, compared to 7.2% or \$2.6 per tonne in the second quarter of 2019 (based on the average realized selling price of \$36.8 per tonne in the second quarter of 2019). The increase in effective royalty rate was mainly due to the new royalty regime introduced by the Government of Mongolia in the third quarter of 2019.

Royalty regime in Mongolia

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

On 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. See the section entitled "*Risk Factors – Company's Projects in Mongolia*" in the Company's MD&A for the year ended December 31, 2019, a copy of which is available under the Company's profile on SEDAR at www.sedar.com.

Cost of sales was \$10.4 million in the second quarter of 2020 compared to \$22.0 million in the second quarter of 2019. The decrease in cost of sales was mainly due to the decreased sales during the quarter. 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.

<i>\$ in thousands</i>	Three months ended	
	June 30,	
	2020	2019
Operating expenses	\$ 5,684	\$ 16,341
Share-based compensation expense	17	3
Depreciation and depletion	1,288	2,479
Royalties	<u>1,700</u>	<u>2,338</u>
Cost of sales from mine operations	8,689	21,161
Cost of sales related to idled mine assets	<u>1,677</u>	<u>870</u>
Cost of sales	<u>\$ 10,366</u>	<u>\$ 22,031</u>

Operating expenses in cost of sales were \$5.7 million in the second quarter of 2020 compared to \$16.3 million in the second quarter of 2019. The overall decrease in operating expenses was primarily due to the decreased sales volume from 0.9 million tonnes in the second quarter of 2019 to 0.5 million tonnes in the second quarter of 2020.

Cost of sales related to idled mine assets in the second quarter of 2020 included \$1.7 million related to depreciation expenses for idled equipment (second quarter of 2019: \$0.9 million).

Other operating expenses was \$5.2 million in the second quarter of 2020 (second quarter of 2019: \$2.3 million). The increase was mainly due to the provision for commercial arbitration of \$4.6 million recorded in connection with the Company entering into a settlement agreement with First Concept on June 7, 2020.

<i>\$ in thousands</i>	Three months ended June 30,	
	2020	2019
Provision for commercial arbitration	\$ (4,553)	\$ (92)
CIC management fee	(413)	(1,422)
Provision for doubtful trade and other receivables	(144)	(46)
Foreign exchange loss	(20)	(528)
Gain/(loss) on disposal of property, plant and equipment	(20)	29
Provision for prepaid expenses and deposits	–	(260)
Loss on disposal of properties for resale	–	(14)
Other operating expenses	<u>\$ (5,150)</u>	<u>\$ (2,333)</u>

Administration expenses were \$1.3 million in the second quarter of 2020 as compared to \$2.9 million in the second quarter of 2019, as follows:

<i>\$ in thousands</i>	Three months ended June 30,	
	2020	2019
Corporate administration	\$ 143	\$ 677
Professional fees	162	856
Salaries and benefits	757	1,162
Share-based compensation expense	57	11
Depreciation	172	172
Administration expenses	<u>\$ 1,291</u>	<u>\$ 2,878</u>

Administration expenses were lower for the second quarter of 2020 compared to the second quarter of 2019 primarily due to decrease in professional fees incurred during the quarter.

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

Finance costs were \$7.3 million and \$7.0 million in the second quarter of 2020 and 2019 respectively, which primarily consisted of interest expense on the \$250.0 million CIC Convertible Debenture.

For the six months ended June 30, 2020

The Company recorded a \$3.2 million loss from operations in the first six months of 2020 compared to a \$15.1 million profit from operations in the first six months of 2019. The financial results were impacted by (i) the decreased sales resulting from the suspension of coal exports to China beginning as of February 11, 2020 as a result of the closure of Mongolia's southern border with China in order to prevent the spread of COVID-19 and the subsequent export volume limitation imposed following the reopening of the Mongolian-Chinese border on a trial basis on March 28, 2020; and (ii) the provision for commercial arbitration of \$4.6 million recorded in connection with the Company entering into a settlement agreement with First Concept on June 7, 2020.

Revenue was 21.1 million in the first six months of 2020 compared to \$69.3 million in the first six months of 2019. The Company's effective royalty rate for the first six months of 2020, based on the Company's average realized selling price of \$31.5 per tonne, was 13.7% or \$4.3 per tonne, compared to 6.6% or \$2.4 per tonne in the first six months of 2019 (based on the average realized selling price of \$35.8 per tonne in the first six months of 2019). The increase in effective royalty rate was mainly due to the new royalty regime introduced by the Government of Mongolia in the third quarter of 2019.

