SouthGobi Resources Ltd.
Consolidated Financial Statements

December 31, 2019
(Expressed in U.S. dollars)

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of SouthGobi Resources Ltd.

Opinion

We have audited the consolidated financial statements of SouthGobi Resources Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 6 to 70 which comprise the consolidated statements of financial position as at December 31, 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our auditor's report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the consolidated financial statements, which indicates that the Group's current liabilities exceeded its current assets by US$114,711,000 as at December 31, 2019. This condition, along with other matters as set forth in Note 1 to the consolidated financial statements, indicate that a material uncertainty exists that may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other matters

The consolidated financial statements of the Group for the year ended December 31, 2018 were audited by another auditor who expressed an unmodified opinion on those statements on March 31, 2019.

Other Information

Management is responsible for the other information. Other information comprises the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Other Information - Continued

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated. We obtained the information included in the Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's consolidated financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements - Continued

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

BDO Limited

Certified Public Accountants
Lee Alfred
Practising Certificate Number P04960

Hong Kong, November 26, 2020

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Additional stock exchange information

SOUTHGOBI RESOURCES LTD.

Consolidated Statements of Comprehensive Income

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

	Notes	Year ended December 31, 2019	2018
Revenue	5	**$ 129,712**	$ 103,804
Cost of sales	7	**(84,400)**	(79,835)
Gross profit		**45,312**	23,969
Other operating expenses	8	**(5,581)**	(23,607)
Administration expenses	9	**(9,447)**	(10,540)
Evaluation and exploration expenses		**(452)**	(356)
Profit/(loss) from operations		**29,832**	(10,534)
Finance costs	10	**(28,010)**	(28,578)
Finance income	10	**4,417**	184
Share of earnings of a joint venture	19	**1,329**	1,631
Profit/(loss) before tax		**7,568**	(37,297)
Current income tax expense	11	**(3,367)**	(3,828)
Net profit/(loss) attributable to equity holders of the Company		**4,201**	(41,125)
Other comprehensive loss to be reclassified to profit or loss in subsequent periods			
Exchange difference on translation of foreign operation		**(5,129)**	(13,020)
Net comprehensive loss attributable to equity holders of the Company		**$ (928)**	$ (54,145)
Basic and diluted earnings/(loss) per share	12	**$ 0.02**	$ (0.15)

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

SOUTHGOBI RESOURCES LTD.

Consolidated Statements of Financial Position

(Expressed in thousands of U.S. dollars)

	Notes	As at December 31, 2019	2018
Assets			
Current assets			
Cash and cash equivalents		**$ 7,164**	$ 6,959
Restricted cash		**862**	872
Trade and other receivables	13	**1,778**	5,046
Notes receivables	14	**-**	2,500
Inventories	16	**52,237**	47,109
Prepaid expenses	17	**2,312**	3,295
Total current assets		**64,353**	65,781
Non-current assets			
Property, plant and equipment	18	**137,221**	138,901
Inventories	16	**9,332**	-
Properties for resale	15	**-**	4,093
Investments in joint ventures	19	**17,521**	18,831
Total non-current assets		**164,074**	161,825
Total assets		**$ 228,427**	$ 227,606
Equity and liabilities			
Current liabilities			
Trade and other payables	20	**$ 87,013**	$ 99,576
Provision for commercial arbitration	21	**5,593**	12,508
Deferred revenue	22	**16,057**	12,658
Interest-bearing borrowings	23	**2,835**	4,138
Lease liabilities	24	**460**	83
Current portion of convertible debenture	25	**67,106**	139,901
Total current liabilities		**179,064**	268,864
Non-current liabilities			
Lease liabilities	24	**108**	30
Convertible debenture	25	**89,868**	-
Decommissioning liability	26	**8,605**	6,852
Total non-current liabilities		**98,581**	6,882
Total liabilities		**277,645**	275,746
Equity			
Common shares	27	**1,098,634**	1,098,634
Share option reserve	29	**52,589**	52,542
Capital reserve	29	**396**	396
Exchange reserve		**(23,228)**	(18,099)
Accumulated deficit	27	**(1,177,609)**	(1,181,613)
Total deficiency in assets		**(49,218)**	(48,140)
Total equity and liabilities		**$ 228,427**	$ 227,606
Net current liabilities		**$ (114,711)**	$ (203,083)
Total assets less current liabilities		**$ 49,363**	$ (41,258)

Corporate information and going concern (Note 1), commitments for expenditure (Note 34) and contingencies (Note 35)

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

APPROVED BY THE BOARD:

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

SOUTHGOBI RESOURCES LTD.

Consolidated Statements of Changes in Equity

(Expressed in thousands of U.S. dollars and shares in thousands)

	Number of shares/units		Share capital		Share option reserve		Capital reserve		Exchange fluctuation reserve		Accumulated deficit		Total
Balances, January 1, 2018	272,607	$	1,098,623	$	52,463	$	-	$	(5,079)	$	(1,140,092)	$	5,915
Shares issued for:													
Employee share purchase plan	96		11		-		-		-		-		11
Share-based compensation charged to operations	-		-		79		-		-		-		79
Appropriation to capital reserve	-		-		-		396		-		(396)		-
Net loss for the year	-		-		-		-		-		(41,125)		(41,125)
Exchange differences on translation of foreign operations	-		-		-		-		(13,020)		-		(13,020)
Balances, December 31, 2018	272,703	$	1,098,634	$	52,542	$	396	$	(18,099)	$	(1,181,613)	$	(48,140)
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 (Note 2)	**-**		**-**		**-**		**-**		**-**		**(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	**-**		**-**		**47**		**-**		**-**		**-**		**47**
Net profit for the year	**-**		**-**		**-**		**-**		**-**		**4,201**		**4,201**
Exchange differences on translation of foreign operations	**-**		**-**		**-**		**-**		**(5,129)**		**-**		**(5,129)**
Balances, December 31, 2019	**272,703**	**$**	**1,098,634**	**$**	**52,589**	**$**	**396**	**$**	**(23,228)**	**$**	**(1,177,609)**	**$**	**(49,218)**

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

SOUTHGOBI RESOURCES LTD.

Consolidated Statements of Cash Flows

(Expressed in thousands of U.S. dollars)

	Notes	Year ended December 31, 2019	2018
Operating activities			
Profit/(loss) before tax		**$ 7,568**	$ (37,297)
Adjustments for:			
Depreciation and depletion		**15,942**	20,626
Share-based compensation	28	**47**	79
Interest expense on convertible debenture	10	**23,751**	22,195
Interest expense on borrowings	10	**742**	2,788
Finance costs on leased assets	10	**129**	-
Loan arrangement fee	10	**-**	21
Accretion of decommissioning liability	10	**402**	536
Finance income	10	**(4,417)**	(184)
Share of earnings of a joint venture	19	**(1,329)**	(1,631)
Unrealized foreign exchange gain	8	**-**	643
Penalty on late settlement of trade payables	8	**-**	427
Gain on disposal of items of property, plant and equipment	8	**(29)**	(994)
Provision/(reversal of provision) for doubtful trade and other receivables	13	**501**	20,892
Provision for commercial arbitration	21	**485**	124
Impairment of prepaid expenses	17	**253**	134
Impairment of properties for resale	15	**-**	2,239
Loss on disposal of properties for resale	15	**36**	179
Gain on settlement of trade payables	8	**-**	(2,392)
Impairment/(reversal of impairment) of inventories	16	**(1,823)**	5,437
Reversal of impairment of property, plant and equipment	8	**-**	(346)
Operating cash flows before changes in working capital items		**42,258**	33,476
Net change in working capital items	33	**(5,405)**	11,727
Cash generated from operating activities		**36,853**	45,203
Interest paid		**(3,476)**	(1,409)
Income tax paid		**(809)**	(3,374)
Net cash flows from operating activities		**32,568**	40,420
Investing activities			
Expenditures on property, plant and equipment		**(20,910)**	(34,081)
Investment in a new joint venture	19	**-**	(9)
Disposal of investment in a joint venture	19	**9**	-
Proceeds from disposal of property, plant and equipment		**70**	5,193
Proceeds from disposal of properties for resale		**243**	-
Interest received		**55**	34
Dividend from a joint venture	19	**2,025**	2,207
Net cash flows used in investing activities		**(18,508)**	(26,656)
Financing activities			
Proceeds from issuance of common shares		**-**	11
Proceeds from loans		**-**	2,800
Principal elements of lease payments		**(768)**	-
Repayment of interest-bearing loans		**(700)**	(5,895)
Refund of customers' deposits		**(12,382)**	(10,565)
Net cash flows used in financing activities		**(13,850)**	(13,649)
Effect of foreign exchange rate changes on cash and cash equivalents		**(5)**	373
Increase in cash and cash equivalents		**205**	488
Cash and cash equivalents, beginning of year		**6,959**	6,471
Cash and cash equivalents, end of year		**$ 7,164**	$ 6,959

The accompanying notes are an integral part of these consolidated 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 December 31, 2019, 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 consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue operating until at least December 31, 2020 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. However, in order to continue as a going concern, the Company must generate sufficient operating cash flows, secure additional capital or otherwise pursue a strategic restructuring, refinancing or other transactions to provide it with sufficient liquidity.

