SouthGobi RESOURCES

TSX: SGQ HKEX: 1878

SouthGobi Resources Ltd.
南戈壁资源有限公司

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Annual Report 2020

SouthGobi Resources Ltd.
Annual Report 2020

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SouthGobi Resources Ltd. (the "Company" or "SouthGobi") is focused on the exploration, development and production of its coking coal deposits in Mongolia's South Gobi Region. The Company has a 100% shareholding in SouthGobi Sands LLC, the Mongolian registered company that holds SouthGobi's mining licenses in Mongolia and operates the flagship Ovoot Tolgoi coal mine. Ovoot Tolgoi produces and sells coal to customers in China.

English text of this Annual Report shall prevail over the Chinese text in case of inconsistencies.

俄罗斯
Russia
蒙古
Mongolia
敖包特陶勒盖煤矿
Ovoot Tolgoi Mine
铁路 Railway
乌兰巴托
Ulaanbaatar
达兰扎德嘎德
Dalanzadgad
SouthGobi
RESOURCES
策克
Ceke
额济纳旗
Ejinaqi
酒泉
Jiuquan
嘉峪关
Jiayuguan
临河
Linhe
乌海
Wuhai
银川
Yinchuan
包头
Baotou
呼和浩特
Hohhot
二连浩特
Erenhot
乌兰察布
Ulanqab
张家口
Zhangjiakou
大同
Datong
北京
Beijing
天津
Tianjin
秦皇岛
Qinhuangdao
中国
China
Russia
Ulaanbaatar
Mongolia
Beijing
Seoul
China
Shanghai
N
200km

MESSAGE FROM THE CEO

2020 was a challenging year for many enterprises around the world and the global economy in general, primarily due to the impact of the COVID-19 pandemic. While SouthGobi was broadly impacted by the pandemic; the management team stayed positively vigilant and carefully strategized its operations in order to endure through these difficult times and continue to propel the Company forward. The Company was mainly affected in the first and second quarters of the year, and both sales and production resumed gradually in the third quarter of the year.

Beginning in early February, the Mongolian State Emergency Commission closed the southern border between Mongolia and China to prevent the spread of COVID-19, consequently, the Company suspended coal exports to China. The border was subsequently re-opened for coal exports on a trial-basis in late March, with limits imposed on the total volume of coal that was permitted to be exported during this trial period. This had a significant adverse impact on the Company's sales and cash flows in the first and second quarters of 2020, during the period of the border closure, and unfavorably impacted the Company's financial results, as revenue has decreased by 34% ($86.0 million in 2020 as compared to $129.7 million in 2019).

Management has taken a number of measures to address the financial impact of the border closures and to preserve its working capital, including temporarily ceasing major mining operations (including coal mining activities), reducing production and placing approximately half of the Company's workforce on furlough. Correspondingly, the Company has experienced a continuous improvement in the volume of coal exported to China since late March 2020. In August 2020, the Company resumed its mining operations, which includes mining, blending and washing of coal.

Management will continue to monitor the development of the COVID-19 pandemic closely and the impact it has on coal exports to China, and will react promptly to preserve the working capital of the Company. The Company is also closely managing its liquidity situation to ensure that it has sufficient working capital to operate smoothly and continually. In addition, the Company has adopted and will continue to implement strict COVID-19 precautionary measures at the mine site as well as across all offices in order to maintain normal operations as practicable, while also complying with the advice or orders of local public health authorities.

Safety continues to be one of SouthGobi's top priorities, and the Company continues to be fully committed to operate in a safe and socially responsible manner. As at December 31, 2020, the Company had a lost time injury frequency rate of 0.03 per 200,000 man hours based on a rolling 12-month average. We are proud of our track record of low incident frequency rates that have been consistently sustained over the years and we will strive to maintain this trend going forward.

Looking forward, SouthGobi will continue to implement various measures and strategies to enhance the operational efficiencies which further strengthen the Company's performance operationally and financially. The Company has recently adopted a new flat management structure and has undertaken various improvements to its sales, logistics and production processes. Management is confident that these changes will allow the Company to operate successfully during difficult times, mitigate further possible impact of COVID-19, and continue to drive the Company forward. The Company remains cautiously optimistic regarding the Chinese coal market, as coal prices are expected to be volatile, and Management will continue to monitor closely and react proactively to the dynamic market. The Company will also aim to enhance product value and quality by increasing the volume of coal being washed in the coal wash plant, expand its customer base and sales network, improve logistics and optimize its operational cost structure, while most importantly, continue to operate in a safe and socially responsible manner, in order to maximize profit and shareholders' value.

On February 10, 2021, following the resignation of Mr. Weiguo Zhang as Chief Financial Officer, the Company appointed Mr. Alan Ho as the new acting Chief Financial Officer, Mr. Tao Zhang's title was re-designated as Vice President of Sales, Mr. Aiming Guo's title was re-designated as Chief Mechanist and Mr. Munkhbat Chuluun was appointed as Vice President of Public Relations.

MESSAGE FROM THE CEO

On behalf of the management team, I would like to thank Mr. Weiguo Zhang for his leadership during his tenure with the Company. We are very pleased to welcome Messrs. Ho and Chuluun to the senior management team, and believe that their extensive knowledge and experience in their areas of expertise will complement the skills and strengths of the current senior management team and provide great benefit to SouthGobi. We look forward to leading the Company through our new flat management structure and are confident in our ability to create and maximize the Company's value by leveraging the key competitive strengths and shaping the future of the Company.

On behalf of the management team, I would like to thank all of SouthGobi's staff, communities and authorities of Mongolia, China and Canada, our customers, suppliers and shareholders for all your support throughout these difficult times.

Dalanguerban
CEO and Executive Director

BRIDGE BETWEEN MONGOLIA AND CHINA

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

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Dalanguerban

Executive Director and Chief Executive Officer

Mr. Dalanguerban, 63, was appointed as Chief Executive Officer and as the Company's Executive Director on March 31, 2020. Mr. Dalanguerban is also a Director of several of the Company's subsidiaries.

Mr. Dalanguerban is a seasoned mining professional, having accumulated over 35 years of international mining and operational experience including a number of mining projects in Mongolia. Mr. Dalanguerban had spent the majority of his career working for China Nonferrous Metal Industry's Foreign Engineering and Construction Co., Ltd. ("NFC"), in a variety of roles in various countries. Between 1985 and 2017, Mr. Dalanguerban was the Chief Representative of NFC in Mongolia. During this time in Mongolia, Mr. Dalanguerban accomplished numerous achievements including the development and commissioning of the Tumurtiin-Ovoo zinc mine, which is recognized as an "Exemplary Project of China-Mongolia Cooperation" and for which he was awarded the "Mining Contribution" prize by Mongolia's Ministry of Mines. Mr. Dalanguerban served as a director, executive deputy general manager, and general manager successively in Tsairt Minerals LLC (the holding company of the Tumurtiin-Ovoo zinc mine) from its establishment in 1997 until 2005, when the Tumurtiin-Ovoo zinc mine was put into production.

Mr. Dalanguerban cofounded the Mongolian Chinese Chamber of Commerce in Mongolia in 2002 and now serves as its Executive Vice President and Secretary-General. In 2016 Mr. Dalanguerban was awarded an honorary Doctorate Degree from the Mongolian University of Life Sciences and in 2008 he was recognized by the Mongolian government as a leading cultural contributor. Mr. Dalanguerban studied Arabic at the Shanghai International Studies University and graduated in 1980. He is a member of the Canadian Institute of Corporate Directors.

Jianmin Bao

Non-Executive Director

Mr. Bao, 53, joined the Board of Directors on March 18, 2020 as a Non-Executive Director.

Mr. Bao is currently a member of the Executive Committee of China Investment Corporation ("CIC"). He is responsible for overseeing investment projects in infrastructure, energy, oil and gas, minerals and related investment funds at CIC Capital Corporation, a wholly owned subsidiary of CIC. Mr. Bao joined CIC in 2011 when he managed its North American fund investments and private credit market investments in the Private Equity Department at CIC.

Prior to joining CIC, Mr. Bao held the position of Vice President at the Beijing branch of HSBC Bank (China) Company Limited ("HSBC China") and various senior positions in the Global Investment Banking Division of HSBC China during 2006 to 2010. Before joining HSBC China, Mr. Bao was the Head of the Export Credit Department of Export-Import Bank of China.

Mr. Bao joined the Board of PT Bumi Resources Tbk, a company listed on the Jakarta Stock Exchange (the "IDX"), on July 9, 2020. Previously, Mr. Bao was a Commissioner on the Board of Commissioners of PT Bumi Resources Tbk, and a non-executive Director of Noble Group Limited, a company listed on the Singapore Stock Exchange.

Mr. Bao received his Bachelor's Degree in 1990 and a Master's Degree of Industry and Foreign Trade in 1994 from the Shanghai Jiao Tong University. Mr. Bao is a member of the Canadian Institute of Corporate Directors.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Zhiwei Chen
Non-Executive Director

Mr. Chen, 36, joined the Board of Directors on April 13, 2018 as a Non-Executive Director.

Mr. Chen joined China Cinda (HK) Holdings Company Limited ("Cinda HK") in 2010. He is currently the Deputy General Manager responsible for managing Cinda HK's investment and financing businesses, leading a team that manages nearly US$3.5 billion in investments.

Mr. Chen is the current Executive Director and Chairman of Zhongchang International Holdings Group Limited, a company listed on the Hong Kong Stock Exchange ("HKEX"). Mr. Chen is also a Non-Executive Director of Modern Land (China) Co., Limited, China Fortune Financial Group and Silver Grant International Holdings Group Limited, each of which is listed on the HKEX. Mr. Chen has over 10 years of investment and research experience in the financial industry and, prior to joining Cinda HK, Mr. Chen was the Executive Assistant to the Chairman of TIG Group in Singapore from 2007 to 2010 and was responsible for TIG Group's private equity investment business in China. Mr. Chen was a research scholar at the National University of Singapore from 2005 to 2007.

Mr. Chen obtained his Bachelor's Degree in Economics from Tsinghua University in China in 2004 and a Master's Degree in Estate Management from National University of Singapore in 2009. Mr. Chen is a member of the Canadian Institute of Corporate Directors.

Ka Lee Ku
Non-Executive Director

Ms. Ka Lee Ku, 50, joined the Board of Directors on December 9, 2020 as a Non-Executive Director.

Ms. Ku is currently the Managing Director of the Investment Department in China Cinda (HK) Holdings Company Limited ("Cinda HK"), responsible for sourcing and execution of private and secondary market transactions valuing in excess of HK$10 billion. Ms. Ku has over 24 years' experience in the management and finance sectors and is an executive Director and Chief Executive Officer of Zhongchang International Holdings Group Limited, a company listed on the HKEX. She joined China Cinda Asset Management Co., Ltd. ("China Cinda") in 1996 and, throughout her career at China Cinda she has worked in a variety of roles and positions. Prior to her appointment in 2018 as the Managing Director of the Investment Department in Cinda HK, Ms. Ku was an Executive Director of the Investment Department in Cinda HK from March 2017 to March 2018 and a Senior Manager Assistant of the Investment Department in Cinda HK from March 2016 to March 2017. While at Cinda HK, Ms. Ku has provided corporations with financial support through loans, equity investments, mezzanine investments, bond investments, initial public offerings, and additional investment opportunities at every stage of corporate growth.

Ms. Ku studied international trade at the Hubei University in China. She obtained a diploma in Business Management from The Hong Kong Management Association and completed the Licensing Examination for Securities and Futures Intermediaries from the Hong Kong Securities and Investment Institute. Ms. Ku is a member of the Canadian Institute of Corporate Directors.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Ben Niu

Non-Executive Director

Mr. Niu, 35, joined the Board of Directors on May 30, 2019 as a Non-Executive Director.

Mr. Niu is currently a Vice President of CIC Capital and is responsible for evaluating investment opportunities in the metals and mining industry and management of CIC Capital's existing portfolio assets in the same sector. Prior to joining CIC Capital in 2019, Mr. Niu was a Senior Manager at China Minmetals Corporation, responsible for its overseas mining strategy, commodity analysis and M&A in the mining sector. Through his experience at China Minmetals Corporation and its subsidiaries, Mr. Niu has developed an extensive understanding of global mining development trends, commodity attractiveness and investment opportunity selection.

Mr. Niu received his Bachelor's and Master's Degrees from Tsinghua University in China in 2012, majoring in Electronic Engineering. Mr. Niu is a member of the Canadian Institute of Corporate Directors.

Yingbin Ian He

Independent Non-Executive Director

Mr. He, 59, joined the Board of Directors on May 16, 2017 as an Independent Non-Executive Director.

Mr. He's career in the mining industry has spanned over 30 years, with extensive senior executive and board experiences. Mr. He is the Lead Independent Director of China Gold International Resources Corp. Ltd., a company dually listed on the Toronto Stock Exchange ("TSX") and the HKEX; a Director of Tri-River Ventures Inc., a company listed on the TSX Venture Exchange (the "TSX-V"); a Director of PT Bumi Resources Tbk (IDX), and a Director and Non-Executive Chairman of Vatukoula Gold Mines Plc, formerly listed on the London Stock Exchange Alternative Investment Market. Mr. He formerly served as director of several public companies. Mr. He was the President and Director of Spur Ventures Inc. (TSX-V), and the General Manager of its operating subsidiary Yichang Mapleleaf Chemicals Inc. In his early career, Mr. He worked as a mineral process engineer and coal preparation engineer respectively with an engineering consulting firm and a Canadian mining company.

Mr. He obtained his Doctoral and Master's Degrees in Mineral Process Engineering from the University of British Columbia in Canada and his Bachelor of Engineering Degree in Coal Preparation and Utilization from Heilongjiang Institute of Mining and Technology (currently the Heilongjiang University of Science and Technology) in China. Mr. He is a member of the Canadian Institute of Mining, Metallurgy and Petroleum and the Canadian Institute of Corporate Directors.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Jin Lan Quan
Independent Non-Executive Director

Ms. Quan, 58, joined the Board of Directors on August 6, 2015 as an Independent Non-Executive Director.

Ms. Quan is an independent financial planner and business consultant based in Sydney, Australia. Prior to her current role, Ms. Quan developed extensive and diverse finance and audit experience during her time as an audit partner with one of the big four accounting firms in Sydney, Australia. Ms. Quan has extensive experience in financial consulting services with specialist skills in external auditing, internal audit structuring, corporate financing and risk management and business acquisition. Ms. Quan was previously a director of Kresta Holdings Ltd., a company listed on the Australian Stock Exchange.

Ms. Quan is a Fellow of the Association of Chartered Certified Accountants United Kingdom (ACCA UK), a P.R.C. Certified Public Accountant (CICPA), a member of the Chartered Accountants Australia & New Zealand (CA ANZ), and a member of the Canadian Institute of Corporate Directors.

Mao Sun
Independent Non-Executive Director and Lead Director

Mr. Sun, 44, joined the Board of Directors on November 5, 2015 as an Independent Non-Executive Director, he was the Company's Interim Lead Director from August 16, 2016 to May 30, 2019 and was appointed as the Lead Director on May 30, 2019.

Mr. Sun is the founding partner of Mao & Ying LLP, a private accounting firm offering tax, assurance and management consulting services.

Mr. Sun has over 15 years' experience in the accounting sector and has extensive knowledge of Canadian accounting standards, International Financial Reporting Standards and Canadian taxation laws. Mr. Sun has extensive experience with Canadian listed companies. He was appointed as the Chief Financial Officer of HFX Holding Corp. (TSX-V) in June 2014 and the Chief Financial Officer of Euro Asia Pay Holdings Inc. in June 2020. Mr. Sun was a Director and Chairman of the audit committee for Yalian Steel Corporation (TSX-V) from 2012 to 2013, and a Director and member of the audit committee for Wildsky Resources Inc. (TSX-V) (formerly China Minerals Mining Corporation) from 2017 to February 2020. Prior to founding Mao & Ying LLP, Mr. Sun was the audit manager in the Vancouver office of KPMG, an internationally recognized accounting firm.

Mr. Sun graduated from Columbia University in New York with a Master's Degree in International Affairs, International Finance and Business, and a Bachelor's Degree in Computer Science from Nanjing University, China. Mr. Sun is a member of the Institute of Chartered Accountants of British Columbia, the Canadian Tax Foundation and the Canadian Institute of Corporate Directors.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Alan Ho

Acting Chief Financial Officer

Mr. Ho, 37, was appointed as acting Chief Financial Officer of the Company on February 10, 2021. Mr. Ho is also a Director of several of the Company's subsidiaries.

Mr. Ho has over 15 years' of financial accounting, auditing and corporate finance experience and prior to his appointment as CFO, Mr. Ho held the position of the Company's Controller. Preceding his joining the Company in 2013, Mr. Ho was the audit manager in Ernst & Young, overseeing the audits of numerous public companies in diverse industries.

Mr. Ho holds a Bachelor's Degree in Economics and Finance from the University of Hong Kong and is a member of the Hong Kong Institute of Certified Public Accountants and the Canadian Institute of Corporate Directors. He is also a Chartered Financial Analyst (CFA) and a Certified Financial Risk Manager (FRM).

Tao Zhang

Vice President of Sales

Mr. Zhang, 38, was appointed as a Vice President of the Company on July 3, 2018 and his title was re-designated to Vice President of Sales on February 10, 2021. Mr. Zhang is also a Director of several of the Company's subsidiaries.

Mr. Zhang has more than 14 years of experience in corporate operations and international management in the mining industry. Prior to joining the Company, Mr. Zhang was the Senior Supervisor of NFC from June 2016 to May 2018. He joined NFC in March 2007 and from November 2007 to December 2012, he held various managerial positions in international trade and human resources at Tsairt Mineral LLC, the parent company of the Tumurtiin-Ovoo zinc mine in Mongolia.

Mr. Zhang is a certified safety engineer in China. Mr. Zhang graduated from the Central South University in China, where he obtained his Bachelor's Degree in Mining and Geotechnical in 2004 and a Master's Degree in Mining and Safety Engineering Management in 2006.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Munkhbat Chuluun
Vice President of Public Relations

Mr. Chuluun, 61, was appointed as Vice President of Public Relations on February 10, 2021 and has served as President and Executive Director of the Company's wholly-owned subsidiary SouthGobi Sands LLC ("SGS") since September 2015. Mr. Chuluun is also a Director of several of the Company's subsidiaries.

Mr. Chuluun joined SGS as an advisor in 2012 and was later appointed as interim President and Executive Director and General Manager of Government Relations and Compliance. Prior to joining SGS, Mr. Chuluun was the Project Director of Asia Development Bank, the Coordinator of The World Bank and the Deputy of Prosecutors of Mongolia. Mr. Chuluun is the New Zealand Honorary Consul-General in Mongolia and serves on the Board of AmCham Mongolia (American Chamber of Commerce), and Public Administration magazine, and is the President of the Mongolian Rugby Football Union.

Mr. Chuluun holds a Master's Degree of Social Sciences in Public Administration and Public Policy from the University of Waikato, Hamilton, New Zealand, a postgraduate Diploma in Public Administration from the Academy of Management, Ulaanbaatar, Mongolia and a Bachelor of Law from the Institute of the Ministry of Internal Affairs, Leningrad, Russia.

DIRECTORS' REPORT

The board of directors (the "Directors" and the "Board", respectively) of SouthGobi Resources Ltd. ("SGQ") is pleased to present its report along with the audited consolidated financial statements (the "Financial Statements") of SGQ together with its subsidiaries (collectively the "Company") for the financial year ended December 31, 2020 (the "Financial Year").

Principal activities, business review and geographical analysis of operations

The Company is an integrated coal mining, development and trading company. The Company's significant subsidiaries are set out in Note 30 to the Financial Statements and the activities of all major subsidiaries of the Company as at December 31, 2020 are set out in the table below:

Name	Country of incorporation	Issued and fully paid share capital/ paid-in capital/ registered capital	Principal activities
SGQ Coal Investment Pte. Ltd.	Singapore	US$1	Investment holding
SouthGobi Sands LLC	Mongolia	MNT 264,369,000	Coal mining, development and exploration of properties in Mongolia
Mazaalai Resources LLC	Mongolia	MNT1,000,000	Investment holding
SouthGobi Resources (Hong Kong) Limited	Hong Kong	HK$1	Business services and investment holding
SouthGobi Trading (Beijing) Co., Ltd.	China	US$400,000	Investment holding
Inner Mongolia SouthGobi Energy Co., Ltd.	China	CNY100,000,000	Import agency and trading of coal
Chongqing SouthGobi Energy Ltd.	China	HK$10,000,000	Coal trading
Inner Mongolia SouthGobi Enterprise Co., Ltd.	China	CNY142,857,143	Storage and warehouse service, customs clearance service and transportation for imported goods
Inner Mongolia SouthGobi Mining Development Co., Ltd.	China	CNY50,000,000	Transportation of imported goods, import and export agent for goods and technology, wholesale of coal and other mining products, coal processing, warehouse and storage, and information technology consultation services.
TST Holdings Limited	Hong Kong	US$110,000	Investment holding
TST Coal Trans LLC	Mongolia	US$100,000	Foreign trading activities, including purchase, sale, import and export of merchandise and commodities, domestic and international transportation services.

The analysis of the principal activities by geographical location of the operations of the Company for the Financial Year is set out in Note 4 to the Financial Statements.

A review of the business of the Company during the Financial Year and a further discussion and analysis of these activities, including a description of the principal risks and uncertainties the Company may be facing and an indication of likely future development in the Company's business, can be found in Management's Discussion and Analysis set out on pages 54 to 110 of this Annual Report. The discussion forms part of this directors' report.

Results

The results of the Company for the Financial Year are set out in the Consolidated Statement of Comprehensive Income on page 127 of this Annual Report.

Dividends

The Company adopted a Dividend Policy in March 2019 which sets out guidelines for the Board to consider in determining if and when dividends should be declared and paid in the future. The Company has not paid any dividends on its common shares since its incorporation and the Board does not anticipate that any dividends will be declared on the Company's common shares in the immediate or foreseeable future.

The Board will review the Dividend Policy from time to time and has the right to amend, suspend or terminate this Dividend Policy at any time in its sole and absolute discretion. There is no assurance that dividends will be paid in any particular amount for any given period. If a dividend is declared by the Board, all of the Company's common shares are entitled to an equal share in any dividends declared and paid. Please refer to the Company's website (www.southgobi.com) to obtain further details on the Dividend Policy.

The Board does not recommend the payment of any final dividend for the Financial Year (2019: Nil). No interim dividend was declared or paid during the Financial Year (2019: Nil).

Property, plant and equipment

Details of the movements in the property, plant and equipment of the Company during the Financial Year are set out in Note 16 to the Financial Statements.

Share capital

Details of the movements in the share capital of the Company during the Financial Year are set out in Note 25 to the Financial Statements and in the Consolidated Statement of Changes in Equity on page 129 of this Annual Report.

The Company did not enter into any private placements for equity or debt securities during the Financial Year.

Purchase, sale or redemption of listed securities

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Financial Year.

Reserves

Details of the reserves available for distribution to the shareholders of the Company (the "Shareholders") as at December 31, 2020 are set out in the Consolidated Statement of Changes in Equity on page 129 of this Annual Report.

Directors

The Directors during the Financial Year and up to the date of this report are as follows:

CURRENT DIRECTORS

Executive Director
Mr. Dalanguerban (1)

Non-Executive Directors
Mr. Jianmin Bao (2)
Mr. Zhiwei Chen
Ms. Ka Lee Ku (3)
Mr. Ben Niu

Independent Non-Executive Directors ("INEDs")
Mr. Yingbin Ian He
Ms. Jin Lan Quan
Mr. Mao Sun *(Independent Lead Director)*

PRIOR DIRECTORS

Executive Director
Mr. Shougao Wang (4)

Non-Executive Directors
Mr. Xiaoxiao Li (5)
Mr. Wen (Wayne) Yao (6)

Notes:

1) Mr. Dalanguerban was appointed as CEO and was elected to the Board of Directors as an Executive Director on March 31, 2020;

2) Mr. Jianmin Bao was elected to the Board of Directors as a non-executive Director on March 18, 2020;

3) Ms. Ka Lee Ku was elected to the Board of Directors as a non-executive Director on December 9, 2020;

4) Mr. Shougao Wang resigned as the CEO and Executive Director on March 31, 2020. Mr. Wang confirmed that he has no disagreement with the Board and that there were no matters which need to be brought to the attention of the Shareholders;

5) Mr. Xiaoxiao Li resigned from the Board of Directors on November 13, 2020, and ceased to be a non-executive Director at that time. Mr. Li confirmed that he had no disagreement with the Board and that there were no matters which need to be brought to the attention of the Shareholders; and

6) Mr. Wen (Wayne) Yao resigned from the Board of Directors on March 11, 2020, and ceased to be a non-executive Director at that time. Mr. Yao confirmed that he had no disagreement with the Board and that there were no matters which need to be brought to the attention of the Shareholders.

Except where such Director has already resigned from the Board, the term of office for each of the Directors will end at the conclusion of the forthcoming annual general meeting (the "2021 AGM"). In accordance with article 14.1 of the articles of continuation of the Company (the "Articles of Continuation"), all of the Directors, including the INEDs and the Non-Executive Directors, would retire and, being eligible, may offer themselves for re-election at the 2021 AGM.

The Company has received written annual confirmations of independence from Messrs. Yingbin Ian He, Mao Sun and Ms. Jin Lan Quan, all INEDs, and as at the date of this report considered them to be independent in accordance with the applicable listing rules.

Directors' service contracts

None of the Directors proposed for re-election at the 2021 AGM have a service contract with the Company, which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

Directors' interests in transactions, arrangements or contracts of significance

No transactions, arrangements or contracts of significance in relation to the Company's business to which the Company or any of its subsidiaries was a party and in which a Director or a connected entity of a Director had a material interest, whether directly or indirectly, subsisted at the end of the Financial Year or at any time during the Financial Year.

Directors' interests in competing businesses

During the Financial Year and up to the date of this report, to the best knowledge of the Directors, none of the Directors and the controlling Shareholders had any interests in businesses that compete or are likely to compete, either directly or indirectly, with the Company's business.

Directors' and chief executive's interests and short positions in shares, underlying shares and debentures

As at December 31, 2020, or in the case of a departed Director as at his resignation/retirement date, the interests of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)) were as follows:

Interests in common shares of SGQ (the "Shares"):

	Number of Shares and underlying Shares held, capacity and nature of interest						
		Number of Shares interested			Number of underlying Shares interested		
Name of Directors	Directly beneficially owned	Through spouse or minor children	Through controlled company	Beneficiary of a trust	Directly beneficially owned	Total (3)	Approximate percentage of SGQ's issued Shares (4)
Current Directors							
Yingbin Ian He	7,000	–	–	–	550,000 (2)	557,000	0.20%
Jin Lan Quan	–	–	–	–	600,000 (2)	600,000	0.22%
Mao Sun	–	–	–	–	800,000 (2)	800,000	0.29%
Former Director							
Shougao Wang	–	–	–	–	800,000 (2)	800,000	0.29%

Notes:

(1) The information as to the Shares beneficially owned or controlled or directed that is not within the knowledge of the Company, its Directors or its officers has been furnished by the applicable Shareholders or has been extracted from the public filings.

(2) These interests represented the underlying Shares comprised in the share options granted by the Company.

(3) All interests stated above are long positions.

(4) The percentage represents the total number of the Shares and the underlying Shares interested divided by the number of issued Shares as at December 31, 2020 (272,702,835 Shares).

Other than the shareholdings disclosed in the preceding table, none of the Directors of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at December 31, 2020.

DIRECTORS' REPORT

Share option plan

The particulars of the Company's share option plan (the "Share Option Plan") are set out in Note 26 to the Financial Statements. The following table discloses movements in the Company's share options for the Financial Year:

Name	Number of share options						Date of grant	Exercise period of share options	Exercise price of share options Cdn$ per share
	At January 1, 2020	Granted during the year	Exercised during the year	Forfeited during the year	Expired during the year	At December 31, 2020			
Current Directors									
Dalanguerban (1)	n/a	n/a	n/a	n/a	n/a	n/a			
	–	–	–	–	–	–			
Jianmin Bao (2)	n/a	n/a	n/a	n/a	n/a	n/a			
	–	–	–	–	–	–			
Zhiwei Chen	n/a	n/a	n/a	n/a	n/a	n/a			
	–	–	–	–	–	–			
Yingbin Ian He	100,000	–	–	–	–	100,000	05-Jun-17	Jun. 5, 2018 – Jun. 5, 2022	0.39
	150,000	–	–	–	–	150,000	30-Jun-17	Jun. 30, 2018 – Jun. 30, 2022	0.33
	150,000	–	–	–	–	150,000	03-Jul-18	Jul. 3, 2019 – Jul. 3, 2023	0.13
	150,000	–	–	–	–	150,000	11-Sep-19	Sept. 11, 2020 – Sept. 11, 2024	0.11
	550,000	**–**	**–**	**–**	**–**	**550,000**			
Ka Lee Ku (3)	n/a	n/a	n/a	n/a	n/a	n/a			
	–	–	–	–	–	–			
Ben Niu	n/a	n/a	n/a	n/a	n/a	n/a			
	–	–	–	–	–	–			
Jin Lan Quan	100,000	–	–	–	(100,000)	0	14-Dec-15	Dec. 14, 2016 – Dec. 14, 2020	0.29
	150,000	–	–	–	–	150,000	16-Nov-16	Nov. 16, 2017 – Nov. 16, 2021	0.33
	150,000	–	–	–	–	150,000	30-Jun-17	Jun. 30, 2018 – Jun. 30, 2022	0.33
	150,000	–	–	–	–	150,000	03-Jul-18	Jul. 3, 2019 – Jul. 3, 2023	0.13
	150,000	–	–	–	–	150,000	11-Sep-19	Sept. 11, 2020 – Sept. 11, 2024	0.11
	700,000	**–**	**–**	**–**	**(100,000)**	**600,000**			
Mao Sun	100,000	–	–	–	(100,000)	0	14-Dec-15	Dec. 14, 2016 – Dec. 14, 2020	0.29
	200,000	–	–	–	–	200,000	16-Nov-16	Nov. 16, 2017 – Nov. 16, 2021	0.33
	200,000	–	–	–	–	200,000	30-Jun-17	Jun 30, 2018 – Jun 30, 2022	0.33
	200,000	–	–	–	–	200,000	03-Jul-18	Jul. 3, 2019 – Jul. 3, 2023	0.13
	200,000	–	–	–	–	200,000	11-Sep-19	Sept. 11, 2020 – Sept. 11, 2024	0.11
	900,000	**–**	**–**	**–**	**(100,000)**	**800,000**			
Former Directors									
Shougao Wang (4)	400,000	–	–	–	–	400,000	16-Aug-18	Aug. 16 2019 – Aug. 16 2023	0.13
	400,000	–	–	–	–	400,000	15-Nov-19	Nov. 15, 2020 – Nov. 15, 2024	0.13
	800,000	**–**	**–**	**–**	**–**	**800,000**			
Wen Yao (5)	n/a	n/a	n/a	n/a	n/a	n/a			
	–	–	–	–	–	–			
Xiaoxiao Li (6)	n/a	n/a	n/a	n/a	n/a	n/a			
	–	–	–	–	–	–			
Total for Directors	**2,950,000**	**–**	**–**	**–**	**(200,000)**	**2,750,000**			
Other share option holders	153,828	–	–	–	(153,828)	0	01-Apr-15	Apr. 1, 2016 – Apr. 1, 2020	0.92
	1,725,000	–	–	(100,500)	–	1,624,500	16-Aug-18	Aug. 16 2019 – Aug. 16 2023	0.13
	2,025,000	–	–	(100,250)	–	1,924,750	15-Nov-19	Nov. 15, 2020 – Nov. 15, 2024	0.13
Total for other share option holders:	**3,903,828**	**–**	**–**	**(200,750)**	**(153,828)**	**3,549,250**			
TOTAL:	**6,853,828**	**–**	**–**	**(200,750)**	**(353,828)**	**6,299,250**			

Notes:

(1) Mr. Dalanguerban was appointed as CEO and Executive Director on March 31, 2020.

(2) Mr. Jianmin Bao was elected to the Board of Directors on March 18, 2020.

(3) Ms. Ka Lee Ku was elected to the Board of Directors on December 9, 2020.

(4) Mr. Shougao Wang resigned from the Board on March 31, 2020.

(5) Mr. Xiaoxiao Li resigned from Board of Directors on November 13, 2020.

(6) Mr. Wen (Wayne) Yao resigned from the Board of Directors on March 11, 2020.

Notes to the table of share options outstanding during the Financial Year:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.

2. The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

Details of the accounting policy for the Share Option Plan are set out in Note 3.11 to the Financial Statements.

Arrangement to purchase shares and debentures

Eligible employees are able to participate in the Company's share purchase plan (the "Share Purchase Plan"), which allows participants to contribute up to 7% of their basic annual salary to purchase shares in the Company. The Company contributes 50% of the participant's contribution and at the end of each calendar quarter, Shares are issued by the Company on behalf of the participants.

Save as disclosed above, at no time during the Financial Year was the Company, or any of its subsidiaries or fellow subsidiaries, or the holding company a party to any arrangements to enable the directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Substantial shareholders

The register of interests and short positions in Shares required to be kept by the Company (the "Register of Interests") showed that as at December 31, 2020, the Company has been notified of the following interests in the Shares and underlying Shares (other than those of a Director or the chief executive of the Company) representing 5% or more of the Company's issued Shares:

Name of substantial shareholders	Nature of interest	Number of Shares held [(a)(d)]	Approximate percentage of issued Shares [(e)]
Land Breeze II S.à-r.l. [(b)]	Beneficial	64,766,591	23.75%
Fullbloom Investment Corporation [(b)]	Interest of a controlled corporation	64,766,591	23.75%
China Investment Corporation ("CIC")[(b)]	Interest of controlled corporations	64,766,591	23.75%
Novel Sunrise Investments Limited ("Novel Sunrise") [(c)]	Beneficial	46,358,978	17.00%
Hope Rosy Limited [(c)]	Interest of a controlled corporation	46,358,978	17.00%
China Cinda (HK) Investments Management Company Limited [(c)]	Interest of controlled corporations	46,358,978	17.00%
China Cinda (HK) Holdings Company Limited [(c)]	Interest of controlled corporations	46,358,978	17.00%
China Cinda Asset Management Co., Limited [(c)]	Interest of controlled corporations	46,358,978	17.00%
The Ministry of Finance of the People's Republic of China ("MOF") [(c)]	Interest of controlled corporations	46,358,978	17.00%
Voyage Wisdom Limited	Beneficial	25,768,162	9.45%

DIRECTORS' REPORT

Notes:

(a) The information as to the Shares beneficially owned or controlled or directed that is not within the knowledge of the Company, its Directors or its officers has been furnished by the applicable Shareholders or has been extracted from the public filings.

(b) Land Breeze II S.à-r.l. is a wholly-owned subsidiary of Fullbloom Investment Corporation which is wholly owned by CIC. Accordingly, each of Fullbloom Investment Corporation and CIC was deemed to be interested in Shares held by Land Breeze II S.à-r.l.