Cost of sales was \$16.4 million in the first six months of 2020 compared to \$45.4 million in the first six months of 2019 as follows:

<i>\$ in thousands</i>	Six months ended	
	June 30,	
	2020	2019
Operating expenses	\$ 8,522	\$ 29,309
Share-based compensation expense	19	5
Depreciation and depletion	1,866	6,258
Royalties	2,957	4,577
Impairment of coal stockpile inventories	—	3,466
Cost of sales from mine operations	13,364	43,615
Cost of sales related to idled mine assets	3,073	1,821
Cost of sales	<u>\$ 16,437</u>	<u>\$ 45,436</u>

Operating expenses in cost of sales were \$8.5 million in the first six months of 2020 compared to \$29.3 million in the first six months of 2019. The overall decrease in operating expenses was primarily due to the decreased sales volume from 1.9 million tonnes in the first six months of 2019 to 0.7 million tonnes in the first six months of 2020.

Cost of sales related to idled mine assets in the first six months of 2020 included \$3.1 million related to depreciation expenses for idled equipment (first six months of 2019: \$1.8 million).

Other operating expenses was \$4.7 million in the first six months of 2020 (first six months of 2019: \$2.7 million). The increase was mainly due to the provision for commercial arbitration of \$4.6 million upon the entering of settlement agreement with First Concept.

<i>\$ in thousands</i>	Six months ended June 30,	
	2020	2019
Provision for commercial arbitration	\$ (4,634)	\$ (226)
CIC management fee	(535)	(2,180)
Provision for doubtful trade and other receivables	(282)	(97)
Foreign exchange gain	752	1
Gain on disposal of property, plant and equipment	19	29
Provision for prepaid expenses and deposits	—	(260)
Loss on disposal of properties for resale	—	(14)
Other operating expenses	<u>\$ (4,680)</u>	<u>\$ (2,747)</u>

Administration expenses were \$3.1 million in the first six months of 2020 compared to \$6.0 million in the first six months of 2019 as follows:

<i>\$ in thousands</i>	Six months ended June 30,	
	2020	2019
Corporate administration	\$ 448	\$ 1,098
Professional fees	549	2,303
Salaries and benefits	1,667	2,231
Share-based compensation expense	69	23
Depreciation	329	332
Administration expenses	<u>\$ 3,062</u>	<u>\$ 5,987</u>

Administration expenses were lower for the first six months of 2020 compared to the first six months of 2019 primarily due to decrease in professional fees incurred.

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

Finance costs were \$14.4 million and \$13.7 million in the first six months of 2020 and 2019 respectively, which primarily consisted of interest expense on the \$250.0 million CIC Convertible Debenture.

Summary of Quarterly Operational Data

Quarter Ended	2020			2019			2018		
	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	
Sales Volumes, Prices and Costs									
Premium semi-soft coking coal									
Coal sales (millions of tonnes)	0.21	0.07	0.39	0.05	0.12	0.11	0.24	0.25	
Average realized selling price (per tonne)	\$ 28.69	\$ 28.46	\$ 29.18	\$ 31.49	\$ 32.72	\$ 47.34	\$ 47.37	\$ 48.15	
Standard semi-soft coking coal/ premium thermal coal									
Coal sales (millions of tonnes)	0.26	0.13	0.40	0.51	0.59	0.85	0.40	0.26	
Average realized selling price (per tonne)	\$ 33.12	\$ 32.71	\$ 31.88	\$ 31.67	\$ 35.67	\$ 33.34	\$ 32.60	\$ 34.40	
Standard thermal coal									
Coal sales (millions of tonnes)	–	–	–	–	–	0.09	0.12	0.22	
Average realized selling price (per tonne)	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 34.88	\$ 24.26	\$ 23.49	
Washed coal									
Coal sales (millions of tonnes)	0.02	–	0.20	0.25	0.17	0.01	0.15	–	
Average realized selling price (per tonne)	\$ 43.26	\$ –	\$ 42.95	\$ 42.37	\$ 44.20	\$ 45.07	\$ 44.02	\$ –	
Total									
Coal sales (millions of tonnes)	0.49	0.20	0.99	0.81	0.88	1.06	0.91	0.73	
Average realized selling price (per tonne)	\$ 31.66	\$ 31.18	\$ 33.04	\$ 34.98	\$ 36.80	\$ 34.91	\$ 37.32	\$ 35.77	
Raw coal production (millions of tonnes)	–	0.01	1.48	1.21	1.33	1.03	1.87	1.11	
Cost of sales of product sold (per tonne)	\$ 21.16	\$ 30.36	\$ 23.68	\$ 19.16	\$ 25.04	\$ 22.08	\$ 30.80	\$ 23.44	
Direct cash costs of product sold (per tonne) ⁽ⁱ⁾	\$ 9.90	\$ 11.69	\$ 13.61	\$ 18.03	\$ 17.18	\$ 10.82	\$ 14.41	\$ 11.90	
Mine administration cash costs of product sold (per tonne) ⁽ⁱ⁾	\$ 1.70	\$ 2.50	\$ 1.29	\$ 1.09	\$ 1.39	\$ 1.41	\$ 2.19	\$ 1.24	
Total cash costs of product sold (per tonne) ⁽ⁱ⁾	\$ 11.60	\$ 14.19	\$ 14.90	\$ 19.12	\$ 18.57	\$ 12.23	\$ 16.60	\$ 13.14	