Several adverse conditions and material uncertainties cast significant doubt upon the Company's ability to continue as a going concern and the going concern assumption used in the preparation of the Company's consolidated financial statements. The Company had a deficiency in assets of $49,218 as at December 31, 2019 compared to a deficiency in assets of $48,140 as at December 31, 2018 while the working capital deficiency (excess of current liabilities over current assets) reached $114,711 as at December 31, 2019 compared to a working capital deficiency of $203,083 as at December 31, 2018.

Included in the working capital deficiency as at December 31, 2019 are significant obligations, which include the interest amounting to $67,106 in relation to the convertible debenture with CIC ("CIC Convertible Debenture") subject to various deferral agreements as disclosed in Note 25.5.

1. CORPORATE INFORMATION AND GOING CONCERN (CONTINUED)

In addition, as disclosed in Note 36 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 36), including but not limited to the issuance of the audited financial statements for the year ended December 31, 2019, have been fulfilled. As disclosed in Note 25 to the consolidated financial statements, however, if the Common Shares become delisted from either the TSX or the HKEX, which would be an event of default under the CIC Convertible Debenture, could result in the automatic termination of the deferral periods under the 2020 November Deferral Agreement and the acceleration of all principal, interest and other amounts owing under the CIC Convertible Debenture and the 2020 November Deferral Agreement becoming immediately due and payable, in each case without the necessity of any demand upon or notice to the Company by CIC.

The Company also has current liabilities, including trade and other payables of $87,013, provision for commercial arbitration of $5,593 and interest payable under the CIC Convertible Debenture of $67,106 as at December 31, 2019. Out of trade and other payables, which require settlement in the short-term, unpaid taxes of $31,843 are repayable on demand by 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 November 26, 2020.

Further, the Company was informed that effective as of February 11, 2020, the Mongolian State Emergency Commission closed Mongolia’s southern border with China in order to prevent the spread of Coronavirus Disease 2019 (“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.

1. CORPORATE INFORMATION AND GOING CONCERN (CONTINUED)

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

The border closure has had an adverse impact on the Company’s sales and cash flows in the first and second quarter of 2020. In order to mitigate the financial impact of the border closures and preserve its working capital, the Company temporarily ceased major mining operations (including coal mining), reduced production to only coal-blending activities and placed approximately half of its workforce on furlough from February 2020. Since August 2, 2020, the Company has resumed its mining operations, which includes mining, blending and washing of coal. As at October 31, 2020, SGS employed 208 employees at the Ovoot Tolgoi Mine site (December 31, 2019: 383 employees). The Company produced 1.1 million tonnes from August to October 2020, as compared to 1.3 million tonnes from August to October 2019. The Company will continue to closely monitor the development of the COVID-19 pandemic and the impact it has on coal exports to China and will react promptly to preserve the working capital of the Company.

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

Management of the Company has prepared a cash flow projection covering a period of 12 months from December 31, 2019. The cash flow projection has taken into account the anticipated cash flows to be generated from the Company’s business during the period under projection including cost saving measures. In particular, the Company has taken into account the following measures for improvement of the Company’s liquidity and financial position, which include: (i) entering into the 2020 November Deferral Agreement (as defined in Note 25.5) with CIC, subject to conditions precedent therein (as disclosed in Note 25), for a deferral of the 2020 November Deferral Amounts (as defined in Note 25.5) 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 December 31, 2019 and therefore are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

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

1. CORPORATE INFORMATION AND GOING CONCERN (CONTINUED)

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

As at December 31, 2019 and December 31, 2018, the Company was not subject to any externally imposed capital requirements.

2. BASIS OF PREPARATION

2.1 Statement of compliance

The consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements of the Company for the year ended December 31, 2019 were approved and authorized for issue by the Board of Directors of the Company (the "Board") on November 26, 2020.

2.2 Basis of presentation

The consolidated financial statements have been prepared on a historical cost basis except for certain financial assets and financial liabilities which are measured at fair value. The Company's financial instruments are further disclosed in Note 31.

2.3 Adoption of new and revised standards and interpretations

The following new IFRS standards and interpretations were adopted by the Company on January 1, 2019.

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

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

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

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

2. BASIS OF PREPARATION (CONTINUED)

Adjustments recognized on adoption of IFRS 16

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

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

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

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

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

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

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

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

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

2. BASIS OF PREPARATION (CONTINUED)

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

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

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

<u>The Company's leasing activities and how these are accounted for</u>

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

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

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

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

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payment that are based on an index or a rate;
- Amounts expected to be payable by the lessee under residual value guarantees;
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

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

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

2. BASIS OF PREPARATION (CONTINUED)

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

- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- Restoration costs.

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

2.4 Standard issued but not yet effective

The following new and revised IFRSs, potentially relevant to the Company's financial statements, have been issued, but are not yet effective and have not been early adopted by the Company.

Amendments to IFRS 3	Definition of Business[1]
Amendments to IAS 1 and IAS 8	Definition of Material[1]
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform[1]
IFRS 17	Insurance Contracts[3]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between and Investor and its Associate or Joint Venture[6]
Amendments to IFRS 16	Lease — Covid-19-Related Rent Concessions[2]
Amendments to IFRS 3	Reference to the Conceptual Framework[4]
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use[4]
Amendments to IAS 37	Onerous Contracts — Cost of Fulfilling a Contract[4]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[5]
Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41	Annual improvements to IFRS 2018-2020[4]

[1] Effective for annual periods beginning on or after January 1, 2020
[2] Effective for annual periods beginning on or after June 1, 2020
[3] Effective for annual periods beginning on or after January 1, 2021
[4] Effective for annual periods beginning on or after January 1, 2022
[5] Effective for annual periods beginning on or after January 1, 2023
[6] The amendments were originally intended to be effective for periods beginning on or after January 1, 2018. The effective date has now been deferred/removed. Early application of the amendments continued to be permitted.

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

2. BASIS OF PREPARATION (CONTINUED)

2.5 Suspicious transactions engaged by former senior executive officers and employees in 2018

On December 17, 2018, the Company announced that it had learned of certain information relating to past conduct engaged in by former senior executive officers and employees of the Company ("Former Management and Employees") which raised suspicions of serious fraud, misappropriation of Company assets and other criminal acts by the Former Management and Employees relating to prior transactions ("Suspicious Transactions") between 2016 and the first half of 2018 involving Inner Mongolia SouthGobi Energy Co., Ltd., a subsidiary of the Company, and certain coal trading and transportation companies, some of which are allegedly related to or controlled by the Former Management and Employees or their related persons. On the same date, the Board expanded the mandate of the special committee comprised of independent non-executive directors (the "Special Committee") to conduct a formal investigation (the "Formal Investigation") of the Suspicious Transactions, the implicated Former Management and Employees, and their impact, if any, on the business and affairs of the Company. During the year ended December 31, 2018, sales were made to certain coal trading companies involved with the Suspicious Transactions totaling $12,238. On March 30, 2019, the Special Committee concluded the Formal Investigation and a final report summarizing its key findings was delivered to the Board, which adopted and approved at the meeting on March 30, 2019.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of consolidation

The consolidated financial statements include the financial statements of SouthGobi Resources Ltd. and its major controlled subsidiaries (Note 32).

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate. All intercompany transactions, balances, income and expenses are eliminated on consolidation.

The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

3.2 Foreign currencies

The consolidated financial statements are presented in the U.S. dollar, which is the functional currency of SouthGobi Resources Ltd. Each entity in the Company has its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the U.S. dollar rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the U.S. dollar rate of exchange ruling at the end of each reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate prevailing at the date of the transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value is determined.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

At the end of the reporting period, the assets and liabilities of an entity with the functional currency in a foreign currency are translated into the U.S. dollar at the exchange rates prevailing at the end of the reporting period and the profit or loss is translated into the U.S. dollar at the weighted average exchange rate for the year. The resulting exchange differences are recognized in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in profit or loss.

3.3 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. All other borrowing costs are expensed and included in profit or loss.