(c) Novel Sunrise is a wholly-owned subsidiary of Hope Rosy Limited, which is a wholly-owned subsidiary of China Cinda (HK) Investments Management Company Limited. China Cinda (HK) Investments Management Company Limited is a wholly-owned subsidiary of China Cinda (HK) Holdings Company Limited which is wholly owned by China Cinda Asset Management Co., Limited. China Cinda Asset Management Co., Limited is indirectly controlled by MOF. Accordingly, each of Hope Rosy Limited, China Cinda (HK) Investments Management Company Limited, China Cinda (HK) Holdings Company Limited, China Cinda Asset Management Co., Limited and MOF was deemed to be interested in Shares held by Novel Sunrise.

(d) All interests stated above are long positions.

(e) The percentage represents the total number of the Shares and the underlying Shares interested divided by the number of issued Shares as at December 31, 2020 (272,702,835 Shares).

Other than the interests as disclosed above, according to the Register of Interests, the Company has not been notified of any relevant interests or short positions in the Shares and underlying Shares as at December 31, 2020.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the Company's business were entered into or existed during the Financial Year.

Emolument policy

The emolument policy of the executives of the Company is administered by the Compensation and Benefits Committee on the basis of merit, qualifications and competence and approved by the Board. The emolument policy for the rest of the employees is determined on a department by department basis with the executive in charge of each department determining the emoluments for senior employees and managers in the department and the emoluments for non-senior employees being determined by an appropriately designated manager. The emolument policy for non-executives is administered in conjunction with the human resources department and is done on the basis of merit, qualifications and competence.

The emolument policy for the Directors is administered by the Compensation and Benefits Committee and approved by the Board, having regard to comparable market statistics.

The Company has also adopted the Share Option Plan to incentivize Directors and eligible employees. Details of the plan are set out in Note 26 to the Financial Statements.

Details of the emoluments of the Directors and five individuals with the highest emoluments for the Financial Year are set out in Note A1 to the Financial Statements.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Articles of Continuation or under the laws of Canada which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

Moreover, pursuant to the terms of a convertible debenture issued by the Company to CIC on October 26, 2009 and subsequently assigned by CIC to Land Breeze II S.à-r.l. (the "CIC Convertible Debenture"), and, subject to certain exceptions, while the CIC Convertible Debenture is outstanding or while Land Breeze II S.à-r.l. beneficially owns directly or indirectly 15% of the outstanding Shares, Land Breeze II S.à-r.l. has a pre-emptive right to subscribe for any new Common Shares offered by the Company (on a pro rata basis) while pursuant to the terms of a subscription agreement dated February 24, 2015 between the Company and Novel Sunrise, subject to certain exceptions, as long as Novel Sunrise and its affiliates own, directly or indirectly, 10% or more of the outstanding Shares, Novel Sunrise has a pre-emptive right to subscribe for any Common Shares, equity securities of the Company or securities convertible into Shares or equity securities of the Company, offered by the Company (on a pro rata basis).

Sufficiency of public float

Pursuant to the rules and regulations of the Toronto Stock Exchange, a company's securities may be delisted if the number of freely-tradable, publicly held securities is less than 500,000 or the number of public security holders, each holding a board lot consisting of 100 common shares or more, is less than 150. Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the amount of public float as approved by the Toronto Stock Exchange and The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange") as at the date of this report.

Major customers and suppliers

Details of the Company's transactions with its major suppliers and customers during the Financial Year are set out below:

Purchases

The largest supplier accounted for 21% of the Company's purchases.

The five largest suppliers accounted for 63% of the Company's purchases in aggregate.

Sales

The largest customer accounted for 26% of the Company's sales.

The five largest customers accounted for 78% of the Company's sales in aggregate.

At no time during the Financial Year did a Director, a close associate (as defined in the Rules Governing the Listing of Securities on The Hong Kong Stock Exchange (the "Listing Rules")) of a Director or a Shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in any of the Company's five largest suppliers or five largest customers.

Charitable donations

During the Financial Year, the Company made charitable donations amounting to US$172,603 (2019: US$313,590).

Permitted Indemnities

The Company has arranged for appropriate insurance cover for the Directors' and Officers' liabilities in respect of legal actions against the Directors and senior management of the Company arising out of corporate activities.

Pursuant to the Articles of Continuation and subject to the Business Corporations Act of British Columbia, Canada, the Company must indemnify a director or former director of the Company and his or her heirs and legal personal representatives against all eligible penalties to which such person is or may be liable, and the Company must, after the final disposition of an eligible proceeding, pay the expenses actually and reasonably incurred by such person in respect of that proceeding.

Related party transactions

Related party transactions of the Company during the Financial Year are disclosed in Note 30 to the Financial Statements. They did not constitute connected transactions or continuing connected transactions, which are required to comply with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Equity-linked agreements

Other than the Share Option Plan and the Share Purchase Plan as disclosed above and the section headed "Management's Discussion and Analysis of Financial Condition and Results of Operations – CIC Convertible Debenture", no equity-linked agreements that (i) will or may result in the Company issuing Shares or (ii) require the Company to enter into any agreements that will or may result in the Company issuing Shares were entered into by the Company during the Financial Year or subsisted at the end of the Financial Year.

Tax relief

The Company is not aware of any relief on taxation available to the Shareholders by reason of their holdings of the Shares. If the Shareholders are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or exercising of any rights in relation to the Shares, they are advised to consult their professional advisers.

Independent auditor

PricewaterhouseCoopers LLP ("PWC Canada") resigned as the independent auditor of the Company ("Auditor") with effect from November 13, 2019 due to the new requirement of the recognition of overseas auditors under the Financial Reporting Council Ordinance (Chapter 588 of the Laws of Hong Kong). BDO Limited ("BDO") was appointed as the Auditor with effect from the same date to fill the casual vacancy created by the resignation of PWC Canada.

The Financial Statements have been audited by BDO, which will retire and, being eligible offer themselves for re-appointment at the forthcoming 2021 AGM. A resolution will be submitted at the 2021 AGM to appoint BDO as the Auditor of the Company.

On behalf of the Board

Mao Sun
Independent Lead Director
March 30, 2021

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.

CORPORATE GOVERNANCE REPORT

Corporate Governance

The Board of Directors of the Company (the "Directors" and the "Board", respectively) considers good corporate governance practices to be an important factor in the continued and long-term success of the Company by helping to maximize shareholders' value over time.

To further this philosophy and ensure that the Company follows good governance practices, the Board has taken the following steps:

- approved and adopted a mandate for the Board (the "Board Mandate"), which sets out its stewardship responsibilities;
- appointed an independent non-executive director ("INED"), as the independent Lead Director (the "Independent Lead Director"), with specific responsibilities of, among other things, providing overall leadership of the Board, maintaining the independence of the Board and ensuring that the Board carries out its responsibilities mandated by applicable statutory and regulatory requirements and stock exchange listing standards, and in accordance with best practices;
- established an Audit Committee, a Nominating and Corporate Governance Committee, a Compensation and Benefits Committee, a Health, Environment, Safety and Social Responsibility ("HESS") Committee and Operations Committee;
- reviewed, and approved amendments as required to, the Board Mandate and the respective charters for Board committees, including the Audit, Nominating and Corporate Governance, Compensation and Benefits, HESS, and Operations Committees;
- established a Disclosure Committee for the Company, comprised of members of management and the Chair of the Nominating and Corporate Governance Committee, with the mandate to oversee the Company's disclosure practices;
- reviewed, and approved amendments as required to, the Company's Disclosure Controls and Procedures, and the Corporate Disclosure and Securities Trading Policy;
- reviewed, and approved amendments as required to, the Company's Business Integrity standards, including: the Anti-Corruption Standard and the Conflicts of Interest Standard, "The Way We Work", and Guidelines for the investigation into allegations of serious wrongdoing (collectively, the "Code of Conduct Standards");
- reviewed, and approved amendments as required to, the Shareholder Communication Policy;
- reviewed, and approved amendments as required to, the Majority Voting Policy;
- reviewed, and approved amendments as required to, the Board Diversity Policy;
- reviewed, and approved amendments as required to, the Dividend Policy;

- reviewed, and approved amendments as required to, Significant Contract Committee Policy and related procurement guidelines;

- reviewed, and approved amendments as required to, the written position descriptions for the Chairman, Independent Lead Director, Chief Executive Officer (the "CEO"), Chief Financial Officer (the "CFO"), the Chief Operating Officer (the "COO"), Vice President of Sales ("VP Sales"), Deputy CFO, Controller and the Corporate Secretary, as well as the Chairs of the Audit, Nominating and Corporate Governance, Compensation and Benefits and HESS Committees clearly defining their respective roles and responsibilities;

- approved and adopted a written position description for the establishment of a Vice President of Public Relations ("VP Public Relations") position;

- adopted and implemented a compliance program for all Directors and employees, including business integrity policies and the EthicsPoint whistleblowing program; and

- formalized a process for assessing the effectiveness of the Board as a whole, the committees of the Board and the contribution of individual Directors, on a regular basis.

Implementation of Corporate Governance Policies

The Board has considered carefully the requirements of the Corporate Governance Code ("Corporate Governance Code") set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange" and the "Listing Rules" respectively) and, save as disclosed below, in the opinion of the Directors, the Company had complied with the code provisions set out in the Corporate Governance Code throughout the year ended December 31, 2020:

- pursuant to code provision A.2 of the Corporate Governance Code, the Chairman of the Board should be responsible for the overall management of the Board. The Company has not had a Chairman since November 2017. The Board has appointed an Independent Lead Director, who is fulfilling the duties of the Chairman; and

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

Pursuant to code provision A.2.7 of the Corporate Governance Code, the Chairman of the board should at least annually hold meetings with the non-executive directors (including INEDs) without the executive directors present. During the Financial Year, two (2) meetings between the Independent Lead Director, who is fulfilling the duties of the Chairman, and the non-executive directors were held. The opportunity for such communication channel is offered at the end of each Board meeting.

The Company's current practices are reviewed and updated regularly to ensure that the latest developments in corporate governance are followed and observed.

During the Financial Year, the Board reviewed the Company's governance documents and policies included in the Code of Conduct Standards. The Code of Conduct Standards were originally adopted and implemented in 2012.

CORPORATE GOVERNANCE REPORT

The Code of Conduct Standards provides that the Company's Directors, officers, employees and consultants will uphold its commitment to a culture of honesty, integrity and accountability and that the Company requires the highest standards of professional and ethical conduct from its employees, consultants, officers and Directors. The various policies forming the Code of Conduct Standards, including the Shareholder Communication Policy, Majority Voting Policy and the Board Diversity Policy are available on the Company's website (www.southgobi.com) and a copy of the Code of Conduct Standards may be obtained, without charge, by request to SouthGobi Resources Ltd. at its registered and records office in Canada, 20th floor – 250 Howe Street, Vancouver, British Columbia, Canada V6C 3R8, for the attention of the Corporate Secretary, or by phone to 604-762-6783.

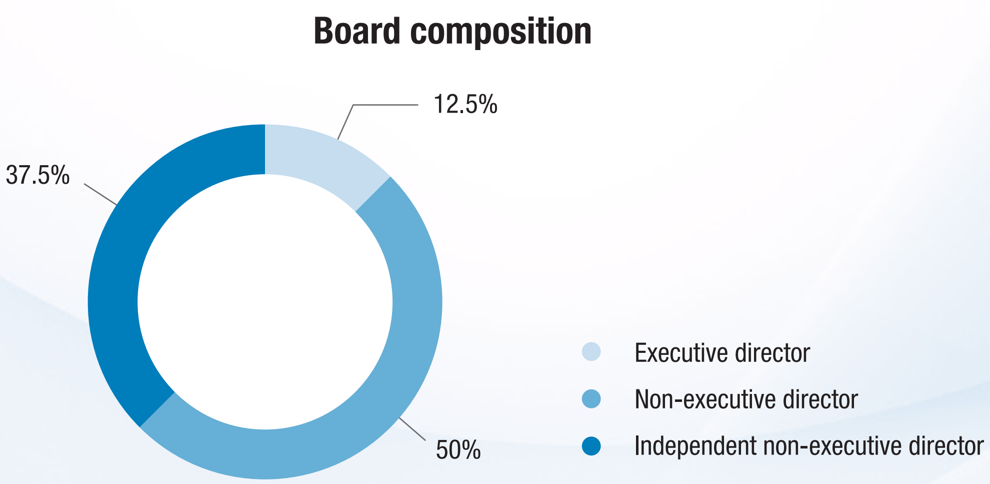
In 2016, the Company adopted and implemented the EthicsPoint whistleblowing program. EthicsPoint is the Company's confidential whistleblowing program, which is administered by an independent third party, and is available to the Company's personnel for use when someone suspects or is aware of any illegal, unsafe or inappropriate activity at work. EthicsPoint provides an avenue for the Company's personnel to raise concerns confidentially and anonymously.

The Nominating and Corporate Governance Committee monitors compliance with the Code of Conduct Standards and is responsible for establishing systems to verify compliance with legal, regulatory, corporate governance and disclosure requirements.

Board Composition

In its corporate governance guidelines, the Canadian Securities Administrators (the "CSA") recommend that a majority of the directors of a corporation be independent directors. Under the CSA corporate governance guidelines, a director is independent if he or she has no direct or indirect material relationship with the Company. A "material relationship" is one which could, in the view of the Board, be reasonably expected to interfere with the exercise of the Director's independent judgment. The Company considers that a partner, shareholder or officer of an organization that has a material relationship with the Company has an indirect material relationship under the CSA corporate governance guidelines and is, therefore, not an independent Director.

Based on the information regarding personal and business circumstances provided in a comprehensive questionnaire completed annually by each of the Directors and a reasonable enquiry of the Board to determine whether or not the members of the Board are independent, the Board has determined that three (3) of its eight (8) current members (Messrs. Yingbin Ian He, Mao Sun and Ms. Jin Lan Quan) are independent, representing 37.5% of all Board members. Moreover, seven (7) of the eight (8) Directors are non-executive Directors.



Although a majority of the Board are not independent Directors, the Board is of the view that appropriate structures and procedures are in place to allow the Board to function independently of management. The Board has appointed an INED as Independent Lead Director who is responsible for providing overall leadership of the Board and maintaining the independence of the Board. In the event that the Board must consider a potential or actual conflict, such matter is referred to the INEDs and is subject to independent scrutiny. To facilitate the exercise of independent judgment, the INEDs and non-executive directors of the Board hold meetings as required. During the Financial Year and up to the date of this report, the Directors were/are as follow:

CURRENT DIRECTORS

EXECUTIVE DIRECTOR:

Mr. Dalanguerban (1)

NON-EXECUTIVE DIRECTORS:

Mr. Jianmin Bao (2)
Mr. Zhiwei Chen
Ms. Ka Lee Ku (3)
Mr. Ben Niu

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Mr. Yingbin Ian He
Ms. Jin Lan Quan
Mr. Mao Sun *(Independent Lead Director)*

PRIOR DIRECTORS

EXECUTIVE DIRECTOR:

Mr. Shougao Wang (4)

NON-EXECUTIVE DIRECTORS:

Mr. Xiaoxiao Li (5)
Mr. Wen (Wayne) Yao (6)

Notes:

1) Mr. Dalanguerban was appointed as CEO and elected as an Executive Director to the Board of Directors on March 31, 2020;

2) Mr. Jianmin Bao was elected to the Board of Directors as a non-executive Director on March 18, 2020;

3) Ms. Ka Lee Ku was elected to the Board of Directors as a non-executive Director on December 9, 2020;

4) Mr. Shougao Wang resigned as the CEO and Executive Director on March 31, 2020. Mr. Wang confirmed that he had no disagreement with the Board and that there were no matters which need to be brought to the attention of the Shareholders;

5) Mr. Xiaoxiao Li resigned from the Board of Directors on November 13, 2020, and ceased to be a non-executive Director at that time. Mr. Li confirmed that he had no disagreement with the Board and that there were no matters which need to be brought to the attention of the Shareholders; and

6) Mr. Wen (Wayne) Yao resigned from the Board of Directors on March 11, 2020, and ceased to be a non-executive Director at that time. Mr. Yao confirmed that he had no disagreement with the Board and that there were no matters which need to be brought to the attention of the Shareholders.

CORPORATE GOVERNANCE REPORT

As at March 30, 2021, to the knowledge of the Company, each of China Investment Corporation ("CIC") (through its wholly-owned subsidiary, Land Breeze II S.à.r.l.), China Cinda Asset Management Company Limited (through its wholly-owned subsidiary, Novel Sunrise Investments Limited ("Novel Sunrise")), and Voyage Wisdom Limited held approximately 23.8%, 17.0% and 9.5% of the Company's issued and outstanding common shares, respectively.

The Company does not currently have a Chairman. Mr. Mao Sun, the Company's Independent Lead Director and an INED, is currently fulfilling the duties of the Chairman of the Company, and is responsible for, amongst other things, maintaining the independence of the Board, ensuring that the Board carries out its responsibilities and chairing meetings of the Board.

Mr. Dalanguerban, the Company's Executive Director, has been the Company's CEO since March 31, 2020, and is responsible for the Company's operations. Prior to Mr. Dalanguerban's appointment, Mr. Shougao Wang was the Company's Executive Director and CEO from June 1, 2018 to March 31, 2020.

The Company has received confirmation from each of the INEDs of his/her independence pursuant to securities laws and stock exchange rules in all applicable jurisdictions. The Company considers three (3) of the seven (7) non-executive Directors to be independent.

To the best knowledge of the Company, none of the Directors are related, except indirectly as noted below. Relationships include financial, business or family relationships. In this regard, the Company notes:

1. Messrs. Jianmin Bao, Ben Niu and Wen Yao are employees of CIC, a substantial shareholder. Messrs. Jianmin Bao and Wen Yao were nominated for election to the Board pursuant to CIC's nomination rights under a security holders' agreement executed by and among the Company, CIC, and Turquoise Hill Resources Ltd. Mr. Wen Yao ceased to be a director on March 11, 2020 and Mr. Jianmin Bao was elected to the Board on March 18, 2020.

2. Messrs. Zhiwei Chen, Xiaoxiao Li and Ms. Ka Lee Ku were nominated by Novel Sunrise, a substantial shareholder, for election to the Board pursuant to Novel Sunrise's nomination rights under a subscription agreement executed between the Company and Novel Sunrise. Mr. Xiaoxiao Li ceased to be a Director on November 13, 2020 and Ms. Ka Lee Ku was elected to the Board on December 9, 2020.

Each Director is free to exercise his or her independent judgment.

Mandate of the Board

Under the British Columbia Business Corporations Act in Canada ("BCBCA"), the Directors are required to manage the Company's business and affairs, and in doing so to act honestly and in good faith with a view to furthering the best interests of the Company. In addition, each Director must exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Board is responsible for supervising the conduct of the Company's affairs and the management of its business. The Board Mandate includes setting long-term goals and objectives for the Company, formulating the plans and strategies necessary to achieve those objectives and supervising senior management in their implementation. Although the Board delegates the responsibility for managing the day-to-day affairs of the Company to senior management, the Board retains a supervisory role in respect of, and the ultimate responsibility for, all matters relating to the Company and its business.

The Board Mandate requires that the Board be satisfied that the Company's senior management will manage the affairs of the Company in the best interest of the Shareholders and that the arrangements made for the management of the Company's business and affairs are consistent with their duties described above. The Board is responsible for protecting the Shareholders' interests and ensuring that the incentives of the Shareholders and management are aligned. The obligation of the Board must be performed continuously, and not merely from time to time, and in times of crisis or emergency, the Board may have to assume a more direct role in managing the affairs of the Company.

In discharging this responsibility, the Board Mandate provides that the Board will oversee and monitor significant corporate plans and strategic initiatives. The Board's strategic planning process includes annual and quarterly budget reviews and approvals, and discussions with management relating to strategic and budgetary issues. At least one (1) Board meeting per year is devoted to a comprehensive review of strategic corporate plans proposed by management.

As part of its ongoing review of business operations, the Board periodically reviews the principal risks inherent in the Company's business, including financial risks, through periodic reports from management of such risks, and assesses the systems established to manage those risks. Directly and through the Audit Committee, the Board also assesses the integrity of internal controls over financial reporting and management information systems.

In addition to those matters that must, by law, be approved by the Board, the Board is required under its mandate to approve annual operating and capital budgets, any material dispositions, acquisitions and investments outside of the ordinary course of business or not provided for in the approved budgets, long-term strategy, organizational development plans and the appointment of senior executive officers. Management is authorized to act, without the Board's approval, on all ordinary course matters relating to the Company's business.

The Board Mandate provides that the Board also expects management to provide the Directors, on a timely basis, with information concerning the business and affairs of the Company, including financial and operating information and information concerning industry developments as they occur, all with a view to enabling the Board to discharge its stewardship obligations effectively. The Board expects management to efficiently implement its strategic plans for the Company, to keep the Board fully apprised of its progress in doing so and to be fully accountable to the Board in respect to all matters for which it has been assigned responsibility.

The Board has instructed management to maintain procedures to monitor and promptly address Shareholders' concerns, has directed, and will continue to direct management to apprise the Board of any major concerns expressed by the Shareholders.

Each Committee of the Board is empowered to engage external advisors as it reasonably sees fit. Any individual Director is entitled to engage an outside advisor at the expense of the Company provided that such Director has obtained the approval of the Nominating and Corporate Governance Committee to do so. In order to ensure that the principal business risks borne by the Company are identified and appropriately managed, the Board receives periodic reports from management of the Company's assessment and management of such risks. In conjunction with its review of operations, the Board considers risk issues when appropriate and approves corporate policies addressing the management of the risk of the Company's business.

The Board takes ultimate responsibility for the appointment and monitoring of the Company's senior management. The Board approves the appointment of senior management and through the Compensation and Benefits Committee, reviews their performance on an annual basis.

CORPORATE GOVERNANCE REPORT

The Company has a disclosure policy addressing, among other things, the procedures and internal controls for the handling and dissemination of inside information, how the Company interacts with analysts and the public, and contains measures for the Company to avoid selective disclosure. The terms of the disclosure policy are no less exacting than those set out in the Guidelines on Disclosure of Insider Information published by the Securities and Futures Commission of Hong Kong.

The Company has a Disclosure Committee, comprised of members of management and with participation by the Chair of the Nominating and Corporate Governance Committee, and such other advisors as may be required. The Disclosure Committee is responsible for overseeing the Company's disclosure practices, including responsibility for the controls, procedures and policies with respect to corporate disclosure. The Disclosure Committee assesses materiality and determines when developments justify public disclosure. The Disclosure Committee reviews the disclosure policy annually and as otherwise needed to ensure compliance with regulatory requirements as well as reviews all documents which are reviewed by the Board and the Audit Committee. The Board reviews and approves the Company's material disclosure documents, including its Annual Report, Annual Information Form and Management Proxy Circular. The Company's annual and quarterly financial statements, Management's Discussion and Analysis and other financial disclosure are reviewed by the Audit Committee and approved by the Board prior to release.

Committees of the Board

The Board has established several Board committees, namely the Audit, Nominating and Corporate Governance, Compensation and Benefits, HESS and Operations Committees, for overseeing particular aspects of the Company's affairs.

All the Committees have been established with defined written charters, which are published on the respective websites of the Company and the Hong Kong Stock Exchange, and are available to the Shareholders upon request. All the Board committees report to the Board on their decisions or recommendations made.

Below please find the composition of the Company's Board Committees:

Audit (1)	Nominating and Corporate Governance (1)	Compensation and Benefits (1)	HESS (2)	Operations (5)
Mao Sun (Chair)	Yingbin Ian He (Chair)	Jin Lan Quan (Chair)	Dalanguerban (Chair) (3)	Yingbin Ian He (Chair)
Yingbin Ian He	Jin Lan Quan	Yingbin Ian He	Yingbin Ian He	Dalanguerban
Jin Lan Quan	Mao Sun	Mao Sun	Munkhbat Chuluun (4)	Ben Niu

Notes:

1) The Audit, Nominating and Corporate Governance, and Compensation and Benefits Committees are comprised solely of INEDs.

2) Mr. Shougao Wang ceased to be the Chair and a member of the HESS Committee on March 31, 2020.

3) Mr. Dalanguerban joined and was appointed as the Chair of the HESS Committee on March 31, 2020.

4) Mr. Munkhbat Chuluun was appointed to the HESS Committee on February 10, 2021 following the resignation of Mr. Aiming Guo from the HESS Committee. Mr. Munkhbat Chuluun is the Company's VP Public Relations and Executive Director of the Company's wholly-owned subsidiary, SouthGobi Sands LLC ("SGS").

5) The Operations Committee was formed on July 14, 2020.

Audit Committee

The Board has established an Audit Committee which operates under a charter approved by the Board. It is the Board's responsibility to ensure that the Company has an effective internal control framework. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators.

The primary objective of the Audit Committee is to act as a liaison between the Board and the Company's independent auditors (the "Auditors") and to assist the Board in fulfilling its oversight responsibilities with respect to (a) the integrity and accuracy of the financial statements and other financial information provided by the Company to its Shareholders, the public and others, (b) the Company's compliance with legal and regulatory requirements, (c) the qualification, independence and performance of the Auditors and (d) the Company's risk management and internal financial and accounting controls, and management information systems.

Although the Audit Committee has the powers and responsibilities set forth in its charter, the role of the committee is oversight. During the Financial Year, the Board reviewed the Audit Committee charter and, in November 2020, the Audit Committee charter was updated to reflect current best practices.

The members of the Audit Committee are not employees of the Company and may or may not be accountants or auditors by profession or experts in the fields of accounting or auditing and, in any event, do not serve in such a capacity. Consequently, it is not the duty of the Audit Committee to conduct audits or to determine that the Company's financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles and applicable rules and regulations. These are the responsibilities of management and the Auditors.

All services to be performed by the Auditors must be approved in advance by the Audit Committee or a designated member of the Audit Committee (a "Designated Member"). The Designated Member is a member of the Audit Committee who has been given the authority to grant pre-approvals of permitted audit and non-audit services. Pre-approvals by the Designated Member are reviewed and ratified by the Audit Committee at the next meeting thereof.

The Audit Committee has considered whether the provision of services other than audit services is compatible with maintaining the Auditors' independence and has adopted a policy governing the provision of these services. This policy requires the pre-approval by the Audit Committee or the Designated Member of all audit and non-audit services provided by the external auditors, other than any de minimis non-audit services allowed by applicable laws or regulations. The decisions of the Designated Member to pre-approve permitted services need to be reported to the Audit Committee at its regularly scheduled meetings. Pre-approval from the Audit Committee or the Designated Member can be sought for planned engagements based on budgeted or committed fees. No further approval is required to pay pre-approved fees. Additional pre-approval is required for any increase in the scope or final fees of the services. Pursuant to these procedures, 100% of each of the services provided by the Company's external auditors relating to the fees reported as audit, audit-related, tax and other fees are pre-approved by the Audit Committee or the Designated Member and then be recommended to the Board for approval or ratification.

CORPORATE GOVERNANCE REPORT

In performing its duties in accordance with the Audit Committee's Charter, the Audit Committee has:

- overseen the relationship with the Auditors;
- reviewed the quarterly, interim and annual financial statements;
- reviewed and assessed the effectiveness of the systems of risk management and internal controls. Please see the section entitled *"Risk Management and Internal Controls"* of this report; and
- reported to the Board on the proceedings and deliberations of the Audit Committee.

Nominating and Corporate Governance Committee

The Board has established a Nominating and Corporate Governance Committee which operates under a charter approved by the Board. During the Financial Year, the Board reviewed the Nominating and Corporate Governance Committee charter and the Board Mandate and, in November 2020, the Nominating and Corporate Governance Committee charter and the Board Mandate were updated to reflect current best practices.

The Company has adopted guidelines and procedures in its Nominating and Corporate Governance Committee charter that are no less exacting than those set out in the Corporate Governance Code and Corporate Governance Report, Mandatory Disclosure Requirement section L (d)(ii) in Appendix 14 to the Hong Kong Listing Rules relating to the creation of a Nomination Policy.

The primary objective of the Nominating and Corporate Governance Committee is to assist the Board in fulfilling its oversight responsibilities by (a) identifying individuals qualified to become members of the Board and the committees of the Board and recommending that the Board selects such individuals as director nominees for appointment or election to the Board or its committee, as the case may be; and (b) developing and recommending to the Board corporate governance guidelines for the Company and making recommendations to the Board with respect to corporate governance practices. The Nominating and Corporate Governance Committee monitors the disclosure of conflicts of interest to the Board with a view to ensure that no Director will vote or participate in a discussion on a matter in respect of which such Director has a material interest. Committee Chairs perform the same function with respect to meetings of each Board committee.

In performing its duties in accordance with the Nominating and Corporate Governance Committee's charter, the Nominating and Corporate Governance Committee has:

- reviewed and amended the Nominating and Corporate Governance Committee's charter to ensure that the Company has the appropriate procedures and processes in place to facilitate the nomination of Directors;
- conducted self-assessments of the Board and the Board committees;
- reviewed the structure, size and composition (including the skills, knowledge and experience, etc.) of the Board;
- made recommendations to the Board on the selection of individuals nominated for directorship in view of their qualifications and related expertise;

- made recommendations to the Board on the selection of individuals nominated for senior management roles;
- evaluated the Company's executive management succession plans;
- ensured that the Board has the necessary structures and procedures so that it can function with an appropriate degree of independence from management;
- provided a forum without management present to receive expressions of concern, including any concern regarding matters involving the independence of the Board from management;
- conducted induction programs for new Directors;
- reviewed the practices and procedures of the Board in light of ongoing developments in regulatory and stock exchange requirements and industry best practices in matters of corporate governance and recommended to the Board any changes considered necessary or desirable;
- assessed the independence of INEDs and reviewed the continuous professional development of the Directors as required by the Corporate Governance Code;
- reviewed the Company's internal governance policies being the: the Disclosure Controls and Procedures, Corporate Disclosure and Securities Trading Policy, Board Diversity Policy, Majority Voting Policy and Shareholder Communication Policy;
- reviewed the Company's Code of Conduct Standards, including: the Anti-Corruption Standard and the Conflicts of Interest Standard, The Way We Work, and Guidelines for reporting allegations of serious wrongdoing and the EthicsPoint program;
- reviewed and approved amendments to the written position descriptions for the Chairman, Lead Director, CEO, CFO, COO, VP Sales, Deputy CFO, Controller and Corporate Secretary, as well as the Chairs of the Audit, Nominating and Corporate Governance, Compensation and Benefits Committees clearly defining their respective roles and responsibilities; and
- approved the adoption of a written position description for the Company's VP Public Relations.

Compensation and Benefits Committee

The Board has established a Compensation and Benefits Committee which operates under a charter approved by the Board. During the Financial Year, the Board reviewed the Compensation and Benefits Committee charter and, in November 2020, the Compensation and Benefits Committee charter was updated to reflect current best practices.

The primary objective of the Compensation and Benefits Committee is to discharge the Board's responsibilities relating to the determination of remuneration and benefits for the Directors and executive officers of the Company. This role includes reviewing and approving executives' remuneration including long-term incentive components and making applicable recommendations to the Board, administering the employees' Equity Incentive Plan, determining the recipients as well as the nature and size of equity compensation awards and bonuses granted from time to time, and reviewing reports as may be required under applicable laws and regulations.

CORPORATE GOVERNANCE REPORT

In performing its duties in accordance with the Compensation and Benefits Committee's charter, the Compensation and Benefits Committee has:

- reviewed and made recommendations to the Board with respect to the adequacy and forms of the Company's remuneration policy relating to the remuneration and benefits of all executive officers and Directors;
- administered and made recommendations to the Board with respect to the Company's incentive compensation plans and equity-based plans;
- reviewed and approved corporate goals and objectives for the remuneration of the CEO, CFO, COO and the VP Sales evaluating their performance and setting their remuneration levels;
- recommended to the Board the performance evaluation of the CEO, CFO, COO and VP Sales, taking into consideration their annual objectives and performance; and
- determined the recipients as well as the nature and size of equity compensation awards and bonuses granted from time to time.

Health, Environment, Safety and Social Responsibility Committee (the "HESS Committee")

The Board has established a Health, Environment, Safety and Social Responsibility Committee which operates under a charter approved by the Board. During the Financial Year, the Board reviewed the HESS Committee charter and, in November 2020, the HESS Committee charter was updated to reflect current best practices.

The primary objective of the HESS Committee is to assist the Board of Directors in fulfilling its oversight responsibilities by monitoring and reviewing performance, and recommending for approval policies and management systems, with respect to health, environmental, safety and social responsibility related matters affecting the Company.

Annually, the HESS Committee reviews the Company's environmental, social and governance report (the "ESG Report") and provides guidelines and recommendations to the Company's management relating to the findings in the ESG Report. During the Financial Year, the HESS Committee reviewed its charter in light of current best practices.

Operations Committee

The Board of Directors approved the establishment of the Operations Committee on July 14, 2020. The Operations Committee operates under a charter approved by the Board. The primary objective of the Operations Committee is to assist the Board of Directors in fulfilling its oversight responsibilities with respect to mine operations and product marketing.

Ad Hoc/Special Committees

In appropriate circumstances, the Board may establish a special committee to review a matter in which certain Directors or management may have a conflict of interest.

Meetings of the Board and Committees of the Board

The Board holds regular quarterly meetings. Between quarterly meetings, the Board meets as required, generally by means of telephone conferencing facilities. As part of the quarterly meetings, the independent non-executive Directors also have the opportunity to meet separately from management. If required, between regularly scheduled Board meetings, a meeting of INEDs, chaired by the Independent Lead Director, is held by teleconference to update the Directors on corporate developments since the last Board meeting. Management also communicates informally with members of the Board on a regular basis, and may solicit the advice of the Board members on matters falling within their special knowledge or experience.

2020 Board and Committee Meetings		
Total Number of Board Meetings:		**17**
	In-Person:	0
	Via Conference Call:	17
Total Number of Audit Committee Meetings:		**9**
	In-Person:	0
	Via Conference Call:	9
Total Number of Nominating and Corporate Governance Committee Meetings:		**4**
	In-Person:	0
	Via Conference Call:	4
Total Number of Compensation and Benefits Committee Meetings:		**5**
	In-Person:	0
	Via Conference Call:	5
Total Number of HESS Committee Meetings:		**2**
	In-Person:	0
	Via Conference Call:	2
Total Number of Operations Committee Meetings:		**6**
	In-Person:	0
	Via Conference Call:	6

Due to the travel restrictions implemented as a result of the COVID-19 pandemic, all of the Company's Board and Committee meetings were held via conference call.

The 2020 annual general and special meeting of shareholders (the "2020 AGM") was held via a conference call on January 21, 2021. The Company obtained (i) an order from the British Columbia Registrar of Companies on May 7, 2020 to delay the time to hold its 2020 AGM until February 21, 2021; and (ii) approval from the Toronto Stock Exchange on November 20, 2020 to hold the 2020 AGM on or before January 21, 2021. Accordingly, notwithstanding the fact that the date of the 2020 AGM was held in 2021, the annual general and special meeting of shareholders held on January 21, 2021 constituted the Company's 2020 AGM for purposes of applicable corporate law and stock exchange rules. No other extraordinary general meeting of the Company was held during the Financial Year.