Other Operational Data

Production waste material moved (millions of bank cubic meters)	–	0.57	3.61	4.36	5.34	4.91	5.54	4.56
Strip ratio (bank cubic meters of waste material per tonne of coal produced)	–	85.08	2.44	3.61	4.01	4.76	2.97	4.11
Lost time injury frequency rate ⁽ⁱⁱ⁾	0.04	0.09	0.08	0.08	0.06	0.00	0.00	0.00

(i) A Non-IFRS financial measure. See “Non-IFRS Financial Measures” section. Cash costs of product sold exclude idled mine asset cash costs.

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

Summary of Quarterly Financial Results

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

\$ in thousands, except per share information Quarter Ended	2020			2019			2018	
	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep (Restated)
Revenue ⁽ⁱ⁾	\$ 14,975	\$ 6,137	\$ 32,113	\$ 28,309	\$ 32,479	\$ 36,811	\$ 33,814	\$ 26,277
Cost of sales ⁽ⁱ⁾	(10,366)	(6,071)	(23,446)	(15,518)	(22,031)	(23,405)	(28,027)	(17,110)
Gross profit excluding idled mine asset costs	6,286	1,462	9,971	13,664	11,318	14,357	7,305	13,195
Gross profit including idled mine asset costs	4,609	66	8,667	12,791	10,448	13,406	5,787	9,167
Other operating income/(expenses)	(5,150)	470	(1,589)	(1,245)	(2,333)	(414)	(2,921)	(3,417)
Administration expenses	(1,291)	(1,771)	(1,386)	(2,074)	(2,878)	(3,109)	(1,583)	(2,724)
Evaluation and exploration expenses	(52)	(56)	(382)	(22)	(23)	(25)	(36)	(40)
Profit/(loss) from operations	(1,884)	(1,291)	5,310	9,450	5,214	9,858	1,247	2,986
Finance costs	(7,258)	(7,135)	(7,095)	(7,184)	(7,001)	(6,739)	(10,899)	(5,758)
Finance income	2	43	36	68	4,305	17	13	106
Share of earnings/(loss) of a joint venture	268	(46)	225	277	375	452	416	247
Income tax expense	(900)	(732)	(659)	(468)	(801)	(1,439)	(1,023)	(267)
Net profit/(loss)	(9,772)	(9,161)	(2,183)	(2,143)	2,092	2,149	(10,246)	(2,686)
Basic and diluted earnings/(loss) per share	\$ (0.04)	\$ (0.03)	\$ (0.01)	\$ 0.01	\$ 0.01	\$ 0.01	\$ (0.04)	\$ (0.01)

- (i) Revenue and cost of sales relate to the Company's Ovoot Tolgoi Mine within the Coal Division operating segment. Refer to note 3 of the condensed consolidated interim financial statements for further analysis regarding the Company's reportable operating segments. Royalties have been reclassified from revenue to cost of sales.
- (ii) The financial results for the three month periods ended September 30, 2018 was restated as a result of the net effect of the Prior Restatement. Refer to management discussion & analysis for the period ended September 30, 2019, copies of which are available under the Company's profile on SEDAR at www.sedar.com.

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 June 30, 2020, the net carrying amount of the pledged items of property, plant and equipment was \$0.1 million (December 31, 2019: \$0.4 million).

As at June 30, 2020, the outstanding principal balance of the 2018 Bank Loan was \$2.8 million (December 31, 2019: \$2.8 million) and the accrued interest owed by the Company was \$0.1 million (December 31, 2019: negligible).

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

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

As at June 30, 2020, the amount of reimbursable costs and fees claimed by Turquoise Hill (the “TRQ Reimbursable Amount”) amounted to \$8.1 million (such amount is included in the trade and other payables). 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 condensed consolidated interim financial statements have been prepared on a going concern basis which assumes that the Company will continue operating until at least June 30, 2021 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. However, in order to continue as a going concern, the Company must generate sufficient operating cash flow, secure additional capital or otherwise pursue a strategic restructuring, refinancing or other transactions to provide it with additional 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 \$72.9 million as at June 30, 2020 compared to a deficiency in assets of \$49.2 million as at December 31, 2019 while the working capital deficiency (excess current liabilities over current assets) reached \$219.4 million as at June 30, 2020 compared to a working capital deficiency of \$114.7 million as at December 31, 2019.

