SouthGobi Resources Ltd.
Management's Discussion and Analysis of Financial Condition and Results of Operations

June 30, 2020
(Expressed in U.S. dollars)

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 June Deferral Agreement (as defined below), the 2020 May Deferral Agreement (as defined below), the 2020 April Deferral Agreement (as defined below), the 2020 March Deferral Agreement (as defined below), the 2020 February Deferral Agreement (as defined below), the 2020 November Deferral Agreement (as defined below), the 2019 Deferral Agreement (as defined below), the Amended and Restated Cooperation Agreement (as defined below) and the 2018 Bank Loan (as defined below), as the same become due;
- the Company's anticipated financing needs, development plans and future production levels;
- the ability of the Company to successfully apply for a revocation of the CTO (as defined below);
- the resumption of trading in the Common Shares on the TSX or HKEX;
- the Company entering into discussions with CIC regarding a potential debt restructuring plan with respect to the amounts owing to CIC;
- the results and impact of the Ontario class action (as described under Section 6 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 6 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 successfully recover the balance of its doubtful trade and notes receivables;
- the ability of the Company to enhance the operational efficiency and output throughput of the washing facilities at Ovoot Tolgoi;
- the ability to enhance the product value by conducting coal processing and coal washing;
- the impact of the Company's activities on the environment and actions taken for the purpose of mitigation of potential environmental impacts and planned focus on health, safety and environmental performance;
- the impact of the delays in the custom clearance process at the Ceke border on the Company's operations and the restrictions established by Chinese authorities on the import of F-grade coal into China;

- the impact of the Coronavirus Disease 2019 ("COVID-19") pandemic and closure of Mongolia's southern border with China on the Company's business, financial condition and operations;
- the ability of the Company to successfully appeal the decision of Mineral Resources and Petroleum Authority of Mongolia ("MRAM") to terminate the Soumber Licenses (as defined below) and the anticipated timing of the High Court of the Capital City's (the "High Court") ruling on the appeal;
- the ability of the Company to successfully negotiate an extension of the agreement with the third party contractor relating to the operation of the wash plant at the Ovoot Tolgoi mine site;
- the ability of the Company to successfully reinstate the Soumber Licenses;
- the future demand for coal in China;
- future trends in the Chinese coal industry;
- the Company's outlook and objectives for 2020 and beyond (as more particularly described under Section 11 of this MD&A under the heading entitled "*Outlook*"); and
- other statements that are not historical facts.

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 2020 and beyond; currency exchange rates; operating, labour and fuel costs; the ability of the Company to successfully apply for a revocation of the CTO; the ability to remedy the Delisting Criteria (as defined below) of the TSX and to satisfy the Resumption Guidance (as defined below) of the HKEX; the ability of the Company to raise additional financing; the anticipated royalties payable under Mongolia's royalty regime; the future coal market conditions in China and the related impact on the Company's margins and liquidity; the anticipated impact of the COVID-19 pandemic; the assumption that the border crossings with China will remain open for coal exports; the anticipated demand for the Company's coal products; future coal prices, and the level of worldwide coal production. While the Company considers these assumptions to be reasonable based on the information currently available to it, they may prove to be incorrect. Forward-looking statements are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These risks and uncertainties include, among other things: the uncertain nature of mining activities, actual capital and operating costs exceeding management's estimates; variations in mineral resource and mineral reserve estimates; failure of plant, equipment or processes to operate as anticipated; the possible impacts of changes in mine life, useful life or depreciation rates on depreciation expenses; risks associated with, or changes to regulatory requirements (including environmental regulations) and the ability to obtain all necessary regulatory approvals; the potential expansion of the list of licenses published by the Government of Mongolia covering areas in which exploration and mining are purportedly prohibited on certain of the Company's mining licenses; the Government of Mongolia designating any one or more of the Company's mineral projects in Mongolia as a Mineral Deposit of Strategic Importance; the risk that the Company is unable to successfully apply for a revocation of the CTO; the risk that the Company is unable to remedy the Delisting Criteria within the deadline established by the TSX and the Common Shares becoming delisted from the TSX; the risk that the Company is unable to fulfill the conditions of the Resumption Guidance and the Common Shares becoming delisted from the HKEX; the risk of continued delays in the custom clearance process at the Ceke border; the restrictions established by Chinese authorities on the import of F-grade coal into China; the risk that Mongolia's southern borders with China will be the subject of further closures; the negative impact of the COVID-19 pandemic on the demand for coal and the economy generally in China; the risk that the COVID-19 pandemic is not effectively controlled in China and Mongolia; the risk that the Company's existing coal inventories are unable to sufficiently satisfy expected sales demand; the possible impact of changes to the inputs to the valuation model used to value the embedded derivatives in the CIC Convertible Debenture; the risk of the Company failing to successfully negotiate favorable repayment terms on the TRQ Reimbursable Amount (as described under Section 5 of this MD&A under the heading entitled "Liquidity and Capital Management – Costs Reimbursable to Turquoise Hill Resources Ltd"); the risk of CIC accelerating all amounts outstanding under the CIC Convertible Debenture and enforcing payment thereof; the risk of the Company or its subsidiaries defaulting under its existing debt obligations, including the 2020 June Deferral Agreement, the 2020 May Deferral Agreement, the 2020 April Deferral Agreement, the 2020 March Deferral Agreement, the 2020 February Deferral Agreement, the 2020 November Deferral Agreement, the 2019 Deferral Agreement, the Amended and Restated Cooperation Agreement and the 2018 Bank Loan; the impact of amendments to, or the application of, the laws of Mongolia, China and other countries in which the Company carries on business; modifications to existing practices so as to comply with any future permit conditions that may be imposed by regulators; delays in obtaining approvals and lease renewals; the risk of fluctuations in coal prices and changes in China and world economic conditions; the outcome of the Class Action (as described under Section 6 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 impact of the internal investigation conducted by the Special Committee; the risk that the Company is unable to successfully negotiate a debt restructuring plan with respect to the amounts owing to CIC; the risk that the calculated sales price determined by the Company for the purposes of determining the amount of royalties payable to the Mongolian government is deemed as being "non-market" under Mongolian tax law; customer credit risk; cash flow and liquidity risks; risks relating to the Company's decision to suspend activities relating to the development of the Ceke Logistics Park project, including the risk that its investment partner may initiate legal action against the Company for failing to comply with the underlying agreements governing project development; risks relating to the ability of the Company to enhance the operational efficiency and the output throughput of the washing facilities at Ovoot Tolgoi; risks relating to the Company's ability to successfully appeal MRAM's decision to terminate the Soumber Licenses and delays in receiving the High Court's ruling on the appeal; the risk that the Company is unable to successfully negotiate an extension of the agreement with the third party contractor relating to the operation of the wash plant at the Ovoot Tolgoi mine site and risks relating to the Company's ability to raise additional financing and to continue as a going concern. Please see Section 10 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.

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 December 23, 2020 should be read in conjunction with the condensed consolidated interim financial statements of the Company and the notes thereto for the three and six months ended June 30, 2020. The Company's condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 - "Interim Financial Reporting" using accounting policies in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The condensed consolidated interim financial statements are presented in the U.S. Dollar, which is the functional currency of the Company 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., 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, Mazaatt Holdings LLC and Dayarbulag LLC, RDCC LLC), was the Mongolian Tugrik ("MNT").

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

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

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

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

Disclosure of a scientific or technical nature relating to the Zag Suuj Deposit contained in this MD&A is derived from a technical report (the "Zag Suuj Technical Report") prepared in accordance with NI 43-101 on the Zag Suuj Deposit dated March 25, 2013, prepared by Minarco-MineConsult. A copy of the Zag Suuj Technical Report is available under the Company's profile on SEDAR at www.sedar.com. The Zag Suuj Technical Report is effective as at March 25, 2013. Minarco-MineConsult has not reviewed or updated the Zag Suuj Technical Report since the date of publishing.

1. OVERVIEW

The Company is an integrated coal mining, development and exploration company with 408 employees as at June 30, 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") 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.

Significant Events and Highlights

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

- ***Operating Results*** – The Company suspended coal exports to China beginning as of February 11, 2020 as a result of the closure of Mongolia's southern border with China in order to prevent the spread of COVID-19. On March 28, 2020, the Mongolian-Chinese border was re-opened for coal export on a trial basis, with a limit imposed on the total volume of coal that was permitted to be exported during this trial period. The Company resumed coal exports to China gradually thereafter. As a result, the Company's sales volume decreased from 0.9 million tonnes for the second quarter of 2019 to 0.5 million tonnes for the second quarter of 2020.

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

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

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

  On March 28, 2020, the Mongolian-Chinese border was re-opened for coal export on a trial basis, with a limit imposed on the total volume of coal that was permitted to be exported during this trial period. The Company has experienced a continuous improvement in the volume of coal exported to China since March 28, 2020. During the period between April to October 2020, an aggregate of 1.9 million tonnes of coal was exported by the Company from Mongolia to China, as compared to an aggregate of 2.0 million tonnes of coal during the same period in the 2019 calendar year.

  The border closure has had an adverse impact on the Company's sales and cash flows in the first and second quarter of 2020. In order to mitigate the financial impact of the border closures and preserve its working capital, the Company temporarily ceased major mining operations (including coal mining), reduced production to only coal-blending activities and placed approximately half of its workforce on furlough from February 2020. Since August 2, 2020, the Company has resumed its mining operations, which includes mining, blending and washing of coal. As at October 31, 2020, SGS employed 208 employees at the Ovoot Tolgoi Mine site (December 31, 2019: 383 employees). The Company produced 1.1 million tonnes from August to October 2020, as compared to 1.3 million tonnes from August to October 2019. There were a few COVID-19 cases reported in Ulaanbaatar (being the capital city of Mongolia) on November 11, 2020. As a result, the Mongolian local authorities have taken certain precautionary steps to minimize further transmission and announced a lockdown of Ulaanbaatar effective as of November 12, 2020. Although the Company's mining operations and the export of coal from Mongolia to China continues as of the date hereof, there can be no guarantee that the Company will be able to continue exporting coal to China, or the border crossings would not be the subject of additional closures as a result of COVID-19 in the future. The Company will continue to closely monitor the development of the COVID-19 pandemic and the impact it has on coal exports to China and will react promptly to preserve the working capital of the Company.