3.4 Inventories

Coal stockpile inventories are measured at the lower of production cost and net realizable value. Production cost is determined by the weighted average cost method and includes direct and indirect labor, operating materials and supplies, processing costs, transportation costs and an appropriate portion of fixed and variable overhead expenses. Fixed and variable overhead expenses include depreciation and depletion. Net realizable value represents the future estimated selling price of the product, less estimated costs to complete production and costs necessary to bring the product to sale.

Materials and supplies inventory consists of consumable parts and supplies which are valued at the lower of weighted average cost and net realizable value, less allowances for obsolescence. Replacement cost is used as the best available measure of net realizable value. Supplies used in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost.

3.5 Leases

A Leasing (accounting policies applied from January 1, 2019)

All leases (irrespective of they are operating leases or finance leases) are required to be capitalized in the statement of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalize (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Company has elected not to recognize right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Right-of-use asset
The right-of-use asset is recognized at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Except for right-of-use asset that meets the definition of an investment property or a class of property, plant and equipment to which the Company applies the revaluation model, the Company measures the right-of-use assets applying a cost model. Under the cost model, the Company measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability. For right-of-use asset that meets the definition of an investment property, they are carried at fair value and for right-of-use asset that meets the definition of a leasehold land and buildings held for own use, they are carried at fair value.

Lease liability
The lease liability is recognized at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company uses the Company's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable: (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, the Company measures the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

B Leasing (accounting policies applied until December 31, 2018)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognized as assets at their fair value or, if lower, the present value of the minimum lease payments. The corresponding lease commitment is shown as a liability. Lease payments are analyzed between capital and interest. The interest element is charged to profit or loss over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

The total rental payable under the operating leases are recognized in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognized as an integrated part of the total rental expense, over the term of the lease.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Property, plant and equipment

Property, plant and equipment includes the Company's operating equipment and infrastructure, construction in progress and mineral properties. Property, plant and equipment is stated at cost less accumulated depreciation and depletion and accumulated impairment losses.

Initial recognition

The cost of an item of operating equipment and infrastructure consists of the purchase price or construction cost, including vendor prepayments, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, an initial estimate of the decommissioning liability and capitalized borrowing costs.

Construction in progress is classified to the appropriate category of property, plant and equipment when it is completed and is ready for its intended use.

All direct costs related to the acquisition of mineral property interests are capitalized on a property by property basis. The cost of mineral properties also includes mineral property development costs (Note 3.7), certain production stripping costs (Note 3.8) and decommissioning liabilities related to the reclamation of the Company's mineral properties (Note 3.9).

Depreciation and depletion

Depreciation and depletion are recorded based on the cost of an item of property, plant and equipment, less its estimated residual value, using the straight-line method or unit-of-production method over the following estimated useful lives:

Mobile equipment	5 to 7 years
Other operating equipment	1 to 10 years
Buildings and roads	5 to 20 years
Construction in progress	not depreciated
Mineral properties	unit-of-production basis based on proven and probable reserves

Upon disposal, reclassification to assets held for sale or when no future economic benefits are expected to arise from the continued use of an asset the original cost and related accumulated depreciation is removed from property, plant and equipment. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss.

The Company conducts an annual assessment of the residual balances, estimated useful lives and depreciation methods being used for property, plant and equipment and any changes arising from the assessment are applied by the Company prospectively.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Mineral properties

Evaluation and exploration expenses

Evaluation and exploration expenses are charged to profit or loss in the period incurred until such time as it has been determined that a mineral property has technically feasibility and commercially viability.

Production phase

Upon a mine development being ready for its intended use it enters the production phase and depletion of the mineral property is recorded on a unit-of-production basis, using the estimated resources that are expected to be mined in the mine plan as the depletion base. Management's determination of when an asset is ready for its intended use is based on several qualitative and quantitative factors including, but not limited to, the following:

- the elevation or bench where the coal to be mined has been reached; and
- the commissioning of major operating equipment and infrastructure is completed.

3.8 Development and production stripping costs

Once a property is determined to have reached technical feasibility and commercial viability, the Company's subsequent exploration and evaluation and development expenses are capitalized as mineral property costs within property, plant and equipment.

Production stripping activity assets are recognized when the following three criteria are met:

- it is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;
- the entity can identify the component of the ore body for which access has been improved; and
- the costs relating to the stripping activity associated with that component can be measured reliably.

If not all of the criteria are met, the stripping activity costs are included in the cost of inventory produced during the period incurred.

3.9 Decommissioning, restoration and similar liabilities

The Company recognizes provisions for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of mineral properties, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a provision for a decommissioning liability is recognized as its present value in the period in which it is incurred. Upon initial recognition of the liability, a corresponding amount is added to the carrying amount of the related asset and the cost is amortized as an expense over the estimated useful life of the asset using the unit-of-production method. Following the initial recognition of the decommissioning liability, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the discount rate and the amount or timing of the underlying cash flows required to settle the obligation. The discount rate used is a credit adjusted risk free rate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Joint arrangements

The Company classifies joint arrangements as either joint operations or joint ventures, depending on the rights and obligations of the parties involved in the joint arrangement. Joint arrangements that are classified as joint operations require the venturers to recognize the individual assets, liabilities, revenues and expenses to which they have legal rights or are responsible. Joint arrangements that are classified as a joint venture are accounted for using the equity method of accounting.

3.11 Share-based payments

Share-based payment transactions

Employees (including directors and senior executives) of the Company receive a portion of their remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

In situations where equity instruments are issued to non-employees and the value of some or all of the goods or services received by the entity as consideration cannot be measured reliably, they are measured at the fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

Equity-settled transactions

The cost of equity-settled transactions with employees are measured by reference to the fair value at the date on which the awards are granted.

The cost of equity-settled transactions are recognized, together with a corresponding increase in the share option reserve, over the period in which the performance and/or service conditions are fulfilled and end on the date on which the relevant employees become fully entitled to the award. The cumulative expense recognized for equity-settled transactions at each reporting date reflects the Company's best estimate of the number of equity instruments that will ultimately vest. No expense is recognized for awards that do not ultimately vest.

When the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of the modification.

3.12 Earnings/(loss) per share

Basic earnings/(loss) per share is calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of shares outstanding during the reporting period.

Diluted earnings/(loss) per share is calculated by adjusting the profit or loss attributable to equity holders of the Company divided by the weighted average number of shares outstanding for the effects of all dilutive share equivalents. The Company's dilutive share equivalents include stock options and convertible debt.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Taxation

Income tax expense represents the sum of tax currently payable and deferred tax.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are substantively enacted at the end of each reporting period.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences, at the end of each reporting period, between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled by the parent, investor or venturer and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been substantively enacted at the end of each reporting period.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

3.14 Financial instruments

(a) Financial assets

All financial assets are initially recorded at fair value and categorized upon inception into one of the following categories: those to be measured subsequently at fair value either through other comprehensive income (“FVOCI”) or through profit or loss (“FVTPL”), and those to be measured at amortized cost.

The classification depends on the entity’s business model for managing the financial assets and the contractual terms of cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity investments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

The Company reclassifies debt investments when and only when its business model for managing those assets changes.

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as other operating expenses in the consolidated statements of comprehensive income.

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets’ cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as other operating expenses in the consolidated statements of comprehensive income.

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Financial liabilities

Financial liabilities are categorized, at initial recognition, as financial liabilities at FVTPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in case of loans and borrowings and payables, net of directly attributable costs.

Financial liabilities categorized as financial liabilities measured at amortized cost are initially recognized at fair value less directly attributable transaction costs. After initial recognition, financial liabilities at amortized cost are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Financial liabilities categorized as FVTPL include financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives, are also classified as FVTPL unless they are designated as effective hedging instruments. Transaction costs on financial liabilities classified as FVTPL are expensed as incurred. At the end of each reporting period subsequent to initial recognition, financial liabilities classified as FVTPL are measured at fair value, with changes in fair value recognized directly in profit or loss in the period in which they arise. The net gain or loss recognized in profit or loss excludes any interest paid on the financial liabilities. For liabilities designated at FVTPL, changes due to credit risk are recognized in other comprehensive income.

3.15 Impairment of financial assets

The Company’s trade and other receivables and notes receivables are subject to IFRS 9’s new expected credit loss (“ECL”) model.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all trade and other receivables and notes receivables. The Company’s definition of a default scenario is if receivables from a customer are over six months past due, or if there is reasonable and supportable evidence that a customer will no longer be able to settle its receivables with the Company. This resulted in an increase of the loss allowance on trade receivables by $1,971 during the current year. Please refer to note 31 for details.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16 Derecognition of financial assets and financial liabilities

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

3.17 Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the assets belong.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing fair value less costs to sell, recent market transactions are taken into account. The Company also considers the results of an appropriate valuation model which would generally be determined based on the present value of estimated future cash flows arising from the continued use and eventual disposal of the asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior periods.