Included in the working capital deficiency as at June 30, 2020 are significant obligations, which include the interest amounting to \$78.5 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, this 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 other current liabilities, including trade and other payables of \$84.6 million and interest payable under the CIC Convertible Debenture of \$78.5 million as at June 30, 2020. Out of trade and other payables, which require settlement in the short-term, unpaid taxes of \$32.1 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 December 23, 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. 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 transmissions and announced a lockdown of Ulaanbaatar effective as of November 12, 2020. Although the Company’s 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 June 30, 2020. The cash flow projection has taken into account the anticipated cash flow to be generated from the Company's business during the period under projection including cost saving measures. In particular, the Company has taken into account the following measures for improvement of the Company's liquidity and financial position, which include: (i) entering into the 2020 November Deferral Agreement with CIC for a deferral of the 2020 November Deferral Amounts until August 31, 2023, subject to conditions precedent therein (as disclosed in section "Liquidity and Capital Resources" of this press release); (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 June 30, 2020 and therefore are satisfied that it is appropriate to prepare the condensed consolidated interim financial statements on a going concern basis.

Factors that impact the Company's liquidity are being closely monitored and include, but are not limited to, 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 June 30, 2020 and December 31, 2019, the Company was not subject to any externally imposed capital requirements.

Impact of the COVID-19 Pandemic

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

On March 28, 2020, the 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 precautionary steps to minimize further transmission and announced a lockdown of Ulaanbaatar effective as of November 12, 2020. Although the Company's 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 reach promptly to preserve the working capital of the Company.

In the event that the Company's ability to export coal into the Chinese market becomes restricted or limited again as a result of any future restrictions which may be implemented at the 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 June 30, 2020, CIC owned approximately 23.8% of the issued and outstanding Common Shares of the Company.

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 of Directors (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 service 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 February Deferral Amounts would otherwise have been due and payable under the 2019 Deferral Agreement; and (ii) a deferral fee equal to 2.5% per annum on the Management Fee, commencing on the date on which the Management Fee would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.
- The Company agreed to provide CIC with monthly updates regarding its operational and financial affairs.
- As the Company anticipated prior to agreeing to the 2020 February Deferral Agreement that a deferral was likely required in respect of the monthly payments due and payable in the period between April 2020 and June 2020 under the 2019 Deferral Agreement and Amended and Restated Cooperation Agreement, the Company and CIC have agreed to discuss in good faith a deferral of these payments on a monthly basis as they become due. There can be no assurance, however, that a favorable outcome will be reached either at all or on favorable terms.
- The Company agreed to comply with all of its obligations under the 2019 Deferral Agreement and the Amended and Restated Cooperation Agreement, as amended by the 2020 February Deferral Agreement.
- The Company and CIC agreed that nothing in the 2020 February Deferral Agreement prejudices CIC's rights to pursue any of its remedies at any time pursuant to the 2019 Deferral Agreement and Amended and Restated Cooperation Agreement, respectively.

On March 10, 2020, the Company agreed with CIC that the 2020 March Deferral Amount which 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 Fee commencing on May 15, 2020. The 2020 May Deferral Agreement became effective on June 8, 2020, being the date on which the Company obtained the requisite acceptance of the 2020 May Deferral Agreement from the TSX as required under applicable TSX rules.

On June 19, 2020, the Company agreed with CIC that the 2020 June Deferral Amount which was due and payable to CIC on June 19, 2020 under the 2019 Deferral Agreement and the prior deferral agreements entered into during the period between February 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 of default under the CIC Convertible Debenture as a result of trading in the Common Shares being halted on the TSX beginning as of June 19, 2020 and suspended on the HKEX beginning as of August 17, 2020, in each case for a period of more than five trading days.
- As consideration for the deferral of the 2020 November Deferral Amounts, the Company agreed to pay CIC: (i) a deferral fee equal to 6.4% per annum on the 2020 November Deferral Amounts payable under the CIC Convertible Debenture and the 2020 June Deferral Agreement, commencing on the date on which each such 2020 November Deferral Amount would otherwise have been due and payable under the CIC Convertible Debenture or the 2020 June Deferral Agreement, as applicable; and (ii) a deferral fee equal to 2.5% per annum on the 2020 November Deferral Amounts payable under the Amended and Restated Cooperation Agreement, commencing on the date on which the Management Fee would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.
- The 2020 November Deferral Agreement does not contemplate a fixed repayment schedule for the 2020 November Deferral Amounts and related deferral fees. Instead, the Company and CIC would agree to assess in good faith the Company's financial condition and working capital position on a monthly basis and determine the amount, if any, of the 2020 November Deferral Amounts and related deferral fees that the Company is able to repay under the CIC Convertible Debenture, the 2020 June Deferral Agreement or the Amended and Restated Cooperation Agreement, having regard to the working capital requirements of the Company's operations and business at such time and with the view of ensuring that the Company's operations and business would not be materially prejudiced as a result of any repayment.

- Commencing as of November 19, 2020 and until such time as the 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.