CORPORATE GOVERNANCE REPORT

Attendance by the Directors at the 2020 AGM as well as Board and Board committee meetings held in the Financial Year is shown below:

Attendance record for the 2020 AGM and Board and Board Committee meetings during the Financial Year	2020 AGM	Board meetings	Audit Committee meetings	Nominating and Corporate Governance Committee meetings	Compensation and Benefits Committee meetings	HESS Committee meetings	Operations Committee[(1)] meetings
		(Number of Attendances/Number of Meetings)					
Executive Director							
Mr. Dalanguerban [(2)]	0/1	12/14	N/A	N/A	N/A	N/A	6/6
Non-Executive Directors							
Mr. Jianmin Bao [(3)] [(4)]	1/1	11/15	N/A	N/A	N/A	N/A	N/A
Mr. Zhiwei Chen	0/1	16/17	N/A	N/A	N/A	N/A	N/A
Ms. Ka Lee Ku [(5)]	0/1	4/4	N/A	N/A	N/A	N/A	N/A
Mr. Ben Niu [(4)]	1/1	16/16	N/A	N/A	N/A	N/A	6/6
Independent Non-Executive Directors							
Mr. Yingbin Ian He	1/1	17/17	7/7	3/3	3/3	2/2	6/6
Ms. Jin Lan Quan	1/1	17/17	7/7	3/3	3/3	N/A	N/A
Mr. Mao Sun	1/1	17/17	7/7	2/3	3/3	N/A	N/A
Prior Directors							
Executive Director							
Mr. Shougao Wang [(6)]	N/A	3/3	N/A	N/A	N/A	2/2	N/A
Non-Executive Directors							
Mr. Xiaoxiao Li [(7)]	N/A	15/15	N/A	N/A	N/A	N/A	N/A
Mr. Wen (Wayne) Yao [(4)(8)]	N/A	14/14	N/A	N/A	N/A	N/A	N/A

Notes:

1) The Operations Committee was formed on July 14, 2020.

2) Mr. Dalanguerban was elected to the Board on March 31, 2020 and there were 14 meetings subsequent to that date.

3) Mr. Jianmin Bao was elected to the Board on March 18, 2020 and there were 15 meetings subsequent to that date.

4) One (1) meeting of the Board of Directors was held without CIC nominee Directors in attendance and was therefore not attended by Messrs. Jianmin Bao and Ben Niu, CIC's nominee directors.

5) Ms. Ka lee Ku was elected to the Board on December 9, 2020 and there were four (4) meetings subsequent to that date.

6) Mr. Shougao Wang resigned from the Board on March 31, 2020.

7) Mr. Xiaoxiao Li resigned from the Board of Directors on November 13, 2020.

8) Mr. Wen (Wayne) Yao resigned from the Board of Directors on March 11, 2020.

The 2020 AGM was held in Vancouver, Canada on January 21, 2021 and was attended by Messrs. Jianmin Bao, Yingbin Ian He, Ben Niu, Mao Sun and Ms. Jin Lan Quan.

Professional Development

The Company takes steps to ensure that prospective Directors fully understand the role of the Board and its Committees and the contribution of individual Directors are expected to make, including, in particular, the commitment of time and energy that the Company expects. New Directors are provided with a director orientation and are also briefed by management as to the status of the Company's business and are encouraged to visit the Company's properties and sites.

In addition, all Directors received a comprehensive briefing on the duties, responsibilities and liabilities of Directors, including the statutory duties of Directors to act honestly and in good faith with a view to the best interests of the Company when exercising the powers and performing the functions of Directors. In particular, the briefings focused on the Directors' obligations to provide objective oversight of the Company on behalf of all Shareholders notwithstanding other prior or current relationships.

Management and outside advisors provide information and education sessions to the Board and its committees as necessary to keep the Directors up-to-date with the Company, its business and the environment in which it operates as well as with developments and best practices relating to the responsibilities of directors. Presentations are made to the Directors from time to time to educate and keep them informed of changes within the Company and of regulatory and industry requirements and standards.

2020 PROFESSIONAL DEVELOPMENT	
All Directors:	**Canadian Institute of Corporate Directors (the "ICD") membership:** As a means of facilitating continuing education opportunities for the Directors, all Directors are members of the ICD and have the opportunity to attend on-line courses, conducted by the ICD, relevant to the Company and its business, particularly with respect to corporate governance and the mining industry, at the Company's expense. Through the ICD, the Directors receive regular updates on numerous matters.
Mr. Yingbin Ian He:	• Tis the Season for Change: Release of Industry Recommended Practices For 2021 Virtual Meetings • Key Legislative Changes That Impact Your 2021 Global Hiring Decisions • Making Sense of Remarkable Times: A 2021 Economic Outlook with BCBC's Chief Economist Ken Peacock • Executing a Successful IPO • How to Promote Efficiencies and Avoid Cross-Border M&A Integration Pitfalls • Navigating Updates in International Arbitration for Canadian Businesses • Mine: Canada and the New Markets • More ESG Data, Deeper ESG Intelligence – and New Insights for Portfolio Performance • Privacy Law Reform – What's next for Canadian businesses • Managing Up, Down and Across: How to Navigate the Workplace with Courage • Canadian Securities Litigation Outlook – 2020 Edition • 2020 ICD Fellowship Awards Tribute Series: Sarah Reiss • CPAB's Mining Industry Forum – Audit Committee Issues • The Rise of the SPAC • Governance professional Learning – The Power of Cognitive Diversity • Greasing the wheels: Using Rep & Warranty Insurance to get the Deal Done • Executive Compensation 2020: Topics Arising from Recent Disruption • Tools to Effectively Evaluate and Communicate the Potential Value of Mineral Projects • The Changing Role of the CEO and Corporations in Society

CORPORATE GOVERNANCE REPORT

2020 PROFESSIONAL DEVELOPMENT

Mr. Yingbin Ian He: continued

- Climate Change, COVID-19 and Canadian Business: Our Path Ahead
- Essential ESG – Climate and ESG Discussion with Tom Steyer
- University Essentials: COVID-19 Recovery, ESG & Sustainability in Business
- Corporate Financing in the Midst of a Pandemic
- 2020 ICD Fellowship Awards Tribute Series: Frank McKenna, Paying tribute to excellence in Corporate Governance
- Corporate Exploration Strategies 2020
- 2020 ICD Fellowship Awards Tribute Series: Donald Lowry
- See What Matters: The Increasing Value of ESG in Our Post Pandemic Recovery
- LinkedIn Learning Virtual Summit – The Future of Learning Is Now
- The State of BEPS now: From Country-by-Country Reporting to Pillars One and Two
- A New Approach to 2021 Budgeting and Strategic Planning (Asia-focused)
- Generational Differences in the Workplace: Fact or Fiction?
- Global Developments in the Mining Industry during the Pandemic
- CPAB Audit Committee Forum
- Cross-Border HR M&A Compliance & Trends: A roundtable discussion
- Part 2 The Hong Kong Limited Partnership Fund Regime
- Managing Directors' & Officers' Risk in a COVID-19 World
- Convergence of the Cutting Edges: Data Meet Delivery
- The Board's Role Beyond the COVID Crisis
- International Research Roundtable Public Webinar – Pension Fund and the Transition to a Low Carbon Economy
- International Research Roundtable Public Webinar – Conservation Finance and Effective Governance
- Q2 Power Forecast: Wholesale Electricity Markets in Transition
- NEO Presents: The Moment for Modernization Leading Diversity and Inclusion
- State of the Market: Mining Q2-2020
- The Responsibilities of Public Company Directors, Disclosure and Connected Party Transactions
- Leading Diversity and Inclusion
- Alternative Capital Markets Financing Options
- Biotechnology for Exploration, Extraction, and Remediation
- Audit Committees and Climate-related Financial Risk: Do you know your role as an audit committee member?
- Putting Climate Change Risk on the Boardroom Table – A Conversation with Carol Hansell and Gigi Dawe
- COVID-19 Update: Impacts on Metal Markets
- How to Tell a Great Story Using Data
- HR & Compensation Committee – Executive Compensation Trends: Key Learning's from the 2020 Proxy Season
- D&O Liability Insurance for Canadian Mining Issuers in COVID-19 Context
- Employment: Have you addressed your privacy concerns?
- Insolvency: Managing Personal Information in an Insolvency Proceeding
- COVID 19 – Implication for Audit Committee
- Privacy: Managing a privacy program in the post-COVID Environment
- COVID-19: Guidance for employers in British Columbia
- Planning for an AGM during the COVID-19 Pandemic
- Financing on the Front Lines – Current Considerations for PE-Backed Companies Beyond MAC and Force Majeure Clauses

2020 PROFESSIONAL DEVELOPMENT	
Mr. Yingbin Ian He: continued	• Elements of a M&A Deal and the Impact of COVID-19 • Tackling COVID-19: Global collaborations in therapeutic drug trials and vaccine development • COVID 19 Business Resumption Issues for Directors • State of the Market: Mining Q1-2020 • COVID-19 Legal Perspectives: Virtual Disputes: Changes, Options and Best Practices • How to participate in a distressed M&A environment • Regional Perspectives on Managing Financial Crime Compliance Risks in a COVID-19 World • COVID-19: A Post-pandemic Economic Analysis • How to Have a Successful Annual Meeting During COVID-19 • Key Contract Provisions in a Crisis Situation (COVID-19)
Mr. Mao Sun:	• Board Matters, Q3 Financial Reporting Update • The Latest Developments in Financial Reporting • Taking Ownership: The Board's Role in Preventing, Detecting and Addressing Fraud • Key Contract Provisions in a Crisis Situation • Strategy Interrupted: Rethinking Strategic Oversight • Managing Directors' and Officers' Risk in a COVID-19 World • Executive Compensation Trends: Key Learnings from the 2020 Proxy Season • COVID-19, What Canadian Directors Need to Know • Income Tax Opportunities in Light of COVID-19 • Managing Risk and Protecting Interests during CRA Audits • GST/HST and PST Implications of COVID-19 • Tax and Employment Consequences of COVID-19 • Mastering Your Ethical Intelligence • 2020 Tax Update • Trust Planning Issues • Beneficial Ownership Registries and B.C. Real Estate Taxes • Thorsteinssons 2020 Tax Update
Ms. Jin Lan Quan:	• Strategic Communication for Finance Professionals During COVID-19 Pandemic • Advanced Budgeting, Planning and Forecasting • Board Oversight of Strategy

Throughout the Financial Year, all of the Directors were provided with written materials to support their professional development. In addition to the above-mentioned professional development programs, during the Financial Year, Messrs. Jianmin Bao, Zhiwei Chen, Dalanguerban, Ben Niu and Ms. Ka Lee Ku continued their professional development by reviewing materials on directors' roles and functions and corporate governance practices.

Ethical Business Conduct

The Company's current practices are reviewed and updated regularly to ensure that the latest developments in corporate governance are followed and observed.

In 2012, the Company adopted and implemented a revised Code of Business Conduct and Ethics (the "Ethics Policy") called "The Way We Work". The Ethics Policy is applicable to all employees, consultants, officers and Directors regardless of their position in the organization, at all times and everywhere the Company does business.

CORPORATE GOVERNANCE REPORT

In addition to "The Way We Work ", the Company has also adopted additional guidance notes and standards which, form part of the Company's overall Code of Conduct Standards. Included in the Code of Conduct Standards are the following policies and standards: the Anti-Corruption Standard and the Conflicts of Interest Standard, "The Way We Work" and Guidelines for the investigation into allegations of serious wrongdoing and the EthicsPoint program.

EthicsPoint is the Company's whistleblowing service which is administered by an independent third party provider. EthicsPoint provides an avenue for the Company's personnel to raise concerns confidentially and anonymously and it is available for use should someone suspect or be aware of any illegal, unsafe or inappropriate activity at work. Information regarding EthicsPoint is available on the Company's website (www.southgobi.com).

The Ethics Policy and the Code of Conduct Standards provide that the Company's employees, consultants, officers and Directors will uphold its commitment to a culture of honesty, integrity and accountability and that the Company requires the highest standards of professional and ethical conduct from its employees, consultants, officers and Directors. A copy of the Ethics Policy entitled "The Way We Work" and the various policies forming the Code of Conduct Standards are available on the Company's website (www.southgobi.com) and may be obtained, without charge, by request to SouthGobi Resources Ltd. at its registered and records office in Canada, 20th floor – 250 Howe Street, Vancouver, British Columbia, Canada V6C 3R8, for the attention of the Corporate Secretary, or by phone to 604-762-6783.

The Nominating and Corporate Governance Committee monitors compliance with the Code of Conduct Standards and is responsible for establishing systems to verify compliance with legal, regulatory, corporate governance and disclosure requirements.

In 2019, a review was conducted of all of the Company's material internal controls, including financial, operational and compliance controls and risk management functions in respect of the effectiveness of the Company's internal control system, adequacy of resources and qualifications and experience of staff of the Company's accounting and financial reporting function. Following the review, the Board was satisfied that, following the implementation of certain recommended remedial actions and preventative measures, the internal control procedures were effective and in compliance with the Company's policies.

Shareholder Communication Policy

The Company has a Shareholder Communication Policy which sets out the general policy and measures adopted by the Company in respect of its communication with Shareholders, both individual and institutional, and, when appropriate, potential investors and analysts who report on and analyze the Company's performance (collectively, the "investment community"), with the objective that all of them will be provided with complete, equal, and timely information about the Company (including its financial performance, strategic goals and plans, material business developments, corporate governance, risk profile and other material information) in order to enable Shareholders to make an informed decision with respect to their shares and other securities of the Company and to allow the investment community to engage in constructive dialogue with the Company.

A copy of the Shareholder Communication Policy is available on the Company's website (www.southgobi.com) and may be obtained, without charge, by request to SouthGobi Resources Ltd., 20th floor – 250 Howe Street, Vancouver, British Columbia, Canada V6C 3R8, for the attention of the Corporate Secretary, or by phone to 604-762-6783.

Board Diversity Policy

The Company believes that a diverse board will enhance the decision making of the Board by utilizing the difference in skills, experience and background, geographical and industry experience, ethnicity, gender, knowledge and length of services, and other distinguishing qualities of the members of the Board. In support of this belief, the Board adopted a Board Diversity Policy in March 2014 and approved the adoption of certain amendments to the Board Diversity Policy in November 2017. All Board appointments will continue to be based on merit, having due regard to the overall effectiveness of the Board and diversity will be one of the criteria considered in determining the optimum composition of the Board. A copy of the Board Diversity Policy is available on the Company's website (www.southgobi.com) and may be obtained, without charge, by request to SouthGobi Resources Ltd., 20th floor – 250 Howe Street, Vancouver, British Columbia, Canada V6C 3R8, for the attention of the Corporate Secretary, or by phone to 604-762-6783.

In accordance with the Board Diversity Policy, Ms. Jin Lan Quan joined the Board on August 6, 2015 and Ms. Ka Lee Ku joined the Board on December 9, 2020.

Ms. Jin Lan Quan joined the Audit Committee on September 1, 2015, the Nominating and Corporate Governance Committee on December 14, 2015, the Compensation and Benefits Committee on June 30, 2016 and was a member of the Special Committee. Ms. Jin Lan Quan has extensive experience in financial consulting services with specialist skills in external auditing, internal audit structuring, corporate financing, risk management and business acquisition.

Ms. Ka Lee Ku is currently the Managing Director of the Investment Department in Cinda HK, responsible for sourcing and execution of private and secondary market transactions valuing in excess of HK$10 billion. Ms. Ka Lee Ku has over 24 years' experience in the management and finance sectors.

The Board currently consists of two (2) women and six (6) men, with females representing 25% of the total number of Directors.

Appointment and Re-election of Directors

The Board determines, in light of the opportunities and risks facing the Company, what competencies, skills and personal qualities it should seek in new Board members in order to add value to the Company. Based on this framework, the Nominating and Corporate Governance Committee has developed a skills matrix outlining the Company's desired complement of directors' competencies, skills and characteristics. The specific make-up of the matrix includes such items and experiences as international business exposure, leading growth-orientated companies, diversity, financial literacy, legal knowledge, corporate governance, etc. The Nominating and Corporate Governance Committee annually assesses the current competencies and skill-sets represented on the Board and utilizes the matrix to determine the Board's strengths and identify any gaps that need to be filled. This analysis assists the Nominating and Corporate Governance Committee in discharging its responsibility for approaching and proposing to the full Board new nominees to the Board, and for assessing the Directors on an ongoing basis. The Nominating and Governance Committee believes that the Board should be comprised of directors with a broad range of experience and expertise and utilizes a skills matrix to identify those areas which are necessary for the Board to carry out its mandate effectively. The following table reflects the diverse skill set requirements of the Board and identifies the specific experience and expertise brought by each individual Director nominee.

CORPORATE GOVERNANCE REPORT

Director	Corporate Governance	Mining Industry	General Business Management	Compensation/ Human Resources	Finance	Audit	Mongolia Specific	Public Company	China Specific	Mining Expertise
Mr. Dalanguerban	✓	✓	✓	✓	✓		✓		✓	✓
Mr. Jianmin Bao	✓		✓		✓				✓	
Mr. Zhiwei Chen	✓		✓		✓				✓	
Mr. Yingbin Ian He	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Ms. Ka Lee Ku	✓		✓		✓				✓	
Mr. Ben Niu		✓	✓						✓	
Ms. Jin Lan Quan	✓		✓	✓	✓	✓		✓	✓	
Mr. Mao Sun	✓		✓	✓	✓	✓		✓	✓	

Unless a Director dies, resigns or is removed from office in accordance with the BCBCA, the term of office of each of the incumbent Director ends at the conclusion of the next AGM following his or her most recent election or appointment.

At every AGM, the Shareholders entitled to attend and vote at the AGM for the election of Directors have the right to elect a Board consisting of the number of Directors for the time being set under the articles of continuation for the Company (the "Articles") and all the Directors cease to hold office immediately before such election but are eligible for re-election. If the Company fails to hold an AGM on or before the date by which the AGM is required to be held under the BCBCA or the Shareholders fail, at the AGM, to elect or appoint any Directors, each Director then in office continues to hold office until the earlier of:

- the date on which his or her successor is elected or appointed; and
- the date on which he or she otherwise ceases to hold office under the BCBCA or the Articles.

Securities Transactions by Directors

The Company has adopted policies 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, Appendix 10 to the Hong Kong Listing Rules. The Company receives confirmation that the Directors have received, reviewed and agreed to abide by the terms of the Corporate Disclosure, Confidentiality and Securities Trading Policy throughout the Financial Year.

Furthermore, if a Director (a) enters into a transaction involving securities of the Company or, for any other reason, the direct or indirect beneficial ownership of, or control or direction over, securities of the Company changes from that shown or required to be shown in the latest insider report filed by the Director, or (b) the Director enters into a transaction involving a related financial instrument, the Director must, within the prescribed period, file (i) an insider report in the required form on the System for Electronic Disclosure by Insiders ("SEDI") website (www.sedi.ca) operated by the Canadian Securities Administrators and (ii) a Form 3A with the Hong Kong Stock Exchange.

A "related financial instrument" is defined as: (a) an instrument, agreement, security or exchange contract, the value, market price or payment obligations of which is/are derived from, referenced to or based on the value, market price or payment obligations of a security, or (b) any other instrument, agreement or understanding that affects, directly or indirectly, a person's economic interest in respect of a security or an exchange contract.

Remuneration of Directors

The Compensation and Benefits Committee periodically reviews and makes recommendations to the Board regarding the adequacy and forms of remuneration for non-management Directors to ensure that such remuneration realistically reflects the responsibilities and risks involved in being an effective Director, without compromising a Director's independence. Directors who are executives of the Company or who are nominee Directors receive no additional remuneration for their services as Directors.

Based on the recommendations provided in the remuneration report commissioned from Roger Gurr & Associates (the "Roger Gurr Report"), the annual retainer for the Financial Year for each of the independent non-executive Directors was approved as below:

	CAD$
Independent Directors:	45,000
Lead Director:	25,000
Audit Committee Chair:	20,000
Nominating and Corporate Governance Committee Chair:	20,000
Compensation and Benefits Committee Chair:	10,000
Operations Committee Chair:	nil

Should the HESS Committee be chaired by an independent non-executive director, he or she would be entitled to receive the CAD$10,000 annual retainer. There are no fees paid to the Chair or members of the Operations Committee.

The meeting fees for each of the independent non-executive Directors is CAD$1,500 for each Board meeting and each Committee meeting attended. Directors also receive a travel allowance of CAD$2,000 per round-trip in excess of four (4) hours' travel time and per diem while traveling on behalf of the Company.

There were no options granted to Directors or senior management during the Financial Year.

All Directors are entitled to be reimbursed for actual expenses reasonably incurred in the performance of their duties as Directors.

Details regarding the remuneration of Directors are set out in Note A1 to the Financial Statements.

Risk Management and Internal Controls

The Board is responsible for maintaining appropriate and effective risk management and internal control systems. Internal controls are used by the Board to facilitate the effectiveness and efficiency of operations, safeguard the investment of the Shareholders and assets of the Company and to ensure compliance with relevant statutory and regulatory requirements. The Company's internal control policies are designed to provide reasonable, but not absolute, assurance against material misstatements and help the Board identify and mitigate, but not eliminate, risk exposure.

CORPORATE GOVERNANCE REPORT

Because of their inherent limitations, internal controls and risk management systems can provide only reasonable assurance and may not prevent or detect misstatements due to error or fraud. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by individual acts, by collusion of two or more individuals or by unauthorized override of controls. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Disclosure Controls and Procedures and Internal Controls Over Financial Reporting

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under applicable securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted under applicable securities legislation is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management is responsible for the design of the Company's internal control over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards ("IFRS").

The Company's internal controls over financial reporting include policies and procedures that pertain to the maintenance of records that, in reasonable detail accurately and fairly reflect the transactions and disposition of assets, and which are designed with the objective of providing reasonable assurance that: (i) transactions are recorded as necessary to permit preparation of the financial statements in accordance with IFRS and that receipts and expenditures are being made only in accordance with authorization of management and directors of the Company; and (ii) unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements is prevented or detected in a timely manner.

Because of their inherent limitations, internal controls over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements due to error or fraud. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by individual acts, by collusion of two or more individuals or by unauthorized override of controls. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Auditors

BDO Limited, Hong Kong ("BDO"), Certified Public Accountants (Practicing), are the Company's auditors and they report that they are independent of the Company in accordance with Chartered Professional Accountants of British Columbia, Code of Professional Conduct.

BDO will be nominated at the upcoming AGM for reappointment as Auditors at a remuneration to be fixed by the Board. BDO has served as the Auditors since November 13, 2019.

Fees paid/payable to BDO and its affiliates in respect of audit and non-audit services provided during the Financial Year were approximately CAD$458,000.

These fees are detailed below:

Nature of services rendered	Fees paid/ payable (CAD$000's) BDO 2020
Audit fees [(1)]	316
Audit related fees [(1)]	142
Total	458

Notes:

(1) Fees for audit services billed relating to fiscal 2020 consisted of: (i) audit of the Company's annual financial statements; (ii) review of the Company's quarterly financial statements; (iii) statutory audit of the annual financial statements of subsidiaries of the Company; and (iv) other services related to Canadian securities regulatory authorities' matters.

Responsibilities in Respect of the Financial Statements

The Directors acknowledge their responsibility in overseeing the preparation of financial statements that give a true and fair view of the financial affairs of the Company. With the assistance of the management of the Company, the Directors ensure that the financial statements of the Company are being prepared and published in a timely manner and in accordance with the applicable accounting and financial reporting standards as well as statutory and regulatory requirements.

Going Concern

The Company's consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue operating until at least December 31, 2021 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. However, in order to continue as a going concern, the Company must generate sufficient operating cash flows, secure additional capital or otherwise pursue a strategic restructuring, refinancing or other transactions to provide it with sufficient liquidity.

Several adverse conditions and material uncertainties cast significant doubt upon the Company's ability to continue as a going concern and the going concern assumption used in the preparation of the Company's consolidated financial statements. The Company incurred a loss attributable to equity holders of the Company of $20.1 million for the year ended December 31, 2020 (compared to a profit attributable to equity holders of the Company for the year ended December 31, 2019), and as of that date, had a deficiency in assets of $76.2 million as compared to a deficiency in assets of $49.2 million as at December 31, 2019 while the working capital deficiency (excess current liabilities over current assets reached $217.6 million compared to a working capital deficiency of $114.7 million as at December 31, 2019.

CORPORATE GOVERNANCE REPORT

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

As detailed in Section 6 of the Management Discussion and Analysis (the "MD&A") under the heading entitled "Liquidity and Capital Resources", the Company failed to make payment of convertible debenture interest to CIC in according to the terms of convertible debenture agreement. This constituted an event of default of the relevant convertible debenture agreements as at December 31, 2020 and the 2020 November Deferral Agreement became effective on January 21, 2021. As a result, the entire balance of the CIC Convertible Debenture was classified as current liability as at December 31, 2020.

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

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

Management of the Company has prepared a cash flow projection covering a period of 12 months from December 31, 2020. The cash flow projection has taken into account the anticipated cash flows to be generated from the Company's business during the period under projection including cost saving measures. In particular, the Company has taken into account the following measures for improvement of the Company's liquidity and financial position, which include: (i) entering into the 2020 November Deferral Agreement with CIC for a deferral of the 2020 November Deferral Amounts until August 31, 2023; (ii) agreeing to deferral arrangements and improved payment terms with certain vendors; (iii) reducing the outstanding tax payable by making monthly payments to MTA beginning as of June 2020; and (iv) reducing the inventory of low quality coal by wet washing and coal blending. After considering the above, and given the re-opening of the Mongolia-China border since March 28, 2020, the Directors believe that there will be sufficient financial resources to continue its operations and to meet its financial obligations as and when they fall due in the next 12 months from December 31, 2020 and therefore are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

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

As at December 31, 2020 and December 31, 2019, the Company was not subject to any externally imposed capital requirements.

Company Secretary

Ms. Allison Snetsinger was appointed as the Company's Corporate Secretary in November 2014 and was also the Company's Corporate Secretary from May 2012 to March 2014. Prior to being appointed as the Corporate Secretary, Ms. Snetsinger was the Company's Assistant Corporate Secretary from the time of its Canadian initial public offering in December 2003.

Ms. Snetsinger has over 15 years' experience providing regulatory and corporate services to public and private companies, primarily in mining and resource industries. She is a member of each of the Canadian Institute of Corporate Directors and the Association of the Governance Professionals (Canada). Ms. Snetsinger has participated in over 15 hours' of professional development in the Financial Year required under Rule 3.29 of the Listing Rules.

Sir Siu Man Kwok ("Sir Seaman") was the Hong Kong Company Secretary of the Company from October 12, 2016 to January 1, 2021. He is a Chartered Governance Professional and a fellow member of each of the Chartered Governance Institute (formerly known as the Institute of Chartered Secretaries and Administrators) in England, The Hong Kong Institute of Chartered Secretaries ("HKICS"), the Institute of Financial Accountants in England, the Institute of Public Accountants in Australia, the Association of Hong Kong Accountants, the Hong Kong Institute of Directors and the Hong Kong Social Financial Planners. He holds a Bachelor of Arts degree and a post-graduate diploma in laws and passed the Common Professional Examinations of England and Wales. He was the youngest and the longest-serving elected council member and a chief examiner of the HKICS and was named in the International WHO'S WHO of Professionals in 1999. He was conferred as a Knight of Rizal of the Philippines in 2019. Sir Seaman delivered and attended over 15 hours' relevant seminars in the Financial Year under Rule 3.29 of the Listing Rules.

Sir Seaman was nominated by Boardroom Corporate Services (HK) Limited ("Boardroom") to assume such office and Boardroom has been providing certain corporate secretarial services to the Company pursuant to an engagement letter entered into between the Company and Boardroom. The primary person at the Company with whom Sir Seaman contacted in respect of company secretarial matters was Ms. Allison Snetsinger, the Company's Corporate Secretary.

Ms. Shuk Wan So was appointed as the Hong Kong Company Secretary of the Company on January 1, 2021. Ms. So joined the Company in February 2011 and has been the assistant company secretary of the Company since 2018.

Ms. So holds a Master of Corporate Governance degree from The Hong Kong Polytechnic University and a Bachelor of Business Administration degree in Finance from Baruch College, The City University of New York. She is a Chartered Governance Professional, an associate member of the HKICS and a member of the Canadian Institute of Corporate Directors. Ms. So has taken over 15 hours of relevant professional training in the Financial Year required under Rule 3.29 of the Listing Rules.

Shareholders' Rights

Under Canadian corporate law, shareholders' rights are governed by the business corporation's legislation of the jurisdiction of incorporation of a company and by a company's constitutional documents. In the case of the Company, the BCBCA and the Articles govern the rights of Shareholders, as summarized in this section.

In November 2017, the Board approved and adopted a Shareholder Communication Policy. The Shareholder Communication Policy sets out the general policy and measures adopted by the Company in respect of its communication with Shareholders, both individual and institutional, and, when appropriate, potential investors and analysts who report on and analyze the Company's performance, with the objective that all of them will be provided with complete, equal, and timely information about the Company (including its financial performance, strategic goals and plans, material business developments, corporate governance, risk profile and other material information) in order to enable Shareholders to make an informed decision with respect to their shares and other securities of the Company and to allow the investment community to engage in constructive dialogue with the Company.

Further to the Shareholder Communication Policy, the section below entitled "Procedures by which enquiries may be put to the Board" also provides a basis for how Shareholders' can communicate with the Company.

How Shareholders Can Convene an Extraordinary General Meeting

Shareholders may requisition a meeting for the purpose of transacting any business that may be transacted at a general meeting. The Shareholder or a group of Shareholders are required to hold (on the date of giving the requisition to the Company) an aggregate of at least 1/20 (five per cent (5%)) of the Company's issued and outstanding common shares.

A valid requisition must:

- state the business to be transacted at the meeting (including the wording of any special resolution or exceptional resolution) in 1,000 words or less;

- be signed by and include the names and mailing addresses of all the requisitioning Shareholders, each of whom is a registered Shareholder;

- be made in a single record or several records, each of which is signed by one or more of the requisition Shareholders; and

- be delivered to the delivery address or mailed by registered mail to the mailing address of the Company at its registered office.

The Company's address for delivery is: SouthGobi Resources Ltd., 20th floor – 250 Howe Street, Vancouver, British Columbia, Canada V6C 3R8, for the attention of the Corporate Secretary.

If the requisition consists of more than one record, the requisition is deemed to be received by the Company on the first date by which the Company received requisition records that comply with the above-listed conditions and by the Shareholders holding the minimum number of common shares to qualify for the requisition.

On receiving a valid requisition, the Board must, except in the circumstances specified in the BCBCA, call a general meeting to be held not more than four (4) months after the date on which the Company receives the requisition. The notice of the meeting and the information circular must include the date, time, location and text of the business to be approved. If the Board does not call a meeting within 21 days after the date of receiving a valid requisition, the requisitioning Shareholders or any one of them holding more than 1/40 (two and a half per cent (2.5%)) of the Company's issued and outstanding common shares may send notice of a general meeting to transact the business stated in the requisition.

A general meeting called by the requisitioning Shareholders must be held within four (4) months of the Company receiving the requisition notice and must be conducted in the same manner as a general meeting called by the Board.

Unless the Shareholders otherwise resolve by an ordinary resolution at the meeting called, the Company must reimburse the requisitioning Shareholders for the expenses reasonably incurred by them requisitioning, calling and holding the meeting.

The quorum for meetings of the Shareholders is set forth in the Articles. A quorum for a meeting of the Shareholders is two persons who are, or who represent by proxy, Shareholders who, in the aggregate, hold at least five per cent (5%) of the Company's issued and outstanding common shares.

Procedures by Which Enquiries May Be Put to the Board

The BCBCA does not legislate procedures by which shareholder enquiries may be put to the board of a company and the Company's constitutional documents do not mandate a specific process for enquiries to be put to the Board. However, Shareholders are kept informed of material information regarding the Company's financial position and operations through public disclosure in accordance with applicable Canadian securities laws and the stock exchange rules in all applicable jurisdiction. Further, the Directors are obliged to place the annual financial statements of the Company and an Auditor's report made on those financial statements before Shareholders at an AGM and must send a copy of this information to Shareholders who request such information within six (6) months of the Annual General Meeting.

Should a Shareholder wish to communicate with the Board, they can contact the Company's Corporate Secretary at SouthGobi Resources Ltd., 20th floor – 250 Howe Street, Vancouver, British Columbia, Canada V6C 3R8, or by phone to 604-762-6783.

Procedures for Putting Forward Proposals at Shareholders' Meetings

A qualified Shareholder (as herein defined) may put forward a written proposal setting out a matter that the qualified Shareholder wishes to have considered at the next AGM. A "qualified Shareholder" is a Shareholder who is, and who has been for an uninterrupted period of at least two (2) years before the date of the signing of the proposal, a holder or beneficial owner of the Company's issued and outstanding common share(s) (subject to certain exceptions).

A valid proposal must be signed by the submitter and by qualified Shareholder(s) (each, a "Supporter") who, together with the submitter, is/are holders of common shares that, at the time of signing, in the aggregate constitute at least one per cent (1%) of the Company's issued and outstanding common shares. A declaration signed by the submitter and each Supporter, must accompany the proposal, providing contact details and shareholdings of the submitter or the Supporter, as the case may be.

Each of the proposal and the declarations must be received at the registered office of the Company at least three (3) months before the anniversary of the previous year's AGM and the Company must then (subject to certain statutory exceptions) send the text of the proposal to all holders of the Company's issued and outstanding common shares. The Company must allow a submitter to present the proposal at the AGM in relation to which the proposal was made.

Constitutional Documents

There were no changes in the constitutional documents of the Company during the Financial Year. The Articles are available on the respective websites of the Company and the Hong Kong Stock Exchange.

On behalf of the Board

Allison Snetsinger
Corporate Secretary
March 30, 2021

A LARGE RESERVES BASE

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-looking Statements

Except for statements of fact relating to SouthGobi Resources Ltd. and its subsidiaries (collectively, 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 Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") 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 China Investment Corporation (together with its wholly-owned subsidiaries and affiliates, "CIC") convertible debenture (the "CIC Convertible Debenture"), the 2020 November Deferral Agreement (as defined below), and the Amended and Restated Cooperation Agreement (as defined below), as the same become due;

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

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

- the results and impact of the Ontario class action (as described under Section 7 of this MD&A under the heading entitled "Regulatory Issues and Contingencies – 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 7 of this MD&A under the heading entitled "Regulatory Issues and Contingencies – Toll Wash Plant Agreement with Ejin Jinda");

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

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

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

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

- the impact of the Coronavirus Disease 2019 ("COVID-19") pandemic and the potential closure of Mongolia's southern border with China on the Company's business, financial condition and operations;

- the future demand for coal in China;

- future trends in the Chinese coal industry;

- the Company's outlook and objectives for 2021 and beyond (as more particularly described under Section 15 of this MD&A under the heading entitled "Outlook"); and

- other statements that are not historical facts.