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

- ***CIC Convertible Debenture*** – On April 23, 2019, the Company executed a deferral agreement (the "2019 Deferral Agreement") with CIC in relation to a deferral and revised repayment schedule in respect of (i) $41.8 million of outstanding cash and payment in kind interest ("PIK Interest") and associated costs due and payable to CIC on November 19, 2018 (the "Outstanding Interest Payable") under the CIC Convertible Debenture and a deferral agreement executed with CIC on June 12, 2017 (the "June 2017 Deferral Agreement"); and (ii) $27.9 million of cash and PIK Interest payments payable to CIC under the CIC Convertible Debenture from April 23, 2019 to and including May 19, 2020 (the "Deferral"). Pursuant to Section 501(c) of the TSX Company Manual, the 2019 Deferral Agreement was approved at the Company's adjourned annual and special meeting of shareholders on June 13, 2019.

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

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

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

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

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

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

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

Restated Cooperation Agreement, the Company and CIC agreed to discuss in good faith a deferral of these payments on a monthly basis as they become due.

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

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

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

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

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

On November 19, 2020, the Company and CIC entered into an agreement (the "2020 November Deferral Agreement") pursuant to which CIC agreed to grant the Company a deferral of: (i) deferred cash interest and deferral fees of approximately $75.2 million which were due and payable to CIC on or before September 14, 2020, under the 2020 June Deferral Agreement; (ii) semi-annual cash interest payments in the aggregate amount of $16.0 million payable to CIC on November 19, 2020 and May 19, 2021; (iii) $4.0 million worth of PIK Interest shares ("2020 November PIK Interest") issuable to CIC on November 19, 2020 under the CIC Convertible Debenture; and (iv) the Management Fee which payable to CIC on November 14, 2020, February 14, 2021, May 15, 2021, August 14, 2021 and November 14, 2021 under the Amended and Restated Cooperation Agreement (collectively, the "2020 November Deferral Amounts"). The effectiveness of the 2020 November Deferral Agreement and the respective covenants, agreements and obligations of each party under the 2020 November Deferral Agreement are subject to the Company obtaining the requisite approval of the 2020 November Deferral Agreement from the Company's shareholders in accordance with applicable TSX rules. On October 29, 2020, the Company obtained an order from the British Columbia Securities Commission ("BCSC"), the Company's principal securities regulator in Canada, which partially revoked the CTO (as defined below) to, amongst other things, permit the Company to execute the 2020 November Deferral Agreement.

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

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

Until such time as the 2020 November Deferral Agreement is approved by the Company's shareholders and the deferral and waiver thereunder in favour of the Company become effective, the Company remains in default under the CIC Convertible Debenture and 2020 June Deferral Agreement and CIC may declare the amounts owing thereunder immediately due and payable, and may take steps to enforce payment thereof, which would have a material adverse effect on the business and operations of the Company and could negatively affect the price and volatility of the Common Shares and any investment in such shares could suffer a significant decline or total loss in value.

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

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

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

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

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

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

On December 8, 2020, the Company was notified by the HKEX of the following additional condition which must be satisfied in order for trading in the Common Shares on the HKEX to resume: demonstrate compliance with Rule 13.24 of the HKEX listing rules which requires that an issuer carries out a business with a sufficient level of operations and assets of sufficient value to support its operations to warrant the continued listing of the issuer's securities.

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

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

  The TSX Continued Listing Committee has scheduled a meeting to be held on February 11, 2021 to consider whether or not to suspend trading in and delist the Common Shares on the TSX. If the Company fails to demonstrate to the TSX that it has remedied the Delisting Criteria on or before February 16, 2021, the Common Shares will be delisted from the TSX 30 days from such date.

- ***Changes in Directors***

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

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

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

  See Section 5 of this MD&A under the heading entitled “Liquidity and Capital Resources” and Section 10 of this MD&A under the heading entitled “Risk Factors” for details.

2. OVERVIEW OF OPERATIONAL DATA AND FINANCIAL RESULTS

Summary of Operational Data

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

(i) A non-IFRS financial measure, see section 3. Cash costs of product sold exclude idled mine asset cash costs.
(ii) Per 200,000 man hours and calculated based on a rolling 12-month average.

Overview of Operational Data

For the three months ended June 30, 2020

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

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

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

The Company suspended coal exports to China beginning as of February 11, 2020 as a result of the closure of Mongolia's southern border with China in order to prevent the spread of COVID-19. On March 28, 2020, the Mongolian-Chinese border was re-opened for coal export on a trial basis, with a limit imposed on the total volume of coal that was permitted to be exported during this trial period. The Company resumed coal exports to China gradually thereafter. As a result, the Company's sales volume decreased from 0.9 million tonnes for the second quarter of 2019 to 0.5 million tonnes for the second quarter of 2020.

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

The Company's unit cost of sales of product sold decreased to $21.2 per tonne in the second quarter of 2020 from $25.0 per tonne in the second quarter of 2019. The decrease was mainly driven by a higher portion of sales made at the mine gate instead of transporting the coal to the Company's Inner Mongolia subsidiary and selling to third party customers within China during the quarter.

<u>For the six months ended June 30, 2020</u>

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

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

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

Summary of Financial Results

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

(i) Revenue and cost of sales related to the Company's Ovoot Tolgoi Mine within the Coal Division operating segment. Refer to note 3 of the condensed consolidated interim financial statements for further analysis regarding the Company's reportable operating segments.
(ii) A non-IFRS financial measure, idled mine asset costs represents the depreciation expense relates to the Company's idled plant and equipment.

Overview of Financial Results

For the three months ended June 30, 2020

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

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

Royalty regime in Mongolia

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

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

On September 4, 2019, the Government of Mongolia issued a further resolution in connection with the royalty regime. From September 1, 2019 onwards, in the event that the contract sales price is less than the reference price as determined by the Government of Mongolia by more than 30%, then the royalty payable will be calculated based on the Mongolian government's reference price instead of the contract sales price. See the section entitled "*Risk Factors – Risk Relating to the Company's Projects in Mongolia*" in the Company's MD&A for the year ended December 31, 2019, a copy of which is available under the Company's profile on SEDAR at www.sedar.com.

Cost of sales was $10.4 million in the second quarter of 2020 compared to $22.0 million in the second quarter of 2019. The decrease in cost of sales was mainly due to the decreased sales during the quarter. Cost of sales consists of operating expenses, share-based compensation expense, equipment depreciation, depletion of mineral properties, royalties, coal stockpile inventory impairment and idled mine asset costs. Operating expenses in cost of sales reflect the total cash costs of product sold (a Non-IFRS financial measure, see Section 3 of this MD&A for further analysis) during the quarter.

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

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

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

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

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

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

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

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

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

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

<u>For the six months ended June 30, 2020</u>

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

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

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

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

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

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

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

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

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

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

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

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

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

Summary of Quarterly Operational Data

	2020		2019				2018	
Quarter Ended	**30-Jun**	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep
Sales Volumes, Prices and Costs								
Premium semi-soft coking coal								
Coal sales *(millions of tonnes)*	**0.21**	0.07	0.39	0.05	0.12	0.11	0.24	0.25
Average realized selling price *(per tonne)*	**$ 28.69**	$ 28.46	$ 29.18	$ 31.49	$ 32.72	$ 47.34	$ 47.37	$ 48.15
Standard semi-soft coking coal/ premium thermal coal								
Coal sales *(millions of tonnes)*	**0.26**	0.13	0.40	0.51	0.59	0.85	0.40	0.26
Average realized selling price *(per tonne)*	**$ 33.12**	$ 32.71	$ 31.88	$ 31.67	$ 35.67	$ 33.34	$ 32.60	$ 34.40
Standard thermal coal								
Coal sales *(millions of tonnes)*	**-**	-	-	-	-	0.09	0.12	0.22
Average realized selling price *(per tonne)*	**$ -**	$ -	$ -	$ -	$ -	$ 34.88	$ 24.26	$ 23.49
Washed coal								
Coal sales *(millions of tonnes)*	**0.02**	-	0.20	0.25	0.17	0.01	0.15	-
Average realized selling price *(per tonne)*	**$ 43.26**	$ -	$ 42.95	$ 42.37	$ 44.20	$ 45.07	$ 44.02	$ -
Total								
Coal sales *(millions of tonnes)*	**0.49**	0.20	0.99	0.81	0.88	1.06	0.91	0.73
Average realized selling price *(per tonne)*	**$ 31.66**	$ 31.18	$ 33.04	$ 34.98	$ 36.80	$ 34.91	$ 37.32	$ 35.77
Raw coal production *(millions of tonnes)*	**-**	0.01	1.48	1.21	1.33	1.03	1.87	1.11
Cost of sales of product sold *(per tonne)*	**$ 21.16**	$ 30.36	$ 23.68	$ 19.16	$ 25.04	$ 22.08	$ 30.80	$ 23.44
Direct cash costs of product sold *(per tonne)* (i)	**$ 9.90**	$ 11.69	$ 13.61	$ 18.03	$ 17.18	$ 10.82	$ 14.41	$ 11.90
Mine administration cash costs of product sold *(per tonne)* (i)	**$ 1.70**	$ 2.50	$ 1.29	$ 1.09	$ 1.39	$ 1.41	$ 2.19	$ 1.24
Total cash costs of product sold *(per tonne)* (i)	**$ 11.60**	$ 14.19	$ 14.90	$ 19.12	$ 18.57	$ 12.23	$ 16.60	$ 13.14
Other Operational Data								
Production waste material moved *(millions of bank cubic meters)*	**-**	0.57	3.61	4.36	5.34	4.91	5.54	4.56
Strip ratio *(bank cubic meters of waste material per tonne of coal produced)*	**-**	85.08	2.44	3.61	4.01	4.76	2.97	4.11
Lost time injury frequency rate (ii)	**0.04**	0.09	0.08	0.08	0.06	0.00	0.00	0.00

(i) A non-IFRS financial measure, see section 3. Cash costs of product sold exclude idled mine asset cash costs.
(ii) Per 200,000 man hours and calculated based on a rolling 12-month average.

Summary of Quarterly Financial Results

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

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

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

(ii) The financial results for the three month periods ended September 30, 2018 was restated as a result of the net effect of the Prior Restatement. Refer to MD&A for the period ended September 30, 2019, copies of which are available under the Company's profile on SEDAR at www.sedar.com.