Until such time as the 2020 November Deferral Agreement is approved by the Company's shareholders and the deferral and waiver thereunder in favour of the Company become effective, the Company remains in default under the CIC Convertible Debenture and 2020 June Deferral Agreement and CIC may declare the amounts owing thereunder immediately due and payable, and may take steps to enforce payment thereof, which would have a material adverse effect on the business and operations of the Company and could 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.

A deferral of the 2020 June Deferral Amount was not in effect as at June 30, 2020. Furthermore, the trading in the Common Shares on the TSX was halted for a period of more than five trading days since June 19, 2020, which represents another event of default under the CIC Convertible Debenture. Subsequently, pursuant to the 2020 November Deferral Agreement, CIC agreed to (i) a deferral of the 2020 June Deferral Amount; and (ii) waive its rights arising from any default or event of default under the CIC Convertible Debenture as a result of trading in the Common Shares being halted on the TSX beginning as of June 19, 2020 and suspended on the HKEX beginning as of August 17, 2020, in each case for a period of more than five trading days. However, the effectiveness of the deferral and waiver under the 2020 November Deferral Agreement is 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. Accordingly, the Company remains default under the CIC convertible Debenture and 2020 June Deferral Agreement as of the date hereof. International Accounting Standard ("IAS") 1 requires the Company to classify the entire balance of the CIC Convertible Debenture as a current liability as at June 30, 2020.

Commercial Arbitration in Hong Kong

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

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

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

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

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

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

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 filings (the “Restatement”).

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

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

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

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 June 30, 2020 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 June 30, 2020 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 (as defined below) 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 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 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 (“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.

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 discussion with the 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 and six months ended June 30, 2020, RDCC LLC recognized toll fee revenue of \$1.2 million (2019: \$1.8 million) and \$1.6 million (2019: \$3.7 million), respectively.

PLEDGE OF ASSETS

As at June 30, 2020, certain of the Company’s property, plant and equipment of \$0.1 million (December 31, 2019: \$0.4 million) were pledged as security for a bank loan granted to the Company.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Company did not redeem its listed securities, nor did the Company or any of its subsidiaries purchase or sell such securities during the six months ended June 30, 2020.

COMPLIANCE WITH CORPORATE GOVERNANCE

The Company has, throughout the six months ended June 30, 2020, applied the principles and complied with the requirements of its corporate governance practices as defined by the Board and all applicable statutory, regulatory and stock exchange listings standards, which include the code provisions set out in the Corporate Governance Code (the “Corporate Governance Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the “Hong Kong Listing Rules”), except for the following:

Pursuant to code provision A.2.7 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. During the period of January 1, 2020 to June 30, 2020 there were two 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. 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 six months ended June 30, 2020.

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 actions to mitigate the potential operational and financial impacts 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 is 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) improving mining operations and employing enhanced mining techniques and equipment; (ii) washing lower quality coal in the Company's coal wash plant; (iii) blending lower quality coal with higher quality coal; and (iv) adopting other processing options available to the Company.
- **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, ongoing training, productivity enhancement and engaging third party contract mining companies.
- **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, impairments 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.

Summarized Comprehensive Income Information

(Expressed in thousands of USD, except for share and per share amounts)

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Revenue	\$ 14,975	\$ 32,479	\$ 21,112	\$ 69,290
Cost of sales	(10,366)	(22,031)	(16,437)	(45,436)
Gross profit	4,609	10,448	4,675	23,854
Other operating expenses	(5,150)	(2,333)	(4,680)	(2,747)
Administration expenses	(1,291)	(2,878)	(3,062)	(5,987)
Evaluation and exploration expenses	(52)	(23)	(108)	(48)
Profit/(loss) from operations	(1,884)	5,214	(3,175)	15,072
Finance costs	(7,258)	(7,001)	(14,365)	(13,740)
Finance income	2	4,305	17	4,322
Share of earnings of a joint venture	268	375	222	827
Profit/(loss) before tax	(8,872)	2,893	(17,301)	6,481
Current income tax expense	(900)	(801)	(1,632)	(2,240)
Net profit/(loss) attributable to equity holders of the Company	(9,772)	2,092	(18,933)	4,241
Other comprehensive income to be reclassified to profit or loss in subsequent periods				
Exchange difference on translation of foreign operation	(2,352)	(852)	(4,789)	(779)
Net comprehensive income/(loss) attributable to equity holders of the Company	\$ (12,124)	\$ 1,240	\$ (23,722)	\$ 3,462
Basic and diluted earnings/(loss) per share	\$ (0.04)	\$ 0.01	\$ (0.07)	\$ 0.02

Summarized Financial Position Information

(Expressed in thousands of USD)