Forward-looking Statements continued

Forward-looking information is based on certain factors and assumptions described below and elsewhere in this MD&A, including, among other things: the current mine plan for the Ovoot Tolgoi mine; mining, production, construction and exploration activities at the Company's mineral properties; the costs relating to anticipated capital expenditures; the capacity and future toll rate of the paved highway; plans for the progress of mining license application processes; mining methods; the Company's anticipated business activities, planned expenditures and corporate strategies; management's business outlook, including the outlook for 2021 and beyond; currency exchange rates; operating, labour and fuel costs; the ability of the Company to raise additional financing; the anticipated royalties payable under Mongolia's royalty regime; the future coal market conditions in China and the related impact on the Company's margins and liquidity; the anticipated impact of the COVID-19 pandemic; the assumption that the border crossings with China will remain open for coal exports; the anticipated demand for the Company's coal products; future coal prices, and the level of worldwide coal production. While the Company considers these assumptions to be reasonable based on the information currently available to it, they may prove to be incorrect. Forward-looking statements are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These risks and uncertainties include, among other things: the uncertain nature of mining activities, actual capital and operating costs exceeding management's estimates; variations in mineral resource and mineral reserve estimates; failure of plant, equipment or processes to operate as anticipated; the possible impacts of changes in mine life, useful life or depreciation rates on depreciation expenses; risks associated with, or changes to regulatory requirements (including environmental regulations) and the ability to obtain all necessary regulatory approvals; the potential expansion of the list of licenses published by the Government of Mongolia covering areas in which exploration and mining are purportedly prohibited on certain of the Company's mining licenses; the Government of Mongolia designating any one or more of the Company's mineral projects in Mongolia as a Mineral Deposit of Strategic Importance; the risk of continued delays in the custom clearance process at the Ceke border; the restrictions established by Chinese authorities on the import of F-grade coal into China; the risk that Mongolia's southern borders with China will be subject of further closure; the negative impact of the COVID-19 pandemic on the demand for coal and the economy generally in China; the risk that the COVID-19 pandemic is not effectively controlled in China and Mongolia; the risk that the Company's existing coal inventories are unable to sufficiently satisfy expected sales demand; the possible impact of changes to the inputs to the valuation model used to value the embedded derivatives in the CIC Convertible Debenture; the risk of the Company failing to successfully negotiate favorable repayment terms on the TRQ Reimbursable Amount (as described under Section 6 of this MD&A under the heading entitled "Liquidity and Capital Management – Costs Reimbursable to Turquoise Hill"); the risk of the Company or its subsidiaries defaulting under its existing debt obligations, including the CIC Convertible Debenture, 2020 November Deferral Agreement and the Amended and Restated Cooperation Agreement; the impact of amendments to, or the application of, the laws of Mongolia, China and other countries in which the Company carries on business; modifications to existing practices so as to comply with any future permit conditions that may be imposed by regulators; delays in obtaining approvals and lease renewals; the risk of fluctuations in coal prices and changes in China and world economic conditions; the outcome of the Class Action (as described under Section 7 of this MD&A under the heading entitled "Regulatory Issues and Contingencies – Class Action Lawsuit") and any damages payable by the Company as a result; the risk that the Company is unable to successfully negotiate a debt restructuring plan with respect to the amounts owing to CIC; the risk that the calculated sales price determined by the Company for the purposes of determining the amount of royalties payable to the Mongolian government is deemed as being "non-market" under Mongolian tax law; customer credit risk; cash flow and liquidity risks; risks relating to the Company's decision to suspend activities relating to the development of the Ceke Logistics Park project, including the risk that its investment partner may initiate legal action against the Company for failing to comply with the underlying agreements governing project development; risks relating to the ability of the Company to enhance the operational efficiency and the output throughput of the washing facilities at Ovoot Tolgoi; the risk that the Company is unable to successfully negotiate an extension of the agreement with the third party contractor relating to the operation of the wash plant at the Ovoot Tolgoi mine site and risks relating to the Company's ability to raise additional financing and to continue as a going concern. Please refer to Section 14 of this MD&A under the heading entitled "Risk Factors" for a discussion of these and other risks and uncertainties relating to the Company and its operations. This list is not exhaustive of the factors that may affect any of the Company's forward-looking statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-looking Statements continued

Due to assumptions, risks and uncertainties, including the assumptions, risks and uncertainties identified above and elsewhere in this MD&A, 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 MD&A; they should not rely upon this information as of any other date.

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Introduction

This MD&A is dated as of March 30, 2021 and should be read in conjunction with the consolidated financial statements of the Company and the notes thereto for the year ended December 31, 2020. The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements are presented in the U.S. Dollar, which is the functional currency of SouthGobi Resources Ltd. and its controlled subsidiaries, except as subsequently mentioned.

The functional currency of the Company's Chinese subsidiaries (SouthGobi Trading (Beijing) Co., Ltd., Inner Mongolia SouthGobi Energy Co., Ltd. ("IMSGE"), Inner Mongolia SouthGobi Mining Development Co., Ltd. and Inner Mongolia SouthGobi Enterprise Co., Ltd.) was Renminbi ("RMB") and the functional currency of the Company's Mongolian operations (SouthGobi Sands LLC ("SGS"), Mazaalai Resources LLC and RDCC LLC), was the Mongolian Tugrik ("MNT").

All figures in this MD&A are presented in U.S. dollars unless otherwise stated.

Introduction continued

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

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

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

1. Overview

The Company is an integrated coal mining, development and exploration company with 280 employees as at December 31, 2020. The Company's common shares ("Common Shares") are listed for trading on the Toronto Stock Exchange ("TSX") under the symbol SGQ and on the Hong Kong Stock Exchange ("HKEX") under the stock code symbol 1878.

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

The Ovoot Tolgoi Mine, strategically located approximately 40km from the Shivee Khuren-Ceke crossing at the Mongolia-China border ("Shivee Khuren Border Crossing"), is the Company's flagship asset. The Company commenced mining at the Ovoot Tolgoi Mine in 2008. The Company sells a portion of its coal at the mine-gate to Chinese customers, while the remaining coal inventory is transported to China and sold via its Chinese subsidiaries at the stockyards in Ceke (Ceke, on the Chinese side of the Shivee Khuren Border Crossing, which is a major Chinese coal distribution terminal with rail connections to key coal markets in China) or certain designated locations in China as requested by customers.

Saleable products from the Ovoot Tolgoi Mine primarily consist of SouthGobi standard ("Standard") and SouthGobi premium ("Premium") semi-soft coking coal products. Some higher ash content product is washed and sold as semi-soft coking coal product while some of the unwashed product is sold as a thermal coal product, as and when the market allows.

1. Overview continued

Significant Events and Highlights

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

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

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

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

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

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

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

1. Overview continued

Significant Events and Highlights continued

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

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

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

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

  - The Company agreed to provide CIC with monthly updates regarding its operational and financial affairs.

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

1. Overview continued

Significant Events and Highlights continued

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

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

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

On November 19, 2020, the Company and CIC entered into an agreement (the "2020 November Deferral Agreement") pursuant to which CIC agreed to grant the Company a deferral of: (i) deferred cash interest and deferral fees of approximately $75.2 million which were due and payable to CIC on or before September 14, 2020, under the 2020 June Deferral Agreement; (ii) semi-annual cash interest payments in the aggregate amount of $16.0 million payable to CIC on November 19, 2020 and May 19, 2021; (iii) $4.0 million worth of PIK Interest shares ("2020 November PIK Interest") issuable to CIC on November 19, 2020 under the CIC Convertible Debenture; and (iv) the Management Fee which payable to CIC on November 14, 2020, February 14, 2021, May 15, 2021, August 14, 2021 and November 14, 2021 under the Amended and Restated Cooperation Agreement (collectively, the "2020 November Deferral Amounts").

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

1. Overview continued

Significant Events and Highlights continued

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

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

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

- As consideration for the deferral of the 2020 November Deferral Amounts, the Company agreed to pay CIC: (i) a deferral fee equal to 6.4% per annum on the 2020 November Deferral Amounts payable under the CIC Convertible Debenture and the 2020 June Deferral Agreement, commencing on the date on which each such 2020 November Deferral Amounts would otherwise have been due and payable under the CIC Convertible Debenture or the June 2020 Deferral Agreement, as applicable; and (ii) a deferral fee equal to 2.5% per annum on the 2020 November Deferral Amounts payable under the Amended and Restated Cooperation Agreement, commencing on the date on which the Management Fee would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.

- The 2020 November Deferral Agreement does not contemplate a fixed repayment schedule for the 2020 November Deferral Amounts and related deferral fees. Instead, the Company and CIC would agree to assess in good faith the Company's financial condition and working capital position on a monthly basis and determine the amount, if any, of the 2020 November Deferral Amounts and related deferral fees that the Company is able to repay under the CIC Convertible Debenture, the June 2020 Deferral Agreement or the Amended and Restated Cooperation Agreement, having regard to the working capital requirements of the Company's operations and business at such time and with the view of ensuring that the Company's operations and business would not be materially prejudiced as a result of any repayment.

- Commencing as of November 19, 2020 and until such time as the November 2020 PIK Interest is fully repaid, CIC reserves the right to require the Company to pay and satisfy the amount of the November 2020 PIK Interest, either in full or in part, by way of issuing and delivering PIK interest shares in accordance with the CIC Convertible Debenture provided that, on the date of issuance of such shares, the Common Shares are listed and trading on at least one stock exchange.

- If at any time before the 2020 November Deferral Amounts and related deferral fees are fully repaid, the Company proposes to appoint, replace or terminate one or more of its Chief Executive Officer, its Chief Financial Officer or any other senior executive(s) in charge of its principal business function or its principal subsidiary, then the Company must first consult with, and obtain written consent from CIC prior to effecting such appointment, replacement or termination.

- ***Settlement with First Concept*** – On June 7, 2020, 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

1. Overview continued

Significant Events and Highlights continued

- ***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 MD&A; (ii) its Annual Information Form for the year ended December 31, 2019; and (iii) its condensed consolidated interim financial statements for the three-month period ended March 31, 2020 and accompanying MD&A, in each case prior to the filing deadline of June 15, 2020.

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

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

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

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

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

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

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

1. Overview continued

Significant Events and Highlights continued

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

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

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

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

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

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

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

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

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

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

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

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

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

  Refer to Section 6 of this MD&A under the heading entitled "Liquidity and Capital Resources" and Section 14 of this MD&A under the heading entitled "Risk Factors" for details.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

2. Selected Annual Information

	Year ended December 31,		
$ in thousands, except per share and per tonne information	2020	2019	2018
Revenue	**$ 85,951**	$ 129,712	$ 103,804
Profit/(loss) from operations	**15,276**	29,832	(10,534)
Net profit/(loss) attributable to equity holders of the Company	**(20,089)**	4,201	(41,125)
Basic and diluted earnings/(loss) per share	**$ (0.07)**	$ 0.02	$ (0.15)
Cash from operating activities	**22,918**	20,057	40,420
Cash used in investing activities	**(9,613)**	(18,508)	(26,656)
Cash used in financing activities	**(647)**	(1,339)	(13,649)
Coal sales volumes *(millions of tonnes)* [(i)]	**2.63**	3.74	2.78
Average realized selling price *(per tonne)*	**$ 33.01**	$ 34.88	$ 37.12

	As at December 31,		
$ in thousands	2020	2019	2018
Cash and cash equivalents	**$ 20,121**	$ 7,164	$ 6,959
Total working capital deficiency	**(217,607)**	(114,711)	(203,083)
Total assets	**214,632**	228,427	227,606
Total non-current liabilities	**6,869**	98,581	6,882

(i) Coal sales volumes are from the Ovoot Tolgoi Mine.

Following the commissioning of the wash plant in 2018 and the continued effort to bring down operational and administration costs, together with a lower provision for doubtful trade and other receivables being made during 2019, the Company recorded a net profit of $4.2 million in 2019, compared to a net loss of $41.1 million in 2018.

The Mongolia-China border closure as a result of the COVID-19 pandemic had an adverse impact on the Company's sales and cash flows for 2020. When combined with the impact of the provision for commercial arbitration of $4.6 million recorded in connection with the Company entering into a settlement agreement with First Concept, the Company recorded a net loss of $20.1 million in 2020.

3. Overview of Operational Data and Financial Results

Summary of Annual Operational Data

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

(i) A non-IFRS financial measure, refer to section 4. Cash costs of product sold exclude idled mine asset cash costs.

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

Overview of Annual Operational Data

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

3. Overview of Operational Data and Financial Results continued

Overview of Annual Operational Data continued

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

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

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

Summary of Annual Financial Results

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

(i) Revenue and cost of sales related to the Company's Ovoot Tolgoi Mine within the Coal Division operating segment. Refer to note 4 of the consolidated financial statements for further analysis regarding the Company's reportable operating segments.

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

Overview of Annual Financial Results

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

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

3. Overview of Operational Data and Financial Results continued

Overview of Annual Financial Results continued

Royalty regime in Mongolia

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

On September 4, 2019, the Government of Mongolia issued a further resolution in connection with the royalty regime. From September 1, 2019 onwards, in the event that the contract sales price is less than the reference price as determined by the Government of Mongolia by more than 30%, then the royalty payable will be calculated based on the Mongolian government's reference price instead of the contract sales price. Refer to the section entitled "*Risk Factors – Risk Relating to the Company's Projects in Mongolia*" of this MD&A.

Cost of sales was $58.7 million in 2020 compared to $84.4 million in 2019. The decrease in cost of sales in 2020 was mainly due to the effect of decreased sales volume. Cost of sales consists of operating expenses, share-based compensation expense, equipment depreciation, depletion of mineral properties, royalties, coal stockpile inventory impairment/(reversal of impairment) and idled mine asset costs. Operating expenses in cost of sales reflect the total cash costs of product sold (a non-IFRS financial measure, refer to Section 4 of this MD&A for further analysis) during the year.

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

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

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

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

3. Overview of Operational Data and Financial Results continued

Overview of Annual Financial Results continued

Royalty regime in Mongolia continued

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

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

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

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

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

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

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

3. Overview of Operational Data and Financial Results continued

Summary of Quarterly Operational Data

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

(i) A non-IFRS financial measure, refer to section 4. 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.

3. Overview of Operational Data and Financial Results continued

Overview of Quarterly Operational Data

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

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

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

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

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

Summary of Quarterly Financial Results

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

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

(i) Revenue and cost of sales relate to the Company's Ovoot Tolgoi Mine within the Mongolian Coal Division operating segment. Refer to note 4 of the consolidated financial statements for further analysis regarding the Company's reportable operating segments.

3. Overview of Operational Data and Financial Results continued

Overview of Quarterly Financial Results

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

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

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

Cost of sales consists of operating expenses, share-based compensation expense, equipment depreciation, depletion of mineral properties, royalties and idled mine asset costs. Operating expenses in cost of sales reflect the total cash costs of product sold (a Non-IFRS financial measure, refer to Section 4 of this MD&A for further analysis) during the quarter.

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

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

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

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

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

3. Overview of Operational Data and Financial Results continued

Overview of Quarterly Financial Results continued

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

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

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

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

4. Non-IFRS Financial Measures

The Company has included the non-IFRS financial measure "cash costs" in this MD&A to supplement its consolidated financial statements, which have been prepared in accordance with IFRS. The data presented is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

The Company believes that this measure, together with measures determined in accordance with IFRS, provides investors with useful information to evaluate the underlying performance of the Company. Non-IFRS financial measures do not have a standardized meaning prescribed under IFRS and therefore may not be comparable to similar measures employed by other companies. The non-IFRS financial measure is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

Cash Costs

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

4. Non-IFRS Financial Measures continued

Cash Costs continued

The following table provides a reconciliation of the cash costs of product sold disclosed for the three months and year ended December 31, 2020 and December 31, 2019. The cash costs of product sold presented below may differ from cash costs of product produced depending on the timing of coal stockpile inventory turnover and impairment of coal stockpile inventories from prior periods.

	Three months ended December 31,		Year ended December 31,	
$ in thousands, except per tonne information	2020	2019	2020	2019
Cash costs				
Cost of sales determined in accordance with IFRS	**$ 22,193**	$ 23,446	**$ 58,657**	$ 84,400
Less royalties	**(4,126)**	(4,737)	**(10,563)**	(11,639)
Less non-cash expenses	**(2,081)**	(2,651)	**(6,267)**	(9,214)
Less non-cash idled mine asset costs	**(924)**	(1,304)	**(4,853)**	(3,998)
Total cash costs	**15,062**	14,754	**36,974**	59,549
Coal sales *(millions of tonnes)*	**0.95**	0.99	**2.63**	3.74
Total cash costs of product sold *(per tonne)*	**$ 15.85**	$ 14.90	**$ 14.06**	$ 15.92

	Three months ended December 31,		Year ended December 31,	
$ in thousands, except per tonne information	2020	2019	2020	2019
Cash costs				
Direct cash costs of product sold *(per tonne)*	**$ 14.78**	$ 13.61	**$ 12.73**	$ 14.84
Mine administration cash costs of product sold *(per tonne)*	**1.07**	1.29	**1.33**	1.08
Total cash costs of product sold *(per tonne)*	**$ 15.85**	$ 14.90	**$ 14.06**	$ 15.92

The cash cost of product sold per tonne was $14.1 for 2020, which has decreased from $15.9 per tonne for 2019. The reason for the decrease is primarily related to a higher portion of sales made at the mine gate instead of transporting the coal to the Company's Inner Mongolia subsidiary and selling to third party customers within China during the year.

5. Properties

The Company currently holds six mining licenses in Mongolia. The mining licenses pertain to the Ovoot Tolgoi Mine (MV-012726), the Soumber Deposit (MV-016869, MV-020436 and MV-020451) and the Zag Suuj Deposit (MV-020676 and MV-020675).

On August 26, 2019, SGS received the Notice Letter from MRAM notifying that the Company's Soumber Mining Licenses for the Soumber Deposit have been terminated by the Head of Cadastre Division of MRAM effective as of August 21, 2019.

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

5. Properties continued

Operating Mines

Ovoot Tolgoi Mine

The Ovoot Tolgoi Mine is located in the southwest corner of the Umnugobi Aimag (South Gobi Province) of Mongolia. The deposit is within the administrative unit of Gurvantes Soum, 320km southwest of the provincial capital of Dalanzadgad and 950km southwest of the nation's capital of Ulaanbaatar. Mining operations at the Ovoot Tolgoi Mine have been carried out in two distinct areas, the Sunset pit to the west and the Sunrise pit to the east.

Saleable products from the Ovoot Tolgoi Mine primarily include the Standard and Premium semi-soft coking coal products. Some higher ash content product is being washed and sold as semi-soft coking coal products while some of the unwashed product is sold as a thermal coal product as and when the market allows. The Company intends to continue to develop markets for both its Premium and Standard semi-soft coking coal brands and to pursue long-term supply offtake with end users in China to complement its existing customer base and to gain best value for the Company's coal in the Chinese market. The Company is committed to further enhancing the quality of its coal products through wet washing and increasing its market penetration in China.

Resources

A resource estimate for the Ovoot Tolgoi deposit is set out in the Ovoot Tolgoi Technical Report, which was prepared by DMCL on behalf of the Company. A copy of the Ovoot Tolgoi Technical Report was filed under the Company's profile on SEDAR at www.sedar.com on May 15, 2017.

Reserves

A reserve estimate for the Ovoot Tolgoi deposit is set out in the Ovoot Tolgoi Technical Report, which was prepared by DMCL on behalf of the Company. A copy of the Ovoot Tolgoi Technical Report was filed under the Company's profile on SEDAR at www.sedar.com on May 15, 2017.

Mining Operations

Mining Method

The mining method employed at the Ovoot Tolgoi deposit could be described as open pit terrace mining utilizing large scale hydraulic excavators and shovels and trucks. Terrace mining is utilized where coal seams dip steeply and operating machinery on the coal seam roof and floor is not possible, due to the steep seam dips. Terraces, or benches, are excavated along fixed horizontal horizons and these benches intersect both coal and waste. Coal and waste are mined separately on each bench with dozers being used, as needed, to push coal or waste down to the excavator for loading onto trucks. This mining method allows large scale open pit mining to occur productively in steeply dipping coal seam environments. All waste is dumped ex-pit, as the steep dips preclude in-pit dumping.

Mining Equipment

The key elements of the currently commissioned mining fleet include: two Liebherr 996 (33m^3 & 36m^3) hydraulic excavators, three Liebherr R9250 (15m^3) hydraulic excavators and 19 MT4400AC (218 tonne capacity) haul trucks, together with various pieces of ancillary equipment.

Workforce

As at December 31, 2020, SGS employed 237 employees in Mongolia. Of the 237 employees, 29 are employed in the Ulaanbaatar office and 208 at the Ovoot Tolgoi Mine site. Of the 237 employees based in Mongolia, 237 (100%) are Mongolian nationals and of those, 117 (49%) are residents of the local Gurvantes, Dalanzadgad, Sevrei and Noyon Soums.

Exploration Program

The Company continued to minimize evaluation and exploration expenditures during 2020 in order to preserve the Company's financial resources. The 2021 exploration program will be limited to ensuring that the Company meets the Mongolian Minerals Law requirements in respect of its mining licenses.

6. Liquidity and Capital Resources

Liquidity and Capital Management

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

Bank Loan

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

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

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

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

Costs reimbursable to Turquoise Hill

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

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

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

Going concern considerations

The Company's consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue operating until at least December 31, 2021 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. However, in order to continue as a going concern, the Company must generate sufficient operating cash flows, secure additional capital or otherwise pursue a strategic restructuring, refinancing or other transactions to provide it with sufficient liquidity.

6. Liquidity and Capital Resources continued

Liquidity and Capital Management continued

Going concern considerations continued

Several adverse conditions and material uncertainties cast significant doubt upon the Company's ability to continue as a going concern and the going concern assumption used in the preparation of the Company's consolidated financial statements. The Company incurred a loss attributable to equity holders of the Company of $20.1 million for the year ended December 31, 2020 (compared to a profit attributable to equity holders of the Company for the year ended December 31, 2019), and as of that date, had a deficiency in assets of $76.2 million as compared to a deficiency in assets of $49.2 million as at December 31, 2019 while the working capital deficiency (excess current liabilities over current assets) reached $217.6 million as at December 31, 2020 compared to a working capital deficiency of $114.7 million as at December 31, 2019.

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

As detailed in Section 6 of this MD&A under the heading entitled "Liquidity and Capital Resources", the Company failed to make payment of convertible debenture interest to CIC in according to the terms of convertible debenture agreement. This constituted an event of default of the relevant convertible debenture agreements as at December 31, 2020 and the 2020 November Deferral Agreement became effective on January 21, 2021. As a result, the entire balance of the CIC Convertible Debenture was classified as current liability as at December 31, 2020.

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

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

Management of the Company has prepared a cash flow projection covering a period of 12 months from December 31, 2020. The cash flow projection has taken into account the anticipated cash flows to be generated from the Company's business during the period under projection including cost saving measures. In particular, the Company has taken into account the following measures for improvement of the Company's liquidity and financial position, which include: (i) entering into the 2020 November Deferral Agreement with CIC for a deferral of the 2020 November Deferral Amounts until August 31, 2023; (ii) agreeing to deferral arrangements and improved payment terms with certain vendors; (iii) reducing the outstanding tax payable by making monthly payments to MTA beginning as of June 2020; and (iv) reducing the inventory of low quality coal by wet washing and coal blending. After considering the above and given the re-opening of the Mongolia-China border since March 28, 2020, the Directors believe that there will be sufficient financial resources to continue its operations and to meet its financial obligations as and when they fall due in the next 12 months from December 31, 2020 and therefore are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

6. Liquidity and Capital Resources continued

Liquidity and Capital Management continued

Going concern considerations continued

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

As at December 31, 2020 and December 31, 2019, the Company was not subject to any externally imposed capital requirements.

Impact of the COVID-19 Pandemic

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

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

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

CIC Convertible Debenture

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

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

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

6. Liquidity and Capital Resources continued

Liquidity and Capital Management continued

CIC Convertible Debenture continued

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

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

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

- The Company agreed to provide CIC with monthly updates regarding its operational and financial affairs.

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

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

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

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

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

6. Liquidity and Capital Resources continued

Liquidity and Capital Management continued

CIC Convertible Debenture continued

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

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

On November 19, 2020, the Company and CIC entered into the 2020 November Deferral Agreement pursuant to which CIC agreed to grant the Company a deferral of the 2020 November Deferral Amounts. On October 29, 2020, the Company obtained an order from the BCSC, the Company's principal securities regulator in Canada, which partially revoked the CTO (as defined below) to, amongst other things, permit the Company to execute the 2020 November Deferral Agreement. The 2020 November Deferral Agreement became effective on January 21, 2021, being the date on which the 2020 November Deferral Agreement was approved by shareholders at the Company's annual and special meeting of shareholders. As a consequence of the Company not entering into a deferral agreement with CIC as at December 31, 2020, IAS 1 requires the Company to classify the entire balance of the CIC Convertible Debenture as a current liability as at December 31, 2020.

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

- Payment of the 2020 November Deferral Amounts will be deferred until August 31, 2023.
- CIC agreed to waive its rights arising from any default or event of default under the CIC Convertible Debenture as a result of trading in the Common Shares being halted on the TSX beginning as of June 19, 2020 and suspended on the HKEX beginning as of August 17, 2020, in each case for a period of more than five trading days.
- As consideration for the deferral of the 2020 November Deferral Amounts, the Company agreed to pay CIC: (i) a deferral fee equal to 6.4% per annum on the 2020 November Deferral Amounts payable under the CIC Convertible Debenture and the 2020 June Deferral Agreement, commencing on the date on which each such 2020 November Deferral Amount would otherwise have been due and payable under the CIC Convertible Debenture or the June 2020 Deferral Agreement, as applicable; and (ii) a deferral fee equal to 2.5% per annum on the 2020 November Deferral Amounts payable under the Amended and Restated Cooperation Agreement, commencing on the date on which the Management Fee would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.

6. Liquidity and Capital Resources continued

Liquidity and Capital Management continued

CIC Convertible Debenture continued

- The 2020 November Deferral Agreement does not contemplate a fixed repayment schedule for the 2020 November Deferral Amounts and related deferral fees. Instead, the Company and CIC would agree to assess in good faith the Company's financial condition and working capital position on a monthly basis and determine the amount, if any, of the 2020 November Deferral Amounts and related deferral fees that the Company is able to repay under the CIC Convertible Debenture, the June 2020 Deferral Agreement or the Amended and Restated Cooperation Agreement, having regard to the working capital requirements of the Company's operations and business at such time and with the view of ensuring that the Company's operations and business would not be materially prejudiced as a result of any repayment.

- Commencing as of November 19, 2020 and until such time as the November 2020 PIK Interest is fully repaid, CIC reserves the right to require the Company to pay and satisfy the amount of the November 2020 PIK Interest, either in full or in part, by way of issuing and delivering PIK interest shares in accordance with the CIC Convertible Debenture provided that, on the date of issuance of such shares, the Common Shares are listed and trading on at least one stock exchange.

- If at any time before the 2020 November Deferral Amounts and related deferral fees are fully repaid, the Company proposes to appoint, replace or terminate one or more of its Chief Executive Officer, its Chief Financial Officer or any other senior executive(s) in charge of its principal business function or its principal subsidiary, then the Company must first consult with, and obtain written consent from CIC prior to effecting such appointment, replacement or termination.

Commercial Arbitration in Hong Kong

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

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

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

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

6. Liquidity and Capital Resources continued

Liquidity and Capital Management continued

Commercial Arbitration in Hong Kong continued

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

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

Cash Flow Highlights

	Year ended December 31,	
$ in thousands	2020	2019
Cash generated from operating activities	**$ 22,918**	$ 20,057
Cash used in investing activities	**(9,613)**	(18,508)
Cash used in financing activities	**(647)**	(1,339)
Effect of foreign exchange rate changes on cash	**299**	(5)
Decrease in cash for the period	**12,957**	205
Cash balance, beginning of period	**7,164**	6,959
Cash balance, end of period	**$ 20,121**	$ 7,164

Cash generated from Operating Activities

The Company generated $22.9 million of cash in operating activities in 2020 compared to $20.1 million in 2019. The increase is primarily due to the increase in revenue generated.

Cash used in Investing Activities

The Company used $9.6 million of cash during 2020 in investing activities compared to $18.5 million during 2019. In 2020, expenditures on property, plant and equipment totaled $11.9 million (2019: $20.9 million) and $2.0 million of dividend income was collected from RDCC LLC (2019: $2.0 million).

Cash used in Financing Activities

Cash used in financing activities was $0.6 million in 2020 (2019: $1.3 million), which was principally attributable to the refund of customers' deposits of $4.6 million (2019: $12.4 million).

Contractual Obligations and Guarantees

Day-to-day mining, expansionary and sustaining capital expenditures as well as administrative operations give rise to commitments for future minimum payments. As at December 31, 2020, the Company's operating and capital commitments were:

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

6. Liquidity and Capital Resources continued

Ovoot Tolgoi Mine Impairment Analysis

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

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

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

- Coal resources and reserves as estimated by an independent third party engineering firm;
- Sales price estimates from an independent market consulting firm;
- Forecasted sales volumes in line with production levels as reference to the mine plan;
- Life-of-mine coal production, strip ratio, capital costs and operating costs; and
- A post-tax discount rate of 16% based on an analysis of the market, country and asset specific factors.

Key sensitivities in the valuation model are as follows:

- For each 1% increase/(decrease) in the long term price estimates, the calculated fair value of the cash generating unit increases/(decreases) by approximately $12.1/(12.2) million;
- For each 1% increase/(decrease) in the post-tax discount rate, the calculated fair value of the cash generating unit (decreases)/increases by approximately $(14.0)/14.8 million;
- For each 1% increase/(decrease) in the cash mining cost estimates, the calculated fair value of the cash generating unit (decreases)/increases by approximately $(7.0)/6.9 million; and
- For each 1% increase/(decrease) in Mongolian inflation rate, the calculated fair value of the cash generating unit (decreases)/increases by approximately $(0.9)/0.8 million.

The impairment analysis did not result in the identification of an impairment loss or an impairment reversal and no charge or reversal was required as at December 31, 2020. A decline of 15% (2019: 19%) in the long-term price estimates, an increase of more than 20% (2019: 35%) in the post-tax discount rate, an increase of 25% (2019: 29%) in the cash mining cost estimates or an increase of 264% (2019: 73%) in Mongolian inflation rate may trigger an impairment charge on the cash generating unit. The Company believes that the estimates and assumptions incorporated in the impairment analysis are reasonable; however, the estimates and assumptions are subject to significant uncertainties and judgments.

6. Liquidity and Capital Resources continued

Financial Instruments

The fair value of financial assets and financial liabilities at amortized cost is determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions. The fair value of all the financial instruments of the Company approximates their carrying value because of the demand nature or short-term maturity of these instruments, except for the fair values of trade and other payables, interest bearing borrowings, and provision for commercial arbitration and convertible debenture below their respective carrying amounts given the current financial condition of the Company as described under Section 6 of this MD&A under the heading entitled "Liquidity and Capital Management".

The fair values of the embedded derivatives within the CIC Convertible Debenture are determined using a Monte Carlo simulation. The risks associated with the CIC Convertible Debenture relate to a potential breach of the Company's obligations under the terms of the CIC Convertible Debenture. The Company mitigates these risks by ensuring its corporate activities comply with all of its contractual obligations under the CIC Convertible Debenture.

$ in thousands	As at December 31, 2020	December 31, 2019
Financial assets		
Cash	**$ 20,121**	$ 7,164
Restricted cash	**918**	862
Trade and other receivables	**1,305**	1,778
Total financial assets	**$ 22,344**	$ 9,804

$ in thousands	As at December 31, 2020	December 31, 2019
Fair value through profit or loss		
Convertible debenture – embedded derivatives	**$ 152**	$ 196
Other financial liabilities		
Trade and other payables	**78,730**	87,013
Provision for commercial arbitration	**–**	5,593
Interest-bearing borrowings	**3,452**	3,403
Convertible debenture – debt host and interest payable	**181,259**	156,778
Total financial liabilities	**$ 263,593**	$ 252,983

7. Regulatory Issues and Contingencies

Class Action Lawsuit

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

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

7. Regulatory Issues and Contingencies continued

Class Action Lawsuit continued

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

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

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

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

The Company firmly believes that it has a strong defense on the merits and will continue to vigorously defend itself against the Class Action through independent Canadian litigation counsel retained by the Company for this purpose. Due to the inherent uncertainties of litigation, it is not possible to predict the final outcome of the Class Action or determine the amount of potential losses, if any. However, the Company has judged a provision for this matter as at December 31, 2020 and December 31, 2019 is not required.

Toll Wash Plant Agreement with Ejin Jinda

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

Under the original agreement with Ejin Jinda, which required the commercial operation of the wet washing facility to commence on October 1, 2011, the additional fees payable by the Company under the wet washing contract would have been $18.5 million. At each reporting date, the Company assesses the agreement with Ejin Jinda and has determined it is not probable that this $18.5 million will be required to be paid. Accordingly, the Company has determined a provision for this matter at December 31, 2020 and December 31, 2019 is not required.

Special Needs Territory in Umnugobi

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

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

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

7. Regulatory Issues and Contingencies continued

Restoration of Soumber Deposit Mining Licenses

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

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

Mongolian royalties

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

Restrictions on Importing F-Grade Coal into China

As a result of import restrictions established by Chinese authorities at the Ceke border, the Company has been barred from transporting its F-grade coal products into China for sale since December 15, 2018.

8. Environment

The Company is subject to the Environmental Protection Law of Mongolia ("EPL") and has the following duties with respect to environmental protection:

- To comply with the EPL and the decisions of the government, local self-governing organizations, local governors and Mongolian state inspectors;

- To comply with environmental standards, limits, legislation and procedures and to supervise their implementation within the organization;

- To keep records on toxic substances, adverse impacts, and waste discharged into the environment; and

- To report on measures taken to reduce or eliminate toxic chemicals, adverse impacts, and waste.

In addition to those duties imposed on them by the EPL, mining license holders are required to prepare an initial environmental impact assessment analysis before the mine comes into production. The mining license holders must also annually develop and implement an environmental management plan (including reclamation measures) in co-operation with the Ministry of Environment, Green Development and Tourism, which should take into account the results of the environmental impact assessment. The Company received approval of its detailed Environmental Impact Assessment and Environmental Management Plan from the Mongolian Ministry of Environment for the mining operation at the Ovoot Tolgoi Mine in 2007 and renewed in 2016.

The Company has implemented a number of internal policies to embrace responsibility for the impact of its business activities on the environment. By conducting studies, carefully designing mine plans, implementing pollution control recommendations from internal and external sources, monitoring the effects of mining on mining areas and carefully designing mine closure plans, the Company seeks to minimize the impact of its activities on the environment.

8. Environment continued

The Company established an environmental policy in 2008. The environmental policy affirms the Company's commitment to environmental protection. The Company monitors its operations to ensure that it complies with all applicable environmental requirements, and takes actions to prevent and correct problems if needed. In accordance with new provisions specified in Mongolian laws and regulations, in 2014 the Company developed a protection strategy jointly with professional organization. This strategic plan can serve as a policy document directed to protection of biological diversity, ecosystem balance and its preservation, and support species dwelling nearby the Ovoot Tolgoi mine area.

The Board maintains a Health, Environment, Safety and Social Responsibility Committee (the "HESS Committee"), which is composed of independent, non-executive and executive directors and the Vice President of Public Relations. The primary objective of the HESS Committee is to assist the Board of Directors in fulfilling its oversight responsibilities by monitoring and reviewing performance, and recommending for approval policies and management systems, with respect to health, environmental, safety and social responsibility related matters affecting the Company. The HESS Committee also reviews any incidents that may occur and provides guidance on how to prevent any recurrences.

9. Emolument Policy

The emolument policy of the executives of the Company is administered by the Compensation and Benefits Committee on the basis of merit, qualifications and competence and approved by the Board. The emolument policy for the rest of the employees is determined on a department by department basis with the executive in charge of each department determining the emoluments for senior employees and managers in the department and the emoluments for non-senior employees being determined by an appropriately designated manager. The emolument policy for non-executives is administered in conjunction with the human resources department and is done on the basis of merit, qualifications and competence.