3.18 Cash and cash equivalents

Cash and cash equivalents include cash at banks and short term money market instruments with original maturities of three months or less.

3.19 Revenue recognition

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Company's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Company performs; or
- does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognized over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognized at a point in time when the customer obtains control of the goods or service.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Company and the customer at contract inception. Where the contract contains a financing component which provides a significant financing benefit to the Company, revenue recognized under that contract includes the interest expense accreted on the contract liability under the effective interest method. For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

Sales of mining coal

Income from sales of mining coal is recognized at a point in time when the goods are delivered to customers and title has passed.

Other income

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

Deferred revenue

Deferred revenue represents the Company's obligation to transfer services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer.

3.20 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to the passage of time is recognized as a finance cost.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 Related party transactions

(a) A person or a close member of that person's family is related to the Company if that person:

- (i) has control or joint control over the Company;
- (ii) has significant influence over the Company; or
- (iii) is a member of key management personnel of the Company or the Company's parent.

(b) An entity is related to the Company if any of the following conditions apply:

- (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of the employees of the Company or an entity related to the Company.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the Company's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

3.22 Significant accounting judgments and estimates

Information about judgments and estimates in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

<u>Going concern assumption</u>

The directors of the Company have prepared the consolidated financial statements on the assumption that the Company will be able to operate as a going concern in the foreseeable future, which is a critical judgement that has the most significant effect on the amounts recognized in the consolidated financial statements. The assessment of the going concern assumption involves making a judgement by the directors about the future outcome of events or conditions which are inherently uncertain. The directors consider that, after taking into account of all major events or conditions, which may give rise to business risks, that individually or collectively may cast significant doubt upon the going concern assumption as set out in Note 1 to the consolidated financial statements, the Company has the capability to continue as a going concern.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 December 31, 2019. The impairment indicators were the uncertainty of future coal prices in China and the lower than budgeted production.

Therefore, the Company conducted an impairment test whereby the carrying value of the Company's Ovoot Tolgoi Mine cash generating unit was compared to its "fair value less costs of disposal" ("FVLCTD") using a discounted future cash flow valuation model. The Company's cash flow valuation model takes into consideration the latest available information to the Company, including but not limited to, sales prices, sales volumes, washing production, operating costs and life of mine coal production estimates as at December 31, 2019. The carrying value of the Company's Ovoot Tolgoi Mine cash generating unit was $136,371.

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

- Coal resources and reserves as estimated by an independent third party engineering firm;
- Sales price estimates from an independent market consulting firm;
- Forecasted sales volumes in line with production levels as reference to the mine plan;
- Life-of-mine coal production, strip ratio, capital costs and operating costs; and
- A post-tax discount rate of 11% based on an analysis of the market, country and asset specific factors.

Key sensitivities in the valuation model are as follows:

- For each 1% increase/(decrease) in the long term price estimates, the calculated fair value of the cash generating unit increases/(decreases) by approximately $20,264/(20,211);
- For each 1% increase/(decrease) in the post-tax discount rate, the calculated fair value of the cash generating unit (decreases)/increases by approximately $(28,731)/31,379;
- For each 1% increase/(decrease) in the cash mining cost estimates, the calculated fair value of the cash generating unit (decreases)/increases by approximately $(13,342)/13,396; and
- For each 1% increase/(decrease) in Mongolian inflation rate, the calculated fair value of the cash generating unit (decreases)/increases by approximately $(4,500)/4,500.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 $21,976 (2018: $20,005) as at December 31, 2019.

Estimated resources

The Company estimates its mineral resources based on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the ore body, and requires complex geological judgments to interpret the data. Changes in resource estimates may impact the carrying value of mining interests, mine restoration provisions, recognition of deferred tax assets, and depreciation and amortization charges.

Estimated recoverable reserves

Reserve estimates involve expressions of judgment based on various factors such as knowledge, experience and industry practice, and the accuracy of these estimates may be affected by many factors, including estimates and assumptions with respect to coal prices, operating costs, mine plan and life, coal quality and recovery, foreign currency exchange rates and inflation rates. Reserve estimates are made by qualified persons, but will be impacted by changes in the above estimates and assumptions.

Estimated recoverable reserves are used to determine the depletion of mineral properties, in accounting for deferred production stripping costs, in performing impairment testing and for forecasting the timing of the payment of decommissioning, restoration and similar costs. Therefore, changes in the estimates and assumptions used to determine recoverable reserves could impact the carrying value of assets, depletion expense and impairment charges recognized in profit or loss and the carrying value of the decommissioning, restoration and similar liabilities.

Long term F-grade coal inventory

As a result of import restrictions established by Chinese authorities at the Ceke border, the Company has been barred from transporting its F-grade coal products into China for sale since December 15, 2018. The Company intends to realize the value of the F-grade coal inventory upon the coal washing and coal blending in order to meet the import standards from Chinese authorities. Due to the limitation of coal washing and blending capacities, a portion of F-grade coal products was classified as non-current inventory. As at December 31, 2019, $9,332 of F-grade coal products were classified as non-current (December 31, 2018: nil).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimated additional royalty tax payable

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 royalty payable to the Government of Mongolia. Management believes that its interpretation of the relevant legislation is appropriate and the Company’s positions related to the royalty will be sustained and the provision made for additional royalty tax payable is adequate.

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.

Useful lives and depreciation rates for property, plant and equipment

Depreciation expense is allocated based on estimated property, plant and equipment useful lives and depreciation rates except the mineral properties are depreciated on unit-of production basis based on proven and probable reserves. Therefore, changes in the useful life or depreciation rates from the initial estimate could impact the carrying value of property, plant and equipment and an adjustment would be recognized in profit or loss.

4. SEGMENTED INFORMATION

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

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

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

4. SEGMENTED INFORMATION (CONTINUED)

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

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

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

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

4. SEGMENTED INFORMATION (CONTINUED)

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

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

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

4. SEGMENTED INFORMATION (CONTINUED)

(i) The corporate and other unallocated expenses mainly included the wages and salaries of $2,714 and $4,357, legal and professional fees of $2,345 and $2,350 and corporate administration (Note 9) for the year ended December 31, 2019 and December 31, 2018, respectively. An insurance compensation of $4,850 in relation to the broken machineries was credited to the corporate and other unallocated expenses during the year ended December 31, 2018.
(ii) Other segment assets mainly included cash and cash equivalents and restricted cash of $7,924 and $5,448 and trade and other receivables of $1,762 and $4,309 as at December 31, 2019 and December 31, 2018, respectively. As at December 31, 2018, other segment assets also included notes receivables of $2,500 and properties for resale of $4,093.
(iii) The corporate and other unallocated assets mainly included the intersegment receivables which are intercompany in nature.
(iv) Other segment liabilities mainly included the intersegment payables which are financing in nature.
(v) The corporate and other unallocated liabilities mainly included the convertible debenture (Note 25) and trade and other payables of $12,669 and $14,497 as at December 31, 2019 and December 31, 2018, respectively.
(vi) The impairment charge/(reversal of impairment) on assets for the year ended December 31, 2019 relates to trade and other receivables (Note 13), inventories (Note 16) and prepaid expenses (Note 17). The impairment charge on assets for the year ended December 31, 2018 relates to trade and other receivables (Note 13), properties for resale (Note 15), inventories (Note 16), prepaid expenses (Note 17) and property, plant and equipment (Note 18).