	As at	
	June 30, 2020	December 31, 2019
Assets		
Current assets		
Cash and cash equivalents	\$ 3,598	\$ 7,164
Restricted cash	566	862
Trade and other receivables	809	1,778
Inventories	47,369	52,237
Prepaid expenses and deposits	1,648	2,312
Total current assets	53,990	64,353
Non-current assets		
Property, plant and equipment	\$ 134,402	\$ 137,221
Inventories	3,956	9,332
Investment in a joint venture	16,883	17,521
Total non-current assets	155,241	164,074
Total assets	\$ 209,231	\$ 228,427
Equity and liabilities		
Current liabilities		
Trade and other payables	\$ 84,554	\$ 87,013
Provision for commercial arbitration	–	5,593
Deferred revenue	16,964	16,057
Interest-bearing borrowings	2,912	2,835
Lease liabilities	310	460
Current portion of convertible debenture	168,622	67,106
Total current liabilities	273,362	179,064

	As at	
	June 30, 2020	December 31, 2019
Non-current liabilities		
Lease liabilities	–	108
Convertible debenture	–	89,868
Decommissioning liability	<u>8,721</u>	<u>8,605</u>
Total non-current liabilities	<u>8,721</u>	<u>98,581</u>
Total liabilities	<u>282,083</u>	<u>277,645</u>
Equity		
Common shares	1,098,634	1,098,634
Share option reserve	52,677	52,589
Capital reserve	396	396
Exchange reserve	(28,017)	(23,228)
Accumulated deficit	<u>(1,196,542)</u>	<u>(1,177,609)</u>
Total deficiency in assets	<u>(72,852)</u>	<u>(49,218)</u>
Total equity and liabilities	<u>\$ 209,231</u>	<u>\$ 228,427</u>
Net current liabilities	\$ (219,372)	\$ (114,711)
Total assets less current liabilities	\$ (64,131)	\$ (49,363)

SELECTED INFORMATION FROM THE NOTES TO THE CONDENSED 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 in thousands, unless otherwise indicated.

1. BASIS OF PREPARATION

1.1 Corporate information and going concern

The Company's condensed consolidated interim financial statements have been prepared on a going concern basis which assumes that the Company will continue operating until at least June 30, 2021 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. However, in order to continue as a going concern, the Company must generate sufficient operating cash flow, secure additional capital or otherwise pursue a strategic restructuring, refinancing or other transactions to provide it with additional 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 \$72,852 as at June 30, 2020 compared to a deficiency in assets of \$49,218 as at December 31, 2019 while the working capital deficiency (excess current liabilities over current assets) reached \$219,372 as at June 30, 2020 compared to a working capital deficiency of \$114,711 as at December 31, 2019.

Included in the working capital deficiency as at June 30, 2020 are significant obligations, which include the interest amounting to \$78,515 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 TSX or the HKEX, this 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 \$84,554 and interest payable under the CIC Convertible Debenture of \$78,515 as at June 30, 2020. Out of trade and other payables, which require settlement in the short-term, unpaid taxes of \$32,069 are repayable on demand by SGS to the 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 December 23, 2020.

Further, the closure of the Mongolian-Chinese border during the period between February 11, 2020 to March 27, 2020 and the limitations imposed on the total volume of coal exports subsequent to the re-opening of the border on a trial basis effective as of March 28, 2020 have 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 June 30, 2020. The cash flow projection has taken into account the anticipated cash flow to be generated from the Company's business during the period under projection including cost saving measures. In particular, the Company has taken into account the following measures for improvement of the Company's liquidity and financial position, which include: (i) entering into the 2020 November Deferral Agreement with CIC, subject to conditions precedent therein, for a deferral of the 2020 November Deferral Amounts until August 31, 2023; (ii) agreeing to deferral arrangements and improved payment terms with certain vendors; (iii) 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 June 30, 2020 and therefore are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Factors that impact the Company's liquidity are being closely monitored and include, but are not limited to, impact of 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 June 30, 2020 and December 31, 2019, the Company was not subject to any externally imposed capital requirements.

1.2 Statement of compliance

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

The condensed consolidated interim financial statements of the Company for the six months ended June 30, 2020 were approved and authorized for issue by the Board of Directors of the Company on December 23, 2020.

1.3 Basis of presentation

These condensed consolidated interim financial statements have been prepared using accounting policies and methods of computation consistent with those applied in the Company's December 31, 2019 consolidated annual financial statements, except as disclosed below. These condensed consolidated interim financial statements do not include all the information and note disclosures required by IFRS for annual financial statements and therefore should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2019.

1.4 Adoption of new and revised standards and interpretations

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.

2. SEGMENTED INFORMATION

The Company's Chief Executive Officer (chief operating decision maker) reviews the financial information in order to make decisions about resources to be allocated to the segment and to assess its performance. No operating segment identified by the Board of Directors has been aggregated in arriving at the reporting segments of the Company. For management's purpose, the Company has only one reportable operating segment, which is the coal division. The division is principally engaged in coal mining, development and exploration in Mongolia, and logistics and trading of coal in Mongolia and China for the six months ended June 30, 2020 and 2019.