The emolument policy for the directors of the Company is administered by the Compensation and Benefits Committee and approved by the Board, having regard to comparable market statistics.

The Company has also adopted an equity incentive plan to incentivize directors and eligible employees. Details of the plan are set out in note 26 of the Company's consolidated financial statements for the year ended December 31, 2020.

10. Outstanding Share Data

The Company is authorized to issue an unlimited number of Common Shares without par value and an unlimited number of preferred shares without par value. As at March 30, 2021, approximately 272.8 million Common Shares were issued and outstanding. There are also incentive share options outstanding to acquire approximately 5.7 million unissued Common Shares with exercise prices ranging from CAD$0.11 to CAD$0.39. There are no preferred shares outstanding.

As at March 30, 2021, to the best of the Company's knowledge:

- CIC holds a total of approximately 64.8 million Common Shares representing approximately 23.8% of the issued and outstanding Common Shares;

- Novel Sunrise holds a total of approximately 46.4 million Common Shares representing approximately 17.0% of the issued and outstanding Common Shares; and

- Voyage Wisdom Limited ("Voyage Wisdom") holds a total of approximately 25.8 million Common Shares representing approximately 9.5% of the issued and outstanding Common Shares.

11. Disclosure Controls and Procedures and Internal Controls Over Financial Reporting ("ICFR")

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management, including the Chief Executive Officer and Chief Financial Officer of the Company, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. As of December 31, 2020, the Chief Executive Officer and Chief Financial Officer of the Company have each concluded that the Company's disclosure controls and procedures, as defined in NI 52-109 – *Certification of Disclosure in Issuer's Annual and Interim Filings*, are effective to achieve the purpose for which they have been designed.

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. Management is also responsible for the design of the Company's internal control over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The Company's internal controls over financial reporting include policies and procedures that: pertain to the maintenance of records that, in reasonable detail accurately and fairly reflect the transactions and disposition of assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with IFRS and that receipts and expenditures are being made only in accordance with authorization of management and directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements.

Because of their inherent limitations, internal controls over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of internal controls over financial reporting using the Internal Control – Updated Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company's internal controls over financial reporting were effective as of December 31, 2020.

There has been no significant change in the Company's internal controls over financial reporting that occurred during the most recently completed quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

12. Critical Accounting Estimates and Judgments

The preparation of financial statements in conformity with IFRS requires the Company to establish accounting policies and to make estimates and judgments that affect both the amount and timing of the recording of assets, liabilities, revenues and expenses.

A detailed summary of all of the Company's significant accounting policies is included in Note 3 to the Company's consolidated financial statements for the year ended December 31, 2020.

The following new IASB standards were adopted by the Company on January 1, 2020. Refer to Note 2.3 of the Company's consolidated financial statement of the year ended December 31, 2020 for details.

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

Refer to Note 3.22 of the Company's consolidated financial statements of the year ended December 31, 2020 for information regarding the accounting judgments and estimates.

13. Recent Accounting Pronouncements

The standards that are issued up to the date of issuance of the Company's financial statements, but were not effective during the year ended December 31, 2020, are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

Amendments to IAS 1	Classification of Liabilities as Current or Non-current, Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause[4]
Amendments to IAS 16	Proceeds before Intended Use[2]
Amendments to IFRS 16	COVID-19-Related Rent Concessions[1]
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract[2]
IFRS 17	Insurance Contracts[4]
Amendments to IFRS 3	Reference to the Conceptual Framework[3]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to IAS 39, IFRS 4, IFRS 7, IFRS 9 and IFRS 16,	Interest Rate Benchmark Reform – Phase 2[1]
Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41	Annual Improvements to IFRSs 2018-2020[2]

1 Effective for annual periods beginning on or after 1 January 2021.
2 Effective for annual periods beginning on or after 1 January 2022.
3 Effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022.
4 Effective for annual periods beginning on or after 1 January 2023.
5 The amendments shall be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined.

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

14. Risk Factors

There are certain risks involved in the Company's operations, some of which are beyond its control. These risks can be broadly categorized into: (i) risks relating to the Company's ability to continue as a going concern; (ii) risks relating to the Common Shares; (iii) risks relating to the economic operation of the Company's Ovoot Tolgoi Mine; (iv) risks relating to the Company's other projects in Mongolia; and (v) risks relating to its business and industry. The risk factors identified below could have a material adverse impact on the Company's business, operations, results of operations, financial condition and future prospects and could cause actual events to differ materially from those described in forward-looking statements relating to the Company. Additional risks and uncertainties not presently known, or not expressed or implied below, or that are presently deemed immaterial, could also harm the Company's business, operations, results of operations, financial condition and future prospects. Some of the following statements are forward-looking and actual results may differ materially from the results anticipated in these forward-looking statements. Refer to "Forward-Looking Statements".

Risks Relating to the Company's Ability to Continue as a Going Concern

Unless the Company acquires additional sources of financing and/or funding in the short term, the ability of the Company to continue as a going concern is threatened

The Company's consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will continue operating until at least December 31, 2021 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. However, certain adverse conditions and material uncertainties cast doubt upon the ability of the Company to continue as a going concern. These include:

- the Company has a working capital deficiency (excess current liabilities over current assets) of $217.6 million as at December 31, 2020;

- the Company has an obligation to pay CIC under the 2020 November Deferral Agreement;

- the trade and other payables of the Company remain high due to liquidity constraints. Refer to the Company's aging profile of the trade and other payables as at December 31, 2020 in Section 6 of this MD&A under the heading entitled "Liquidity and Capital Resources – *Liquidity and Capital Management – Going Concern Considerations*";

- the Company has other current liabilities which require settlement in the short-term, including the $36.1 million of unpaid taxes payable by SGS to MTA; and

- the current import restrictions on F-grade coal by Chinese authorities will further affect the short term cash inflow and may in turn undermine the execution of the operation plan.

This could result in adjustments to the amounts and classifications of assets and liabilities in the Company's consolidated financial statements and such adjustments could be material. If the Company is unable to continue as a going concern, it may be forced to seek relief under applicable bankruptcy and insolvency legislation, which 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.

14. Risk Factors continued

Risks Relating to the Company's Ability to Continue as a Going Concern continued

If the Company is unable to continue as a going concern it may be forced to seek relief under applicable bankruptcy and insolvency legislation.

If the Company seeks relief under applicable bankruptcy and insolvency legislation, its business and operations will be subject to certain risks, including but not limited to, the following:

- An insolvency filing by or against the Company will cause an event of default under the CIC Convertible Debenture;
- An insolvency filing by or against the Company may adversely affect its business prospects, including its ability to continue to obtain and maintain the contracts necessary to operate its business on competitive terms;
- There can be no assurance as to the Company's ability to maintain or obtain sufficient financing sources for operations or to fund any reorganization plan and meet future obligations;
- There can be no assurance that the Company will be able to successfully develop, prosecute, confirm and consummate one or more plans of reorganization that are acceptable to the applicable courts and its creditors, equity holders and other parties in interest; and
- The value of the Common Shares could be reduced to zero as result of an insolvency filing.

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 any potential losses, if any.

The Company is subject to litigation risks. In the normal course of the Company's business, it may come involved in, named as a party to, or be the subject of, various legal proceedings, including, without limitations, mining laws, environmental laws, labour laws, and anti-corruption and anti-bribery laws in the jurisdictions in which the Company operates. Defense and settlement costs associated with legal claims can be substantial, even with respect to claims that are frivolous or have no merit. Due to the inherent uncertainty of the litigation process, the resolution of any particular legal proceeding to which the Company is or may become subject could have a material adverse impact on its business, operations, results of operations, financial condition and future prospects.

The Company is currently a defendant in the Class Action (as more particularly described in Section 7 "*Regulatory Issues and Contingencies*" of this MD&A). 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.

In the event the Company incurs any liability in connection with the Class Action, it maintains insurance with respect thereto. While the Company believes that such insurance coverage is in an amount that would be sufficient to cover any amounts the Company may be required or determines to pay with respect thereto, there can be no assurance that such coverage will be adequate to do so, and, if so, any amounts not so covered would be required to be paid by the Company. The Company's ability to continue as a going concern will be impacted to the extent it is required to pay any amounts in connection with the Class Action, which would 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.

14. Risk Factors continued

Risks Relating to the Common Shares

Future stock market conditions may change.

There are risks involved with any equity investment. The market price of the Common Shares may rise or fall depending upon a range of factors and stock market conditions, which are unrelated to the Company's future financial performance. Movements on international stock markets, local interest rates and exchange rates, domestic and international economic and political conditions, as well as government, taxation and other policy changes may affect the stock market. As the Company is a listed company on the TSX and the HKEX, its Common Share price will also be subject to numerous influences including broad trends in the stock market and the share prices of individual companies or sectors.

Risks Relating to the Economic Operation of the Company's Ovoot Tolgoi Project

There can be no assurance that the mine plan developed for the Ovoot Tolgoi Mine will ultimately be viable or profitable due to the inherent operational risks.

As a result of work performed by DMCL, the Company increased its estimate of total resources at the Ovoot Tolgoi deposit from those described in the 2016 Technical Report, has declared reserves for the Ovoot Tolgoi deposit and prepared a new mine plan. There are no assurances, however, that the Company will execute its mine plan and realize on the estimates for the Ovoot Tolgoi deposit. It is not unusual in the mining industry for mining operations to experience unexpected problems during commercial production, resulting in delays and requiring more capital than anticipated. Actual costs and economic returns may differ materially from the Company's estimates. Risks associated with the operation of mines include, but are not limited to, the following:

- Unusual or unexpected geological formations;
- Unstable ground conditions that could result in cave-ins or landslides;
- Floods;
- Power outages;
- Restrictions or interruptions in supply of key materials;
- Restrictions or interruptions to coal exports into China;
- Labour disruptions or shortages;
- Social unrest in adjacent areas;
- Equipment failure;
- Fires and explosions;
- Changes to applicable law; and
- Inability to obtain suitable or adequate machinery, equipment, or labour.

14. Risk Factors continued

Risks Relating to the Economic Operation of the Company's Ovoot Tolgoi Project continued

There can be no assurance that the mine plan developed for the Ovoot Tolgoi Mine will ultimately be viable or profitable due to the inherent operational risks. continued

In addition, risks particular to the Company's mine plan include:

- Transition to contract mining and if the Company is able to negotiate a contract with applicable contractors at rates that justify the transition;
- Ability to generate sufficient sales volumes at economical realized prices;
- Maintaining an adequate water supply to the mine site to permit the continued operations of the wash plant as planned;
- Achieving satisfactory yields from wet washing operations;
- Successful conversion of resources into reserves during the life of mine;
- Continued delays in the custom clearance process at the Ceke border;
- Continued ban on the import of F-grade coal products into China;
- Impact of the COVID-19 pandemic on the Company's ability to export coal into China; and
- Success in enhancing the operational efficiency and the output throughput of the of the wet wash plant.

Any of the risks noted above could have a material adverse impact on the Company's financial performance, cash flow and results of operations, which 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.

Risks Relating to the Company's Projects in Mongolia

Legislation in Mongolia may be subject to conflicting interpretations, which may have adverse consequences on the Company's business.

The Mongolian legal system shares several of the qualitative characteristics typically found in a developing country and many of its laws, particularly with respect to matters of taxation, are still evolving. A transaction or business structure that would likely be regarded under a more established legal system as appropriate and relatively straightforward might be regarded in Mongolia as outside the scope of existing Mongolian law or regulation. As a result, certain business arrangements or structures and certain tax planning mechanisms may carry significant risks. In particular, when business objectives and practicalities dictate the use of arrangements and structures that, while not necessarily contrary to settled Mongolian law, are sufficiently novel within a Mongolian legal context, it is possible that such arrangements may be challenged resulting in their invalidation.

14. Risk Factors continued

Risks Relating to the Company's Projects in Mongolia continued

Legislation in Mongolia may be subject to conflicting interpretations, which may have adverse consequences on the Company's business. continued

The legal system in Mongolia has inherent uncertainties that could limit the legal protections available to the Company, which include: (i) inconsistencies between laws; (ii) limited judicial and administrative guidance on interpreting Mongolian legislation; (iii) substantial gaps in the regulatory structure due to delay or absence of implementing regulations; (iv) the lack of established interpretations of new principles of Mongolian legislation, particularly those relating to business, corporate and securities laws; (v) a lack of judicial independence from political, social and commercial forces; and (vi) bankruptcy procedures that are not well developed and are subject to abuse. The Mongolian judicial system has relatively little experience in enforcing the laws and regulations that currently exist, leading to a degree of uncertainty as to the outcome of any litigation; it may be difficult to obtain swift and equitable enforcement, or to obtain enforcement of a judgment by a court of another jurisdiction.

In addition, while legislation has been enacted to protect private property against expropriation and nationalization, due to the lack of experience in enforcing these provisions and political factors, these protections may not be enforced in the event of an attempted expropriation or nationalization. Expropriation or nationalization of any of the Company's assets, or portions thereof, potentially without adequate compensation, could materially and adversely affect its business and results of operations.

Application of and amendments to legislation could adversely affect the Company's mining rights in its projects or make it more difficult or expensive to develop its projects and carry out mining.

The 2006 Minerals Law (as defined under the heading "DEFINITIONS AND OTHER INFORMATION – Defined Terms and Abbreviations" in the Company's most recently filed Annual Information Form), which preserves to a limited extent some of the substance of the former 1997 minerals legislation, was drafted with the assistance of legal experts in the area of mining legislation and was widely regarded as progressive, internally consistent and effective legislation. However, the 2006 Minerals Law has been subsequently amended and the potential for political interference has increased and the rights and security of title holders of mineral tenures in Mongolia has been weakened. Certain provisions of the 2006 Minerals Law are ambiguous and it is unclear how they will be interpreted and applied in practice. Examples of such provisions include those relating to the designation of a mineral deposit as a Mineral Deposit of Strategic Importance (as defined under the heading "DEFINITIONS AND OTHER INFORMATION – Defined Terms and Abbreviations" in the Company's most recently filed Annual Information Form). Refer to the risk factor entitled "*The Government of Mongolia could determine that any one or more of the Company's projects in Mongolia is a Mineral Deposit of Strategic Importance*" below.

In addition, the introduction of new Mongolian laws and regulations and the interpretation of existing ones may be subject to policy changes reflecting domestic political or social changes. For example, on July 16, 2009, the Parliament of Mongolia enacted the Mining Prohibition in Specified Areas Law (the "Specified Areas Law") that prohibits minerals exploration and mining in areas such as headwaters of rivers and lakes, forest areas as defined in the Law of Forests of Mongolia of May 17, 2012, as amended, and areas adjacent to rivers and lakes as defined in the Law of Mongolia on Water enacted on May 17, 2012, as amended.

Pursuant to the Specified Areas Law, the Government of Mongolia has defined the boundaries of certain areas in which exploration and mining is purportedly prohibited. A list of licences has been prepared that overlap with the prohibited areas described in the law based on information submitted by water authority agencies, forest authority agencies and local authorities for submission to the Government of Mongolia.

Portions of the mining licence in respect of the Ovoot Tolgoi Mine and the exploration licence pertaining to the Zag Suuj Deposit are included on the list of specified areas described in the Specified Areas Law.

14. Risk Factors continued

Risks Relating to the Company's Projects in Mongolia continued

Application of and amendments to legislation could adversely affect the Company's mining rights in its projects or make it more difficult or expensive to develop its projects and carry out mining. continued

In regard to the Ovoot Tolgoi Mining Licence, the potential area which may be affected is a relatively small area which represents approximately 3% of the entire area of the mining licence and does not contain any reserves or resources or immovable assets. Accordingly, the loss of the potentially affected area would not materially and adversely affect the existing operations.

Activities historically carried out on the other licences referred to above include drilling, trenching and geological reconnaissance. The Company has no immovable assets located in any of the potentially affected areas of these licences and the loss of any or all of these potentially affected properties would not materially and adversely affect the existing operations.

The Mining Prohibition in Specified Areas Law has not been adequately enforced to date mainly due to compensation issues due to the licence holders.

In order to address the issues facing its implementation, in February, 2015 the Parliament of Mongolia adopted an amendment to the Law on Implementation of the Mining Prohibition in Specified Areas Law (the "Amended Law on Implementation"). The Amended Law on Implementation provides an opportunity for license holders covered within the scope of application of the Mining Prohibition in Specified Areas Law to continue their mining operations subject to advance placement of funds to cover 100% of the future environmental rehabilitation costs. A model contract and a specific Government regulation on this requirement will be adopted by the Government. The license holders must also apply within 3 months after the amendment to the Law on Implementation comes into effect for permission to MRAM to resume activities. The Company submitted its application with respect to its mining licenses before the deadline set on June 16, 2015 and hasn't yet received any communication from MRAM on the status of its application.

Pursuant to the Mongolian Law "To prohibit mineral exploration and mining operations at headwaters of rivers, water protection zones and forested areas", the Government administrative agency has notified the Company that special license area 12726A is partly overlapping with a water reservoir. The Company has inspected the area together with the Cadastral Division of the Mineral Resource Authority as well as through the cadastral registration system of the Ministry of Environment, it is determined that 29 hectares of Sukhait Bulag is partly overlapping with a water reservoir, of which has been partly handed over. (Resolution No.6/7522 issued on September 29, 2015 by the Head of Cadastral Division of the Mineral Resource Authority).

In accordance with Article 22.3 of Law of Mongolia on Water, 5,602.96 hectares of land, including Sukhaityn Bulag, Uvur Zadgai, and Zuun Shand pertaining to exploration license 9443X, which was converted to mining license MV-0125436 in January 2016, is overlapping with a protected area boundary. The overlapping area has been officially handed over to the local administration. (Resolution No.688 issued on September 24, 2015 by the Head of Cadastral Division of the Mineral Resource Authority) In connection with the nullification of Annex 2 of the Government order No.194 "On determining boundary" issued on June 5, 2012, area around the water reservoir located at MV-016869 license area was annulled from the Specified Area Law.

Therefore, mining license 12726A was removed from the list of licenses that overlaps with the prohibited areas described in the law.

There has been limited development of the law during 2016 while two exploration licenses of the Company (13779X and 5267X) were converted to mining licenses (MV-020676 and MV-020675) in November 2016. The Company will continue to monitor the developments and ensure that it follows the necessary steps in the Amended Law on Implementation to secure its operations and licenses and is fully compliant with Mongolian law.

14. Risk Factors continued

Risks Relating to the Company's Projects in Mongolia continued

Application of and amendments to legislation could adversely affect the Company's mining rights in its projects or make it more difficult or expensive to develop its projects and carry out mining. continued

There can be no assurance that future political and economic conditions in Mongolia will not result in the Government of Mongolia adopting different policies in relation to foreign development and ownership of mineral resources. Any such changes in government or policy may result in changes in laws affecting ownership of assets, environmental protection, labour relations, repatriation of income, return of capital, investment agreements, income tax laws, royalty regulation, government incentive and other areas, each of which may materially and adversely affect the Company's ability to undertake exploration and development activities in the manner currently contemplated. Any restrictions imposed or charges levied or raised (including royalty fees) under Mongolian law for the export of coal could harm the Company's competitiveness.

The impact of the COVID-19 pandemic could have a material adverse impact on the Company's business, results of operations, or financial condition.

On March 12, 2020, the World Health Organization declared the COVID-19 outbreak as a global pandemic.

In Mongolia, the Mongolian State Emergency Commission closed Mongolia's southern border with China effective as of February 11, 2020 in order to prevent the spread of COVID-19. Accordingly, the Company suspended coal exports to China beginning as of February 11, 2020. On March 28, 2020, the Mongolia-China border was re-opened for coal export on a trial basis, with a limit imposed on the total volume of coal that was permitted to be exported during this trial period.

The border closure had an adverse impact on the Company's sales and cash flows in the first and second quarter of 2020. In order to mitigate the financial impact of the border closure and preserve its working capital, the Company temporarily ceased major mining operations (including coal mining), reduced production to only coal-blending activities and placed approximately half of its workforce on furlough in February 2020. On August 2, 2020, the Company resumed its mining operations. Although the export of coal from Mongolia to China continues as of the date hereof, there can be no guarantee that the Company will be able to continue exporting coal to China, or the border crossings would not be the subject of additional closure as a result of COVID-19 or any variants thereof in the future. The Company will continue to closely monitor the development of the COVID-19 pandemic and the impact it has on coal exports to China and will react promptly to preserve the working capital of the Company. In the event that the Company's ability to export coal into Chinese market becomes restricted or limited again as a result of any future restrictions which may be implemented at the Mongolia-China border crossing, this is expected to have a material adverse effect on the business and operations of the Company and may negatively affect the price and volatility of the Common Shares and any investment in such shares could suffer a significant decline or total loss in value.

The Company believes the COVID-19 pandemic in China has negatively affected its business. Furthermore, the economic slowdown and negative business sentiment in the PRC could potentially have a negative impact on the demand for coal generally and our business operations and financial condition may be adversely affected as a result. Given the difficulty involved in determining with any degree of certainty as to how long the COVID-19 pandemic will last, the Company cannot predict if the adverse impact on the Company's business, financial condition and operations will be short-lived or long-lasting at this time. If the negative impact of the COVID-19 pandemic continues and becomes long-lasting, the Company's business, financial condition and operations may be materially and adversely affected as a result of any slowdown in economic growth in China, reduce demand for coal or other factors that the Company cannot foresee.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

14. Risk Factors continued

Risks Relating to the Company's Projects in Mongolia continued

The Company's ability to carry on business in Mongolia is subject to political risk.
The Company's ability to efficiently conduct its exploration and development activities is subject to changes in government policy or shifts in political attitudes within Mongolia that are beyond the Company's control.

Government policy may change to discourage foreign investment, nationalization of mining industries may occur or other government limitations, restrictions or requirements not currently foreseen may be implemented. There is no assurance that the Company's assets will not be subject to nationalization, requisition or confiscation, whether legitimate or not, by any authority or body. The provisions under Mongolian law for compensation and reimbursement of losses to investors under such circumstances may not be effective to restore the value of the Company's original investment.

In addition, Mongolia may experience political instability. Such instability could have a material adverse effect on economic or social conditions in Mongolia and may result in outbreaks of civil unrest, which could materially and adversely affect the Company's business and results of operations.

The Government of Mongolia could determine that any one or more of the Company's projects in Mongolia is a Mineral Deposit of Strategic Importance if it meets legal requirements.
Under the 2006 Minerals Law, the State Great Khural of Mongolia (the "Parliament of Mongolia") has wide discretion to designate mineral deposits to be Mineral Deposits of Strategic Importance. The Government of Mongolia is empowered to participate on an equity basis with the licence holder in the exploitation and/or mining of each Mineral Deposit of Strategic Importance on terms to be negotiated between the Government of Mongolia and such licence holder. Details of any minerals reserves must be filed by the relevant licence holder with the Government of Mongolia, and those deposits on the Strategic Deposits List represent most of the largest and highest profile deposits in Mongolia. In addition to deposits currently on the Strategic Deposits List and the additional Tier 2 Deposits List, the Parliament of Mongolia may at any time designate other deposits not yet currently on such Lists to be Mineral Deposits of Strategic Importance, add such deposits to either the Strategic Deposits List or the Tier 2 Deposits List and, in the former case, commence negotiations with the relevant licence holder with respect to the terms under which the Government of Mongolia will take an interest in such deposit. While the Government of Mongolia is in the process of adding the exact location and coordinates for each Mineral Deposit of Strategic Importance, a number of deposits on the Strategic Deposits List are identified by name only with no indication of the latitude and longitude coordinates for the deposit, and it is therefore not always possible to precisely determine the intended geographic area covered by each designated Mineral Deposit of Strategic Importance or to accurately determine whether or not any given licence area is within, or overlaps, a Mineral Deposit of Strategic Importance. In July 2014, the Mongolian Parliament made an amendment to the Minerals Law and redefined the term of "Mineral Deposit of Strategic Importance". According to the Minerals Law, the Mineral Deposit of Strategic Importance means "a deposit which can affect national security, national economic and social development or a deposit that can produce more than five percent of Mongolian GDP in a year".

14. Risk Factors continued

Risks Relating to the Company's Projects in Mongolia continued

The Government of Mongolia could determine that any one or more of the Company's projects in Mongolia is a Mineral Deposit of Strategic Importance if it meets legal requirements. continued

Under the 2006 Minerals Law, the size of the Government of Mongolia's participation is determined largely by the level of state funding which has been provided for the exploration and development of any deposit, with the Government of Mongolia entitled to participate up to 50% in the event that there has been state funding of such deposit and up to 34% if there has not. However, the 2006 Minerals Law is very vague as to the details and method by which the Government of Mongolia will take its interest and the final arrangements in respect of the Government of Mongolia's interest in each Mineral Deposit of Strategic Importance, including the amount of compensation to be paid to the licence holder and the actual form of the Government of Mongolia's interest are subject to negotiation between the Government of Mongolia and the licence holder. In 2015, the Parliament of Mongolia adopted an amendment to the 2006 Minerals Law providing for the possibility for the Government to collect a special royalty on Mineral Deposits of Strategic Importance in lieu of holding an equity stake in such deposit. It stipulates that the parties can agree to transfer to the licence holder the state's share in the Mineral Deposit of Strategic Importance upon the approval of an authorized Government body, with the licence holder agreeing to pay a special royalty at a percentage (not to exceed 5%) to be approved by the Government.

The 2006 Minerals Law also contains provisions requiring any company which holds a Mineral Deposit of Strategic Importance to list no less than 10% of its shares on the Mongolian Stock Exchange. This particular provision of the 2006 Minerals Law has not yet been enforced and it is not clear how it will work in practice.

In recent years there have been a number of proposed amendments to the 2006 Minerals Law suggested by various parties, many of which have centered on amending the 2006 Minerals Law to increase the Government of Mongolia's participating interest in excess of 50%. While the 2006 Minerals Law provides that the interest of the Government of Mongolia should take the form of an equity interest, based on past practice, and depending on the results of individual negotiations, the interest may be in the form of production or profit sharing or some other arrangement negotiated between the licence holder and the Government of Mongolia. There can be no assurance that legislation will not be enacted which further strengthens the Government of Mongolia's right to participate in privately held mineral resources in Mongolia.

None of the deposits covered by the Company's existing mining licences or exploration licences are currently designated as Mineral Deposits of Strategic Importance. However, there can be no assurance that any one or more of these deposits will not be so designated in the future, in which case the Company's business and results of operations may be materially and adversely affected.

14. Risk Factors continued

Risks relating to the Company's business and industry

Some of the Company's projects may not be completed as planned; costs may exceed original budgets and may not achieve the intended economic results or commercial viability.

The Company's business strategy depends largely on expanding its production capacity at the Ovoot Tolgoi Mine and further developing its other coal projects into commercially viable mines. Whether a mineral deposit will be commercially viable depends on a number of factors, including: (i) the particular attributes of the deposit, such as size, grade and proximity to infrastructure; (ii) commodity prices, which are highly cyclical; and (iii) government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of mineral resources and environmental protection.

The Company's projects are subject to both (i) technical risk in that they may not perform as designed, or (ii) operational redesign or modification as a result of on-going evaluation of the projects. Increased development costs, lower output or higher operating costs may all combine to make a project less profitable than expected at the time of the development decision. This would have a negative impact on the Company's business and results of operations. No assurance can be given that the Company would be adequately compensated by third party project design and construction companies (if not performed by the Company) in the event that a project did not meet its expected design specification.

The Company's coal reserves and resources are estimates based on a number of assumptions, and the Company may produce less coal than its current estimates.

The coal reserve and resource estimates are based on a number of assumptions that have been made by the QPs in accordance with NI 43-101. Reserve and resource estimates involve expressions of judgment based on various factors such as knowledge, experience and industry practice, and the accuracy of these estimates may be affected by many factors, including quality of the results of exploration drilling and analysis of coal samples, as well as the procedures adopted by and the experience of the person making the estimates.

The Company notes that, in general, mineral resource and reserve estimates are always subject to change based on new information. Specifically, should the Company encounter mineralization different from that predicted by past drilling, sampling and similar examination, mineral resource and/or reserve estimates may have to be adjusted downward. In addition, the rank of coal ultimately mined may differ from that indicated by drilling results. There can be no assurance that coal recovered in laboratory tests will be duplicated under on-site conditions or in production-scale operations. In the event that the actual level of impurities is higher than expected or the coal mined is of a lower quality than expected, the demand for, and realizable price of, the Company's coal may decrease. Short term factors relating to reserves, such as the need for orderly development of coal seams or the processing of new or different quality coals, may also materially and adversely affect the Company's business and results of operations.

The inclusion of reserve and resource estimates should not be regarded as a representation that all these amounts can be economically exploited and nothing contained herein (including, without limitation, the estimates of mine lives) should be interpreted as assurance of the economic lives of the Company's coal reserves and resources or the profitability of its future operations.

Mineral resources that are not mineral reserves do not have demonstrated economic viability. Due to the uncertainty that may attach to inferred mineral resources, there is no assurance that mineral resources will be upgraded to proven and probable ore reserves. Inferred mineral resources are considered too speculative geologically to have economic considerations applied to them that would enable them to be categorized as mineral reserves.

14. Risk Factors continued

Risks relating to the Company's business and industry continued

The Company's results of operations are subject, to a significant extent, to economic, political and legal developments in China.

The Company expects that a majority if not all of the coal sales from the Ovoot Tolgoi Mine will be made to customers based in China. Accordingly, the economic, political and social conditions, as well as government policies, of China may affect its business. The Chinese economy differs from the economies of most developed countries in many respects, including: (i) structure; (ii) level of government involvement; (iii) level of development; (iv) growth rate; (v) control of foreign exchange; and (vi) allocation of resources. The Chinese economy has been transitioning from a planned economy to a more market-oriented economy. For the past two decades, the Chinese government has implemented economic reform measures emphasizing the utilization of market forces in the development of the Chinese economy. Changes in the Chinese's political, economic and social conditions, laws, regulations and policies could materially and adversely affect the Company's business and results of operations. More recently, the COVID-19 pandemic has resulted in reduced industrial activity in China, with temporary closures of factories and other facilities, as described in the risk factor entitled "*The impact of the COVID-19 pandemic in China could have a material adverse impact on the Company's business, results of operations, or financial condition*".

As a result of import restrictions established by the PRC authorities at the Ceke border, the Company has been barred from transporting its F-grade coal products into China for sale since December 15, 2018. The Company, together with other Mongolian coal companies, have been in discussions with the PRC 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. A protracted or indefinite ban on the import of the Company's F-grade coal products into China may have a material adverse impact on the Company's financial performance, cash flow and results of operations, which 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.

The interests of the Company's principal stakeholders, CIC, Novel Sunrise and Voyage Wisdom, may differ from those of the other stakeholders.

As at March 30, 2021, to the best of the Company's knowledge:

- CIC holds a total of 64.8 million Common Shares representing approximately 23.8% of the issued and outstanding Common Shares;
- Novel Sunrise holds a total of approximately 46.4 million Common Shares representing approximately 17.0% of the issued and outstanding Common Shares; and
- Voyage Wisdom holds a total of approximately 25.8 million Common Shares representing approximately 9.5% of the issued and outstanding Common Shares.

Accordingly, the Company's principal stakeholders may have the ability to substantially affect the outcome of matters submitted to Shareholders of the Company for approval, including, without limitation, the election and removal of directors, amendments to our articles of incorporation and bylaws and the approval of any business combination. This may delay or prevent an acquisition of the Company or cause the market price of the Common Shares to decline. The interests of each of these principal stakeholders may conflict with the interests of other Shareholders and there is no assurance that any of these principal stakeholders will vote its Common Shares in a way that benefits minority Shareholders. While no Shareholder has the ability to elect a majority of the Board unilaterally, both Novel Sunrise and CIC have been granted contractual director appointment rights. In addition, the Company's principal stakeholders may have an interest in pursuing acquisitions, divestitures and other transactions that, in the judgment of management, could enhance its equity or debt investment, even though such transactions might involve risks to other Shareholders and may negatively affect prevailing market prices of the Common Shares.

14. Risk Factors continued

Risks relating to the Company's business and industry continued

The interests of the Company's principal stakeholders, CIC, Novel Sunrise and Voyage Wisdom, may differ from those of the other stakeholders. continued

Subject to compliance with applicable securities laws, the principal stakeholders may sell some or all of their Common Shares in the future. No prediction can be made as to the effect, if any, such future sales of Common Shares will have on market prices of the Common Shares prevailing from time to time. However, the future sale of a substantial number of Common Shares by our principal stakeholders, or the perception that such sales could occur, could adversely affect prevailing market prices of the Common Shares.

Tax and royalty legislation in Mongolia is subject to varying interpretations and changes which may have a significant impact on the Company's financial position.

Mongolian tax, currency, customs and royalty legislation is subject to varying interpretations and changes, which can occur frequently. The interpretation by the Company's management of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant authorities.

The Mongolian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged by tax authorities. As a result, significant additional taxes, penalties, interest or royalties may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

The Mongolian tax legislation does not provide definitive guidance in certain areas, specifically in areas such as value-added tax, withholding tax, corporate income tax, personal income tax, transfer pricing and other areas. From time to time, the Company adopts interpretations of such uncertain areas that reduce the overall tax rate of the Company. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices. The impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity in question.

The royalty regime in Mongolia is evolving and has been subject to change since 2012. On September 4, 2019, the Government of Mongolia issued a 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.

There can be no assurance, however, that the Government of Mongolia will not disagree with the methodology employed by the Company in determining the calculated sales price and require that the royalty payable be calculated based on the Mongolian government's reference, which could 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.

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

14. Risk Factors continued

Risks relating to the Company's business and industry continued

The Company does not insure against all risks to which it may be subject in planned operations and insurance coverage could prove inadequate to satisfy potential claims.

For certain aspects of the Company's business operations, insurance coverage, in particular business interruption insurance, is restricted or prohibitively expensive. The Company currently holds its primary insurance policies through Canadian insurance providers to insure its properties. The Company has taken out insurance for risks including commercial general liability, and aviation premises liability. The Company maintains mining property insurance for all of its mining assets wherever located, property insurance on its office premises and liability insurance for its directors and officers. However, no assurance can be given that the Company will elect or be able to obtain such insurance coverage at economically reasonable premiums (or at all), or that any coverage it obtains will be adequate to cover the extent of any claims brought against it.

Exploration, development and production operations on mineral properties involve numerous risks, including environmental risks, such as unexpected or unusual geological operating conditions, rock bursts or slides, fires, floods, earthquakes or other environmental occurrences, and political and social instability. The Company does not maintain insurance against any environmental or political risks. Should any liabilities arise for which it is not insured or insurance coverage is inadequate to cover the entire liability, they could reduce or eliminate the Company's actual or prospective profitability, result in increasing costs and a decline in the value of the Common Shares and could materially and adversely affect the Company's business and results of operations.

Licences and permits are subject to renewal and various uncertainties and the Company may only renew its exploration licences a limited number of times for a limited period of time.