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

	Mongolia	Hong Kong	China	Consolidated Total
Revenue (i)				
For the year ended December 31, 2019	**$ -**	**$ -**	**$ 129,712**	**$ 129,712**
For the year ended December 31, 2018	-	-	103,804	103,804
Non-current assets				
As at December 31, 2019	**$ 162,865**	**$ 390**	**$ 819**	**$ 164,074**
As at December 31, 2018	161,002	140	683	161,825

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

5. REVENUE

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

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

6. EXPENSES BY NATURE

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

	Year ended December 31, 2019	2018
Depreciation	**$ 15,726**	$ 20,690
Auditors' remuneration	**764**	493
Employee benefit expense (including directors' remuneration)		
Wages and salaries	**$ 9,790**	$ 9,838
Equity-settled share option expense (Note 28)	**47**	79
Pension scheme contributions	**1,302**	966
	$ 11,139	$ 10,883
Lease payments under operating leases	**$ 128**	$ 925
Foreign exchange loss/(gain)	**(706)**	643
Impairment/(reversal of impairment) of coal stockpile inventories (Note 16)	**(1,823)**	5,437
Royalties	**11,639**	8,237
CIC management fee (Note 32)	**3,185**	2,098
Other taxes on foreign payments (Note 8)	**1,881**	599
Provision of commercial arbitration (Note 21)	**485**	124
Provision for doubtful trade and other receivables (Note 13)	**501**	20,892
Impairment of prepaid expenses (Note 17)	**253**	134
Loss on disposal of properties for resale (Note 15)	**36**	179
Gain on disposal of property, plant and equipment (Note 18)	**(29)**	(994)
Net reversal of impairment of property, plant and equipment (Note 18)	**-**	(346)
Penalty on late settlement of trade payables	**-**	427
Gain on settlement of trade payables	**-**	(2,392)
Impairment of properties for resale (Note 15)	**-**	2,239
Mine operating costs and other	**56,701**	44,070
Total operating expenses	**$ 99,880**	$ 114,338

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

7. COST OF SALES

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

	Year ended December 31,	
	2019	**2018**
Operating expenses	**$ 59,549**	$ 45,604
Share-based compensation expense (Note 28)	**9**	4
Depreciation and depletion	**11,028**	7,693
Royalties	**11,639**	8,237
Impairment/(reversal of impairment) of coal stockpile inventories (Note 16)	**(1,823)**	5,437
Cost of sales from mine operations	**80,402**	66,975
Cost of sales related to idled mine assets (i)	**3,998**	12,860
Cost of sales	**$ 84,400**	$ 79,835

(i) Cost of sales related to idled mine assets for the year ended December 31, 2019 includes $3,998 of depreciation expense (2018: includes $12,860 of depreciation expense). The depreciation expense relates to the Company's idled plant and equipment.

Cost of inventories recognized as expense in cost of sales for the year ended December 31, 2019 totaled $67,892 (2018: $48,204).

8. OTHER OPERATING EXPENSES

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

	Year ended December 31,	
	2019	**2018**
CIC management fee (Note 32)	**$ 3,185**	$ 2,098
Other taxes on foreign payments	**1,881**	599
Provision for doubtful trade and other receivables (Note 13)	**501**	20,892
Provision of commercial arbitration (Note 21)	**485**	124
Impairment of prepaid expenses (Note 17)	**253**	134
Loss on disposal of properties for resale (Note 15)	**36**	179
Foreign exchange loss/(gain)	**(706)**	643
Gain on disposal of property, plant and equipment (Note 18)	**(29)**	(994)
Impairment of properties for resale (Note 15)	**-**	2,239
Penalty on late settlement of trade payables	**-**	427
Gain on settlement of trade payables	**-**	(2,392)
Net reversal of impairment of items of property, plant and equipment (Note 18)	**-**	(346)
Others	**(25)**	4
Other operating expenses	**$ 5,581**	$ 23,607

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

9. ADMINISTRATION EXPENSES

The Company's administration expenses consist of the following amounts:

	Year ended December 31, 2019	Year ended December 31, 2018
Corporate administration	**$ 2,111**	$ 2,639
Legal and professional fees	**3,076**	2,685
Salaries and benefits	**3,522**	5,004
Share-based compensation expense (Note 28)	**38**	75
Depreciation	**700**	137
Administration expenses	**$ 9,447**	$ 10,540

10. FINANCE COSTS AND INCOME

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

	Year ended December 31, 2019	Year ended December 31, 2018
Interest expense on convertible debenture (Note 25)	**$ 23,751**	$ 22,195
Interest expense on borrowings (Note 23)	**742**	2,788
Value added tax on interest from intercompany loan	**2,986**	3,038
Finance costs on leased assets (Note 24)	**129**	-
Loan arrangement fee	**-**	21
Accretion of decommissioning liability (Note 26)	**402**	536
Finance costs	**$ 28,010**	$ 28,578

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

	Year ended December 31, 2019	Year ended December 31, 2018
Unrealized gain on embedded derivatives in convertible debenture (Note 25)	**$ 69**	$ 137
Interest income	**55**	47
IFRS 9 adjustment on convertible debenture (Note 25)	**4,293**	-
Finance income	**$ 4,417**	$ 184

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

11. TAXES

11.1 Income tax recognized in profit or loss

The Canadian statutory tax rate was 27% (2018: 27%). A reconciliation between the Company's tax expense and the product of the Company's profit/(loss) before tax multiplied by the Company's domestic tax rate is as follows:

	Year ended December 31, 2019	Year ended December 31, 2018
Profit/(loss) before tax	**$ 7,568**	$ (37,297)
Statutory tax rate	**27%**	27%
Income tax expense/(recovery) based on combined Canadian federal and provincial statutory rates	**2,044**	(10,071)
Lower effective tax rate in foreign jurisdictions	**186**	1,222
Underprovision/(overprovision) in prior year	**(258)**	261
Tax effect of tax losses and temporary differences not recognized	**8,314**	6,394
Withholding tax on intercompany interest	**2,881**	3,038
Profits or losses attributable to joint venture	**332**	408
Income not subject to tax	**(10,256)**	(7,774)
Non-deductible expenses	**124**	10,350
Income tax expenses	**$ 3,367**	$ 3,828

11.2 Unrecognized deductible temporary differences and unused tax losses

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

	As at December 31, 2019	As at December 31, 2018
Non-capital losses	**$ 163,632**	$ 191,307
Capital losses	**30,049**	30,049
Foreign exchange and others	**487,102**	477,656
Total unrecognized amounts	**$ 680,783**	$ 699,012

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

11. TAXES (CONTINUED)

11.3 Expiry dates

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

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

	As at December 31, 2018	
	U.S. Dollar Equivalent	Expiry dates
Non-capital losses		
Canada	$ 184,254	2036 - 2038
Mongolia	4,337	2021
China	2,715	2023
	$ 191,306	
Capital losses		
Canada	$ 30,049	indefinite

12. EARNINGS/(LOSS) PER SHARE

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

	Year ended December 31,	
	2019	2018
Net profit/(loss)	**$ 4,201**	$ (41,125)
Weighted average number of shares	**272,703**	272,661
Basic and diluted earnings/(loss) per share	**$ 0.02**	$ (0.15)

Potentially dilutive items not included in the calculation of diluted earnings per share for the year ended December 31, 2019 include the underlying shares comprised in the convertible debenture (Note 25) and stock options (Note 28) that were anti-dilutive.

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

13. TRADE AND OTHER RECEIVABLES

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

	As at December 31, 2019	2018
Trade receivables	**$ 1,081**	$ 2,710
Other receivables	**697**	2,336
Total trade and other receivables	**$ 1,778**	$ 5,046

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

	As at December 31, 2019	2018
Less than 1 month	**$ 1,623**	$ 4,952
1 to 3 months	**23**	49
3 to 6 months	**132**	45
Over 6 months	**-**	-
Total trade and other receivables	**$ 1,778**	$ 5,046

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

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

Loss allowance for trade and other receivables	
Opening loss allowance as at January 1, 2019	**$ 20,005**
Increase in loss allowance recognised in profit or loss during the year	**501**
Loss allowance included in specific provision made during the year ended December 31, 2018	**1,791**
Exchange realignment	**(321)**
Loss allowance as at December 31, 2019	**$ 21,976**
Opening loss allowance as at January 1, 2018	$ 1,278
Increase in loan allowance recognised in profit or loss during the year	19,119
Reversal of loan allowance	(41)
Exchange realignment	(351)
Loss allowance as at December 31, 2018	$ 20,005

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

14. NOTES RECEIVABLES

Notes receivables are financial instruments in the Chinese banking system. As at December 31, 2018, bank notes receivables of $2,500 (December 31, 2019: $nil) are readily convertible into cash or can be utilized as settlement of outstanding payables.

15. PROPERTIES FOR RESALE

Properties for resale are stated at the lower of cost and net realizable value. Cost is determined by apportionment of total development cost or consideration, attributable to the unsold units. Net realizable value is determined on the basis of anticipated sales proceeds, or estimated by management based on the prevailing market conditions, less all estimated costs to completion and selling expenses, on an individual property basis.

For the year ended December 31, 2018, the Company recorded an impairment of $2,239 on the unsold units of properties for resale. During the current year, certain units of properties for resale were transferred to suppliers of the Company to partially settle payables owing to such suppliers and were sold to employees, resulting in a loss on settlement of $36.