3. 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 flow. The Company reports cash costs on a sales basis. This performance measure is commonly utilized in the mining industry.

The following table provides a reconciliation of the cash costs of product sold disclosed for the three and six months ended June 30, 2020 and June 30, 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 impairments of coal stockpile inventories from prior periods.

	Three months ended June 30,		Six months ended June 30,	
$ in thousands, except per tonne information	**2020**	**2019**	**2020**	**2019**
Cash costs				
Cost of sales determined in accordance with IFRS	**$ 10,366**	$ 22,031	**$ 16,437**	$ 45,436
Less royalties	**(1,700)**	(2,338)	**(2,957)**	(4,577)
Less non-cash expenses	**(1,305)**	(2,482)	**(1,885)**	(9,729)
Less non-cash idled mine asset costs	**(1,677)**	(870)	**(3,073)**	(1,821)
Total cash costs	**5,684**	16,341	**8,522**	29,309
Less idled mine asset cash costs	**-**	-	**-**	-
Total cash costs excluding idled mine asset cash costs	**5,684**	16,341	**8,522**	29,309
Coal sales *(millions of tonnes)*	**0.49**	0.88	**0.69**	1.94
Total cash costs of product sold *(per tonne)*	**$ 11.60**	$ 18.57	**$ 12.35**	$ 15.11

	Three months ended June 30,		Six months ended June 30,	
$ in thousands, except per tonne information	**2020**	**2019**	**2020**	**2019**
Cash costs				
Direct cash costs of product sold *(per tonne)*	**$ 9.90**	$ 17.18	**$ 10.42**	$ 13.71
Mine administration cash costs of product sold *(per tonne)*	**1.70**	1.39	**1.93**	1.40
Total cash costs of product sold *(per tonne)*	**$ 11.60**	$ 18.57	**$ 12.35**	$ 15.11

The cash cost of product sold per tonne was $11.6 for the second quarter of 2020, which has decreased from $18.6 per tonne for the second quarter of 2019. The reason for the decrease is primarily related to (i) a higher portion of sales made at the mine gate instead of transporting the coal to the Company's Inner Mongolia subsidiary and selling to third party customers within China during the quarter; and (ii) less production waste material being moved during the year.

4. PROPERTIES

The Company currently holds three mining licenses in Mongolia. The mining licenses pertain to the Ovoot Tolgoi Mine (MV-012726) 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 three mining licenses (MV-016869, MV-020436 and MV-020451) (the "Soumber Licenses") for the Soumber Deposit have been terminated by the Head of Cadastre Division of MRAM effective as of August 21, 2019. See Section 6 of this MD&A under the heading entitled "*Regulatory Issues and Contingencies – Termination of Soumber Deposit Mining Licenses"* for more information.

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

Soumber Licenses does not have any impact on the Company's current mining operations at the Ovoot Tolgoi mine site.

Operating Mine

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.

The open pit limits extend across the Ovoot Tolgoi Mining License boundary into the adjacent lease held by Mongolyn Alt (MAK) LLC ("MAK"). As described previously, the Company and MAK have a cooperation agreement in place to allow mining across the boundary, which stipulates that SGS is responsible for removal of MAK waste but MAK is responsible for mining of MAK coal. Accordingly, the current reserve estimate does not include any coal within the MAK lease that must be extracted as part of the Company mining operation. Therefore, in the current mine plan, no revenue has been assumed for the MAK coal whereas costs have been assumed for stripping off the MAK waste.

Transportation Infrastructure

The paved highway has a carrying capacity in excess of 20 million tonnes of coal per year.

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

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 June 30, 2020, SGS employed 365 employees in Mongolia. Of the 365 employees, 32 are employed in the Ulaanbaatar office, 2 in an outlying office and 331 at the Ovoot Tolgoi Mine site. Of the 365 employees based in Mongolia, 363 (99%) are Mongolian nationals and of those, 196 (54%) are residents of the local Gurvantes, Dalanzadgad, Sevrei and Noyon Soums.

5. LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Capital Management

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

Bank Loan

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

- Maturity date set at 24 months from drawdown (subsequently extended for 12 months on May 18, 2020);
- Interest rate of 15% per annum and interest is payable monthly; and
- Certain items of property, plant and equipment were pledged as security for the 2018 Bank Loan. As at June 30, 2020, the net carrying amount of the pledged items of property, plant and equipment was $0.1 million (December 31, 2019: $0.4 million).

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

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

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

As at June 30, 2020, the amount of reimbursable costs and fees claimed by Turquoise Hill (the "TRQ Reimbursable Amount") amounted to $8.1 million (such amount is included in the trade and other payables). On October 12, 2016, the Company received a letter from Turquoise Hill, which proposed an arrangement for regular payments of the outstanding TRQ Reimbursable Amount. On November 12, 2020, the Company received communication from Turquoise Hill advising that Turquoise Hill wishes to re-engage in discussions with the Company regarding a repayment plan for the outstanding TRQ Reimbursable Amount. No agreement on repayment has been reached between the Company and Turquoise Hill as of the date of this MD&A.

Going concern considerations

The Company's condensed consolidated interim financial statements have been prepared on a going concern basis which assumes that the Company will continue operating until at least June 30, 2021 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. However, in order to continue as a going concern, the Company must generate sufficient operating cash flow, secure additional capital or otherwise pursue a strategic restructuring, refinancing or other transactions to provide it with additional liquidity.

Several adverse conditions and material uncertainties cast significant doubt upon the Company's ability to continue as a going concern and the going concern assumption used in the preparation of the Company's consolidated financial statements. The Company had a deficiency in assets of $72.9 million as at June 30, 2020 compared to a deficiency in assets of $49.2 million as at December 31, 2019 while the working capital deficiency (excess current liabilities over current assets) reached $219.4 million as at June 30, 2020 compared to a working capital deficiency of $114.7 million as at December 31, 2019.

Included in the working capital deficiency as at June 30, 2020 are significant obligations, which include the interest amounting to $78.5 million in relation to the 2019 Deferral Agreement, the 2020 February Deferral Agreement, the 2020 March Deferral Agreement, the 2020 April Deferral Agreement, the 2020 May Deferral Agreement, the 2020 June Deferral Agreement and the 2020 November Deferral Agreement.

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

The Company also has other current liabilities, including trade and other payables of $84.6 million and interest payable under the CIC Convertible Debenture of $78.5 million as at June 30, 2020. Out of trade and other payables, which require settlement in the short-term, unpaid taxes of $32.1 million are repayable on demand by SGS to the Mongolian Tax Authority ("MTA").

The Company may not be able to settle all trade and other payables on a timely basis, while continuing postponement in settling certain trade payables owed to suppliers and creditors may impact the mining operations of the Company and result in potential lawsuits and/or bankruptcy proceedings being filed against the Company. Except as disclosed elsewhere in this MD&A, no such lawsuits or proceedings are pending as at December 23, 2020.

Further, the Company was informed that effective as of February 11, 2020, the Mongolian State Emergency Commission closed Mongolia's southern border with China in order to prevent the spread of COVID-19. Accordingly, the Company had suspended coal exports to China since February 11, 2020 as a result of the border closure and the closure remained in effect until March 27, 2020.

On March 28, 2020, the Mongolian-Chinese border was re-opened for coal export on a trial basis, with a limit imposed on the total volume of coal that was permitted to be exported during this trial period. The Company has experienced a continuous improvement in the volume of coal exported to China since March 28, 2020. During the period between April to October 2020, an aggregate of 1.9 million tonnes of coal was exported by the Company from Mongolia to China, as compared to an aggregate of 2.0 million tonnes of coal during the same period in the 2019 calendar year.

The border closure has had an adverse impact on the Company's sales and cash flows in the first and second quarter of 2020. In order to mitigate the financial impact of the border closures and preserve its working capital, the Company temporarily ceased major mining operations (including coal mining), reduced production to only coal-blending activities and placed approximately half of its workforce on furlough from February 2020. Since August 2, 2020, the Company has resumed its mining operations, which includes mining, blending and washing of coal. As at October 31, 2020, SGS employed 208 employees at the Ovoot Tolgoi Mine site (December 31, 2019: 383 employees). The Company produced 1.1 million tonnes from August to October 2020, as compared to 1.3 million tonnes from August to October 2019. There were a few COVID-19 cases reported in Ulaanbaatar (being the capital city of Mongolia) on November 11, 2020. As a result, the Mongolian local authorities have taken certain precautionary steps to minimize further transmissions and announced a lockdown of Ulaanbaatar effective as of November 12, 2020. Although the Company's mining operations and the export of coal from Mongolia to China continues as of the date hereof, there can be no guarantee that the Company will be able to continue exporting coal to China, or the border crossings would not be the subject of additional closures as a result of COVID-19 in the future. The Company will continue to closely monitor the development of the COVID-19 pandemic and the impact it has on coal exports to China and will react promptly to preserve the working capital of the Company.

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

Management of the Company has prepared a cash flow projection covering a period of 12 months from June 30, 2020. The cash flow projection has taken into account the anticipated cash flow to be generated from the Company's business during the period under projection including cost saving measures. In particular, the Company has taken into account the following measures for improvement of the Company's liquidity and financial position, which include: (i) entering into the 2020 November Deferral Agreement with CIC for a deferral of the 2020 November Deferral Amounts until August 31, 2023, subject to conditions precedent therein (as disclosed in Section 5 of this MD&A); (ii) agreeing to deferral arrangements and improved payment terms with certain vendors; (iii) SGS planned to reduce the outstanding tax payable by monthly payments to MTA starting from June 2020; (iv) reducing the inventory of low quality coal by wet washing and coal blending; and (v) resuming coal mining activities beginning as of August 2020 to enhance coal supply. In addition, management of the Company assessed that the Company would be able to issue all outstanding financial results, being one of the conditions of the Resumption Guidance which must be satisfied in order to avoid a delisting of the Common Shares from the HKEX, which is in turn an event of default under the CIC Convertible Debenture. After considering the above measures, and given the re-opening of the Mongolian-Chinese border since March 28, 2020, the Directors believe that there will be sufficient financial resources to continue its operations and to meet its financial obligations as and when they fall due in the next 12 months from June 30, 2020 and therefore are satisfied that it is appropriate to prepare the condensed consolidated interim financial statements on a going concern basis.

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

As at June 30, 2020 and December 31, 2019, the Company was not subject to any externally imposed capital requirements.