The Company's activities are subject to extensive licensing and permitting requirements. The Company strives to obtain all required licenses and permits on a timely basis and to comply with all such licenses and permits at all times. However, there can be no assurance that the Company will obtain and maintain all required licenses and permits or that it will not face delays in obtaining all required licenses and permits, renewals of existing licenses and permits, additional licenses and permits required for existing or future operations or activities, or additional licenses and permits required by new legislation. The Company notes the following with respect to its ability to obtain and maintain applicable licenses and permits:

- Certain provisions of the Law on Land of Mongolia enacted on June 7, 2002, as amended (the "Land Law of Mongolia") and the 2006 Minerals Law provide for the revocation of previously granted land use rights, MELs or mining licences on the grounds that the affected area of land has been designated as SNT. The Land Law of Mongolia grants the discretion to declare an area of land for special needs purposes to local governing authorities and identifies various broad categories which qualify as special needs. The 2006 Minerals Law requires the local governing authority that designates an area of land as a special needs territory to compensate within one year the licence holder whose rights or licence status are affected. The failure to pay the compensation within the one year period would allow the licence holder to resume its operations. If any of the Company's land use rights or mining licences in Mongolia are revoked because the underlying land is declared as special needs territory, there is no assurance that the Company will receive adequate compensation and its business and results of operation might be adversely and materially affected.

- On February 13, 2015, the License Areas were included into a special protected area (referred to as a Special Needs Territory or "SNT") newly set up by the Umnugobi Aimag's CRKh to establish a strict regime on the protection of natural environment and prohibit mining activities in the territory of the SNT.

14. Risk Factors continued

Risks relating to the Company's business and industry continued

Licences and permits are subject to renewal and various uncertainties and the Company may only renew its exploration licences a limited number of times for a limited period of time. continued

- 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 until the License Areas are removed from the SNT.

- The Company will continue to liaise and work with CRKh to have the License Areas excluded from the SNT, however the Company has not yet received any indication on the timing of the next session of the CRKh. There is no assurance that the Company will receive adequate compensation and its business and results of operation might be adversely and materially affected.

- On August 26, 2019, SGS received the Notice Letter from MRAM notifying that the Company's three mining licenses (MV-016869, MV-020436 and MV-020451) for the Soumber Deposit have been terminated by the Head of Cadastre Division of MRAM effective as of August 21, 2019. Refer to Section 7 of this MD&A under the heading entitled "*Regulatory Issues and Contingencies – Termination of Soumber Deposit Mining Licenses*" for more information.

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

The inability to obtain or maintain licenses and permits with respect to its mining operations, of any delay with respect to the obtaining of licenses and permits, could have a material adverse impact on the Company's financial performance, cash flow and results of operations.

Prolonged periods of severe weather conditions could materially and adversely affect the Company's business and results of operations.

Severe weather conditions may require the Company to evacuate personnel or curtail operations and may cause damages to the project site, equipment or facilities, which could result in the temporary suspension of operations or generally reduce the Company's productivity. Severe weather conditions have not caused any delay or damages to the Company's operations to date. However, there can be no assurance that severe weather will not occur. Any damages to the Company's projects or delays in its operations caused by prolonged periods of severe weather could materially and adversely affect its business and results of operations.

14. Risk Factors continued

Risks relating to the Company's business and industry continued

The Company's business and results of operations are susceptible to the cyclical nature of coal markets and are vulnerable to fluctuations in prices for coal.

The Company expects to derive substantially all of its revenue and cash flow from the sale of coal. Therefore, the market price of the Common Shares, the Company's ability to raise additional financing and maintain ongoing operations and its financial condition and results of operations will be directly related to the demand for, and price of, coal and coal-related products. Coal demand and price are determined by numerous factors beyond the Company's control, including the international demand for steel and steel products, the availability of competitive coal supplies, international exchange rates, political and economic conditions in Mongolia, China and elsewhere in the world, milder or more severe than normal weather conditions, production costs in major coal producing regions and, most recently, the impact of the COVID-19 pandemic. The Chinese and international coal markets are cyclical and have in the past exhibited significant fluctuations in supply, demand and prices from year to year. There has been significant price volatility on the coal spot market. An oversupply of coal in China or a general downturn in the economies of any significant markets for the Company's coal and coal-related products could materially and adversely affect its business and results of operations. In addition, the Company's dependence on Asian markets may result in instability in its operations due to political and economic factors in those Asian jurisdictions which are beyond the Company's control. The combined effects of any or all of these factors on coal prices or volumes are impossible for the Company to predict.

If realized coal prices are below the full cost of production of any of the Company's future mining operations and remain at such a level for any sustained period, the Company could experience increased losses and may decide to discontinue operations, which could require the Company to incur closure costs and result in further reduced revenues.

The Company's coal mining activities are subject to operational risks, including equipment breakdown.

The Company's coal mining operations are subject to a number of operational risks, some of which are beyond its control, which could delay the production and delivery of coal. These risks include unexpected maintenance or technical problems, periodic interruptions to its mining operations due to inclement or hazardous weather conditions and natural disasters, industrial accidents, power or fuel supply interruptions and critical equipment failure, including malfunction and breakdown of its shovels, upon which its coal mining operations are heavily reliant and which would require considerable time to replace. These risks and hazards may result in personal injury, damage to, or destruction of, properties or production facilities, environmental damage, business interruption and damage to its business reputation. In addition, breakdowns of equipment, difficulties or delays in obtaining replacement shovels and other equipment, natural disasters, industrial accidents or other causes could temporarily disrupt the Company's operations, which in turn may also materially and adversely affect its business, prospects, financial condition and results of operations.

14. Risk Factors continued

Risks relating to the Company's business and industry continued

The Company's future financial performance depends, in part, on the successful operation of the wash plant at the Ovoot Tolgoi Mine, which is subject to various risks

Because the Company's current mine plan is predicated, in part, on incorporating a coal washing and process systems, the Company's future financial performance will depend on the successful operation of the wash plant at the Ovoot Tolgoi mine. The operating performance of the wash plant, and the related cost of operation and maintenance, may be adversely affected by a variety of risk factors, including, but not limited to, the following:

- Maintaining an adequate water supply and power supply to the mine site to permit the continued operations of the wash plant as planned;
- Achieving satisfactory yields from wet washing operations;
- The Company successfully enhancing the operational efficiency and the output throughput of the wet wash plant;
- The Company successfully negotiating an agreement with the wash plant operator regarding the operation of the wash plant;
- Unexpected maintenance and replacement expenditures;
- Shutdowns due to the breakdown or failure of the wash plant's equipment;
- Labour disputes; and
- Catastrophic events such as fires, explosions, severe storms or similar occurrence affecting the wash plant facility or third parties providing services to the wash plant.

Any of the risks noted above could have a material adverse impact on the operational performance or cost of operations of the wash plant, which in turn could have a material adverse effect on the Company's financial performance, cash flow and results of operations.

The unavailability or shortage of reliable and sufficient coal transportation capacity that meets Mongolian authority regulations will reduce the Company's coal revenue by causing it to reduce its production volume or impairing its ability to supply coal to its customers.

The Company anticipates that the majority of its coal production from the projects in Mongolia will be exported to China. Inadequate transportation infrastructure, or restrictions on or delays in coal exports to China, is likely to affect the pricing terms on which it can sell the coal to customers and the willingness and ability of such customers to purchase coal from it. Customers are likely to factor in any delays and the costs and availability of transportation in determining the price they are prepared to pay to purchase the Company's coal. Therefore, its mining operations are anticipated to be highly dependent on road and rail services in Mongolia and China.

The opening hours of the Shivee Khuren Border Crossing also affect the Company's ability to expedite the movement of its coal shipments. There can be no assurance that there would be any other cost effective means of transporting the coal to the Company's primary market in China. As a result, the Company may experience difficulty expediting the movement of its coal shipments and/or significant cost escalation for the transportation services, which could affect its production and reduce its profitability.

14. Risk Factors continued

Risks relating to the Company's business and industry continued

The unavailability or shortage of reliable and sufficient coal transportation capacity that meets Mongolian authority regulations will reduce the Company's coal revenue by causing it to reduce its production volume or impairing its ability to supply coal to its customers. continued

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 closure as a result of COVID-19 in the future. The Company will continue to closely monitor the development of the COVID-19 pandemic and the impact it has on coal exports to China and will react promptly to preserve the working capital of the Company.

In China, rail and road infrastructure and capacity has in the past been affected by extreme weather conditions, earthquakes, delays caused by major rail accidents, the COVID-19 pandemic, the diversion of rolling stock needed to deliver emergency food relief and seasonal congestion during public holidays. There can be no assurance that these problems will not recur or that new problems will not occur. In any of these circumstances, the customers may not be able to take delivery of the Company's coal, which may lead to delays in payment, or refusal to pay, for the Company's coal and, as a result, the Company's business and results of operations could be materially and adversely affected.

The Company's prospects depend on its ability to attract, retain and train key personnel.

Recruiting, retaining and training qualified personnel is critical to the Company's success. The number of persons skilled in the acquisition, exploration and development of mining properties is limited and competition within the mining industry for such persons is intense, in particular, Mongolian law requires that at least 90% of a mining company's employees be of Mongolian nationality. This provision of the law, coupled with the large number of active mining projects in Mongolia, further limits the number of available personnel and increases competition for skilled personnel. The reputation and capability to operate continuously over the longer term are key factors in also attracting key personnel to its business. The Company is reinforcing its core values of ethical behavior in dealing with all its stakeholders from senior management down in order to ensure the Company attracts the right people to its business. As the Company's business activity grows, it will require additional key financial, administrative, mining, marketing and public relations personnel as well as additional operations staff. If the Company is not successful in attracting such key personnel, or retaining existing key personnel, its business and results of operations could be materially and adversely affected.

In addition, the Company's ability to train operating and maintenance personnel is a key factor for the success of its business activities. If the Company is not successful in recruiting, training and retaining such personnel, its business and results of operations could be materially and adversely affected.

14. Risk Factors continued

Risks relating to the Company's business and industry continued

Competition in the coal industry may hinder development plans and adversely affect the Company's coal sales if it is not able to compete effectively.

Continued growth in mining and mineral exploration activities in Mongolia could create an increasing demand for mining equipment and related services. Shortages of, or higher costs for, equipment and services could restrict the Company's ability to carry out the exploration, development and production activities, increase its costs of operations and adversely affect its future plans.

The Company intends to sell a majority of the coal it produces in China. Competition in the Chinese coal industry is based on many factors, including, among others, price, production capacity, coal quality and characteristics, transportation capability and costs, blending capability and brand name. The Company's coal business will most likely compete in China with other large Chinese and international coal mining companies. Due to location, some of the Company's Chinese competitors may have lower transportation costs than the Company does. The Chinese coal market is highly fragmented and the Company faces price competition from some small local coal producers that produce coal for significantly lower costs than the Company due to various factors, including their lower expenditure on safety and regulatory compliance. Some of the Company's international competitors, including the Mongolian coal producers, may have greater coal production capacity as well as greater financial, marketing, distribution and other resources than the Company does, and may benefit from more established brand names in international markets. The Company's future success will depend on its ability to respond in an effective and timely manner to competitive pressure.

There are a number of risks associated with the Company's operation plan, dependence on a limited number of customers and inability to attract additional customers.

The current operation plan contemplates significant operational funding in the Company's mining operations as well as equipment maintenance in order to achieve the Company's revenue and cash flow targets. Such expenditures and other working capital requirements may require the Company to seek additional financing. There is no guarantee that the Company will be able to secure other sources of financing. If the Company is unable to continue as a going concern, it may be forced to seek relief under applicable bankruptcy and insolvency legislation.

The Company has been selling its coal products since 2008. The Company had 14 active customers with the largest customer representing approximately 26%, the second largest customer representing approximately 18%, the third largest customer representing approximately 15%, the fourth largest customer representing approximately 12% and the remaining customers accounting for 29% of the Company's total sales for the year ended December 31, 2020. In order to mitigate this risk, the Company is attempting to modify its sales strategy in order to expand its existing customer base. With certain of its customers, the Company has accepted payment for coal deliveries in the form of bank instruments, in lieu of cash. There can be no assurance, however, that the Company will be able to satisfy or comply with the funding conditions of such instruments following completion of the coal delivery or the bank that issues the instrument will be capable of paying all or any portion of the proceeds to the Company, which could 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.

The Company still expects to sell the majority of the coal from its Mongolian mining operations to customers in China. Chinese law requires specific authorization to be obtained by entities responsible for the import of coal into China. In the event that the Company's customers, or the agents of such customers who are responsible for importing coal into China on their behalf, fail to obtain and retain the necessary authorizations, their ability to import coal into China may be affected, which could materially and adversely affect the Company's business and results of operations.

14. Risk Factors continued

Risks relating to the Company's business and industry continued

There are a number of risks associated with the Company's operation plan, dependence on a limited number of customers and inability to attract additional customers. continued

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.

Failure to maintain an effective system of internal controls may result in material misstatements of the Company's financial statements or cause the Company to fail to meet its reporting obligations or fail to prevent fraud.

Effective internal controls are necessary for the Company to provide reliable financial reports and prevent fraud. If the Company fails to maintain an effective system of internal controls, the Company may not be able to report its financial results accurately or prevent fraud; and in that case, Shareholders and investors could lose confidence in the Company's financial reporting, which would harm the Company's business and could negatively impact the price of the Common Shares.

If the Company suffers any future material weaknesses in its internal controls and procedures or fails to maintain the adequacy of its internal controls and procedures, the Company could be the subject of regulatory scrutiny, penalties or litigation, all of which would harm the Company's business and could negatively impact the price of the Common Shares.

The Company cannot provide assurances that the Company will not experience potential material weaknesses in its internal controls. Even if the Company concludes that its internal controls over financial reporting provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS, because of their inherent limitations, internal control over financial reporting may not prevent or detect fraud or misstatements. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by individual acts, by collusion of two or more individuals or by unauthorized override of controls. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm the Company's results of operations or cause the Company to fail to meet its future reporting obligations.

The Company's operations are exposed to risks in relation to environmental protection and rehabilitation.

The operations of coal mines involve substantial environmental risks and hazards and the Company's operations are subject to laws and regulations relating to the environment, health and safety and other regulatory matters in Mongolia and China.

The risk of environmental liability is inherent in the operation of the Company's business. Environmental hazards may occur in connection with the Company's operations as a result of human negligence, force majeure, or otherwise. Claims may be asserted against the Company arising out of its operations in the normal course of business, including claims relating to land use, safety, health and environmental matters. The Company is not insured against environmental liabilities and there can be no assurance that environmental liabilities would not materially and adversely affect its business and results of operations.

14. Risk Factors continued

Risks relating to the Company's business and industry continued

The Company's operations are exposed to risks in relation to environmental protection and rehabilitation. continued

In addition, the Company is subject to reclamation requirements. The Company's mine will eventually close. The key tasks in relation to the closure of the mines involves (i) long-term management of permanent engineered structures (for example, spillways, roads, waste dumps); (ii) achievement of environmental closure standards; (iii) orderly retrenchment of employees and contractors; and (iv) relinquishment of the site with associated permanent structures and community development infrastructure and programs to new owners. The successful completion of these tasks is dependent on the Company's ability to successfully implement negotiated agreements with the relevant government, community and employees. The consequences of a difficult closure range from increased closure costs and handover delays to ongoing environmental impacts and corporate reputation damage if desired outcomes cannot be achieved, which could materially and adversely affect the Company's business and results of operations.

The Company currently does not own a coal storage facility at the Ceke border. As a result of potential stricter requirements for coal storage facilities which may be adopted by the local government in the future, the Company may not be able to secure enough storage space at the Ceke border, which could 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. As part of its focus on capital preservation, the Company has decided to suspend indefinitely all further development activities relating to the previously announced Ceke Logistics Park Project until further notice. The Company may be at risk of becoming subject to litigation proceedings initiated by its investment partner in the Ceke Logistics Park Project for failing to comply with the underlying agreements governing project development. Due to the inherent uncertainty of the litigation process, the resolution of any particular legal proceeding to which the Company may become subject could have a material adverse impact on its business, operations, results of operations, financial condition and future prospects.

Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. The Company may experience increased costs of production arising from compliance with environmental laws and regulations. Should the Company fail to comply with current or future environmental laws and regulations, the Company may be required to pay penalties or take corrective actions, any of which may have a material adverse effect on its results of operations and financial condition.

Foreign currency fluctuations could affect expenses and any future earnings.

The Company is exposed to foreign exchange fluctuations with respect to the MNT, Chinese Renminbi, Hong Kong, and Canadian dollars. The Company's financial results are reported in United States dollars. The salaries for local laborers in Mongolia are paid in local currency. Sales of coal into China have been and may continue to be settled in United States dollars and Renminbi. The Company has a subsidiary in Hong Kong where some expenses are incurred in Hong Kong dollars. Since the Company's headquarters is in Canada, a minor portion of its expenses are in Canadian dollars and the Company holds a portion of its cash in Canadian dollars. As a result, its financial position and results are impacted by the exchange rate fluctuations between the aforementioned currencies and the United States dollar.

14. Risk Factors continued

Risks relating to the Company's business and industry continued

Information in this MD&A regarding future plans reflects current intentions and is subject to change.
Whether the Company ultimately implements the business strategies described in this MD&A will depend on a number of factors including, but not limited to: the political situation in Mongolia and China; the availability and cost of capital; current and projected coal prices; coal markets; costs and availability of drilling services, costs and availability of heavy equipment, supplies and personnel; success or failure of activities in similar areas to those in which the Company's projects are situated; and changes in estimates of project completion costs. The Company will continue to gather information about its projects, and it is possible that additional information will cause it to alter its schedule or determine that a project should not be pursued at all. Accordingly, the Company's plans and objectives may change from those described in this MD&A.

15. Outlook

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

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

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

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

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

15. Outlook continued

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

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

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

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

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

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

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

March 30, 2021

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SouthGobi believes that having sound environmental, social and governance ("ESG") performance is important to the continued sustainable development of its business and community. The Company is committed, not only in creating value for its shareholders, but also in promoting environmental protection, social responsibility and effective corporate governance.

The Board has established a Health, Environment, Safety and Social Responsibility Committee, which operates under a charter approved by the Board. The primary objective of the HESS Committee is to assist the Board of Directors in fulfilling its oversight responsibilities by monitoring and reviewing performance, and recommending for approval policies and management systems, with respect to health, environmental, safety and social responsibility related matters affecting the Company. The HESS Committee also reviews any incidents that occur and provides guidance on how to prevent any recurrences. During the course of 2020, the HESS Committee met two (2) times.

Annually, the HESS Committee reviews the Company's environmental, social and governance report (the "ESG Report") and provides guidelines and recommendations to the Company's management relating to the findings in the ESG Report. During the Financial Year, the HESS Committee reviewed its charter in light of current best practices.

We uphold and value the principles of integrity and responsibility in our operations, and are constantly seeking ways to enhance our competitive edge by striving for excellence and embracing technological advances. We fulfill our social responsibility through our work in supporting the local community and by minimizing pollution to the environment. We also conduct an environmental monitoring program every year, which consists of checking soil quality, ground and surface water levels and quality, vegetation, fauna, air quality including dust and waste gas emissions, and reclamation and rehabilitation.

We provide a positive working environment and sustain strong safety guidelines for our employees to minimize the lost time injury. The Company continues to be committed to operate in a safe and socially responsible manner in order to maintain a solid low lost time injury frequency rate since establishment. As at December 31, 2020, the Company had a lost time injury frequency rate of 0.03 per 200,000 man hours based on a rolling 12-month average. We provide continuous training for our staff to enhance morale and improve efficiency.

Disclosures relating to the material ESG issues identified have been included in this ESG Report pursuant to the requirements of Appendix 27 of the Listing Rules of The Hong Kong Stock Exchange. This ESG Report mainly covers the policies, initiatives and performance of the Company's business in relation to these issues, for the year ended December 31, 2020:

A. Environmental

A1: Emissions

The Company is required and willing to comply with the Environmental Protection Law of Mongolia for its mining activities. It includes specific regulations and guidelines on the protection of the land and soil, water and air within the areas it operates. In particular, the Law on Air of Mongolia has specifically identified the standards that the Company must reach and maintain.

Within the framework of such relevant environmental laws and regulations, the Company aspires to demonstrate environmental leadership by keeping its environmental impact at a minimum through rehabilitation, biological offsetting, regular monitoring of pollutant emissions and taking relevant responsive measures and protecting the environment with the participation of locals in the area in which it operates.

In 2014, a weather station was set up and commenced operations at the mine site in order to gather site specific data every 10 minutes, including data for gas emissions.

Environmental, Social and Governance Report

In 2020, the emissions of sulphur dioxide, nitrogen dioxide, respirable and fine suspended particles released through the mining process were within Mongolian air quality standard MNS 4585:2016. The results were derived from the Company's environmental monitoring program where samples from selected areas were taken and passed to authorized laboratory for testing.

The results shown below demonstrate that our average results of the measured parameters were under the standard requirement for both 2019 and 2020.

	Measured parameters	Unit	Standard requirement	2019 average result	**2020 average result**
1	Dust content	mg/m^3	0.5	0.107	**0.101**
2	Sulphur Dioxide	mg/m^3	0.45	0.0376	**0.0299**
3	Nitrogen Dioxide	mg/m^3	0.085	0.062	**0.061**

Moreover, the Company has implemented a variety of environmental friendly waste management programs and is focused on recycling and reduction of wastes. In 2020, the Ovoot Tolgoi mine site generated 83 (2019: 260) tonnes of waste, including waste oil, used tires, car batteries and cartridges, and 69% (2019: 69%) of such were recycled and donated to local residents and various contract companies for reuse.

A2: Use of resources

The Board, together with its HESS Committee, supports Management's decision in respect of energy conservation and environmental protection. The Company established a top-down management approach and assessment mechanism for energy conservation and environmental protection at three levels: head office, subsidiaries (branches) and plant (mine, wash plant), in order to delegate responsibility, effectively communicate to each level, and connect incentives and constraints on all division.

– **Energy consumption (electricity, gas, oil)**

The details of energy consumption at mine site are as follows:

			2019		**2020**	
	Measured parameters	Unit	Total consumption	Per tonne produced	**Total consumption**	**Per tonne produced**
1	Electricity	kWh	1,873,241	0.56	**1,327,162**	**0.56**
2	Gas (propane, oxygen, acetylene, argon, nitrogen)	Gallon/3000 psi	132	47.9 (per million tonnes)	**81**	**47.9 (per million tonnes)**
3	Oil (Gear oil, Hydraulic oil, Engine oil)	tonnes	236	30.2 (per million tonnes)	**167**	**30.2 (per million tonnes)**

– **Water consumption**

In 2020, the Ovoot Tolgoi mine site consumed 45,979m^3 (2019: 35,393m^3) of water for domestic use. In addition, 108,497m^3 (2019: 177,342m^3) of water, acquired from a nearby pit and water pond, was used for dust compression. In 2020, the coal wash plant at the Ovoot Tolgoi mine site consumed 62,518m^3 of water for the coal washing process. Water consumption was lower in 2020 as mining operations were temporarily suspended during the year due to the border closures as a result of the COVID-19 pandemic and management's decision to pace production to meet expected sales. We continue to strive to minimize the water consumption used in dust compression by reducing the source pollution and emission during the mining process.

– **Energy use efficiency initiatives**
The Company utilizes the following measures to promote energy saving:

- conducting routine camp meeting for all employees about energy use efficiency;
- erecting signage to remind employees to turn off lights when not in use;
- checking the lights every night by the camp manager;
- closely maintaining and monitoring the room temperature; and
- air conditioners being only utilized according to a specific schedule.

Sourcing water, water efficiency initiatives
The Company has implemented various measures to preserve water usage, especially at the mine site. Various meetings have been held with our employees and local residents to promote the importance of and ways to preserve and conserve water and the efficient use of water. We have placed rubbish bins at different water sources near the mine site to prevent littering, which directly affects the quality of water sources. Moreover, we constantly clean the water source points to ensure the water quality supplied to Ovoot Tolgoi and the nearby community.

A3: The Environment and Natural Resources

The Company adheres to the notion of producing green coal and building ecological mining sites. Great emphasis has been placed on soil and water conservation, land rehabilitation and greening, ecological projects and other efforts to safeguard and improve the local eco-environment and advance the ecological progress.

The Company established an annual environmental monitoring programme to monitor soil quality, underground water, reclamation and rehabilitation.

The Ovoot Tolgoi mining license area does not have large scale soil contamination by heavy metals often associated with mining operations. Samplings were obtained in eight (8) different locations and the results were all within the government standard requirement under MNS 5850:2008. The overall results for 2019 and 2020 are as follows:

For 2019:

Heavy metals	Unit	Chromium	Lead	Cadmium	Nickel	Zinc
Average	Mg/kg	46.3	11.7	0.7	22.8	72.0
Maximum	Mg/kg	59.0	25.0	2.1	31.0	105.0
Minimum	Mg/kg	30.0	8	0.1	12.0	60.0
MNS 5850:2008	Mg/kg	150	100	3	150	300

For 2020:

Heavy metals	Unit	Chromium	Lead	Cadmium	Nickel	Zinc
Average	Mg/kg	41.2	18	0.4	23.5	70
Maximum	Mg/kg	79.3	41.7	1.8	45.3	132.3
Minimum	Mg/kg	2	2	0.06	12.2	49.1
MNS 5850:2008	Mg/kg	150	100	3	150	300

The Company also tested eight (8) surface water points to monitor underground water quality. A total of seven (7) ions, acidity, and minimization were tested and the results were all up to standard.

Mining, rehabilitation and greening at Ovoot Tolgoi are conducted in a synchronized manner. Timely rehabilitation and greening has been carried out in accordance with the procedure of topsoil stripping, layering up, mining, back-filling, covering the topsoil and restoring vegetation, which enables a full-scale greening and restores the ecology to its pre-mining conditions. Commencing in 2008, the Company has carried out biological reclamation of a 56.16 hectare area and planted over 6,250 trees and shrubs to reduce greenhouse gas emissions. The Company organizes tree planting activities at Ovoot Tolgoi twice a year during the spring and the fall.

The Company is required by the Government of Mongolia to develop an environmental protection plan each year. The plan for 2021 has been approved by the Ministry of Environment and Green Development of Mongolia. Seventeen measures were planned to minimize the impact on environment, including but not limited to air, soil, underground water, plants and animals.

B. Social

B1: Employment

The Company upholds an equal and non-discriminative employment policy to provide equal employment opportunities for all candidates, regardless of race, gender, religion belief and cultural background. Taking into account characteristics and development requirements of different positions, the Company actively provides job opportunities for women and ensures equal pay for equal work for male and female employees. As of December 31, 2020, the Company had a workforce of 280 employees, including 60 female employees, representing 21% of the workforce. In 2020, the Company recruited 13 new employees.

The Company believes that a diverse Board will enhance the decision making of the Board by utilizing the difference in skills, experience and background, geographical and industry experience, ethnicity, gender, knowledge and length of services, and other distinguishing qualities of the members of the Board. In support of this belief, the Board adopted a Board Diversity Policy in March 2014. All Board appointments will continue to be based on merit, having due regard to the overall effectiveness of the Board and diversity will be one of the criteria considered in determining the optimum composition of the Board.

To retain competitive employees, the Company has in place a remuneration and welfare mechanism that are internally fair and externally competitive. The Company has implemented the appropriate policies and campaigns to encourage and incentivize employees to develop and realize their personal values.

Employees are entitled to paid leave, maternity leave, paternity leave and other statutory leave in accordance with the law in various jurisdictions. The Company also provides paid sick leave and personal leave, granting 15 days of annual paid leave on average for the employees in 2020.

B2: Health and Safety

The health and safety of the Company's employees is a top priority and the Company constantly improves the occupational safety and health management system in order to reduce risks and create a safe working environment. The Company requires all employees to strictly comply with the health and safety policies.

The Company's safety management system is designed on the principles of continual improvement and adopts the "Plan, Do, Check and Review" methodology. The structure of the safety management system generally follows the layout of international standards such as MNS OHSAS 18001:2012 and AS/NZS 4801.

The system has 13 elements which are inter-related, and each of those have specific objective which enables employees to identify and manage various health and safety threats. Each element includes measures which help employees meet the requirements of respective objective. Some of the elements refer to fixed procedures that must be followed, and defined in safe work procedures. The health and safety performance standards also address specific risk areas and the precautions and guidelines set by the health and safety performance standards are mandatory for all employees.

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

In response to the COVID-19 pandemic, the Company has implemented various precautionary measures at the mine site, as well as in all of its offices, in order to prevent the spread of COVID-19 and to maintain operations in the normal course, while also complying with the advice or orders of local public health authorities. The following measures were adopted and strictly enforced at the mine site:

– employees are being tested for COVID-19 before transporting to the mine site;

– measuring body temperature for all personnel entering the mine site and daily for all employees;

– COVID-19 tests are conducted daily and randomly for various employees;

– disinfect frequently on all the touched surfaces, common areas, and camp rooms;

– cleaned and sanitized mining equipment at the start and the end of each shift;

– employees have meals at different hours in smaller groups and on a different schedule from the contractor;

– employees are reminded to maintain social distance from each other; and

– sports complex are temporarily closed to avoid gatherings and crowds

B3: Human Development and Training

The Company has conducted various training activities and has in place ongoing mechanisms for employees to enhance their skills and capabilities in order to provide a career development path for employees and to improve the efficiency of the Company.

In particular, there are various trainings in relation to health and safety at the mine site. We ensure all personnel involved in any operation or activities at the mine site are knowledgeable of the risks and controls associated with their position and that they are competent to perform those activities. All new employees, contractors and visitors to the mine site must undertake relevant induction training, which includes reference to the significant health and safety risks identified at the managed site.

The health and safety training includes two (2) major aspects: competency-based training, and awareness training. Competency-based training provides training on risk analysis, operational controls, work place monitoring, management of change and incident management. Awareness training includes significant health and safety risks and activities, accountabilities of specific health and safety roles and responsibilities, and emergency response procedures.

During 2020, safety training was provided for 743 employees (2019: 5,331) which includes new employee training, refresher training, contractor new employee training, contractor refresher training, visitor induction and trainings. A total of 7,072 training hours were provided in 2020 (2019: 18,067 hours). The safety trainings conducted in 2020 was significantly lowered than 2019 due to the temporary cessation of the Company's coal mining operations from February to August 2020, and approximately half of the Company's workforce was placed on furlough during that period.

B4: Labour standards

The Company strictly prohibits the use of child and forced labour in all operations, and is committed to creating a work environment which respects human rights.

In strict compliance with laws and regulations regarding labour and human rights, the Company takes such measures as instituting and enhancing collective contract system, signing labour contracts with each employee, improving remuneration and welfare mechanism and strengthening occupational health management to protect employees' legitimate rights and interests. In case of any violation, the Company will carry out investigation and impose necessary action on the employing unit and demand rectification within a specified period. No breach of any standards, rules or regulations on child labour and forced labour has ever occurred.

B5: Supply Chain Management

The Company is continuously improving its supply chain management, by ensuring the stable supply of production materials and services, as well as managing the suppliers to ensure they are aligned with the Company's core values to uphold the environmental and social standards.

The Company regards the social value and social influence (especially the fulfilment of social responsibility) as important aspects in supplier assessment and enhanced admission management. According to specific admission requirements, the Company not only demands that a supplier presents certification of quality, environment and occupational health and safety regimes, but that the supplier's product and its production meets national environmental protection standards and regulations and has passed external expert assessment.

According to the Company's procurement guidelines, the agreements with suppliers include the Company's requirement and standards in terms of environment and safety concerns. The tools and equipment by the contractors are all inspected and evaluated to be in safe condition and confirm with the Company health and safety standards and site procedures.

B6: Product Responsibility

The Company's main coal products primarily consist of premium semi-soft coking coal, standard semi-soft coking coal, standard thermal coal, and washed coal. We strive to ensure steady supply of quality coal products to customers.

In 2020, the Company produced 1.5 million tonnes of coal and sold 2.6 million tonnes of coal to customers. During production, a total of 5.3 m^3 overburden was stripped, and the stripping ratio was 3.6 m^3 per tonne. The Company actively promotes clean coal products. In general, our coal products' average ash content ranged from 12% to 28%, calorific value ranged from 5,000 to 7,000 kcal/kg, the sulphur content below 1.2%, G index ranged from 58 to 75, and volatile matter around 32.9%.

The coal wash plant at the Ovoot Tolgoi mine site commenced operations in October 2018. The plant washes run-of-mine coals with high ash content. The washed coal is are sold as semi-soft coking coal. In 2020, the wash plant processed 0.2 million tonnes of run-of-mine coal and 0.2 million tonnes of washed coal were sold. The washed coal has an average ash content of around 15%, an average calorific value of 6,100 kcal/kg, an average sulphur content of 1.3%, G index of around 61, and volatile matter of 40.1%. The Company will continue to enhance the product value by increasing the volume of coal being washed. We will also consider alternative technologies to enhance-coal quality for the Chinese market with improved margins.

B7: Anti-corruption

The Company's current practices are reviewed and updated annually to ensure that the latest developments in corporate governance are followed and observed.

In 2012, the Company adopted and implemented a revised Code of Business Conduct and Ethics (the "Ethics Policy") called "*The Way We Work*". The Ethics Policy is applicable to all employees, consultants, officers and Directors regardless of their position in the organization, at all times and everywhere the Company does business.

In addition to "*The Way We Work*", the Company has also adopted additional guidance notes and standards that form part of the Company's overall Code of Conduct Standards. Included in the Code of Conduct Standards are the following policies and standards: the Anti-Corruption Standard and the Conflicts of Interest Standard, "*The Way We Work*" and Guidelines for the investigation into allegations of serious wrongdoing and the EthicsPoint program.

EthicsPoint is the Company's whistleblowing service which is administered by an independent third party provider. EthicsPoint provides an avenue for the Company's personnel to raise concerns confidentially and anonymously and it is available for use should someone suspect or is aware of any illegal, unsafe or inappropriate activity at work. Information regarding EthicsPoint is available on the Company's website (www.southgobi.com).

Environmental, Social and Governance Report

The Ethics Policy and the Code of Conduct Standards provide that the Company's employees, consultants, officers and Directors will uphold its commitment to a culture of honesty, integrity and accountability and that the Company requires the highest standards of professional and ethical conduct from its employees, consultants, officers and Directors. A copy of the Ethics Policy entitled "The Way We Work" and the various policies forming the Code of Conduct Standards are available on the Company's website (www.southgobi.com) and may be obtained, without charge, by request to SouthGobi Resources Ltd. at its registered and records office in Canada, 20th floor – 250 Howe Street, Vancouver, British Columbia, Canada, V6C 3R8, for the attention of the Corporate Secretary, or by phone to 604-762-6783.

The Nominating and Corporate Governance Committee monitors compliance with the Code of Conduct Standards and is responsible for establishing systems to verify compliance with legal, regulatory, corporate governance and disclosure requirements.

In 2019, a review was conducted for all of the Company's material internal controls, including financial, operational and compliance controls and risk management functions in respect of the effectiveness of the Company's internal control system, adequacy of resources and qualifications and experience of staff of the Company's accounting and financial reporting function. Following the review, the Board was satisfied that, following the implementation of certain recommended remedial actions and preventative measures, the internal control procedures were effective and in compliance with the Company's policies.

B8: Corporate Social Responsibility

SouthGobi proactively cares for the needs of the community by creating job opportunities, supporting the necessities of the community especially for small businesses and children educations, and is committed to the long term development of Mongolia.