Since this is the only reportable and operating segment of the Company, no further analysis thereof is presented. All the revenue of the Company is generated from trading of coal for the six months ended June 30, 2020 and 2019.

2.1 Information about major customers

During the six months ended June 30, 2020, the Coal Division had seven active customers. Five customers with respective revenues contributed over 10% of the total revenue during the six months ended June 30, 2020, with the largest customer accounting for 25% of revenues, the second largest customer accounting for 23% of revenues, the third largest customer accounting for 16% of revenues, the fourth largest customer accounting for 13% of revenues and the fifth largest customer accounting for 11% of revenues. Two customers with respective revenues contributed over 10% of the total revenue during six months ended June 30, 2019, with the largest customer accounting for 51% of revenues and the second largest customer accounting for 33% of revenues.

2.2 Geographical information

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

	Mongolia	Hong Kong	China	Consolidated Total
Revenue ⁽ⁱ⁾				
For the three months ended June 30, 2020	\$ —	\$ —	\$ 14,975	\$ 14,975
For the three months ended June 30, 2019	—	—	32,479	32,479
For the six months ended June 30, 2020	\$ —	\$ —	\$ 21,112	\$ 21,112
For the six months ended June 30, 2019	—	—	69,290	69,290
Non-current assets				
As at June 30, 2020	\$ 154,455	\$ 229	\$ 557	\$ 155,241
As at December 31, 2019	162,865	390	819	164,074

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

3. REVENUE

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

4. EXPENSES BY NATURE

The Company's operating expenses by nature are summarized as follows:

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Depreciation	\$ 3,137	\$ 3,521	\$ 5,268	\$ 8,411
Auditors' remuneration	138	597	383	870
Employee benefit expense (including directors' remuneration)				
Wages and salaries	\$ 1,612	\$ 2,762	\$ 3,904	\$ 5,356
Equity-settled share option expense	73	14	88	28
Pension scheme contributions	75	384	323	691
	<u>\$ 1,760</u>	<u>\$ 3,160</u>	<u>\$ 4,315</u>	<u>\$ 6,075</u>
Lease payments under operating leases	\$ 17	\$ 19	\$ 42	\$ 78
Foreign exchange loss/(gain)	20	528	(752)	(1)
Impairment of coal stockpile inventories	—	—	—	3,466
CIC management fee	413	1,422	535	2,180
Royalties	1,700	2,338	2,957	4,577
Provision for doubtful trade and and other receivables	144	46	282	97
Provision for prepaid expenses and deposits	—	260	—	260
Loss/(gain) on disposal of property, plant and equipment	20	(29)	(19)	(29)
Provision for commercial arbitration	4,553	92	4,634	226
Loss on disposal of properties for resale	—	14	—	14
Mine operating costs and other	<u>4,957</u>	<u>15,297</u>	<u>6,642</u>	<u>27,994</u>
Total operating expenses	<u>\$ 16,859</u>	<u>\$ 27,265</u>	<u>\$ 24,287</u>	<u>\$ 54,218</u>

5. COST OF SALES

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

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Operating expenses	\$ 5,684	\$ 16,341	\$ 8,522	\$ 29,309
Share-based compensation expense	17	3	19	5
Depreciation and depletion	1,288	2,479	1,866	6,258
Royalties	1,700	2,338	2,957	4,577
Impairment of coal stockpile inventories	—	—	—	3,466
Cost of sales from mine operations	8,689	21,161	13,364	43,615
Cost of sales related to idled mine assets ⁽ⁱ⁾	1,677	870	3,073	1,821
Cost of sales	\$ 10,366	\$ 22,031	\$ 16,437	\$ 45,436

(i) Cost of sales related to idled mine assets were all related to the depreciation expense for the Company's idled plant and equipment.

Cost of inventories recognized as expense in cost of sales for the three months ended June 30, 2020 totaled \$7,228 (2019: \$18,200). Cost of inventories recognized as expense in cost of sales for the six months ended June 30, 2020 totaled \$9,822 (2019: \$34,366).

6. OTHER OPERATING EXPENSES

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

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Provision for doubtful trade and other receivables	\$ (144)	\$ (46)	\$ (282)	\$ (97)
Foreign exchange gain/(loss)	(20)	(528)	752	1
CIC management fee	(413)	(1,422)	(535)	(2,180)
Provision for commercial arbitration	(4,553)	(92)	(4,634)	(226)
Provision for prepaid expenses and deposits	—	(260)	—	(260)
Loss on disposal of properties for resale	—	(14)	—	(14)
Gain/(loss) on disposal of property, plant and equipment	(20)	29	19	29
Other operating expenses	\$ (5,150)	\$ (2,333)	\$ (4,680)	\$ (2,747)