Impact of the COVID-19 Pandemic

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

On March 28, 2020, the Mongolian-Chinese border was re-opened for coal export on a trial basis, with a limit imposed on the total volume of coal that was permitted to be exported during this trial period. The Company has experienced a continuous improvement in the volume of coal exported to China since March 28, 2020. During the period between April to October 2020, an aggregate of 1.9 million tonnes of coal was exported by the Company from Mongolia to China, as compared to an aggregate of 2.0 million tonnes of coal during the same period in the 2019 calendar year.

The border closure has had an adverse impact on the Company's sales and cash flows in the first and second quarter of 2020. In order to mitigate the financial impact of the border closures and preserve its working capital, the Company temporarily ceased major mining operations (including coal mining), reduced production to only coal-blending activities and placed approximately half of its workforce on furlough from February 2020. Since August 2, 2020, the Company has resumed its mining operations, which includes mining, blending and washing of coal. As at October 31, 2020, SGS employed 208 employees at the Ovoot Tolgoi Mine site (December 31, 2019: 383 employees). The Company produced 1.1 million tonnes from August to October 2020, as compared to 1.3 million tonnes from August to October 2019. There were a few COVID-19 cases reported in Ulaanbaatar (being the capital city of Mongolia) on November 11, 2020. As a result, the Mongolian local authorities have taken precautionary steps to minimize further transmission and announced a lockdown of Ulaanbaatar effective as of November 12, 2020. Although the Company's mining operations and the export of coal from Mongolia to China continues as of the date hereof, there can be no guarantee that the Company will be able to continue exporting coal to China, or the border crossings would not be the subject of additional closures as a result of COVID-19 in the future. The Company will continue to closely monitor the development of the COVID-19 pandemic and the impact it has on coal exports to China and will reach promptly to preserve the working capital of the Company.

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

CIC Convertible Debenture

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

On March 29, 2010, the Company exercised its right to call for the conversion of up to $250.0 million of the CIC Convertible Debenture into approximately 21.5 million shares at a conversion price of $11.64 (CAD$11.88). As at June 30, 2020, CIC owned approximately 23.8% of the issued and outstanding Common Shares of the Company.

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

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

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

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

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

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

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

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

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

- Payment of the 2020 February Deferral Amounts will be deferred until June 20, 2020, while the Management Fee will be deferred until they are repaid by the Company.
- As consideration for the deferral of these amounts, the Company agreed to pay CIC: (i) a deferral fee equal to 6.4% per annum on the 2020 February Deferral Amounts, commencing on the date on which each such 2020 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 have agreed to discuss in good faith a deferral of these payments on a monthly basis as they become due. There can be no assurance, however, that a favorable outcome will be reached either at all or on favorable terms.
- The Company agreed to comply with all of its obligations under the 2019 Deferral Agreement and the Amended and Restated Cooperation Agreement, as amended by the 2020 February Deferral Agreement.
- The Company and CIC agreed that nothing in the 2020 February Deferral Agreement prejudices CIC's rights to pursue any of its remedies at any time pursuant to the 2019 Deferral Agreement and Amended and Restated Cooperation Agreement, respectively.

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

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

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

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

On November 19, 2020, the Company and CIC entered into the 2020 November Deferral Agreement pursuant to which CIC agreed to grant the Company a deferral of the 2020 November Deferral Amounts. The effectiveness of the 2020 November Deferral Agreement and the respective covenants, agreements and obligations of each party under the 2020 November Deferral Agreement are subject to the Company obtaining the requisite approval of the 2020 November Deferral Agreement from the Company's shareholders in accordance with applicable TSX rules. On October 29, 2020, the Company obtained an order from the BCSC which partially revoked the CTO to, amongst other things, permit the Company to execute the 2020 November Deferral Agreement.

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

- Payment of the 2020 November Deferral Amounts will be deferred until August 31, 2023.
- CIC agreed to waive its rights arising from any default or event of default under the CIC Convertible Debenture as a result of trading in the Common Shares being halted on the TSX beginning as of June 19, 2020 and suspended on the HKEX beginning as of August 17, 2020, in each case for a period of more than five trading days.

- As consideration for the deferral of the 2020 November Deferral Amounts, the Company agreed to pay CIC: (i) a deferral fee equal to 6.4% per annum on the 2020 November Deferral Amounts payable under the CIC Convertible Debenture and the 2020 June Deferral Agreement, commencing on the date on which each such 2020 November Deferral Amount would otherwise have been due and payable under the CIC Convertible Debenture or the 2020 June Deferral Agreement, as applicable; and (ii) a deferral fee equal to 2.5% per annum on the 2020 November Deferral Amounts payable under the Amended and Restated Cooperation Agreement, commencing on the date on which the Management Fee would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.
- The 2020 November Deferral Agreement does not contemplate a fixed repayment schedule for the 2020 November Deferral Amounts and related deferral fees. Instead, the Company and CIC would agree to assess in good faith the Company's financial condition and working capital position on a monthly basis and determine the amount, if any, of the 2020 November Deferral Amounts and related deferral fees that the Company is able to repay under the CIC Convertible Debenture, the 2020 June Deferral Agreement or the Amended and Restated Cooperation Agreement, having regard to the working capital requirements of the Company's operations and business at such time and with the view of ensuring that the Company's operations and business would not be materially prejudiced as a result of any repayment.
- Commencing as of November 19, 2020 and until such time as the November 2020 PIK Interest is fully repaid, CIC reserves the right to require the Company to pay and satisfy the amount of the November 2020 PIK Interest, either in full or in part, by way of issuing and delivering PIK interest shares in accordance with the CIC Convertible Debenture provided that, on the date of issuance of such shares, the Common Shares are listed and trading on at least one stock exchange.
- If at any time before the 2020 November Deferral Amounts and related deferral fees are fully repaid, the Company proposes to appoint, replace or terminate one or more of its Chief Executive Officer, its Chief Financial Officer or any other senior executive(s) in charge of its principal business function or its principal subsidiary, then the Company must first consult with, and obtain written consent from CIC prior to effecting such appointment, replacement or termination.

Until such time as the 2020 November Deferral Agreement is approved by the Company's shareholders and the deferral and waiver thereunder in favour of the Company become effective, the Company remains in default under the CIC Convertible Debenture and 2020 June Deferral Agreement and CIC may declare the amounts owing thereunder immediately due and payable, and may take steps to enforce payment thereof, which would have a material adverse effect on the business and operations of the Company and could negatively affect the price and volatility of the Common Shares and any investment in such shares could suffer a significant decline or total loss in value.

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

Commercial Arbitration in Hong Kong

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

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

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

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

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

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

Cash Flow Highlights

$ in thousands	Six months ended June 30, 2020	Six months ended June 30, 2019
Cash generated from operating activities	**$ 3,898**	$ 18,945
Cash used in investing activities	**(4,841)**	(8,380)
Cash used in financing activities	**(2,584)**	(13,470)
Effect of foreign exchange rate changes on cash	**(39)**	81
Decrease in cash for the period	**(3,566)**	(2,824)
Cash balance, beginning of period	**7,164**	6,959
Cash balance, end of period	**$ 3,598**	$ 4,135

Cash generated from Operating Activities

The Company generated $3.9 million of cash from operating activities in the first six months of 2020 compared to $18.9 million in the first six months of 2019. This is primarily due to the decrease in revenue generated.

Cash used in Investing Activities

The Company used $4.8 million of cash during the first six months of 2020 in investing activities compared to $8.4 million during the first six months of 2019. In the first six months of 2020, expenditures on property, plant and equipment totaled $5.2 million (first six months of 2019: $9.8 million).

Cash used in Financing Activities

Cash used in financing activities was $2.6 million in the first six months of 2020 (first six months of 2019: $13.5 million), which was principally attributable to the refund of certain customer deposits.

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 June 30, 2020, the Company's operating and capital commitments were:

	Within 1 year	2-3 years	Over 3 years	Total
As at June 30, 2020				
Capital expenditure commitments	**$ 4,781**	**$ -**	**$ -**	**$ 4,781**
Operating expenditure commitments	**2,023**	**154**	**1,261**	**3,438**
Commitments	**$ 6,804**	**$ 154**	**$ 1,261**	**$ 8,219**

Ovoot Tolgoi Mine Impairment Analysis

The Company determined that an indicator of impairment existed for its Ovoot Tolgoi Mine cash generating unit as at June 30, 2020. The impairment indicators were the uncertainty of future coal prices in China and the lower than budgeted production. Since the recoverable amount was higher than the carrying value of the Ovoot Tolgoi Mine cash generating unit, there was no impairment of non-financial asset recognized during the six months ended June 30, 2020.

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 5 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.

	As at			
$ in thousands	June 30, 2020		December 31, 2019	
Financial assets				
Cash	$	3,598	$	7,164
Restricted cash		566		862
Trade and other receivables		809		1,778
Total financial assets	$	4,973	$	9,804

	As at			
$ in thousands	June 30,		December 31,	
Financial liabilities	2020		2019	
Fair value through profit or loss				
Convertible debenture - embedded derivatives	$	187	$	196
Other financial liabilities				
Trade and other payables		84,554		87,013
Provision for commercial arbitration		-		5,593
Interest-bearing borrowings		3,222		3,403
Convertible debenture - debt host and interest payable		168,435		156,778
Total financial liabilities	$	256,398	$	252,983

6. REGULATORY ISSUES AND CONTINGENCIES

Class Action Lawsuit

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

To commence and proceed with the Class Action, the plaintiff was required to seek leave of the Court under the Ontario Securities Act ("Leave Motion") and certify the action as a class proceeding under the Ontario Class Proceedings Act ("Certification Motion"). The Ontario Court rendered its decision on the Leave

Motion on November 5, 2015, dismissing the action against the former senior officers and directors and allowing the action to proceed against the Company in respect of alleged misrepresentation affecting trades in the secondary market for the Company's securities arising from the Restatement. The action against the Former Auditors was settled by the plaintiff on the eve of the Leave Motion.

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

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

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

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

The Company firmly believes that it has a strong defense on the merits and will continue to vigorously defend itself against the Class Action through independent Canadian litigation counsel retained by the Company for this purpose. Due to the inherent uncertainties of litigation, it is not possible to predict the final outcome of the Class Action or determine the amount of potential losses, if any. However, the Company has judged a provision for this matter as at June 30, 2020 was not required.