The Company encourages the employment of staff from the local community based on the principal of harmonious development. The Company's Ovoot Tolgoi mine has created job opportunities in the Umnugobi Aimag (South Gobi province). As at December 31, 2020, the Company employed 237 employees in Mongolia, of which 237 (100%) are Mongolian nationals, and of those, 117 (49%) are residents of the local Gurvantes, Dalanzadgad, Sevrei and Noyon Soums.

The Company also supports and participates in the economic construction of the surrounding regions and development in Mongolia. Thus, the Company enjoys a good relationship with the local enterprises and government by supporting the local communities. For instance, the Company purchases goods and materials from the local community, such as purchasing employees' uniforms through domestic suppliers. The Company also continues to donate coal for the nearby local residents during the winter months. The Company donated 4,090 tonnes of coal to the local communities at Gurvantes, Bayandalai, Noyon and Sevrei soums.

In 2009, the Company implemented a scholarship program to support local students in the Gobi region, and, to-date, 205 scholarships have been granted to university students. In 2020, the Company awarded 13 scholarships to students from the Gurvantes Soum region (Dalanzadgad, Bayandalai, Gurvantes, Noyon, and Sevrei). The Company also built infrastructures for the local communities, including the construction of a kindergarten in the Gurvantes Soum region in 2011 and renovated the library at a secondary school in 2017. In the past, we have also donated books to local schools, toys to the kindergarten classrooms, and bed linens to the Gurvantes hospital which were all appreciated by the locals.

In 2019, our Mongolian subsidiary SouthGobi Sands LLC (“SGS”) entered into a tri-party cooperation agreement with the nearby soums (village) and aimag (town) which is aimed at funding sustainable infrastructure projects for the communities. Following the commencement of the cooperation agreement, several renovation projects were completed in 2019. However, further projects were suspended or postponed due to COVID-19. The Company will continue to participate in these various infrastructure projects in order to contribute and give back to our communities.

In addition, each year SGS usually hosts and sponsors sporting events and festivals for the local schools, and also co-organizes the English assessment exam, Olympiad. However, these events and exam were postponed in 2020 due to COVID-19.

The input and support that the Company and SGS have contributed to the communities over the years has been acknowledged and recognized, and the Company was honoured to receive various awards in the past years including “Top 100 Companies in Mongolia”, “Best Employer of 2018”, “Best Occupational Hygiene and Safety Excellence”, “Best Corporate Social Responsibility Enterprise of Umnugobi Province”, “Best Social Fee Paying Employer” awards and more. The Company is proud and appreciative of all the recognition received over the years and will continue to contribute to the communities in every aspect it can.

During 2020, the Company made US$172,603 in charitable donations, of which includes cash donations to various communities, coal donations to various Soums of the Umnugobi Province, and a COVID-19 related donation to Risk Protection Fund of Dalanzadgad Province. The Company has also donated disposable masks, personal protective equipment, and other supplies in response to COVID-19. We believe the Company and our surrounding communities could endure through these difficult times together.


SouthGobi
Sands
Safety first


Coal Washing Plant #1

CONSOLIDATED FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

电话：+852 2218 8288
传真：+852 2815 2239
www.bdo.com.hk

香港干诺道中111号
永安中心25楼

To the Shareholders of SouthGobi Resources Ltd.

Opinion

We have audited the consolidated financial statements of SouthGobi Resources Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 127 to 182 which comprise the consolidated statements of financial position as at December 31, 2020 and 2019, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2020 and 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS") issued by International Accounting Standard Board.

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the consolidated financial statements, which indicates that the Group's incurred a loss attributable to equity holders of the Company of $20.1 million for the year ended December 31, 2020, and as of that date, had a deficiency in assets of $76.2 million while the working capital deficiency reached $217.6 million. These conditions, along with other matters as set forth in Note 1 to the consolidated financial statements, indicate that a material uncertainty exists that may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

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

Impairment of property, plant and equipment

(Refer to note 3.22(b) and 16 to the consolidation financial statements)

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

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

How the matter was addressed in our audit

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

- Assessing the appropriateness of the Group's identification of individual cash generating unit;

- Evaluating the competence, capabilities and objectivity of the independent external consultant engaged by the Group ("Management's Expert");

- Engaging our internal valuation experts to evaluate the appropriateness of the valuation methodology in the context of the relevant accounting standards, the data and technical information and the reasonableness of significant assumptions used by the Group and the Management's Expert in the valuation models against information of independent source, our knowledge of the Group and its industry;

- Evaluating the adequacy of the sensitivity analysis on significant assumptions in the valuation models for risk assessment;

- Assessing the reasonableness of the key assumptions used in the valuation models with reference to the historical accuracy of such forecasts and the current operational results; and

- Comparing the input data in the cash flow forecast to the source document.

- We have also considered the overall reasonableness of cash flow forecasts.

Other Information

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

BDO Limited

Certified Public Accountants
Lee Alfred
Practising Certificate Number P04960

Hong Kong, March 30, 2021

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

	Notes	Year ended December 31, 2020	2019
Revenue	5	$ **85,951**	$ 129,712
Cost of sales	7	**(58,657)**	(84,400)
Gross profit		**27,294**	45,312
Other operating expenses	8	**(4,821)**	(5,581)
Administration expenses	9	**(6,971)**	(9,447)
Evaluation and exploration expenses		**(226)**	(452)
Profit from operations		**15,276**	29,832
Finance costs	10	**(31,692)**	(28,010)
Finance income	10	**2,613**	4,417
Share of earnings of a joint venture	17	**1,313**	1,329
Profit/(loss) before tax		**(12,490)**	7,568
Current income tax expense	11	**(7,599)**	(3,367)
Net profit/(loss) attributable to equity holders of the Company		**(20,089)**	4,201
Other comprehensive loss to be reclassified to profit or loss in subsequent periods			
Exchange difference on translation of foreign operation		**(7,043)**	(5,129)
Net comprehensive loss attributable to equity holders of the Company		$ **(27,132)**	$ (928)
Basic and diluted earnings/(loss) per share	12	$ **(0.07)**	$ 0.02

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in thousands of U.S. dollars)

	Notes		As at December 31, 2020		2019
Assets					
Current assets					
Cash and cash equivalents		**$**	**20,121**	$	7,164
Restricted cash			**918**		862
Trade and other receivables	13		**1,305**		1,778
Inventories	14		**42,383**		52,237
Prepaid expenses	15		**1,666**		2,312
Total current assets			**66,393**		64,353
Non-current assets					
Property, plant and equipment	16		**131,425**		137,221
Inventories	14		**680**		9,332
Investment in a joint venture	17		**16,134**		17,521
Total non-current assets			**148,239**		164,074
Total assets		**$**	**214,632**	$	228,427
Equity and liabilities					
Current liabilities					
Trade and other payables	18	**$**	**78,730**	$	87,013
Provision for commercial arbitration	19		**–**		5,593
Deferred revenue	20		**20,831**		16,057
Interest-bearing borrowing	21		**2,826**		2,835
Lease liabilities	22		**202**		460
Current portion of convertible debenture	23		**181,411**		67,106
Total current liabilities			**284,000**		179,064
Non-current liabilities					
Lease liabilities	22		**424**		108
Convertible debenture	23		**–**		89,868
Decommissioning liability	24		**6,445**		8,605
Total non-current liabilities			**6,869**		98,581
Total liabilities			**290,869**		277,645
Equity					
Common shares	25		**1,098,634**		1,098,634
Share option reserve	27		**52,702**		52,589
Capital reserve	27		**396**		396
Exchange reserve			**(30,271)**		(23,228)
Accumulated deficit	25		**(1,197,698)**		(1,177,609)
Total deficiency in assets			**(76,237)**		(49,218)
Total equity and liabilities		**$**	**214,632**	$	228,427
Net current liabilities		**$**	**(217,607)**	$	(114,711)
Total assets less current liabilities		**$**	**(69,368)**	$	49,363

Corporate information and going concern (Note 1), commitments for expenditure (Note 32) and contingencies (Note 33)

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

APPROVED BY THE BOARD:

"Mao Sun" *"Dalanguerban"*

Director *Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	Number of shares/units	Share capital	Share option reserve	Capital reserve	Exchange fluctuation reserve	Accumulated deficit	Total
Balances, January 1, 2019	272,703	$ 1,098,634	$ 52,542	$ 396	$ (18,099)	$ (1,181,810)	$ (48,337)
Net profit for the year	–	–	–	–	–	4,201	4,201
Exchange differences on translation of foreign operations	–	–	–	–	(5,129)	–	(5,129)
Total comprehensive loss attributable to equity holders of the Company	–	–	–	–	(5,129)	4,201	(928)
Share-based compensation charged to operations	–	–	47	–	–	–	47
Balances, December 31, 2019	272,703	$ 1,098,634	$ 52,589	$ 396	$ (23,228)	$ (1,177,609)	$ (49,218)
Balances, January 1, 2020	**272,703**	**$ 1,098,634**	**$ 52,589**	**$ 396**	**$ (23,228)**	**$ (1,177,609)**	**$ (49,218)**
Net loss for the year	**–**	**–**	**–**	**–**	**–**	**(20,089)**	**(20,089)**
Exchange differences on translation of foreign operations	**–**	**–**	**–**	**–**	**(7,043)**	**–**	**(7,043)**
Total comprehensive loss attributable to equity holders of the Company	**–**	**–**	**–**	**–**	**(7,043)**	**(20,089)**	**(27,132)**
Share-based compensation charged to operations	**–**	**–**	**113**	**–**	**–**	**–**	**113**
Balances, December 31, 2020	**272,703**	**$ 1,098,634**	**$ 52,702**	**$ 396**	**$ (30,271)**	**$ (1,197,698)**	**$ (76,237)**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

(Expressed in thousands of U.S. dollars)

	Notes	Year ended December 31, 2020	2019
Operating activities			
Profit/(loss) before tax		$ **(12,490)**	$ 7,568
Adjustments for:			
Depreciation and depletion		**8,736**	15,942
Share-based compensation	26	**113**	47
Interest expense on convertible debenture	10	**27,726**	23,751
Interest expense on borrowings	10	**413**	742
Interest elements on leased assets	10	**69**	129
Accretion of decommissioning liability	10	**584**	402
Finance income	10	**(2,613)**	(4,417)
Share of earnings of a joint venture	17	**(1,313)**	(1,329)
Gain on disposal of items of property, plant and equipment, net	8	**(69)**	(29)
Provision/(reversal of provision) for doubtful trade and other receivables	13	**(336)**	501
Provision for commercial arbitration	19	**4,634**	485
Impairment of prepaid expenses	15	**8**	253
Loss on disposal of properties for resale		**–**	36
Reversal of impairment of inventories	14	**–**	(1,823)
Operating cash flows before changes in working capital items		**25,462**	42,258
Net change in working capital items	31	**(1,153)**	(17,787)
Cash generated from operating activities		**24,309**	24,471
Interest paid		**(1,192)**	(3,605)
Income tax paid		**(199)**	(809)
Net cash flows from operating activities		**22,918**	20,057
Investing activities			
Expenditures on property, plant and equipment		**(11,886)**	(20,910)
Disposal of investment in a joint venture		**–**	9
Proceeds from disposal of property, plant and equipment		**255**	70
Proceeds from disposal of properties for resale		**–**	243
Interest received		**24**	55
Dividend from a joint venture	17	**1,994**	2,025
Net cash flows used in investing activities		**(9,613)**	(18,508)
Financing activities			
Capital elements of lease rental paid		**(647)**	(639)
Repayment of interest-bearing loans		**–**	(700)
Net cash flows used in financing activities		**(647)**	(1,339)
Effect of foreign exchange rate changes on cash and cash equivalents		**299**	(5)
Increase in cash and cash equivalents		**12,957**	205
Cash and cash equivalents, beginning of year		**7,164**	6,959
Cash and cash equivalents, end of year		$ **20,121**	$ 7,164

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

1. CORPORATE INFORMATION AND GOING CONCERN

SouthGobi Resources Ltd. is a publicly listed company incorporated in Canada with limited liability under the legislation of the Province of British Columbia and its shares are listed for trading on the Toronto Stock Exchange ("TSX") (Symbol: SGQ) and Hong Kong Stock Exchange ("HKEX") (Symbol: 1878). The company, together with its subsidiaries (collectively referred to as the "Company"), is an integrated coal mining, development and exploration company. At December 31, 2020, to the Company's best knowledge, Land Breeze II S.à.r.l., a wholly-owned subsidiary of China Investment Corporation (together with its wholly-owned subsidiaries and affiliates, "CIC") owned approximately 23.8% of the outstanding common shares of the Company. Novel Sunrise Investments Limited ("Novel Sunrise"), a wholly-owned subsidiary of China Cinda (HK) Investments Management Company Limited ("Cinda"), and Voyage Wisdom Limited owned approximately 17.0% and 9.5% of the outstanding common shares of the Company, respectively.

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

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

Impact of the Covid-19 pandemic

The closure of the Mongolia-China 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 had an adverse impact on the Company's sales and cash flows in the first and second quarter of 2020. In order to mitigate the financial impact of the border closure and preserve its working capital, the Company temporarily ceased major mining operations (including coal mining), reduced production to only coal-blending activities and placed approximately half of its workforce on furlough in February 2020. On August 2, 2020, the Company resumed its mining operations. The Company will continue to closely monitor the development of the Coronavirus Disease 2019 ("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.

Going concern assumption

The Company's consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue operating until at least December 31, 2021 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. However, in order to continue as a going concern, the Company must generate sufficient operating cash flows, secure additional capital or otherwise pursue a strategic restructuring, refinancing or other transactions to provide it with sufficient liquidity.

Several adverse conditions and material uncertainties cast significant doubt upon the Company's ability to continue as a going concern and the going concern assumption used in the preparation of the Company's consolidated financial statements. The Company incurred a loss attributable to equity holders of the Company of $20,089 for the year ended December 31, 2020 (compared to a profit attributable to equity holders of the Company for the year ended December 31, 2019), and as of that date, had a deficiency in assets of $76,237 as compared to a deficiency in assets of $49,218 as at December 31, 2019 while the working capital deficiency (excess current liabilities over current assets) reached $217,607 as compared to a working capital deficiency of $114,711 as at December 31, 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

1. CORPORATE INFORMATION AND GOING CONCERN continued

Going concern assumption continued

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

As detailed in Note 23.1, the Company failed to make payment of convertible debenture interest to CIC in according to the terms of convertible debenture agreement. This constituted an event of default of the relevant convertible debenture agreements as at December 31, 2020 and the 2020 November Deferral Agreement became effective on January 21, 2021. As a result, the entire balance of the CIC Convertible Debenture was classified as current liability as at December 31, 2020.

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

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

Management of the Company has prepared a cash flow projection covering a period of 12 months from December 31, 2020. The cash flow projection has taken into account the anticipated cash flow to be generated from the Company's business during the period under projection including cost saving measures. In particular, the Company has taken into account the following measures for improvement of the Company's liquidity and financial position, which include: (i) entering into the 2020 November Deferral Agreement with CIC for a deferral of the 2020 November Deferral Amounts until August 31, 2023; (ii) agreeing to deferral arrangements and improved payment terms with certain vendors; (iii) reducing the outstanding tax payable by monthly payments to MTA beginning as of June 2020; and (iv) reducing the inventory of low quality coal by wet washing and coal blending. After considering the above and given the re-opening of the Mongolia-China border since March 28, 2020, the Directors believe that there will be sufficient financial resources to continue its operations and to meet its financial obligations as and when they fall due in the next 12 months from December 31, 2020 and therefore are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

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

As at December 31, 2020 and December 31, 2019, the Company was not subject to any externally imposed capital requirements.

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

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

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

2.2 Basis of presentation

The consolidated financial statements have been prepared on a historical cost basis except for certain financial assets and financial liabilities which are measured at fair value. The Company's financial instruments are further disclosed in Note 29.

2.3 Adoption of new and revised standards and interpretations

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

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

There have been no new IFRSs or IFRIC interpretations that have a material impact on the Company's results and financial position for the year ended December 31, 2020. The Company has not early applied any new or amended IFRSs that is not yet effective for the year ended December 31, 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2. BASIS OF PREPARATION continued

2.4 Standard issued but not yet effective

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

Amendments to IAS 1	Classification of Liabilities as Current or Non-current, and Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause[4]
Amendments to IAS 16	Proceeds before Intended Use[2]
Amendments to IFRS 16	COVID-19-Related Rent Concessions[1]
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract[2]
IFRS 17	Insurance Contracts[4]
Amendments to IFRS 3	Reference to the Conceptual Framework[3]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to IAS 39, IFRS 4, IFRS 7, IFRS 9 and IFRS 16,	Interest Rate Benchmark Reform – Phase 2[1]
Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41	Annual Improvements to IFRSs 2018-2020[2]

1 Effective for annual periods beginning on or after 1 January 2021.

2 Effective for annual periods beginning on or after 1 January 2022.

3 Effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022.

4 Effective for annual periods beginning on or after 1 January 2023.

5 The amendments shall be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of consolidation

The consolidated financial statements include the financial statements of SouthGobi Resources Ltd. and its major controlled subsidiaries (Note 30).

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

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

3.2 Foreign currencies

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

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

3.3 Borrowing costs

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

3.4 Inventories

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.5 Leases

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

Right-of-use asset

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

Lease liability

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.6 Property, plant and equipment

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

Initial recognition

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

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

All direct costs related to the acquisition of mineral property interests are capitalized on a property by property basis. The cost of mineral properties also includes mineral property development costs (Note 3.7), certain production stripping costs (Note 3.8) and decommissioning liabilities related to the reclamation of the Company's mineral properties (Note 3.9).

Depreciation and depletion

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.7 Mineral properties

Evaluation and exploration expenses

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

Production phase

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

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

3.8 Development and production stripping costs

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

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

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

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

3.9 Decommissioning, restoration and similar liabilities

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.10 Joint arrangements

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

3.11 Share-based payments

Share-based payment transactions

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

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

Equity-settled transactions

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

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

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

3.12 Earnings/(loss) per share

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.13 Taxation

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

Current income tax

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

Deferred income tax

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

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

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled by the parent, investor or venturer and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.14 Financial instruments

(a) Financial assets

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.14 Financial instruments continued

(b) Financial liabilities

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

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

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

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

3.15 Impairment of financial assets

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

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

3.16 Derecognition of financial assets and financial liabilities

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.17 Impairment of non-financial assets

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

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

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

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

3.18 Cash and cash equivalents

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

3.19 Revenue recognition

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

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

- provides all of the benefits received and consumed simultaneously by the customer;

- creates or enhances an asset that the customer controls as the Company performs; or

- does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.19 Revenue recognition continued

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

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

Sales of mining coal

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

Other income

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

Deferred revenue

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

3.20 Provisions

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.21 Related party transactions

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

(i) has control or joint control over the Company;

(ii) has significant influence over the Company; or

(iii) is a member of key management personnel of the Company or the Company's parent.

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

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Company or an entity related to the Company.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the Company's parent.

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

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.22 Significant accounting judgments and estimates

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

(a) Going concern assumption

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

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

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

Ovoot Tolgoi Mine cash generating unit

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

Therefore, the Company conducted an impairment test whereby the carrying value of the Company's Ovoot Tolgoi Mine cash generating unit was compared to the recoverable amount (being the "fair value less costs of disposal") using a discounted future cash flow valuation model. The Company's cash flow valuation model takes into consideration the latest available information to the Company, including but not limited to, sales prices, sales volumes, washing production, operating costs and life of mine coal production estimates as at December 31, 2020. The carrying value of the Company's Ovoot Tolgoi Mine cash generating unit was $129,379.

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

- Coal resources and reserves as estimated by an independent third party engineering firm;
- Sales price estimates from an independent market consulting firm;
- Forecasted sales volumes in line with production levels as reference to the mine plan;
- Life-of-mine coal production, strip ratio, capital costs and operating costs; and
- A post-tax discount rate of 16% based on an analysis of the market, country and asset specific factors.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.22 Significant accounting judgments and estimates continued

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

Ovoot Tolgoi Mine cash generating unit continued

Key sensitivities in the valuation model are as follows:

- For each 1% increase/(decrease) in the long term price estimates, the calculated fair value of the cash generating unit increases/(decreases) by approximately $12,081/(12,167);
- For each 1% increase/(decrease) in the post-tax discount rate, the calculated fair value of the cash generating unit (decreases)/increases by approximately $(13,991)/14,845;
- For each 1% increase/(decrease) in the cash mining cost estimates, the calculated fair value of the cash generating unit (decreases)/increases by approximately $(6,966)/6,879; and
- For each 1% increase/(decrease) in Mongolian inflation rate, the calculated fair value of the cash generating unit (decreases)/increases by approximately $(897)/815.

The impairment analysis did not result in the identification of an impairment loss or an impairment reversal and no charge or reversal was required as at December 31, 2020. A decline of 15% (2019: 19%) in the long-term price estimates, an increase of more than 20% (2019: 35%) in the post-tax discount rate, an increase of 25% (2019: 29%) in the cash mining cost estimates or an increase of 264% (2019: 73%) in Mongolian inflation rate may trigger an impairment charge on the cash generating unit. The Company believes that the estimates and assumptions incorporated in the impairment analysis are reasonable; however, the estimates and assumptions are subject to significant uncertainties and judgments.

(c) Expected credit losses for trade and other receivables

The Company applies the IFRS 9 simplified approach to measuring expected credit losses on its trade receivables and estimates expected credit loss based on the possible default events on its trade and other receivables. The Company has determined that the loss allowance on its trade and other receivables was $23,055 (2019: $21,976) as at December 31, 2020.

(d) Estimated resources

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

(e) Estimated recoverable reserves

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.22 Significant accounting judgments and estimates continued

(f) Long term F-grade coal inventory

As a result of import restrictions established by Chinese authorities at the Ceke border, the Company has been barred from transporting its F-grade coal products into China for sale since December 15, 2018. The Company intends to realize the value of the F-grade coal inventory upon the coal washing and coal blending in order to meet the import standards from Chinese authorities. Due to the limitation of coal washing and blending capacities, a portion of F-grade coal products was classified as non-current inventory. As at December 31, 2020, $680 of F-grade coal products were classified as non-current (December 31, 2019: $9,332).

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

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

3.23 Subsidiaries

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

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

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

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of investment in subsidiaries are fully impaired as at December 31, 2020 and 2019.

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

4. SEGMENT INFORMATION

The Company's Chief Executive Officer (chief operating decision maker) reviews the financial information in order to make decisions about resources to be allocated to the segment and to assess its performance. No operating segment identified by the Board of Directors has been aggregated in arriving at the reporting segments of the Company. For management's purpose, the Company has only one reportable operating segment, which is the coal division. The division is principally engaged in coal mining, development and exploration in Mongolia, and logistics and trading of coal in Mongolia and China for the years ended December 31, 2020 and 2019.

The Company's resources are integrated and as a result, no discrete operating segment financial information is available. Since this is the only reportable and operating segment of the Company, no further analysis thereof is presented. All the revenue of the Company is generated from trading of coal for the years ended December 31, 2020 and 2019.

Information about major customers

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

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

	Mongolia	Hong Kong	China	Consolidated Total
Revenue [(i)]				
For the year ended December 31, 2020	**$ –**	**$ –**	**$ 85,951**	**$ 85,951**
For the year ended December 31, 2019	–	–	129,712	129,712
Non-current assets				
As at December 31, 2020	**$ 147,675**	**$ 84**	**$ 480**	**$ 148,239**
As at December 31, 2019	162,865	390	819	164,074

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

5. REVENUE

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

6. EXPENSES BY NATURE

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

	Year ended December 31, 2020	2019
Depreciation	**$ 8,736**	$ 15,726
Auditors' remuneration	**637**	764
Employee benefit expense (including directors' remuneration)		
Wages and salaries	**$ 7,639**	$ 9,790
Equity-settled share option expense (Note 26)	**113**	47
Pension scheme contributions	**531**	1,302
	$ 8,283	$ 11,139
Lease payments under operating leases	**$ 101**	$ 128
Foreign exchange gain, net	**(1,586)**	(706)
Reversal of impairment of coal stockpile inventories (Note 14)	**–**	(1,823)
Royalties	**10,563**	11,639
CIC management fee (Note 30)	**2,170**	3,185
Other taxes on foreign payments (Note 8)	**–**	1,881
Provision of commercial arbitration (Note 19)	**4,634**	485
Provision/(reversal of provision) for doubtful trade and other receivables (Note 13)	**(336)**	501
Impairment of prepaid expenses (Note 15)	**8**	253
Loss on disposal of properties for resale	**–**	36
Gain on disposal of property, plant and equipment, net (Note 8)	**(69)**	(29)
Mine operating costs and others	**37,534**	56,701
Total operating expenses	**$ 70,675**	$ 99,880

7. COST OF SALES

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

	Year ended December 31, 2020	2019
Operating expenses	**$ 36,974**	$ 59,549
Share-based compensation expense (Note 26)	**24**	9
Depreciation and depletion	**6,243**	11,028
Royalties	**10,563**	11,639
Reversal of impairment of coal stockpile inventories (Note 14)	**–**	(1,823)
Cost of sales from mine operations	**53,804**	80,402
Cost of sales related to idled mine assets (i)	**4,853**	3,998
Cost of sales	**$ 58,657**	$ 84,400

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

8. OTHER OPERATING EXPENSES

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

	Year ended December 31, 2020	2019
CIC management fee (Note 30)	**$ 2,170**	$ 3,185
Other taxes on foreign payments (Note 6)	**–**	1,881
Provision/(reversal of provision) for doubtful trade and other receivables (Note 13)	**(336)**	501
Provision of commercial arbitration (Note 19)	**4,634**	485
Impairment of prepaid expenses (Note 15)	**8**	253
Loss on disposal of properties for resale	**–**	36
Foreign exchange gain, net	**(1,586)**	(706)
Gain on disposal of property, plant and equipment, net	**(69)**	(29)
Others	**–**	(25)
Other operating expenses	**$ 4,821**	$ 5,581

9. ADMINISTRATION EXPENSES

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

	Year ended December 31, 2020	2019
Corporate administration	**$ 1,268**	$ 2,111
Legal and professional fees	**1,363**	3,076
Salaries and benefits	**3,518**	3,522
Share-based compensation expense (Note 26)	**89**	38
Depreciation	**733**	700
Administration expenses	**$ 6,971**	$ 9,447

10. FINANCE COSTS AND INCOME

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

	Year ended December 31, 2020	2019
Interest expense on convertible debenture (Note 23)	**$ 27,726**	$ 23,751
Interest expense on borrowing	**413**	742
Value added tax on interest from intercompany loan	**2,900**	2,986
Interest elements on leased assets	**69**	129
Accretion of decommissioning liability (Note 24)	**584**	402
Finance costs	**$ 31,692**	$ 28,010

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

10. FINANCE COSTS AND INCOME continued

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

	Year ended December 31,	
	2020	2019
Unrealized gain on embedded derivatives in convertible debenture (Note 23)	**$ 44**	$ 69
Interest income	**24**	55
Modification of convertible debenture (Note 23)	**2,545**	4,293
Finance income	**$ 2,613**	$ 4,417

11. TAXES

11.1 Income tax recognized in profit or loss

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

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

11.2 Unrecognized deductible temporary differences and unused tax losses

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

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

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

11. TAXES continued

11.3 Expiry dates

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

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

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

12. EARNINGS/(LOSS) PER SHARE

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

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

Potentially dilutive items not included in the calculation of diluted earnings per share for the year ended December 31, 2020 include the underlying shares comprised in the convertible debenture (Note 23) and stock options (Note 26) that were anti-dilutive.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

13. TRADE AND OTHER RECEIVABLES

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

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

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

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

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

The Company has determined that the loss allowance on its trade and other receivables was $23,055 (December 31, 2019: $21,976) as at December 31, 2020, based upon an expected loss rate of 10% for trade and other receivables 90 days past due and 100% for trade and other receivables 180 days past due. The closing allowances for trade and other receivables as at December 31, 2020 reconcile to the opening loss allowances as follows:

Loss allowance for trade and other receivables	
Opening loss allowance as at January 1, 2020	**$ 21,976**
Decrease in loss allowance recognised in profit or loss during the year	**(336)**
Exchange realignment	**1,415**
Loss allowance as at December 31, 2020	**$ 23,055**
Opening loss allowance as at January 1, 2019	$ 20,005
Increase in loss allowance recognised in profit or loss during the year	501
Loss allowance included in specific provision made during the year ended December 31, 2018	1,791
Exchange realignment	(321)
Loss allowance as at December 31, 2019	$ 21,976

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

14. INVENTORIES

The Company's inventories consist of the following amounts:

	As at December 31, 2020	2019
Current inventories		
Coal stockpiles	**$ 28,778**	$ 37,597
Materials and supplies	**13,605**	14,640
	42,383	52,237
Non-current inventories		
Coal stockpiles	**680**	9,332
Total inventories	**$ 43,063**	$ 61,569

Cost of sales for the year ended December 31, 2020 includes a reversal of impairment of $nil related to the Company's coal stockpile inventories (2019: $1,823).

Coal stockpile inventories of $680 are not expected to be utilized or sold within 12 months and are therefore classified as non-current inventories as at December 31, 2020 (2019:$9,332).

15. PREPAID EXPENSES

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

	As at December 31, 2020	2019
Vendor prepayments	**$ 710**	$ 871
Other prepaid expenses	**956**	1,441
Total prepaid expenses	**$ 1,666**	$ 2,312

For the year ended December 31, 2020, the Company recorded an impairment of $8 on the vendor prepayments (2019: $253).

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

16. PROPERTY, PLANT AND EQUIPMENT

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

	Mobile equipment	Other operating equipment	Buildings and roads	Right-of-use assets	Mineral properties	Non-depreciable assets	Total
Cost							
As at January 1, 2020	$ 278,736	$ 25,663	$ 70,834	$ 1,126	$ 211,418	$ 24,742	$ 612,519
Additions	**3,187**	**6**	**–**	**603**	**8,693**	**–**	**12,489**
Disposals	**(4,326)**	**(98)**	**–**	**(815)**	**–**	**–**	**(5,239)**
Written off	**–**	**–**	**–**	**–**	**–**	**(23,759)**	**(23,759)**
Exchange realignment	**(11,324)**	**(529)**	**(2,290)**	**28**	**(7,973)**	**(1)**	**(22,089)**
As at December 31, 2020	**$ 266,273**	**$ 25,042**	**$ 68,544**	**$ 942**	**$ 212,138**	**$ 982**	**$ 573,921**
Accumulated depreciation and impairment charges							
As at January 1, 2020	$ (264,803)	$ (23,662)	$ (55,900)	$ (521)	$ (106,653)	$ (23,759)	$ (475,298)
Depreciation for the year	**(8,336)**	**(589)**	**(1,089)**	**(386)**	**(1,429)**	**–**	**(11,829)**
Eliminated on disposals	**4,253**	**24**	**–**	**776**	**–**	**–**	**5,053**
Eliminated on written off	**–**	**–**	**–**	**–**	**–**	**23,759**	**23,759**
Exchange realignment	**10,714**	**597**	**927**	**(20)**	**3,601**	**–**	**15,819**
As at December 31, 2020	**$ (258,172)**	**$ (23,630)**	**$ (56,062)**	**$ (151)**	**$ (104,481)**	**$ –**	**$ (442,496)**
Carrying amount							
As at January 1, 2020	$ 13,933	$ 2,001	$ 14,934	$ 605	$ 104,765	$ 983	$ 137,221
As at December 31, 2020	**$ 8,101**	**$ 1,412**	**$ 12,482**	**$ 791**	**$ 107,657**	**$ 1,071**	**$ 131,425**

	Mobile equipment	Other operating equipment	Buildings and roads	Right-of-use assets	Mineral properties	Non-depreciable assets	Total
Cost							
As at January 1, 2019	$ 285,921	$ 25,827	$ 72,734	$ 1,159	$ 197,726	$ 25,435	$ 608,802
Additions	**6,631**	**603**	**–**	**–**	**18,185**	**31**	**25,450**
Disposals	**(5,244)**	**(457)**	**–**	**–**	**–**	**(538)**	**(6,239)**
Transfers	**–**	**101**	**–**	**–**	**–**	**(101)**	**–**
Exchange realignment	**(8,572)**	**(411)**	**(1,900)**	**(33)**	**(4,493)**	**(85)**	**(15,494)**
As at December 31, 2019	**$ 278,736**	**$ 25,663**	**$ 70,834**	**$ 1,126**	**$ 211,418**	**$ 24,742**	**$ 612,519**
Accumulated depreciation and impairment charges							
As at January 1, 2019	$ (266,129)	$ (23,926)	$ (52,915)	$ –	$ (102,013)	$ (23,759)	$ (468,742)
Depreciation for the year	**(12,017)**	**(640)**	**(4,339)**	**(549)**	**(5,640)**	**–**	**(23,185)**
Eliminated on disposals	**5,116**	**457**	**–**	**–**	**–**	**–**	**5,573**
Exchange realignment	**8,227**	**447**	**1,354**	**28**	**1,000**	**–**	**11,056**
As at December 31, 2019	**$ (264,803)**	**$ (23,662)**	**$ (55,900)**	**$ (521)**	**$ (106,653)**	**$ (23,759)**	**$ (475,298)**
Carrying amount							
As at January 1, 2019	$ 19,792	$ 1,901	$ 19,819	$ 1,159	$ 95,713	$ 1,676	$ 140,060
As at December 31, 2019	**$ 13,933**	**$ 2,001**	**$ 14,934**	**$ 605**	**$ 104,765**	**$ 983**	**$ 137,221**

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

16. PROPERTY, PLANT AND EQUIPMENT continued

16.1 Non-depreciable assets

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

16.2 Pledge on items of property, plant and equipment

As at December 31, 2020, certain items of the Company's property, plant and equipment with a carrying value of $44 (2019: $439) were pledged as security for a bank loan granted to the Company (Note 21).

16.3 Right-of-use assets

The right-of-use assets relate to the buildings as at December 31, 2020 and 2019.

16.4 Impairment charges

No impairment nor reversal of impairment was made during the year ended December 31, 2020 (2019: nil).

17. INVESTMENT IN JOINT VENTURE

The Company's investment consists of the following amounts:

	As at December 31, 2020	2019
Non-current investment in joint venture		
Investment in RDCC LLC	**$ 16,134**	$ 17,521
Total investment	**$ 16,134**	$ 17,521

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

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

	Year ended December 31, 2020	2019
Balance, beginning of year	**$ 17,521**	$ 18,822
Dividend received	**(1,994)**	(2,025)
Share of earnings of a joint venture	**1,313**	1,329
Share of other comprehensive loss of a joint venture	**(706)**	(605)
Balance, end of year	**$ 16,134**	$ 17,521

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

17. INVESTMENT IN JOINT VENTURE continued

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

	As at December 31, 2020	2019
Current assets	$ 1,955	$ 457
Non-current assets	29,537	31,969
Total assets	**$ 31,492**	$ 32,426
Current liabilities	$ –	$ –
Total liabilities	**$ –**	$ –

	Year ended December 31, 2020	2019
Revenue	$ 5,684	$ 6,766
Gross profit margin	3,740	3,878
Other operating and finance costs	(235)	(271)
Profit before tax	3,505	3,607
Net profit	**$ 3,282**	$ 3,215
Other comprehensive income	$ 90	$ 708
Total comprehensive income	**$ 3,372**	$ 3,923

18. TRADE AND OTHER PAYABLES

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

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

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

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

19. PROVISION FOR COMMERCIAL ARBITRATION

On June 24, 2015, First Concept served a notice of arbitration (the "Notice") on SouthGobi Sands LLC ("SGS"), a subsidiary of the Company, 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 $11,500.