16. INVENTORIES

The Company's inventories consist of the following amounts:

	As at December 31,	
	2019	**2018**
Current inventories		
Coal stockpiles	**$ 37,597**	$ 31,783
Materials and supplies	**14,640**	15,326
	52,237	47,109
Non-current inventories		
Coal stockpiles	**9,332**	-
Total inventories	**$ 61,569**	$ 47,109

Cost of sales for the year ended December 31, 2019 includes a reversal of impairment of $1,823 related to the Company's coal stockpile inventories (2018: $5,437). The impairment made for the year ended December 31, 2018 was as a result of import restrictions established by Chinese authorities at the Ceke border.

Coal stockpile inventories of $9,332 are not expected to be utilized or sold within 12 months and are therefore classified as non-current inventories as at December 31, 2019.

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

17. PREPAID EXPENSES

The Company's prepaid expenses consist of the following amounts:

	As at December 31, 2019	As at December 31, 2018
Vendor prepayments	**$ 871**	$ 502
Other prepaid expenses	**1,441**	2,793
Total prepaid expenses	**$ 2,312**	$ 3,295

For the year ended December 31, 2019, the Company recorded an impairment of $253 on the vendor prepayments (2018: $134).

18. PROPERTY, PLANT AND EQUIPMENT

The Company's property, plant and equipment consist of the following amounts:

	Mobile equipment	Other operating equipment	Buildings and roads	Right-of-use assets	Mineral properties	Non-depreciable assets	Total
Cost							
As at January 1, 2019	$ 285,921	$ 25,827	$ 72,734	$ -	$ 197,726	$ 25,435	$ 607,643
Change in accounting policy due to IFRS 16	**-**	**-**	**-**	**1,159**	**-**	**-**	**1,159**
Restated balance, January 1, 2019	**$ 285,921**	**$ 25,827**	**$ 72,734**	**$ 1,159**	**$ 197,726**	**$ 25,435**	**$ 608,802**
Additions	**6,631**	**603**	**-**	**-**	**18,185**	**31**	**25,450**
Disposals	**(5,244)**	**(457)**	**-**	**-**	**-**	**(538)**	**(6,239)**
Transfers	**-**	**101**	**-**	**-**	**-**	**(101)**	**-**
Exchange realignment	**(8,572)**	**(411)**	**(1,900)**	**(33)**	**(4,493)**	**(85)**	**(15,494)**
As at December 31, 2019	**$ 278,736**	**$ 25,663**	**$ 70,834**	**$ 1,126**	**$ 211,418**	**$ 24,742**	**$ 612,519**
Accumulated depreciation and impairment charges							
As at January 1, 2019	$ (266,129)	$ (23,926)	$ (52,915)	$ -	$ (102,013)	$ (23,759)	$ (468,742)
Depreciation for the year	**(12,017)**	**(640)**	**(4,339)**	**(549)**	**(5,640)**	**-**	**(23,185)**
Eliminated on disposals	**5,116**	**457**	**-**	**-**	**-**	**-**	**5,573**
Exchange realignment	**8,227**	**447**	**1,354**	**28**	**1,000**	**-**	**11,056**
As at December 31, 2019	**$ (264,803)**	**$ (23,662)**	**$ (55,900)**	**$ (521)**	**$ (106,653)**	**$ (23,759)**	**$ (475,298)**
Carrying amount							
As at January 1, 2019, restated	$ 19,792	$ 1,901	$ 19,819	$ 1,159	$ 95,713	$ 1,676	$ 140,060
As at December 31, 2019	**$ 13,933**	**$ 2,001**	**$ 14,934**	**$ 605**	**$ 104,765**	**$ 983**	**$ 137,221**

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

18. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Mobile equipment	Other operating equipment	Buildings and roads	Mineral properties	Non-depreciable assets	Total
Cost						
As at January 1, 2018	$ 350,540	$ 28,874	$ 72,194	$ 173,401	$ 28,967	$ 653,976
Additions	**3,480**	**2,870**	**-**	**36,230**	**2,390**	**44,970**
Disposals	**(37,363)**	**(5,944)**	**-**	**-**	**(2,406)**	**(45,713)**
Transfers	**-**	**991**	**1,832**	**-**	**(2,823)**	**-**
Exchange realignment	**(30,736)**	**(964)**	**(1,292)**	**(11,905)**	**(693)**	**(45,590)**
As at December 31, 2018	**$ 285,921**	**$ 25,827**	**$ 72,734**	**$ 197,726**	**$ 25,435**	**$ 607,643**
Accumulated depreciation and impairment charges						
As at January 1, 2018	$ (297,264)	$ (28,326)	$ (51,443)	$ (100,297)	$ (24,189)	$ (501,519)
Depreciation for the year	**(26,507)**	**(384)**	**(4,706)**	**(5,146)**	**-**	**(36,743)**
Eliminated on disposals	**34,390**	**3,319**	**-**	**-**	**-**	**37,709**
Reversal of impairment	**-**	**-**	**-**	**-**	**346**	**346**
Exchange realignment	**23,252**	**1,465**	**3,234**	**3,430**	**84**	**31,465**
As at December 31, 2018	**$ (266,129)**	**$ (23,926)**	**$ (52,915)**	**$ (102,013)**	**$ (23,759)**	**$ (468,742)**
Carrying amount						
As at December 31, 2017	$ 53,276	$ 548	$ 20,751	$ 73,104	$ 4,778	$ 152,457
As at December 31, 2018	**$ 19,792**	**$ 1,901**	**$ 19,819**	**$ 95,713**	**$ 1,676**	**$ 138,901**

18.1 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.

18.2 Pledge on items of property, plant and equipment

As at December 31, 2019, certain of the Company's property, plant and equipment with a carrying value of $439 (2018: $2,643) were pledged as security for a bank loan granted to the Company (Note 23).

18.3 Items of property, plant and equipment held under leases

Carrying value of leased assets as at December 31, 2019 was $627 (January 1, 2019 (Restated): $1,344).

18.4 Right-of-use assets

The right-of-use assets relate to the buildings as at December 31, 2019.

18.5 Impairment charges

For the year ended December 31, 2018, the Company recorded impairment charges of $213 in respect of the non-depreciable assets. A reversal of impairment of $559 was recorded upon the reuse of certain items of property, plant and equipment previously impaired for the year ended December 31, 2018. Nil impairment nor reversal of impairment was made during the year ended December 31, 2019.

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

19. INVESTMENTS IN JOINT VENTURES

The Company's investment consists of the following amounts:

	As at December 31, 2019	As at December 31, 2018
Non-current investment in joint ventures		
Investment in RDCC LLC	**$ 17,521**	$ 18,822
Investment in Nariin Sukhait Erchim LLC ("NSE")	**-**	9
Total investments	**$ 17,521**	$ 18,831

The Company has a 40% interest in RDCC LLC, a joint venture. RDCC LLC has a concession agreement with the State Property Committee of Mongolia to construct a paved highway from the Company's Ovoot Tolgoi Mine to the Mongolia-China border for the exclusive use of third party coal transport companies. In October 2012, the concession agreement was structured as a 17-year build, operate and transfer agreement. The construction was completed in 2014 and operations commenced in the second quarter of 2015. On September 17, 2015, the Invest Mongolia Agency signed an amendment to the concession agreement with RDCC LLC to extend the exclusive right of ownership to 30 years.

The movement of the Company's investment in RDCC LLC is as follows:

	Year ended December 31, 2019	Year ended December 31, 2018
Balance, beginning of year	**$ 18,822**	$ 21,052
Dividend received	**(2,025)**	(2,207)
Share of earnings of a joint venture	**1,329**	1,631
Share of other comprehensive loss of a joint venture	**(605)**	(1,654)
Balance, end of year	**$ 17,521**	$ 18,822

Summarized financial statement information of RDCC LLC is as follows (presented on a 100% basis of RDCC LLC in which the Company has a 40% investment):

	As at December 31, 2019	As at December 31, 2018
Current assets	**$ 457**	$ 824
Non-current assets	**31,969**	34,652
Total assets	**$ 32,426**	$ 35,476
Current liabilities	**$ -**	$ 637
Total liabilities	**$ -**	$ 637

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

19. INVESTMENTS IN JOINT VENTURES (CONTINUED)

	Year ended December 31, 2019	Year ended December 31, 2018
Revenue	$ 6,766	$ 7,308
Gross profit margin	3,878	4,777
Other operating and finance costs	(271)	(295)
Profit before tax	3,607	4,482
Net profit	$ 3,215	$ 3,892
Other comprehensive income	$ 708	$ 329
Total comprehensive income	$ 3,923	$ 4,221

In October 2018, the Company entered into a shareholder agreement with 3 other coal mining companies in respect of NSE, a joint venture entity established for the purpose of constructing power transmission cables and electricity facilities. The Company has a 25% interest in NSE. In December 2019, the interest in NSE was disposed of to a third party company at the carrying investment cost at NSE.