Toll Wash Plant Agreement with Ejin Jinda

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

Under the original agreement with Ejin Jinda, which required the commercial operation of the wet washing facility to commence on October 1, 2011, the additional fees payable by the Company under the wet washing contract would have been $18.5 million. At each reporting date, the Company assesses the agreement with Ejin Jinda and has determined it is not probable that this $18.5 million will be required to be paid. Accordingly, the Company has determined a provision for this matter at June 30, 2020 is not required.

Special Needs Territory in Umnugobi

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

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

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

Termination of Soumber Deposit Mining Licenses

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

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

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

Mongolian Royalties

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

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

Restrictions on Importing F-Grade Coal into China

As a result of import restrictions established by Chinese authorities at the Ceke border, the Company has been barred from transporting its F-grade coal products into China for sale since December 15, 2018. The Company, together with other Mongolian coal companies, have been in discussion with the Chinese authorities regarding a potential amendment or withdrawal of these import restrictions to allow for the importation of F-grade coal into China; however, there can be no assurance that a favorable outcome will be reached.

7. 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 December 23, 2020, approximately 272.7 million Common Shares were issued and outstanding. There are also incentive share options outstanding to acquire approximately 6.4 million unissued Common Shares with exercise prices ranging from CAD$0.11 to CAD$0.39. There are no preferred shares outstanding.

As at December 23, 2020, 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.

8. DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING ("ICFR")

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.

9. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Refer to Note 2.4 of the Company's condensed consolidated interim financial statements of the six months ended June 30, 2020 for information regarding the accounting judgments and estimates.

10. RISK FACTORS

There are certain risks involved in and related to the Company's operations, some of which are beyond its control. Material risks and uncertainties affecting the Company, their potential impact on the Company's operations and the Company's principal risk management strategies are, except as updated by this MD&A, substantially unchanged from those disclosed in the Company's most recently filed Annual Information Form for the year ended December 31, 2019, which is available under the Company's profile on SEDAR at www.sedar.com.

11. OUTLOOK

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

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

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

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

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

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

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

Going forward, the Company will continue to focus on creating shareholders value by leveraging its key competitive strengths, including:

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

- **A large resources and reserves base** – The Ovoot Tolgoi Deposit has mineral reserves of 114.1 million tonnes, while the aggregate coal resources include measured and indicated mineral resources of 194.6 million tonnes and inferred resources of 32.1 million tonnes.

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

December 23, 2020

SouthGobi
RESOURCES

SouthGobi Resources Ltd.
Condensed Consolidated Interim Financial Statements

June 30, 2020
(Expressed in U.S. Dollars)
(Unaudited)

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CONDENSED FINANCIAL STATEMENTS

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

SOUTHGOBI RESOURCES LTD.

Condensed Consolidated Interim Statement of Comprehensive Income

(Unaudited)

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

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

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

SOUTHGOBI RESOURCES LTD.

Condensed Consolidated Interim Statement of Financial Position

(Unaudited)

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

	Notes	As at June 30, 2020	As at December 31, 2019
Assets			
Current assets			
Cash and cash equivalents		**$ 3,598**	$ 7,164
Restricted cash		**566**	862
Trade and other receivables	11	**809**	1,778
Inventories	12	**47,369**	52,237
Prepaid expenses and deposits		**1,648**	2,312
Total current assets		**53,990**	64,353
Non-current assets			
Property, plant and equipment	13	**$ 134,402**	$ 137,221
Inventories	12	**3,956**	9,332
Investment in a joint venture		**16,883**	17,521
Total non-current assets		**155,241**	164,074
Total assets		**$ 209,231**	$ 228,427
Equity and liabilities			
Current liabilities			
Trade and other payables	14	**$ 84,554**	$ 87,013
Provision for commercial arbitration	15	**-**	5,593
Deferred revenue		**16,964**	16,057
Interest-bearing borrowings	16	**2,912**	2,835
Lease liabilities		**310**	460
Current portion of convertible debenture	17	**168,622**	67,106
Total current liabilities		**273,362**	179,064
Non-current liabilities			
Lease liabilities		**-**	108
Convertible debenture	17	**-**	89,868
Decommissioning liability		**8,721**	8,605
Total non-current liabilities		**8,721**	98,581
Total liabilities		**282,083**	277,645
Equity			
Common shares		**1,098,634**	1,098,634
Share option reserve		**52,677**	52,589
Capital reserve		**396**	396
Exchange reserve		**(28,017)**	(23,228)
Accumulated deficit		**(1,196,542)**	(1,177,609)
Total deficiency in assets		**(72,852)**	(49,218)
Total equity and liabilities		**$ 209,231**	$ 228,427
Net current liabilities		**$ (219,372)**	$ (114,711)
Total assets less current liabilities		**$ (64,131)**	$ 49,363

Corporate information and going concern (Note 1) and commitments for expenditure (Note 20)

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

APPROVED BY THE BOARD:

"Mao Sun"	***"Dalanguerban"***
Director	Director

SOUTHGOBI RESOURCES LTD.

Condensed Consolidated Interim Statement of Changes in Equity

(Unaudited)

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

	Number of shares/units	Share capital	Share option reserve	Capital reserve	Exchange fluctuation reserve	Accumulated deficit	Total
Balances, January 1, 2019	272,703	$ 1,098,634	$ 52,542	$ 396	$ (18,099)	$ (1,181,613)	$ (48,140)
Change in accounting policy due to IFRS 16	-	-	-	-	-	(197)	(197)
Restated balances, January 1, 2019	272,703	$ 1,098,634	$ 52,542	$ 396	$ (18,099)	$ (1,181,810)	$ (48,337)
Share-based compensation charged to operations	-	-	28	-	-	-	28
Net profit for the period	-	-	-	-	-	4,241	4,241
Exchange differences on translation of foreign operations	-	-	-	-	(779)	-	(779)
Restated balances, June 30, 2019	272,703	$ 1,098,634	$ 52,570	$ 396	$ (18,878)	$ (1,177,569)	$ (44,847)
Balances, January 1, 2020	**272,703**	**$ 1,098,634**	**$ 52,589**	**$ 396**	**$ (23,228)**	**$ (1,177,609)**	**$ (49,218)**
Share-based compensation charged to operations	-	-	88	-	-	-	88
Net profit for the period	-	-	-	-	-	(18,933)	(18,933)
Exchange differences on translation of foreign operations	-	-	-	-	(4,789)	-	(4,789)
Balances, June 30, 2020	**272,703**	**$ 1,098,634**	**$ 52,677**	**$ 396**	**$ (28,017)**	**$ (1,196,542)**	**$ (72,852)**

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

SOUTHGOBI RESOURCES LTD.

Condensed Consolidated Interim Statement of Cash Flows

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

		Six months ended June 30,	
	Notes	2020	2019
Operating activities			
Profit/(loss) before tax		**$ (17,301)**	$ 6,481
Adjustments for:			
Depreciation and depletion		**5,307**	8,382
Share-based compensation		**88**	28
Interest expense on convertible debenture	8	**12,357**	11,521
Interest expense on borrowings	8	**198**	425
Finance costs on leased assets	8	**32**	75
Accretion of decommissioning liability	8	**341**	114
Unrealized loss/(gain) on embedded derivatives in convertible debenture	8	**(9)**	9
Interest income	8	**(8)**	(29)
IFRS 9 adjustment on convertible debenture	8	**-**	(4,293)
Share of earnings of a joint venture		**(222)**	(827)
Gain on disposal of property, plant and equipment	5	**(19)**	(29)
Loss on disposal of properties for resale		**-**	14
Provision for doubtful trade and other receivables	11	**282**	97
Provision for commercial arbitration		**4,634**	226
Provision for prepaid expenses and deposits	7	**-**	260
Impairment of inventories	12	**-**	3,466
Operating cash flows before changes in non-cash working capital items		**5,680**	25,920
Net change in non-cash working capital items	19	**(931)**	(5,897)
Cash generated from operating activities		**4,749**	20,023
Interest paid		**(820)**	(949)
Income tax paid		**(31)**	(129)
Net cash flows from operating activities		**3,898**	18,945
Investing activities			
Expenditures on property, plant and equipment		**(5,216)**	(9,773)
Proceeds from disposal of property, plant and equipment		**57**	70
Interest received		**8**	29
Dividend from a joint venture		**310**	1,294
Cash used in investing activities		**(4,841)**	(8,380)
Financing activities			
Repayment of interest-bearing loans		**-**	(700)
Principal elements of lease payments		**(362)**	(388)
Refund of customers' deposits		**(2,222)**	(12,382)
Cash used in financing activities		**(2,584)**	(13,470)
Effect of foreign exchange rate changes on cash and cash equivalents		**(39)**	81
Decrease in cash and cash equivalents		**(3,566)**	(2,824)
Cash and cash equivalents, beginning of period		**7,164**	6,959
Cash and cash equivalents, end of period		**$ 3,598**	$ 4,135

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

1. CORPORATE INFORMATION AND GOING CONCERN

SouthGobi Resources Ltd. is a publicly listed company incorporated in Canada with limited liability under the legislation of the Province of British Columbia and its shares are listed for trading on the Toronto Stock Exchange ("TSX") (Symbol: SGQ) and Hong Kong Stock Exchange ("HKEX") (Symbol: 1878). The company, together with its subsidiaries (collectively referred to as the "Company"), is an integrated coal mining, development and exploration company. At June 30, 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 significant coal projects in Mongolia: the Ovoot Tolgoi open pit producing coal mine ("Ovoot Tolgoi Mine"), 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.

Going concern assumption

The Company's condensed consolidated interim financial statements have been prepared on a going concern basis which assumes that the Company will continue operating until at least June 30, 2021 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. However, in order to continue as a going concern, the Company must generate sufficient operating cash flow, secure additional capital or otherwise pursue a strategic restructuring, refinancing or other transactions to provide it with additional liquidity.

Several adverse conditions and material uncertainties cast significant doubt upon the Company's ability to continue as a going concern and the going concern assumption used in the preparation of the Company's consolidated financial statements. The Company had a deficiency in assets of $72,852 as at June 30, 2020 compared to a deficiency in assets of $49,218 as at December 31, 2019 while the working capital deficiency (excess current liabilities over current assets) reached $219,372 as at June 30, 2020 compared to a working capital deficiency of $114,711 as at December 31, 2019.