7. FINANCE COSTS AND INCOME

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

	Three months ended, June 30,		Six months ended, June 30,	
	2020	2019	2020	2019
Interest expense on convertible debenture	\$ 6,228	\$ 5,824	\$ 12,357	\$ 11,521
Unrealized loss on embedded derivatives in convertible debenture	28	8	—	9
Value added tax on interest from intercompany loan	719	798	1,439	1,596
Interest expense on borrowings	93	247	198	425
Finance costs on leased assets	13	32	32	75
Accretion of decommissioning liability	177	92	341	114
Finance costs	\$ 7,258	\$ 7,001	\$ 14,365	\$ 13,740

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

	Three months ended, June 30, 2020		2019	Six months ended, June 30, 2020		2019
Unrealized gain on embedded derivatives in convertible debenture	\$	–	\$	–	\$	9
Interest income		2		12		8
IFRS 9 adjustment on convertible debenture		–		4,293		–
						4,293
Finance income	\$	2	\$	4,305	\$	17
						4,322

8. TAXES

The Canadian statutory tax rate was 27% (2019: 27%) on the estimated assessable profits arising in Canada during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Company operates.

	Three months ended, June 30, 2020		2019	Six months ended, June 30, 2020		2019
Current – Canada						
Charge for the period	\$	–	\$	–	\$	–
Current – elsewhere						
Charge for the period		736		1,128		1,468
Underprovision/(overprovision) in prior periods		164		(327)		164
						–
Total tax charge for the period	\$	900	\$	801	\$	1,632
						2,240

9. EARNINGS/(LOSS) PER SHARE

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

	Three months ended June 30, 2020		2019	Six months ended June 30, 2020		2019		
Net profit/(loss)	\$	(9,772)	\$	2,092	\$	(18,933)	\$	4,241
Weighted average number of shares		<u>272,703</u>		<u>272,703</u>		<u>272,703</u>		<u>272,703</u>
Basic and diluted earnings/ (loss) per share	\$	(0.04)	\$	0.01	\$	(0.07)	\$	0.02

10. TRADE AND OTHER RECEIVABLES

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

	As at	
	June 30, 2020	December 31, 2019
Trade receivables	\$ –	\$ 1,081
Other receivables	<u>809</u>	<u>697</u>
Total trade and other receivables	\$ 809	\$ 1,778

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

	As at	
	June 30, 2020	December 31, 2019
Less than 1 month	\$ 736	\$ 1,623
1 to 3 months	40	23
3 to 6 months	33	132
Over 6 months	—	—
Total trade and other receivables	\$ 809	\$ 1,778

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

The Company has determined that the loss allowance on its trade and other receivables was \$21,933 as at June 30, 2020 (December 31, 2019: \$21,976), 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. The closing allowances for trade and other receivables as at June 30, 2020 reconcile to the opening loss allowances as follows:

Loss allowance for trade and other receivables

Opening loss allowance as at January 1, 2020	\$ 21,976
Increase in loan allowance recognised in profit or loss during the period	282
Exchange realignment	<u>(325)</u>

Loss allowance as at June 30, 2020	<u>\$ 21,933</u>
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Opening loss allowance as at January 1, 2019	\$ 20,005
Increase in loan allowance recognised in profit or loss during the period	97
Loss allowance included in specific provision made during the year ended December 31, 2018	1,379
Exchange realignment	<u>(69)</u>

Loss allowance as at June 30, 2019	<u>\$ 21,412</u>
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11. TRADE AND OTHER PAYABLES

Trade and other payables of the Company primarily consists 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 the invoice date, was as follows:

	As at	
	June 30, 2020	December 31, 2019
Less than 1 month	\$ 26,160	\$ 29,750
1 to 3 months	1,324	13,165
3 to 6 months	1,745	12,218
Over 6 months	<u>55,325</u>	<u>31,880</u>
Total trade and other payables	<u>\$ 84,554</u>	<u>\$ 87,013</u>

12. ACCUMULATED DEFICIT AND DIVIDENDS

At June 30, 2020, the Company has accumulated a deficit of \$1,196,542 (December 31, 2019: \$1,177,609). No dividends have been paid or declared by the Company since inception.

REVIEW OF INTERIM RESULTS

The condensed consolidated interim financial statements of the Company for the three and six months ended June 30, 2020, which are unaudited but have been reviewed by the Company's independent auditor and the Audit Committee of the Company and they have been prepared in compliance with the IFRS, the Hong Kong Listing Rules, TSX Company Manual and other applicable legal requirements.

The Company's results for the three and six months ended June 30, 2020 are contained in the unaudited condensed consolidated interim financial statements and MD&A, available on the SEDAR website at www.sedar.com and the Company's website at www.southgobi.com.

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 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 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 the decision of MRAM 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 section "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 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 the 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 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 Resources" of this press release under the heading entitled "*Liquidity and Capital Management – 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.