20. TRADE AND OTHER PAYABLES

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

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

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

21. COMMERCIAL ARBITRATION

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 $11,500.

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.

21. COMMERCIAL ARBITRATION (CONTINUED)

On November 14, 2018, the Company executed the Settlement Deed with First Concept in respect of the Arbitration Award. The Settlement Deed provides for the full and final satisfaction of the Arbitration Award as well as the settlement of the issue of costs relating to the Arbitration and any other disputes arising out of the Coal Supply Agreement. Pursuant to the Settlement Deed, which provides for the full and final satisfaction of the Arbitration Award as well as the settlement of the issue of costs relating to the Arbitration and any other disputes arising out of the Coal Supply Agreement, SGS agreed to pay to First Concept the sum of $13,891, together with simple interest thereon at the rate of 6% per annum from November 1, 2018 until full payment, in 12 monthly instalments commencing in November 2018. Provided that SGS complies with the terms of the Settlement Deed, First Concept agreed to waive its costs in connection with the Arbitration and interest for the period from January 4, 2018 to October 31, 2018 (the “Waived Costs”).

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

As at December 31, 2019, the outstanding amount payable to First Concept amounted to $5,593 (December 31, 2018: $12,508).

On February 7, 2020, SGS was informed by its Mongolian banks that they received a request from the CDIA to freeze the respective bank accounts of SGS in Mongolia in relation to the enforcement of the Arbitration Award. Approximately $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.

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

22. DEFERRED REVENUE

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

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

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

The performance obligation related to the revenue from customers for contracts that are unsatisfied (or partially unsatisfied) are expected to be recognized within one year after the reporting dates. The Company applies the practical expedient and does not disclose information about any remaining performance obligation that is a part of contract that has original expected duration of one year or less.

23. INTEREST-BEARING BORROWINGS

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

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

(i) Bank Loan

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

- Maturity date set at 24 months from drawdown (subsequently extended for 12 months on May 18, 2020);
- Interest rate of 15% per annum and interest is payable monthly; and
- Certain items of property, plant and equipment were pledged as security for the 2018 Bank Loan. As at December 31, 2019, the net book value of the pledged items of property, plant and equipment was $439 (December 31, 2018: $2,643).

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

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

24. LEASE LIABILITIES

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

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

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

25. CONVERTIBLE DEBENTURE

25.1 Key commercial terms

On November 19, 2009, the Company issued a convertible debenture to CIC for $500,000. The convertible debenture bears interest at 8.0% per annum (6.4% payable semi-annually in cash and 1.6% payable annually in the Company's shares) and has a maximum term of 30 years. The convertible debenture is secured by a first ranking charge over the Company's assets, including shares of its material subsidiaries. During 2010, the Company exercised a right within the debenture to call and convert $250,000 of the debenture for 21,471 common shares. Following the conversion the outstanding principal balance was $250,000 and has remained unchanged at that balance to December 31, 2019.

The key commercial terms of the financing include:

- Interest - 8% per annum (6.4% payable semi-annually in cash and 1.6% payable annually in the Company's common shares, where the number of shares to be issued is calculated based on the 50-day volume-weighted average price ("VWAP")).
- Term - Maximum of 30 years.
- Security - First charge over the Company's assets, including shares of its material subsidiaries.
- Conversion price - The conversion price is set as the lower of CAD$11.88 or the 50-day VWAP at the date of conversion, with a floor price of CAD$8.88 per share.
- Representation on the Company's Board - While the convertible debenture is outstanding, or while CIC has a minimum 15% direct or indirect stake in the Company, CIC has the right to nominate one director to the Company's Board of Directors. As of the date hereof, the Company currently has eight Board of Directors members of which two (Mr. Ben Niu and Mr. Jianmin Bao) were nominated by CIC.
- Voting restriction - CIC has agreed that it will not have any voting rights in the Company beyond 29.9% if CIC ever acquires ownership of such a shareholder stake.
- Pre-emption rights - While the convertible debenture is outstanding, or while CIC has a 15% direct or indirect stake in the Company, CIC has certain pre-emption rights on a pro-rata basis to subscribe for any new shares to be allotted and issued by the Company for the period which the convertible debenture is outstanding. The pre-emption rights will not apply to new shares issued pursuant to pro-rata public equity offerings made to all shareholders, exercise of stock options and shares issued to achieve a 25% public float.

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

25. CONVERTIBLE DEBENTURE (CONTINUED)

- Registration rights - CIC has registration rights under applicable Canadian provincial securities laws in connection with the common shares issuable upon conversion of the convertible debenture.
- Event of default – CIC could demand for the principal and corresponding interest from the Company immediately when certain events, including suspension of trading and delisting of its shares from the TSX and the HKEX have occurred.

25.2 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.

25.3 Valuation assumptions

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

	As at December 31,	
	2019	2018
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$0.14
Historical volatility	**80%**	82%
Risk free rate of return	**1.76%**	2.11%
Foreign exchange spot rate (CAD$ to U.S. Dollar)	**0.77**	0.73
Forward foreign exchange rate curve (CAD$ to U.S. Dollar)	**0.761 - 0.770**	0.731 - 0.746

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

25. CONVERTIBLE DEBENTURE (CONTINUED)

25.4 Presentation

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

For the year ended December 31, 2019, the Company recorded interest expense of $23,751 related to the convertible debenture as a finance cost (2018: $22,195). The interest expense consists of the interest at the contract rate and the accretion of the debt host component of the convertible debenture. To calculate the accretion expense, the Company uses the contract life of 30 years and an effective interest rate of 22.2%.

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

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

The convertible debenture balance consists of the following amounts:

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

25.5 Interest deferral and settlement

The Company executed a deferral agreement with CIC on June 12, 2017 (the "June 2017 Deferral Agreement") for a revised repayment schedule on the $22,254 of cash interest and associated costs originally due on May 19, 2017. The key repayment terms of the June 2017 Deferral Agreement are: (i) the Company was required to repay on average $2,170 of the cash interest and associated costs monthly during the period from May 2017 to October 2017; and (ii) the Company was required to repay $9,731 of cash interest and associated costs on November 19, 2017.

25. CONVERTIBLE DEBENTURE (CONTINUED)

On April 23, 2019, the Company executed the 2019 Deferral Agreement with CIC in relation to a deferral and revised repayment schedule in respect of (i) $41,797 of outstanding cash and payment in kind interest ("PIK Interest") and associated costs due and payable to CIC on November 19, 2018 under the CIC Convertible Debenture and the June 2017 Deferral Agreement; and (ii) $27,934 of cash and PIK Interest payments payable to CIC under the CIC Convertible Debenture from April 23, 2019 to and including May 19, 2020 (the "Deferral"). Pursuant to Section 501(c) of the TSX Company Manual, the 2019 Deferral Agreement was approved at the Company's adjourned annual and special meeting of shareholders on June 13, 2019.

The key repayment terms of the 2019 Deferral Agreement are: (i) the Company agreed to pay a total of $14,317 over eight instalments from November 2019 to June 2020; (ii) the Company agreed to pay the PIK Interest covered by the Deferral by way of cash payments, rather than the issuance of Common Shares; and (iii) the Company agreed to pay the remaining balance of $62,602 on June 20, 2020. The Company agreed to pay a deferral fee at a rate of 6.4% per annum in consideration of the Deferral.

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

As a condition to agreeing to the Deferral, CIC required that the Cooperation Agreement between SGS and CIC, be amended and restated (the "Amended and Restated Cooperation Agreement") to clarify the manner in which the service fee (the "Management Fee") payable to CIC under the Cooperation Agreement is calculated, with effect as of January 1, 2017. Specifically, the Management Fee under the Amended and Restated Cooperation Agreement will be determined based on the net revenues realized by the Company and all of its subsidiaries derived from sales into China (rather than the net revenues realized by the Company and its Mongolian subsidiaries as currently contemplated under the Cooperation Agreement). As consideration for deferring payment of the additional Management Fee payable to CIC as a result of the Amended and Restated Cooperation Agreement, the Company agreed to pay to CIC a deferral fee at the rate of 2.5% on the outstanding Management Fee. Pursuant to the Amended and Restated Cooperation Agreement, the Company also agreed to pay CIC the total outstanding Management Fee and related accrued deferral fee of $4,183 over six instalments from June 2019 to November 2019. The Company executed the Amended and Restated Cooperation Agreement with CIC on April 23, 2019.