Included in the working capital deficiency as at June 30, 2020 are significant obligations, which include the interest amounting to $78,515 in relation to the convertible debenture with CIC ("CIC Convertible Debenture") subject to various deferral agreements as disclosed in Note 17.5.

1. CORPORATE INFORMATION AND GOING CONCERN (CONTINUED)

In addition, as disclosed in Note 21 to these consolidated financial statements, the common shares have been suspended from trading since June 19, 2020 on the TSX and August 17, 2020 on the HKEX. As of the date hereof, certain conditions of the Resumption Guidance (as defined in Note 21), including but not limited to the issuance of the audited financial statements for the year ended December 31, 2019, have been fulfilled. However, if the common shares become delisted from either the TSX or the HKEX, this would be an event of default under the CIC Convertible Debenture, which could result in the automatic termination of the deferral periods under the 2020 November Deferral Agreement (as defined in Note 17.5) and the acceleration of all principal, interest and other amounts owing under the CIC Convertible Debenture and the 2020 November Deferral Agreement becoming immediately due and payable, in each case without the necessity of any demand upon or notice to the Company by CIC.

The Company also has current liabilities, including trade and other payables of $84,554 and interest payable under the CIC Convertible Debenture of $78,515 as at June 30, 2020. Out of trade and other payables, which require settlement in the short-term, unpaid taxes of $32,069 are repayable on demand by SouthGobi Sands LLC (“SGS”), a subsidiary of the Company, to the Mongolian Tax Authority (“MTA”).

The Company may not be able to settle all trade and other payables on a timely basis, and as a result continuing postponement in settling certain trade and other payables owed to suppliers and creditors may impact the mining operations of the Company and may result in potential lawsuits and/or bankruptcy proceedings being filed against the Company. Except as disclosed elsewhere in these consolidated financial statements, no such lawsuits or proceedings were pending as at December 23, 2020.

Further, the closure of the Mongolian-Chinese border during the period between February 11, 2020 to March 27, 2020 and the limitations imposed on the total volume of coal exports subsequent to the re-opening of the border on a trial basis effective as of March 28, 2020 have had an adverse impact on the Company’s sales and cash flows in the first and second quarter of 2020. In order to mitigate the financial impact of the border closures and preserve its working capital, the Company temporarily ceased major mining operations (including coal mining), reduced production to only coal-blending activities and placed approximately half of its workforce on furlough from February 2020. Since August 2, 2020, the Company has resumed its mining operations, which includes mining, blending and washing of coal. As at October 31, 2020, SGS employed 208 employees at the Ovoot Tolgoi Mine site (December 31, 2019: 383 employees). The Company produced 1.1 million tonnes from August to October 2020, as compared to 1.3 million tonnes from August to October 2019. The Company will continue to closely monitor the development of the 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.

1. CORPORATE INFORMATION AND GOING CONCERN (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. If the Company is unable to continue as a going concern, it may be forced to seek relief under applicable bankruptcy and insolvency legislation.

Management of the Company has prepared a cash flow projection covering a period of 12 months from June 30, 2020. The cash flow projection has taken into account the anticipated cash flow to be generated from the Company's business during the period under projection including cost saving measures. In particular, the Company has taken into account the following measures for improvement of the Company's liquidity and financial position, which include: (i) entering into the 2020 November Deferral Agreement with CIC, subject to conditions precedent therein (as disclosed in Note 17.5), for a deferral of the 2020 November Deferral Amounts (as defined in Note 17.5) until August 31, 2023; (ii) agreeing to deferral arrangements and improved payment terms with certain vendors; (iii) SGS planned to reduce the outstanding tax payable by monthly payments to MTA starting from June 2020; (iv) reducing the inventory of low quality coal by wet washing and coal blending; and (v) resuming coal mining activities beginning as of August 2020 to enhance coal supply. In addition, management of the Company assessed that the Company would be able to issue all outstanding financial results, being one of the conditions of the Resumption Guidance which must be satisfied in order to avoid a delisting of the common shares from the HKEX, which is in turn an event of default under the CIC Convertible Debenture. After considering the above measures, and given the re-opening of the Mongolian-Chinese border since March 28, 2020, the Directors believe that there will be sufficient financial resources to continue its operations and to meet its financial obligations as and when they fall due in the next 12 months from June 30, 2020 and therefore are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

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

As at June 30, 2020 and December 31, 2019, the Company was not subject to any externally imposed capital requirements.

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

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

2.2 Basis of presentation

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

2.3 Adoption of new and revised standards and interpretations

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

2.4 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 Company's consolidated financial statements are included in Note 3.22 to the Company's December 31, 2019 consolidated annual financial statements. The significant accounting judgments and estimates remain substantially unchanged from December 31, 2019.

Liquidity and the going concern assumption

Management made a critical judgement that the Company will be able to continue operating until at least June 30, 2021 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. However, in order to continue as a going concern, the Company must generate sufficient operating cash flow, secure additional capital or otherwise pursue a strategic restructuring, refinancing, or other transactions to provide it with additional liquidity. Refer to Note 1 for details.

2. BASIS OF PREPARATION (CONTINUED)

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 June 30, 2020. The impairment indicator was the uncertainty of future coal prices in China and the lower than budgeted production. Since the recoverable amount was higher than the carrying value of the Ovoot Tolgoi Mine cash generating unit, there was no impairment of non-financial asset recognized during the six months ended June 30, 2020.

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 $21,933 (December 31, 2019: $21,976) as at June 30, 2020.

3. SEGMENTED INFORMATION

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

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

3.1 Information about major customers

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

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

3. SEGMENTED INFORMATION (CONTINUED)

3.2 Geographical information

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

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

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

4. REVENUE

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

5. EXPENSES BY NATURE

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

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Depreciation	**$ 3,137**	$ 3,521	**$ 5,268**	$ 8,411
Auditors' remuneration	**138**	597	**383**	870
Employee benefit expense (including directors' remuneration)				
Wages and salaries	**$ 1,612**	$ 2,762	**$ 3,904**	$ 5,356
Equity-settled share option expense	**73**	14	**88**	28
Pension scheme contributions	**75**	384	**323**	691
	$ 1,760	$ 3,160	**$ 4,315**	$ 6,075
Lease payments under operating leases	**$ 17**	$ 19	**$ 42**	$ 78
Foreign exchange loss/(gain)	**20**	528	**(752)**	(1)
Impairment of coal stockpile inventories (Note 12)	**-**	-	**-**	3,466
CIC management fee (Note 18)	**413**	1,422	**535**	2,180
Royalties (Note 6)	**1,700**	2,338	**2,957**	4,577
Provision for doubtful trade and and other receivables (Note 11)	**144**	46	**282**	97
Provision for prepaid expenses and deposits	**-**	260	**-**	260
Loss/(gain) on disposal of property, plant and equipment	**20**	(29)	**(19)**	(29)
Provision for commercial arbitration	**4,553**	92	**4,634**	226
Loss on disposal of properties for resale	**-**	14	**-**	14
Mine operating costs and other	**4,957**	15,297	**6,642**	27,994
Total operating expenses	**$ 16,859**	$ 27,265	**$ 24,287**	$ 54,218

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

6. COST OF SALES

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

	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Operating expenses	**$ 5,684**	$ 16,341	**$ 8,522**	$ 29,309
Share-based compensation expense	**17**	3	**19**	5
Depreciation and depletion	**1,288**	2,479	**1,866**	6,258
Royalties	**1,700**	2,338	**2,957**	4,577
Impairment of coal stockpile inventories (Note 12)	**-**	-	**-**	3,466
Cost of sales from mine operations	**8,689**	21,161	**13,364**	43,615
Cost of sales related to idled mine assets (i)	**1,677**	870	**3,073**	1,821
Cost of sales	**$ 10,366**	$ 22,031	**$ 16,437**	$ 45,436

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

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

7. OTHER OPERATING EXPENSES

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

	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Provision for doubtful trade and other receivables (Note 11)	**$ (144)**	$ (46)	**$ (282)**	$ (97)
Foreign exchange gain/(loss)	**(20)**	(528)	**752**	1
CIC management fee (Note 18)	**(413)**	(1,422)	**(535)**	(2,180)
Provision for commercial arbitration	**(4,553)**	(92)	**(4,634)**	(226)
Provision for prepaid expenses and deposits	**-**	(260)	**-**	(260)
Loss on disposal of properties for resale	**-**	(14)	**-**	(14)
Gain/(loss) on disposal of property, plant and equipment	**(20)**	29	**19**	29
Other operating expenses	**$ (5,150)**	$ (2,333)	**$ (4,680)**	$ (2,747)

8. FINANCE COSTS AND INCOME

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

	Three months ended, June 30, 2020	Three months ended, June 30, 2019	Six months ended, June 30, 2020	Six months ended, June 30, 2019
Interest expense on convertible debenture (Note 17)	**$ 6,228**	$ 5,824	**$ 12,357**	$ 11,521
Unrealized loss on embedded derivatives in convertible debenture (Note 17)	**28**	8	**-**	9
Value added tax on interest from intercompany loan	**719**	798	**1,437**	1,596
Interest expense on borrowings	**93**	247	**198**	425
Finance costs on leased assets	**13**	32	**32**	75
Accretion of decommissioning liability	**177**	92	**341**	114
Finance costs	**$ 7,258**	$ 7,001	**$ 14,365**	$ 13,740

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

8. FINANCE COSTS AND INCOME (CONTINUED)

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

	Three months ended, June 30,		Six months ended, June 30,	
	2020	**2019**	**2020**	**2019**
Unrealized gain on embedded derivatives in convertible debenture (Note 17)	**$ -**	$ -	**$ 9**	$ -
Interest income	**2**	12	**8**	29
IFRS 9 adjustment on convertible debenture (Note 17)	**-**	4,293	**-**	4,293
Finance income	**$ 2**	$ 4,305	**$ 17**	$ 4,322

9. TAXES

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

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

10. EARNINGS/(LOSS) PER SHARE

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

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

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

11. TRADE AND OTHER RECEIVABLES

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

	As at	
	June 30, 2020	**December 31, 2019**
Trade receivables	**$ -**	$ 1,081
Other receivables	**809**	697
Total trade and other receivables	**$ 809**	$ 1,778

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

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

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

The Company has determined that the loss allowance on its trade and other receivables was $21,933 as at June 30, 2020 (December 31, 2019: $21,976), based upon an expected loss rate of 10% for trade and other receivables 60 days past due and 100% for trade and other receivables 180 days past due. The closing allowances for trade and other receivables as at June 30, 2020 reconcile to the opening loss allowances as follows:

Loss allowance for trade and other receivables	
Opening loss allowance as at January 1, 2020	**$ 21,976**
Increase in loss allowance recognised in profit or loss during the period	**282**
Exchange realignment	**(325)**
Loss allowance as at June 30, 2020	**$ 21,933**
Opening loss allowance as at January 1, 2019	$ 20,005
Increase in loan allowance recognised in profit or loss during the period	97
Loss allowance included in specific provision made during the year ended December 31, 2018	1,379
Exchange realignment	(69)
Loss allowance as at June 30, 2019	$ 21,412

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

12. INVENTORIES

The Company's inventories consist of the following amounts:

	As at	
	June 30, 2020	**December 31, 2019**
Current inventories		
Coal stockpiles	**$ 33,532**	$ 37,597
Materials and supplies	**13,837**	14,640
	$ 47,369	$ 52,237
Non-current inventories		
Coal stockpiles	**3,956**	9,332
Total inventories	**$ 51,325**	$ 61,569

No impairment loss related to the Company's coal stockpile inventories was recognized for the six months ended June 30, 2020 (2019: $3,466). The impairment made for the six months ended June 30, 2019 was as a result of import restrictions established by Chinese authorities at the Ceke border.