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 $11,500 (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 $13,891, 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 interest for the period from January 4, 2018 to October 31, 2018 (the "Waived Costs").

On October 16, 2019, SGS received a notice from First Concept claiming that the Company is default under the Settlement Deed and demanding payment of the full amount of the outstanding monthly 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 $800 was frozen by the banks as at February 7, 2020 and such amount was subsequently being transferred to the CDIA on March 6, 2020.

On June 7, 2020, SGS entered into a settlement agreement with First Concept, pursuant to which SGS agreed to pay to First Concept a settlement sum of $8,040 in full and final settlement of any and all claims which First Concept may have against SGS in relation to Arbitration Award, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

20. DEFERRED REVENUE

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

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

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

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

21. INTEREST-BEARING BORROWING

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

22. LEASE LIABILITIES

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

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

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

23. CONVERTIBLE DEBENTURE

23.1 Key commercial terms

On November 19, 2009, the Company issued a convertible debenture to CIC for $500,000. The convertible debenture bears interest at 8.0% per annum (6.4% payable semi-annually in cash and 1.6% payable annually in the Company's shares) and has a maximum term of 30 years. The convertible debenture is secured by a first ranking charge over the Company's assets, including shares of its material subsidiaries. During 2010, the Company exercised a right within the debenture to call and convert $250,000 of the debenture for 21,471 common shares. Following the conversion the outstanding principal balance was $250,000 and has remained unchanged at that balance to December 31, 2020.

The key commercial terms of the financing include:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

23. CONVERTIBLE DEBENTURE continued

23.1 Key commercial terms continued

- Voting restriction – CIC has agreed that it will not have any voting rights in the Company beyond 29.9% if CIC ever acquires ownership of such a shareholder stake.

- Pre-emption rights – While the convertible debenture is outstanding, or while CIC has a 15% direct or indirect stake in the Company, CIC has certain pre-emption rights on a pro-rata basis to subscribe for any new shares to be allotted and issued by the Company for the period which the convertible debenture is outstanding. The pre-emption rights will not apply to new shares issued pursuant to pro-rata public equity offerings made to all shareholders, exercise of stock options and shares issued to achieve a 25% public float.

- Registration rights – CIC has registration rights under applicable Canadian provincial securities laws in connection with the common shares issuable upon conversion of the convertible debenture.

- Event of default – CIC could demand for the principal and corresponding interest from the Company immediately when certain events, including default of interest payment, suspension of trading and delisting of its shares from the TSX and the HKEX have occurred.

23.2 Debt host and embedded derivatives

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

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

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

23. CONVERTIBLE DEBENTURE continued

23.3 Valuation assumptions

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

	As at December 31,	
	2020	2019
Floor conversion price	**CAD$8.88**	CAD$8.88
Ceiling conversion price	**CAD$11.88**	CAD$11.88
Common share price	**CAD$0.09**	CAD$0.09
Historical volatility	**82%**	80%
Risk free rate of return	**1.35%**	1.76%
Foreign exchange spot rate (CAD$ to U.S. Dollar)	**0.79**	0.77
Forward foreign exchange rate curve (CAD$ to U.S. Dollar)	**0.779 – 0.786**	0.761 – 0.770

23.4 Presentation

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

For the year ended December 31, 2020, the Company recorded interest expense of $27,726 related to the convertible debenture as a finance cost (2019: $23,751). The interest expense consists of the interest at the contract rate and the accretion of the debt host component of the convertible debenture. To calculate the accretion expense, the Company uses the contract life of 30 years and an effective interest rate of 22.2%.

A modification gain of $2,545 was recognised in profit or loss for the year ended December 31, 2020 (2019: $4,293) for the difference between the original contractual cash flows and the modified cash flows under the below six (2019: Four) Deferral Agreements discounted at the original effective interest rate.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

23. CONVERTIBLE DEBENTURE continued

23.4 Presentation continued

The convertible debenture balance consists of the following amounts:

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

23.5 Interest deferral and settlement

The Company executed a deferral agreement with CIC on June 12, 2017 (the "June 2017 Deferral Agreement") for a revised repayment schedule on the $22,254 of cash interest and associated costs originally due on May 19, 2017. The key repayment terms of the June 2017 Deferral Agreement are: (i) the Company was required to repay on average $2,170 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 $9,731 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) $41,797 of outstanding cash and payment in kind interest ("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) $27,934 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 $14,317 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 $62,602 on June 20, 2020. The Company agreed to pay a deferral fee at a rate of 6.4% per annum in consideration of the Deferral.

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

23. CONVERTIBLE DEBENTURE continued

23.5 Interest deferral and settlement continued

As a condition to agreeing to the Deferral, CIC required that the Cooperation Agreement 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 will be 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 also agreed to pay CIC the total outstanding Management Fee and related accrued deferral fee of $4,183 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.

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 $1,300 and $2,000 (collectively, the "2020 February Deferral Amounts") which were due and payable to CIC on January 19, 2020 and February 19, 2020, respectively, under the deferral agreement signed on April 23, 2019 (the "2019 Deferral Agreement"); and (ii) approximately $700 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 Managements 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.

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23. CONVERTIBLE DEBENTURE continued

23.5 Interest deferral and settlement continued

- 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 $2,000 which was due and payable to CIC on March 19, 2020 (the "2020 March Deferral Amount") 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 (the "2020 April Deferral Agreement") that the $2,000 which was 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 $2,000 which was due and payable to CIC on May 19, 2020 under the 2019 Deferral Agreement (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 $74,047 (the "2020 June Deferral Amount") and the prior deferral agreements entered into during the period between February and May 2020 will be deferred until September 14, 2020. The terms of the 2020 June Deferral Agreement are substantially the same as the terms of the 2020 February Deferral Agreement, including that the Company agreed to pay CIC a deferral fee equal to 6.4% per annum on the 2020 June Deferral Amount commencing on June 19, 2020. The 2020 June Deferral Agreement became effective on July 17, 2020, being the date on which the Company obtained the requisite acceptance of the 2020 June Deferral Agreement from the TSX as required under applicable TSX rules.

23. CONVERTIBLE DEBENTURE continued

23.5 Interest deferral and settlement continued

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 $75,194 which were due and payable to CIC on or before September 14, 2020, under the 2020 June Deferral Agreement; (ii) semi-annual cash interest payments in the aggregate amount of $16,000 payable to CIC on November 19, 2020 and May 19, 2021; (iii) $4,000 worth of PIK Interest shares ("2020 November PIK Interest") issuable to CIC on November 19, 2020 under the CIC Convertible Debenture; and (iv) the Management Fee which payable to CIC on November 14, 2020, February 14, 2021, May 15, 2021, August 14, 2021 and November 14, 2021 under the Amended and Restated Cooperation Agreement (collectively, the "2020 November Deferral Amounts").

On October 29, 2020, the Company obtained an order from the British Columbia Securities Commission, the Company's principal securities regulator in Canada, which partially revoked the CTO (as defined in Note 34) to, amongst other things, permit the Company to execute the 2020 November Deferral Agreement. The 2020 November Deferral Agreement became effective on January 21, 2021, being the date on which the 2020 November Deferral Agreement was approved by shareholders at the Company's annual and special meeting of shareholders. As a consequence of the Company not entering into a deferral agreement with CIC as at December 31, 2020, IAS 1 requires the Company to classify the entire balance of the CIC Convertible Debenture as a current liability as at December 31, 2020.

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

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

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

- As consideration for the deferral of the 2020 November Deferral Amounts, the Company agreed to pay CIC: (i) a deferral fee equal to 6.4% per annum on the 2020 November Deferral Amounts payable under the CIC Convertible Debenture and the 2020 June Deferral Agreement, commencing on the date on which each such 2020 November Deferral Amount would otherwise have been due and payable under the CIC Convertible Debenture or the June 2020 Deferral Agreement, as applicable; and (ii) a deferral fee equal to 2.5% per annum on the 2020 November Deferral Amounts payable under the Amended and Restated Cooperation Agreement, commencing on the date on which the Management Fee would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.

- The 2020 November Deferral Agreement does not contemplate a fixed repayment schedule for the 2020 November Deferral Amounts and related deferral fees. Instead, the Company and CIC would agree to assess in good faith the Company's financial condition and working capital position on a monthly basis and determine the amount, if any, of the 2020 November Deferral Amounts and related deferral fees that the Company is able to repay under the CIC Convertible Debenture, the June 2020 Deferral Agreement or the Amended and Restated Cooperation Agreement, having regard to the working capital requirements of the Company's operations and business at such time and with the view of ensuring that the Company's operations and business would not be materially prejudiced as a result of any repayment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

23. CONVERTIBLE DEBENTURE continued

23.5 Interest deferral and settlement continued

- 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.

24. DECOMMISSIONING LIABILITY

At December 31, 2020, the decommissioning liability relates to reclamation and closure costs of the Company's Ovoot Tolgoi Mine.

The Ovoot Tolgoi Mine decommissioning liability is calculated as the net present value of the estimated future reclamation and closure costs, which as at December 31, 2020 totaled $10,613 (2019: $10,528). The estimated future reclamation and closure costs are inflated using an estimated inflation rate of 6.6% (2019: 7.4%) and discounted at 16% per annum (2019: 11% per annum) to determine the year end decommissioning liability. The settlement of the decommissioning liability will occur through to 2030.

The movements in the decommissioning liability during the years ended December 31, 2020 and 2019 were as follows:

	Year ended December 31,	
	2020	**2019**
Balance, beginning of year	**$ 8,605**	$ 6,852
Adjustments	**(1,910)**	1,609
Accretion	**584**	401
Exchange realignment	**(834)**	(257)
Balance, end of year	**$ 6,445**	$ 8,605

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

25. EQUITY

25.1 Share capital

The Company has authorized an unlimited number of common and preferred shares with no par value. At December 31, 2020, the Company had 272,703 common shares outstanding (2019: 272,703) and no preferred shares outstanding (2019: nil).

25.2 Exchange fluctuation reserve

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

25.3 Accumulated deficit and dividends

At December 31, 2020, the Company has accumulated a deficit of $1,197,698 (2019: $1,177,609). No dividend has been paid or declared by the Company since inception.

The Board did not recommend the payment of any dividend for the year ended December 31, 2020 (2019: nil).

26. SHARE-BASED PAYMENTS

26.1 Stock option plan

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

For the year ended December 31, 2020, the Company did not grant any stock options to officers, employees, directors and other eligible persons. For the year ended December 31, 2019, the Company granted 2,925 stock options to officers, employees, directors and other eligible persons at an exercise prices ranging from CAD$0.11 to CAD$0.13 and expiry dates ranging from September 11, 2024 to November 15, 2024. The weighted average fair value of the options granted in the year ended December 31, 2019 was estimated at $0.03 (CAD$0.04) per option at the grant date using the Black-Scholes option pricing model.

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

	Year ended December 31, 2019
Risk free interest rate	1.68%
Expected life	3.4 years
Expected volatility [(i)]	37.6%
Expected dividend per share	$nil

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

The total share-based compensation expense for the year ended December 31, 2020 was $113 (2019: $47). Share-based compensation expense of $89 (2019: $38) has been allocated to administration expenses and share-based compensation expense of $24 (2019: $9) has been allocated to cost of sales.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

26. SHARE-BASED PAYMENTS continued

26.2 Outstanding stock options

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

	Year ended December 31, 2020		Year ended December 31, 2019	
	Number of options	Weighted average exercise price (CAD$)	Number of options	Weighted average exercise price (CAD$)
Balance, beginning of period	**6,854**	**$0.21**	4,695	$0.23
Options granted	**–**	**–**	2,925	0.11
Options forfeited	**(176)**	**0.13**	(103)	0.13
Options expired	**(379)**	**0.54**	(663)	0.33
Balance, end of period	**6,299**	**$0.16**	6,854	$0.21

The stock options outstanding and exercisable are as follows:

As at December 31, 2020						
	Options Outstanding			Options Exercisable		
Exercise price (CAD$)	Options outstanding	Weighted average exercise price (CAD$)	Weighted average remaining contractual life (years)	Options outstanding and exercisable	Weighted average exercise price (CAD$)	Weighted average remaining contractual life (years)
$0.11 – $0.29	**5,349**	**$ 0.13**	**3.26**	**3,138**	**$ 0.13**	**3.04**
$0.33 – $0.39	**950**	**0.34**	**1.26**	**950**	**0.34**	**1.26**
	6,299	**$ 0.16**	**2.96**	**4,088**	**$ 0.18**	**2.63**

As at December 31, 2019						
	Options Outstanding			Options Exercisable		
Exercise price (CAD$)	Options outstanding	Weighted average exercise price (CAD$)	Weighted average remaining contractual life (years)	Options outstanding and exercisable	Weighted average exercise price (CAD$)	Weighted average remaining contractual life (years)
$0.11 – $0.29	5,750	$ 0.13	4.15	1,401	$ 0.15	3.20
$0.33 – $0.39	950	0.34	2.26	950	0.34	2.26
$0.58 – $0.92	154	0.92	0.25	154	0.92	0.25
	6,854	$ 0.21	3.80	2,505	$ 0.27	2.67

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

27. RESERVES

27.1 Share option reserve

The Company's share option reserve relates to stock options granted by the Company to officers, employees, directors and other eligible persons under its stock option plan. Details about the Company's share-based payments are further disclosed in Note 26.

The share option reserve transactions for the years ended December 31, 2020 and 2019 are as follows:

	Year ended December 31,	
	2020	**2019**
Balance, beginning of year	**$ 52,589**	$ 52,542
Share-based compensation charged to operations	**113**	47
Balance, end of year	**$ 52,702**	$ 52,589

27.2 Capital reserve

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

28. CAPITAL RISK MANAGEMENT

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

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

At December 31, 2020, the Company's capital structure consists of convertible debenture (Note 23), interest-bearing borrowings (Note 21), lease liabilities (Note 22) and the equity of the Company (Note 25). Except for disclosed elsewhere in the consolidated financial statements, the Company is not subject to any externally imposed capital requirements. In order to maximize ongoing development efforts, the Company does not pay dividends.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

28. CAPITAL RISK MANAGEMENT continued

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

	As at December 31, 2020	2019
Debt	**$ 290,869**	$ 277,645
Cash and cash equivalents	**(20,121)**	(7,164)
Net debt	**$ 270,748**	$ 270,481
Equity	**$ (76,237)**	$ (49,218)
Net debt to equity ratio	**–355%**	–550%

For the year ended December 31, 2020, there were no significant changes in the processes used by the Company or in the Company's objectives and policies for managing its capital. As at December 31, 2020, the Company had cash of $20,121 (December 31, 2019: $7,164).

29. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

29.1 Categories of financial instruments

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

	As at December 31, 2020	2019
Financial assets		
At amortised cost		
Cash and cash equivalents	**$ 20,121**	$ 7,164
Restricted cash	**918**	862
Trade and other receivables (Note 13)	**1,305**	1,778
Total financial assets	**$ 22,344**	$ 9,804
Financial liabilities		
Fair value through profit or loss		
Convertible debenture – embedded derivatives (Note 23)	**$ 152**	$ 196
At amortised cost		
Trade and other payables (Note 18)	**78,730**	87,013
Provision for commercial arbitration (Note 19)	**–**	,593
Interest-bearing borrowings (Note 21)	**2,826**	2,835
Lease liabilities (Note 22)	**626**	568
Convertible debenture – debt host and interest payable (Note 23)	**181,259**	156,778
Total financial liabilities	**$ 263,593**	$ 252,983

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

29. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS continued

29.2 Fair value

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

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

- The fair value of financial instruments that are not traded in an active market are determined using generally accepted valuation models using inputs that are directly (i.e. prices) or indirectly (i.e. derived from prices) observable. The fair value of the embedded derivatives within the convertible debenture (Note 23) is determined using a Monte Carlo simulation. None of the fair value change in the embedded derivatives for the year ended December 31, 2020 is related to a change in the credit risk of the convertible debenture. All of the change in fair value is associated with changes in market conditions.

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

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

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1, that are observable either directly or indirectly.

- Level 3 fair value measurements are those derived from valuation techniques that include inputs that are not based on observable market data.

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

	As at December 31, 2019			
Recurring measurements	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial liabilities measured at fair value				
Convertible debenture – embedded derivatives	$ –	$ –	$ 196	$ 196
Total financial liabilities measured at fair value	$ –	$ –	$ 196	$ 196

There were no transfers between Level 1, 2 and 3 for the year ended December 31, 2020 (2019: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

29. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS continued

29.3 Financial risk management objectives and policies

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

Currency risk

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

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

	As at December 31,	
	2020	**2019**
Increase/decrease in foreign exchange rate against respective functional currency		
+5%	**$877**	$1,049
–5%	**$(877)**	$(1,049)

Interest rate risk

The Company is exposed to interest rate risk on the variable rate of interest earned on its cash. However, the rate of interest earned on these instruments is below 3% (2019: 3%); therefore, the interest rate risk is not significant.

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

Credit risk

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

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

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

29. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS continued

29.3 Financial risk management objectives and policies continued

Credit risk continued

To measure the expected credit losses, trade and other receivables and notes receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 2 years before December 31, 2020 or 2019 respectively and the corresponding historical credit losses experienced within this period as well as the forecast regarding the industry environment. On that basis, the loss allowance as at December 31, 2020 and 2019 was determined as follows for trade and others receivables:

	Less than 1 month	1 to 3 months	3 to 6 months	Over 6 months	Total
As at December 31, 2020					
Expected loss rate	(i)	(i)	10%	100%	
Gross carrying amount – trade and other receivables	**$ 1,260**	**$ 20**	**$ 28**	**$ 23,052**	**$ 24,360**
Loss allowance	**$ –**	**$ –**	**$ 3**	**$ 23,052**	**$ 23,055**
As at December 31, 2019					
Expected loss rate	(i)	(i)	10%	100%	
Gross carrying amount – trade and other receivables	$ 1,623	$ 23	$ 147	$ 21,961	$ 23,754
Loss allowance	$ –	$ –	$ 15	$ 21,961	$ 21,976

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

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

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

Liquidity risk

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

29. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS continued

29.3 Financial risk management objectives and policies continued

Liquidity risk continued

	0 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total contractual undiscounted cash flow	Carrying Amount
As at December 31, 2020						
Trade and other payables	**$ 78,730**	**$ –**	**$ –**	**$ –**	**$ 78,730**	**$ 78,730**
Interest-bearing borrowings(i)	**2,983**	**–**	**–**	**–**	**2,983**	**2,826**
Lease liabilities(i)	**136**	**136**	**592**	**–**	**864**	**626**
Convertible debenture – cash interest(i)	**–**	**–**	**188,800**	**280,000**	**468,800**	**181,411**
	$ 81,849	**$ 136**	**$ 189,392**	**$ 280,000**	**$ 551,377**	**$ 263,593**
As at December 31, 2019						
Trade and other payables	$ 87,013	$ –	$ –	$ –	$ 87,013	$ 87,013
Provision for commercial arbitration	5,593	–	–	–	5,593	5,593
Interest-bearing borrowings(i)	2,993	–	–	–	2,993	2,835
Lease liabilities(i)	255	255	100	–	610	568
Convertible debenture – cash interest(i)	74,602	12,066	80,000	300,000	466,668	156,974
	$ 170,456	$ 12,321	$ 80,100	$ 300,000	$ 562,877	$ 252,983

(i) The expected undiscounted cash flows of the above noted financial liabilities include the cash interest payment on the interest-bearing borrowings, lease liabilities and convertible debenture for the years ended December 31, 2020 and December 31, 2019. Refer to Note 21, Note 22 and Note 23 for the terms of the interest-bearing borrowing, lease liabilities and convertible debenture, respectively.

30. RELATED PARTY TRANSACTIONS

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

Name	Country of incorporation	% equity interest As at December 31, 2020	2019
SouthGobi Resources (Hong Kong) Limited	Hong Kong	**100%**	100%
SGS	Mongolia	**100%**	100%
SGQ Coal Investment Pte. Ltd.	Singapore	**100%**	100%
SouthGobi Trading (Beijing) Co., Ltd. (i)	China	**100%**	100%
Inner Mongolia SouthGobi Energy Co., Ltd.	China	**100%**	100%
Inner Mongolia SouthGobi Mining Development Co., Ltd. (ii)	China	**100%**	100%
Inner Mongolia SouthGobi Enterprise Co., Ltd.	China	**70%**	70%

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

(ii) Inner Mongolia SouthGobi Mining Development Co., Ltd. was established on August 16, 2019.

In addition to the transactions detailed elsewhere in profit or loss, the Company had related party transactions with the following company related by way of directors or shareholders in common during the year ended December 31, 2020:

- CIC – CIC is a major shareholder of the Company, CIC holds approximately 23.8% of the issued and outstanding common shares of the Company as at December 31, 2020. The Amended and Restated Cooperation Agreement with CIC states that the Management Fee calculated based on 2.5% of the revenue shall be paid to CIC on a quarterly basis. During the year ended December 31, 2020, $2,170 was recorded in profit or loss (2019: $3,185).

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

30. RELATED PARTY TRANSACTIONS continued

30.1 Related party expenses

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

	Year ended December 31, 2020	2019
Finance costs	$ 27,726	$ 23,751
Management fee	2,170	3,185
Related party expenses	$ 29,896	$ 26,936

30.2 Key management personnel compensation

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

	Year ended December 31, 2020	2019
Salaries, fees and other benefits	$ 1,536	$ 1,571
Share-based compensation	–	50
Total remuneration	$ 1,536	$ 1,621

31. SUPPLEMENTAL CASH FLOW INFORMATION

31.1 Non-cash financing and investing activities

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

	Year ended December 31, 2020	2019
Depreciation and amortization capitalized in mineral properties	$ 2,794	$ 2,931
(Decrease)/Addition to decommissioning liability (Note 24)	(1,910)	1,609
Trade payables settled by items of property, plant and equipment	–	3,855

31.2 Net change in working capital items

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

	Year ended December 31, 2020	2019
Decrease/(increase) in inventories	$ 16,411	$ (10,211)
Decrease/(increase) in trade and other receivables	(823)	4,054
Decrease in prepaid expenses	500	366
Decrease in provision for commercial arbitration	(10,227)	(7,400)
Decrease in trade and other payables	(12,441)	(8,366)
Increase/(decrease) in deferred revenue	5,427	3,770
Net change in working capital items	$ (1,153)	$ (17,787)

Depreciation and depletion capitalised in inventories for the year ended December 31, 2020 totaled \$3,093 (2019: \$4,313).

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

31. SUPPLEMENTAL CASH FLOW INFORMATION continued

31.3 Reconciliation of liabilities arising from financing activities

	Interest-bearing borrowings	Lease liabilities	Convertible debenture	Total
Restated balance at January 1, 2019	$ 4,138	$ 1,211	$ 139,901	$ 145,250
Changes from financing cash flow:				
Repayment of interest-bearing loans	(700)	–	–	(700)
Interest payments	(1,160)	–	(2,316)	(3,476)
Capital element of lease rentals paid	–	(639)	–	(639)
Interest element of lease rentals paid	–	(129)	–	(129)
Total changes from financing cash flows	(1,860)	(768)	(2,316)	(4,944)
Other charges:				
Interest expenses	562	129	23,751	24,442
Changes in fair value of embedded derivatives	–	–	(69)	(69)
Fair value adjustment upon adoption of IFRS 9	–	–	(4,293)	(4,293)
	562	129	19,389	20,080
Exchange adjustments	(5)	(4)	–	(9)
At January 1, 2020	$ 2,835	$ 568	$ 156,974	$ 160,377
Changes from financing cash flow:				
Interest payments	**(423)**	**–**	**(700)**	**(1,123)**
Capital element of lease rentals paid	**–**	**(647)**	**–**	**(647)**
Interest element of lease rentals paid	**–**	**(69)**	**–**	**(69)**
Total changes from financing cash flows	**(423)**	**(716)**	**(700)**	**(1,839)**
Other charges:				
Interest expenses	**413**	**69**	**27,726**	**28,208**
Changes in fair value of embedded derivatives	**–**	**–**	**(44)**	**(44)**
Gain on modification of convertible debenture	**–**	**–**	**(2,545)**	**(2,545)**
Increase in finance lease payable	**–**	**700**	**–**	**700**
	413	**769**	**25,137**	**26,139**
Exchange adjustments	**1**	**5**	**–**	**6**
At December 31, 2020	**$ 2,826**	**$ 626**	**$ 181,411**	**$ 184,863**

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

32. COMMITMENTS FOR EXPENDITURE

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

	Within 1 year	2-3 years	Over 3 years	Total
As at December 31, 2020				
Capital expenditure commitments	**$ 448**	**$ –**	**$ –**	**$ 448**
Operating expenditure commitments	**1,208**	**47**	**324**	**1,579**
Commitments	**$ 1,656**	**$ 47**	**$ 324**	**$ 2,027**
As at December 31, 2019				
Capital expenditure commitments	$ 5,173	$ –	$ –	$ 5,173
Operating expenditure commitments	6,807	49	313	7,169
Commitments	$ 11,980	$ 49	$ 313	$ 12,342

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

33. CONTINGENCIES

33.1 Class Action Lawsuit

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

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

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

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

33. CONTINGENCIES continued

33.1 Class Action Lawsuit continued

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

The Company firmly believes that it has a strong defense on the merits and will continue to vigorously defend itself against the Class Action through independent Canadian litigation counsel retained by the Company for this purpose. Due to the inherent uncertainties of litigation, it is not possible to predict the final outcome of the Class Action or determine the amount of potential losses, if any. However, the Company has judged a provision for this matter as at December 31, 2020 and December 31, 2019 is not required.

33.2 Toll Wash Plant Agreement with Ejin Jinda

In 2011, the Company entered into an agreement with Ejin Jinda, a subsidiary of China Mongolia Coal Co. Ltd., to toll-wash coal from the Ovoot Tolgoi Mine. The agreement had a duration of five years from commencement of the contract and provided for an annual 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 $18,500. At each reporting date, the Company assesses the agreement with Ejin Jinda and has determined it is not probable that this $18,500 will be required to be paid. Accordingly, the Company has determined a provision for this matter at December 31, 2020 and December 31, 2019 is not required.

33.3 Tax legislation

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

Management believes that its interpretation of the relevant legislation is appropriate and the Company's positions related to tax and other legislation will be sustained. Management believes that tax and legal risks are remote at present. The management performs regular re-assessment of tax risk and its position may change in the future as a result of the change in conditions that cannot be anticipated with sufficient certainty at present. As of December 31, 2020 and December 31, 2019, management has assessed that recognition of a provision for uncertain tax position is not necessary.

33. CONTINGENCIES continued

33.4 Mongolian royalties

On September 4, 2019, the Government of Mongolia issued a 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.

34. EVENTS AFTER THE REPORTING PERIOD

Cease trade order ("CTO")

Trading in the common shares of the Company on the TSX was suspended on June 19, 2020.

On January 4, 2021, the Company fully remedied its filing defaults under applicable Canadian securities laws, including filing of its 2019 Annual Information Form and its interim financial statements for the three month period ended March 31, 2020 and three-month and six-month period ended June 30, 2020, and three-month and nine-month period ended September 30, 2020 and the accompanying Management's Discussion & Analysis, and filed an application for full revocation of the CTO with the relevant Canadian securities regulatory authorities.

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

Suspension of Trading on HKEX

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

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

TSX Delisting Review

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

Restoration of Soumber Mining Licenses

On March 2, 2021, SGS received a notice from the Mongolian governmental authority that the Company's three mining licenses of the Soumber Deposit have been reinstated effective as of March 2, 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	As at December 31, 2020	2019
Assets		
Current Assets		
Cash and cash equivalents	**$ 8,406**	$ 27
Other receivables	**6**	5
Prepaid expenses	**114**	280
Total Current Assets	**8,526**	312
Total assets	**$ 8,526**	$ 312
Equity and Liabilities		
Current Liabilities		
Other payables	**$ 11,546**	$ 8,883
Current portion of convertible debenture	**181,411**	67,106
Total current liabilities	**192,957**	75,989
Non-current liabilities		
Convertible debenture	**–**	89,868
Total non-current liabilities	**–**	89,868
Total liabilities	**192,957**	165,857
Equity		
Common shares	**1,098,634**	1,098,634
Share option reserve	**52,702**	52,589
Accumulated deficit	**(1,335,767)**	(1,316,768)
Total deficiency in assets	**(184,431)**	(165,545)
Total equity and liabilities	**$ 8,526**	$ 312

APPROVED BY THE BOARD:

"Mao Sun" — Director

"Dalanguerban" — Director

36. RESERVE AND DEFICIT OF THE COMPANY

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

	Share option reserve	Accumulated deficit	Total
Balances, January 1, 2019	$ 52,542	$ (1,292,636)	$ (1,240,094)
Net loss for the year	–	(24,132)	(24,132)
Share-based compensation charged to operations	47	–	47
Balances, December 31, 2019	$ 52,589	$ (1,316,768)	$ (1,264,179)
Balances, January 1, 2020	**$ 52,589**	**$ (1,316,768)**	**$ (1,264,179)**
Net loss for the year	**–**	**(18,999)**	**(18,999)**
Share-based compensation charged to operations	**113**	**–**	**113**
Balances, December 31, 2020	**$ 52,702**	**$ (1,335,767)**	**$ (1,283,065)**

UNAUDITED APPENDIX TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

ADDITIONAL STOCK EXCHANGE INFORMATION

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

A1. DIRECTOR AND EMPLOYEE EMOLUMENTS

Directors' emoluments

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

	Year ended December 31, 2020	2019
Directors' fees	**$ 279**	$ 262
Other emoluments for executive and non-executive directors		
Salaries and other benefits	**391**	390
Share-based compensation	**–**	22
Directors' emoluments	**$ 670**	$ 674

Year ended December 31, 2020

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

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

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

UNAUDITED APPENDIX TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

A1. DIRECTOR AND EMPLOYEE EMOLUMENTS continued

Year ended December 31, 2019

Name of director	Directors' fees	Salaries and other benefits	Share-based compensation	Total
Executive directors				
Shougao Wang (i)	$ –	$ 390	$ 12	$ 402
	$ –	$ 390	$ 12	$ 402
Non-executive directors				
Zhiwei Chen	$ –	$ –	$ –	$ –
Lan Cheng (ii)	–	–	–	–
Xiaoxiao Li (iii)	–	–	–	–
Wen (Wayne) Yao (iii)	–	–	–	–
Ben Niu (i)	–	–	–	–
Yingbin Ian He	83	–	3	86
Jin Lan Quan	77	–	3	80
Mao Sun	102	–	4	106
	$ 262	$ –	$ 10	$ 272
Directors' emoluments	$ 262	$ 390	$ 22	$ 674

(i) Appointed to the Board of Directors during the year ended December 31, 2019.

(ii) Resigned from the Board of Directors during the year ended December 31, 2019.

(iii) Resigned from the Board of Directors during the year ending December 31, 2020.

Five highest paid individuals

The five highest paid individuals included one director of the Company for the year ended December 31, 2020 (2019: one director). The emoluments of the five highest paid individuals are as follows:

	Year ended December 31, 2020	2019
Salaries and other benefits	$ 1,200	$ 1,358
Share-based compensation	–	22
Total emoluments	$ 1,200	$ 1,380

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

	Year ended December 31, 2020	2019
HK$1,500,001 to HK$2,000,000	4	3
HK$2,000,001 to HK$2,500,000	1	1
HK$3,000,001 to HK$3,500,000	–	1
	5	5

UNAUDITED APPENDIX TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

A2. FIVE YEAR SUMMARY

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

	Year ended December 31,				
	2020	2019	2018	2017 (Restated)	2016 (Restated)
Revenue	**$ 85,951**	$ 129,712	$ 103,804	$ 120,973	$ 58,450
Gross profit/(loss)	**27,294**	45,312	23,969	15,115	(28,595)
Net comprehensive loss attributable to equity holders of the Company	**$ (27,132)**	$ (928)	$ (54,145)	$ (37,515)	$ (69,526)
Basic and diluted earnings/(loss) per share	**$ (0.07)**	$ 0.02	$ (0.15)	$ (0.14)	$ (0.25)

	As at December 31,				
	2020	2019	2018	2017 (Restated)	2016 (Restated)
Total assets	**$ 214,632**	$ 228,427	$ 227,606	$ 253,436	$ 254,524
Less: total liabilities	**(290,869)**	(277,645)	(275,746)	(245,608)	(213,308)
Total equity/(deficiency in assets)	**$ (76,237)**	$ (49,218)	$ (48,140)	$ 7,828	$ 41,216

A3. CASH

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

	As at December 31,	
	2020	2019
Denominated in U.S. Dollars	**$9,427**	$39
Denominated in Chinese Renminbi	**9,106**	6,860
Denominated in Mongolian Tugriks	**1,390**	240
Denominated in Canadian Dollars	**17**	20
Denominated in Hong Kong Dollars	**181**	5
Cash	**$20,121**	$7,164

CORPORATE INFORMATION

Directors

Executive Director:

Mr. Dalanguerban *(Chief Executive Officer)*

Non-Executive Directors:

Mr. Jianmin Bao
Mr. Zhiwei Chen
Ms. Ka Lee Ku
Mr. Ben Niu

Independent Non-Executive Directors:

Mr. Yingbin Ian He
Ms. Jin Lan Quan
Mr. Mao Sun *(Independent Lead Director)*

Audit Committee

Mr. Mao Sun *(Chair)*
Mr. Yingbin Ian He
Ms. Jin Lan Quan

Nominating and Corporate Governance Committee

Mr. Yingbin Ian He *(Chair)*
Ms. Jin Lan Quan
Mr. Mao Sun

Compensation and Benefits Committee

Ms. Jin Lan Quan *(Chair)*
Mr. Yingbin Ian He
Mr. Mao Sun

Health, Environment, Safety and Social Responsibility Committee

Mr. Dalanguerban *(Chair)*
Mr. Yingbin Ian He
Mr. Munkhbat Chuluun
(Vice President of Public Relations)

Operations Committee

Mr. Yingbin Ian He *(Chair)*
Mr. Dalanguerban
Mr. Ben Niu

Company Secretaries

Ms. Allison Snetsinger and Ms. Shuk Wan So

Records and Registered Office

20th floor – 250 Howe Street, Vancouver,
British Columbia, Canada V6C 3R8

Principal Place of Business in Canada

1150 – 355 Burrard Street, Vancouver, British Columbia, Canada V6C 2G8

Principal Place of Business in Hong Kong

Units 1208-10, Tower 1, Grand Century Place, 193 Prince Edward Road West, Mongkok, Kowloon, Hong Kong

Principal Place of Business in Mongolia

8th Floor, Monnis Building, Orgil Stadium 22,
Great Mongolian State Street, 15th Khoroo,
Khan-Uul District, Ulaanbaatar, Mongolia, 17011

Principal Bankers

Canada:

BMO Bank of Montreal

Hong Kong:

Standard Chartered Bank (Hong Kong) Limited

Principal Share Registrar

AST Trust Company (Canada)
Suite 1600 – 1066 West Hastings Street, Vancouver,
British Columbia, Canada V6E 3X1

Branch Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712 – 1716, 17/F, Hopewell Centre,
183 Queen's Road East, Wan Chai, Hong Kong

Independent Auditor

BDO Limited (Hong Kong)

Website address

SouthGobi.com