Coal stockpile inventories of $3,956 are not expected to be utilized or sold within 12 months and are therefore classified as non-current inventories as at June 30, 2020 (December 31, 2019: $9,332).

13. PROPERTY, PLANT AND EQUIPMENT

During the six months ended June 30, 2020, the Company acquired items of plant and equipment with a cost of approximately $7,479 (six months ended June 30, 2019: $11,931). Items of plant and equipment with a net book value of $92 were disposed of during the six months ended June 30, 2020 (six months ended June 30, 2019: $520), resulting in a gain on disposal of $19 (six months ended June 30, 2019: $29).

13.1 Non-depreciable assets

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

13.2 Pledge on items of property, plant and equipment

As at June 30, 2020, certain of the Company's property, plant and equipment of $83 (December 31, 2019: $439) were pledged as security for a bank loan granted to the Company (Note 16).

13.3 Right-of-use assets

The right-of-use assets relate to the buildings amounted to $332 as at June 30, 2020.

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

14. TRADE AND OTHER PAYABLES

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

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

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

15. PROVISION FOR COMMERCIAL ARBITRATION

On June 24, 2015, First Concept Industrial Group Limited ("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 $11,500.

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 in 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.

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

15. PROVISION FOR COMMERCIAL ARBITRATION (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 $800 is being 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.

16. INTEREST-BEARING BORROWINGS

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

	As at	
	June 30, 2020	December 31, 2019
Bank loan (i)	$ 2,912	$ 2,835
Total interest-bearing borrowings	**$ 2,912**	$ 2,835

(i) Bank Loan

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

- Maturity date set at 24 months from drawdown (subsequently extended for 12 months on May 18, 2020);
- Interest rate of 15% per annum and interest is payable monthly; and
- Certain items of property, plant and equipment were pledged as security for the 2018 Bank Loan. As at June 30, 2020, the net book value of the pledged items of property, plant and equipment was $83 (December 31, 2019: $439).

As at June 30, 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 $112 (December 31, 2019: $35).

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

17. CONVERTIBLE DEBENTURE

17.1 Key commercial terms

On November 19, 2009, the Company issued a convertible debenture to a wholly owned subsidiary of 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. During 2010, the Company exercised a right within the debenture to call and convert $250,000 of the debenture for 21,471 common shares. Following the conversion, the outstanding principal balance was $250,000 and has remained unchanged at that balance to June 30, 2020.

17.2 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.

17.3 Valuation assumptions

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

	As at	
	June 30, 2020	**December 31, 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$0.09
Historical volatility	**83%**	80%
Risk free rate of return	**0.91%**	1.76%
Foreign exchange spot rate (CAD$ to U.S. Dollar)	**0.73**	0.77
Forward foreign exchange rate curve (CAD$ to U.S. Dollar)	**0.727 - 0.737**	0.761 - 0.770

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

17. CONVERTIBLE DEBENTURE (CONTINUED)

17.4 Presentation

Based on the Company's valuation as at June 30, 2020, the fair value of the embedded derivatives decreased by $9 compared to that at December 31, 2019 and increased by $28 compared to that at March 31, 2020. The changes in fair value were recorded as finance expense and finance income for the three and six months ended June 30, 2020, respectively.

For the three months ended June 30, 2020, the Company recorded interest expense of $6,228 related to the convertible debenture as a finance cost (2019: $5,824). For the six months ended June 30, 2020, the Company recorded interest expense of $12,357 related to the convertible debenture as a finance cost (2019: $11,521). The interest expense consists of the interest at the contract rate and the accretion of the debt host component of the convertible debenture. To calculate the accretion expense, the Company uses the contract life of 30 years and an effective interest rate of 22.2%.

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

	Three months ended June 30,		Six months ended June 30,	
	2020	**2019**	**2020**	**2019**
Balance, beginning of period	**$ 162,366**	$ 145,599	**$ 156,974**	$ 139,901
Interest expense on convertible debenture	**6,228**	5,824	**12,357**	11,521
Increase/(decrease) in fair value of embedded derivatives	**28**	8	**(9)**	9
Interest paid	**-**	-	**(700)**	-
IFRS 9 fair value adjustment	**-**	(4,293)	**-**	(4,293)
Balance, end of period	**$ 168,622**	$ 147,138	**$ 168,622**	$ 147,138

The convertible debenture balance consists of the following amounts:

	As at	
	June 30, 2020	**December 31, 2019**
Current convertible debenture		
Interest payable	**$ 78,515**	$ 67,106
Debt host	**89,920**	-
Fair value of embedded derivatives	**187**	-
	168,622	67,106
Non-current convertible debenture		
Debt host	**-**	89,672
Fair value of embedded derivatives	**-**	196
	-	89,868
Total convertible debenture	**$ 168,622**	$ 156,974

17. CONVERTIBLE DEBENTURE (CONTINUED)

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

17.5 Interest deferral and settlement

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 which were due and payable to CIC on January 19, 2020 and February 19, 2020, respectively, under the deferral agreement dated April 23, 2019 (the "2019 Deferral Agreement") (collectively, the "2020 February Deferral Amounts"); and (ii) approximately $700 of the service fee ("Management Fee") payable to CIC under the mutual co-operation agreement (the Cooperation Agreement") dated November 19, 2009 between SGS and CIC, which was due and payable on February 14, 2020 to CIC under the amended and restated Cooperation Agreement (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 Managements Fees 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.

17. CONVERTIBLE DEBENTURE (CONTINUED)

- 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 were 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 to May 2020 will be deferred until September 14, 2020. The terms of the 2020 June Deferral Agreement are substantially the same as the terms of the 2020 February Deferral Agreement, including that the Company agreed to pay CIC a deferral fee equal to 6.4% per annum on the 2020 June Deferral Amount commencing on June 19, 2020. The 2020 June Deferral Agreement became effective on July 17, 2020, being the date on which the Company obtained the requisite acceptance of the 2020 June Deferral Agreement from the TSX as required under applicable TSX rules.

17. CONVERTIBLE DEBENTURE (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”). The effectiveness of the 2020 November Deferral Agreement and the respective covenants, agreements and obligations of each party under the 2020 November Deferral Agreement are subject to the Company obtaining the requisite approval of the 2020 November Deferral Agreement from the Company’s shareholders in accordance with applicable TSX rules. On October 29, 2020, the Company obtained an order from the British Columbia Securities Commission (“BCSC”) which partially revoked the CTO (as defined in Note 21) to, amongst other things, permit the Company to execute the 2020 November Deferral Agreement.

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

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

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

17. CONVERTIBLE DEBENTURE (CONTINUED)

- 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.

18. RELATED PARTY TRANSACTIONS

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 three and six months ended June 30, 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 June 30, 2020. The Amended and Restated Cooperation Agreement states that an amount of Management Fee being calculated based on 2.5% of the revenue of SGS shall be paid to CIC on a quarterly basis. During the three and six months ended June 30, 2020, $413 and $535 was recorded, respectively (three and six months ended June 30, 2019: $1,422 and $2,180, respectively).

18.1 Related party expenses

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

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Finance costs	$ 6,228	$ 5,824	$ 12,357	$ 11,521
Management Fee	413	1,422	535	2,180
Related party expenses	$ 6,641	$ 7,246	$ 12,892	$ 13,701

19. SUPPLEMENTAL CASH FLOW INFORMATION

19.1 Non-cash financing and investing activities

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

	Six months ended June 30,	
	2020	2019
Addition to decommissioning liability	$ 53	$ 315
Amortization of deferred stripping being capitalized	2,210	1,792
Net depreciation capitalized into/(utilized from) inventories	(1,705)	1,954
Trade payables offset by fixed assets	-	479
Trade payables offset by properties for resale	-	524

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

19. SUPPLEMENTAL CASH FLOW INFORMATION (CONTINUED)

19.2 Net change in non-cash working capital items

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

	Six months ended June 30, 2020	Six months ended June 30, 2019
Decrease/(increase) in inventories	**$ 6,870**	$ (7,240)
Decrease/(increase) in trade and other receivables	**(463)**	4,718
Decrease/(increase) in prepaid expenses and deposits	**528**	(754)
Decrease in trade and other payables	**(1,561)**	(11,304)
Increase in deferred revenue	**1,404**	1,301
Decrease in provision for commercial arbitration	**(10,227)**	(5,000)
Decrease in restricted cash	**296**	-
Reclassification of refund customers' deposits as financing activities	**2,222**	12,382
Net change in non-cash working capital items	**$ (931)**	$ (5,897)

20. COMMITMENTS FOR EXPENDITURE

As at June 30, 2020, the Company's commitments for expenditure that have not been disclosed elsewhere in the condensed consolidated interim financial statements are as follows:

	Within 1 year	2-3 years	Over 3 years	Total
As at June 30, 2020				
Capital expenditure commitments	**$ 4,781**	**$ -**	**$ -**	**$ 4,781**
Operating expenditure commitments	**2,023**	**154**	**1,261**	**3,438**
Commitments	**$ 6,804**	**$ 154**	**$ 1,261**	**$ 8,219**
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

21. EVENTS AFTER THE REPORTING PERIOD

Cease trade order

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

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

At the request of the Company, trading in the shares of the Company on the HKEX was suspended with effect as of August 17, 2020 pending the publication of the audited annual results of the Company for the year ended December 31, 2019.

Guidance on the resumption of trading of the common shares

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

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

On December 8, 2020, the Company was notified by the HKEX of the following additional condition which must be satisfied in order for trading in the common shares on the HKEX to resume: demonstrate compliance with Rule 13.24 of the HKEX listing rules which requires that an issuer carries out a business with a sufficient level of operations and assets of sufficient value to support its operations to warrant the continued listing of the issuer's securities.

21. EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

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

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

The TSX Continued Listing Committee has scheduled a meeting to be held on February 11, 2021 to consider whether or not to suspend trading in and delist the Common Shares on the TSX. If the Company fails to demonstrate to the TSX that it has remedied the Delisting Criteria on or before February 16, 2021, the Common Shares will be delisted from the TSX 30 days from such date.

Apart from the above, please also refer to Note 17.5 for other events after the reporting period.

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

ADDITIONAL STOCK EXCHANGE INFORMATION

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

A1. FINANCIAL INSTRUMENTS

Cash

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

	As at	
	June 30, 2020	**December 31, 2019**
Denominated in U.S. Dollars	**$ 1,566**	$ 39
Denominated in Chinese Renminbi	**1,734**	6,860
Denominated in Mongolian Tugriks	**102**	240
Denominated in Canadian Dollars	**4**	20
Denominated in Hong Kong Dollars	**192**	5
Cash	**$ 3,598**	$ 7,164

Exposure to fluctuations in foreign exchange rates

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

	As at	
	June 30, 2020	**December 31, 2019**
Increase/decrease in foreign exchange rate against respective functional currency		
+5%	**$ 1,095**	$ 1,049
–5%	**$ (1,095)**	$ (1,049)

A2. COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

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

Pursuant to code provision A.2.7 of the Corporate Governance Code, the chairman of the Board should at least annually hold meetings with the non-executive directors (including independent non-executive directors) without the executive directors present. The Company does not have a Chairman since the conclusion of the AGM held on June 30, 2017. During the period of January 1, 2020 to June 30, 2020 there were two meetings between the Independent Lead Director, who is fulfilling the duties of the Chairman, and the non-executive directors without the presence of other executive directors. The opportunity for such communication channel is offered at the end of each Board meeting.

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

A3. COMPLIANCE WITH MODEL CODE

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

The Board of Directors confirms that all of the Directors of the Company have complied with the required policies in the Company's Corporate Disclosure, Confidentiality and Securities Trading policy throughout the six months ended June 30, 2020.

A4. PURCHASE, SALE OR REDEPMTION OF LISTED SECURITIES OF THE COMPANY

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

A5. INTERIM DIVIDEND

The Board of Directors do not recommend the payment of an interim dividend for the six months ended June 30, 2020.

A6. SUBSTANTIAL SHAREHOLDERS

As at June 30, 2020, the persons or corporations (not being a Director or chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register of interests in shares required to be kept by the Company were as follows:

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

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

A6. SUBSTANTIAL SHAREHOLDERS (CONTINUED)

Notes:

(a) The information as to the Shares beneficially owned or controlled or directed that is not within the knowledge of the Company, its Directors or its officers has been furnished by the applicable Shareholders or has been extracted from the public filings.
(b) Land Breeze II S.a.r.l. is a wholly-owned subsidiary of Fullbloom, which is wholly owned by CIC. Accordingly, Fullbloom and CIC are deemed to be interested in shares held by Land Breeze II S.a.r.l. and CIC.
(c) Novel Sunrise is a wholly-owned subsidiary of Hope Rosy Limited, which is a wholly-owned subsidiary of China Cinda (HK) Investments Management Company Limited. China Cinda (HK) Investments Management Company Limited is a wholly-owned subsidiary of China Cinda (HK) Holdings Company Limited, which is wholly owned by China Cinda Asset Management Co. Ltd. China Cinda Asset Management Co., Ltd. is indirectly controlled by MOF. Accordingly, each of Hope Roxy Limited, China Cinda (HK) Investments Management Company Limited, China Cinda (HK) Holdings Company Limited, China Cinda Asset Management Co., Ltd. and MOF was deemed to be interested in shares held by Novel Sunrise.
(d) The percentage represents the total number of the Shares and the underlying Shares interested divided by the number of issued Shares as at June 30, 2020 (i.e. 272,702,835 Shares).
(e) All interests stated above are long positions.

Other than as disclosed above, the Company has not been notified of any relevant interests or short positions in the issued share capital of the Company as at June 30, 2020.

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

As at June 30, 2020, the interests of the Company's directors in the shares, underlying shares and debentures of the Company and its associated corporations were as follows:

	Number of Shares 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 benefically owned (2)**	**Total (3)**	**Percentage interest in the company (4)**
Current Directors							
Mao Sun	-	-	-	-	900,000	900,000	0.33%
Jin Lan Quan	-	-	-	-	700,000	700,000	0.26%
Yingbin Ian He	7,000	-	-	-	550,000	557,000	0.20%
Former Director							
Shougao Wang	-	-	-	-	500,000	500,000	0.18%

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

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

Notes:

(1) The information as to the shares beneficially owned or controlled or directed that is not within the knowledge of the Company, its Directors or its officers has been furnished by the applicable shareholders or has been extracted from the public filings.
(2) These interests represented the underlying shares comprised in the share options granted by the Company.
(3) All interests stated are long positions.
(4) The percentage represents the total number of the Shares and the underlying Shares interested divided by the number of issued Shares as at June 30, 2020 (i.e. 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 June 30, 2020.

A8. STOCK OPTION PLAN

The Company has a stock option plan which permits the Board of Directors of the Company to grant options to acquire common shares of the Company at the volume weighted average closing price for the five days preceding the date of grant. The Company is 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.

The stock options outstanding and exercisable as at June 30, 2020 are as follows:

	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 - $0.29	**5,675**	**$ 0.13**	**3.65**	**1,401**	**$ 0.15**	**2.70**
$0.33 - $0.39	**950**	**0.34**	**1.76**	**950**	**0.34**	**1.76**
	6,625	**$ 0.16**	**3.38**	**2,351**	**$ 0.23**	**2.32**

The following table discuss movements in the Company's share options during the six month ended June 30, 2020.

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

A8. STOCK OPTION PLAN (CONTINUED)

	Number of share options								
Name	At January 1, 2020	Granted during the period	Exercised during the period	Forfeited during the period	Expired during the period	At June 30, 2020	Date of grant of share options	Exercise period of share options	Exercise price (CAD$ per share)
Directors									
Mao Sun	100,000	-	-	-	-	100,000	December 14, 2015	December 14, 2016 - December 14, 2020	0.29
	100,000	-	-	-	-	100,000	November 16, 2016	November 16, 2017 - November 16, 2021	0.33
	100,000	-	-	-	-	100,000	November 16, 2016	November 16, 2018 - November 16, 2021	0.33
	200,000	-	-	-	-	200,000	June 30, 2017	June 30, 2018 - June 30, 2022	0.33
	200,000	-	-	-	-	200,000	July 03, 2018	July 03, 2019 - July 03, 2023	0.13
	200,000	-	-	-	-	200,000	September 11, 2019	September 11, 2020 - September 11, 2024	0.11
	900,000	**-**	**-**	**-**	**-**	**900,000**			
Jin Lan Quan	100,000	-	-	-	-	100,000	December 14, 2015	December 14, 2016 - December 14, 2020	0.29
	75,000	-	-	-	-	75,000	November 16, 2016	November 16, 2017 - November 16, 2021	0.33
	75,000	-	-	-	-	75,000	November 16, 2016	November 16, 2018 - November 16, 2021	0.33
	150,000	-	-	-	-	150,000	June 30, 2017	June 30, 2018 - June 30, 2022	0.33
	150,000	-	-	-	-	150,000	July 03, 2018	July 03, 2019 - July 03, 2023	0.13
	150,000	-	-	-	-	150,000	September 11, 2019	September 11, 2020 - September 11, 2024	0.11
	700,000	**-**	**-**	**-**	**-**	**700,000**			
Yingbin Ian He	100,000	-	-	-	-	100,000	June 5, 2017	June 5, 2018 - June 5, 2022	0.39
	150,000	-	-	-	-	150,000	June 30, 2017	June 30, 2018 - June 30, 2022	0.33
	150,000	-	-	-	-	150,000	July 03, 2018	July 03, 2019 - July 03, 2023	0.13
	150,000	-	-	-	-	150,000	September 11, 2019	September 11, 2020 - September 11, 2024	0.11
	550,000	**-**	**-**	**-**	**-**	**550,000**			
Dalanguerban	-	-	-	-	-	-			
Jianmin Bao	-	-	-	-	-	-			
Ben Niu	-	-	-	-	-	-			
Zhiwei Chen	-	-	-	-	-	-			
Ka Lee Ku	-	-	-	-	-	-			
Former Directors									
Shougao Wang	400,000	-	-	-	-	400,000	August 16, 2018	August 16, 2019 - August16, 2023	0.13
	400,000	-	-	-	-	400,000	November 15 2019	November 15 2020 - November 15 2024	0.13
	800,000	**-**	**-**	**-**	**-**	**800,000**			
Xiaoxiao Li	-	-	-	-	-	-			
Total for directors	**2,950,000**	**-**	**-**	**-**	**-**	**2,950,000**			
Other share option holders	153,828	-	-	-	(153,828)	-	April 1, 2015	April 1, 2016 - April 1, 2020	0.92
	1,725,000	-	-	(50,250)	(24,750)	1,650,000	August 16, 2018	August 16, 2019 - August 16, 2023	0.13
	2,025,000	-	-	-	-	2,025,000	November 15 2019	November 15 2020 - November 15 2024	0.13
Total for other share option holders	**3,903,828**	**-**	**-**	**(50,250)**	**(178,578)**	**3,675,000**			
Total	**6,853,828**	**-**	**-**	**(50,250)**	**(178,578)**	**6,625,000**			