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

On February 19, 2020, the Company and CIC entered into 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 2019 Deferral Agreement (collectively, the "2020 February Deferral Amounts"); and (ii) approximately $700 of the Management Fee which was due and payable on February 14, 2020 to CIC under the Amended and Restated Cooperation Agreement. The 2020 February Deferral Agreement became effective on March 10, 2020, being the date on which the Company obtained the requisite acceptance of the 2020 February Deferral Agreement from the TSX as required under applicable TSX rules.

25. CONVERTIBLE DEBENTURE (CONTINUED)

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

- Payment of the 2020 February Deferral Amounts will be deferred until June 20, 2020, while the Management Fee will be deferred until they are repaid by the Company.
- As consideration for the deferral of these amounts, the Company agreed to pay CIC: (i) a deferral fee equal to 6.4% per annum on the 2020 February Deferral Amounts, commencing on the date on which each such 2020 February Deferral 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.
- 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.

25. CONVERTIBLE DEBENTURE (CONTINUED)

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 fees commencing on May 15, 2020. The 2020 May Deferral Agreement became effective on June 8, 2020, being the date on which the Company obtained the requisite acceptance of the 2020 May Deferral Agreement from the TSX as required under applicable TSX rules.

On June 19, 2020, the Company agreed with CIC (the "2020 June Deferral Agreement") that the deferred cash interest and deferral fees in the aggregate amount of $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.

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: (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 Fees which payable to CIC on November 14, 2020, February 14, 2021, May 15, 2021, August 14, 2021 and November 14, 2021 under the Amended and Restated Cooperation Agreement (collectively, the "2020 November Deferral Amounts"). The effectiveness of the 2020 November Deferral Agreement and the respective covenants, agreements and obligations of each party under the 2020 November Deferral Agreement are subject to the Company obtaining the requisite approval of the 2020 November Deferral Agreement from 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 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.

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

25. CONVERTIBLE DEBENTURE (CONTINUED)

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

26. DECOMMISSIONING LIABILITY

At December 31, 2019, the decommissioning liability relates to reclamation and closure costs of the Company's Ovoot Tolgoi Mine.

The Ovoot Tolgoi Mine decommissioning liability is calculated as the net present value of the estimated future reclamation and closure costs, which as at December 31, 2019 totaled $10,528 (2018: $8,955). The estimated future reclamation and closure costs are inflated using an estimated inflation rate of 7.4% (2018: 7.1%) and discounted at 11% per annum (2018: 11% per annum) to determine the year end decommissioning liability. The settlement of the decommissioning liability will occur through to 2030.

The movement in the decommissioning liability during the years ended December 31, 2019 and 2018 were as follows:

	Year ended December 31, 2019	Year ended December 31, 2018
Balance, beginning of year	**$ 6,852**	$ 5,213
Adjustments	**1,609**	1,544
Accretion	**401**	536
Exchange realignment	**(257)**	(441)
Balance, end of year	**$ 8,605**	$ 6,852

27. EQUITY

27.1 Share capital

The Company has authorized an unlimited number of common and preferred shares with no par value. At December 31, 2019, the Company had 272,703 common shares outstanding (2018: 272,703) and no preferred shares outstanding (2018: nil).

27.2 Exchange fluctuation reserve

Gains/losses arising on retranslating the net assets of foreign operations into presentation currency.

27.3 Accumulated deficit and dividends

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

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

28. SHARE-BASED PAYMENTS

28.1 Stock option plan

The Company has a stock option plan which permits the Board of Directors of the Company to grant options to acquire common shares of the Company at the volume weighted average closing price for the five days preceding the date of grant. The Company is authorized to issue stock options for a maximum of 10% of the issued and outstanding common shares pursuant to the stock option plan. The stock option plan permits the Board of Directors of the Company to set the terms for each stock option grant; however, the general terms of stock options granted under the plan include a maximum exercise period of 5 years and a vesting period of 3 years with 33% of the grant vesting on the first anniversary of the grant, 33% vesting on the second anniversary of the grant and 34% vesting on the third anniversary of the grant.

For the year ended December 31, 2019, the Company granted 2,925 stock options (2018: 2,830) to officers, employees, directors and other eligible persons at an exercise prices ranging from CAD$0.11 to CAD$0.13 (2018: CAD$0.13) and expiry dates ranging from September 11, 2024 to November 15, 2024 (2018: expiry dates ranging from July 3, 2023 to August 16, 2023). The weighted average fair value of the options granted in the year ended December 31, 2019 was estimated at $0.03 (CAD$0.04) (2018: $0.04, CAD$0.05) per option at the grant date using the Black-Scholes option pricing model.

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

28. SHARE-BASED PAYMENTS (CONTINUED)

The weighted average assumptions used for the Black-Scholes option pricing model were as follows:

	Year ended December 31, 2019	2018
Risk free interest rate	**1.68%**	2.26%
Expected life	**3.4 years**	3.4 years
Expected volatility [(i)]	**37.6%**	45%
Expected dividend per share	**$nil**	$nil

(i) Expected volatility has been calculated based on historical volatility of the Company's publicly traded shares over a period equal to the expected life of the options.

A share-based compensation expense of $65 for the options granted in the year ended December 31, 2019 (2018: $85) will be amortized over the vesting period, of which $10 was recognized in the year ended December 31, 2019 (2018: $25).

The total share-based compensation expense for the year ended December 31, 2019 was $47 (2018: $79). Share-based compensation expense of $38 (2018: $75) has been allocated to administration expenses and share-based compensation expense of $9 (2018: $4) has been allocated to cost of sales.

28.2 Outstanding stock options

The option transactions under the stock option plan are as follows:

	Year ended December 31, 2019			Year ended December 31, 2018		
	Number of options		Weighted average exercise price (CAD$)	Number of options		Weighted average exercise price (CAD$)
Balance, beginning of year	**4,695**	**$**	**0.23**	2,290	$	0.38
Options granted	**2,925**		**0.11**	2,830		0.13
Options forfeited	**(103)**		**0.13**	(75)		0.13
Options expired	**(663)**		**0.33**	(350)		0.30
Balance, end of year	**6,854**	**$**	**0.21**	4,695	$	0.23

The stock options outstanding and exercisable are as follows:

As at December 31, 2019	Options Outstanding				Options Exercisable			
Exercise price (CAD$)	Options outstanding		Weighted average exercise price (CAD$)	Weighted average remaining contractual life (years)	Options outstanding and exercisable		Weighted average exercise price (CAD$)	Weighted average remaining contractual life (years)
$0.11 - $0.29	**5,750**	**$**	**0.13**	**4.15**	**1,401**	**$**	**0.15**	**3.20**
$0.33 - $0.39	**950**		**0.34**	**2.26**	**950**		**0.34**	**2.26**
$0.58 - $0.92	**154**		**0.92**	**0.25**	**154**		**0.92**	**0.25**
	6,854	**$**	**0.18**	**3.80**	**2,505**	**$**	**0.27**	**2.67**

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

28. SHARE-BASED PAYMENTS (CONTINUED)

As at December 31, 2018

Exercise price (CAD$)	Options Outstanding: Options outstanding	Options Outstanding: Weighted average exercise price (CAD$)	Options Outstanding: Weighted average remaining contractual life (years)	Options Exercisable: Options outstanding and exercisable	Options Exercisable: Weighted average exercise price (CAD$)	Options Exercisable: Weighted average remaining contractual life (years)
$0.13 - $0.29	**3,255**	**$ 0.15**	**4.20**	**500**	**$ 0.29**	**1.08**
$0.33 - $0.39	**1,250**	**0.33**	**3.25**	**1,250**	**0.33**	**2.60**
$0.58 - $0.92	**190**	**0.86**	**1.12**	**190**	**0.86**	**1.12**
	4,695	**$ 0.23**	**3.82**	**1,940**	**$ 0.38**	**2.06**

29. RESERVES

29.1 Share option reserve

The Company's share option reserve relates to stock options granted by the Company to officers, employees, directors and other eligible persons under its stock option plan. Details about the Company's share-based payments are further disclosed in Note 28.

The share option reserve transactions for the years ended December 31, 2019 and 2018 are as follows:

	Year ended December 31, 2019	Year ended December 31, 2018
Balance, beginning of year	**$ 52,542**	$ 52,463
Share-based compensation charged to operations	**47**	79
Balance, end of year	**$ 52,589**	$ 52,542

29.2 Capital reserve

Pursuant to the applicable laws and regulations of the People's Republic of China, a portion of the profits of a subsidiary has been transferred to reserve funds (i.e. capital reserve), which the Company is restricted from using.

30. CAPITAL RISK MANAGEMENT

The Company's capital risk management objectives are to safeguard the Company's ability to continue as a going concern in order to support the Company's normal operating requirements, continue the development and exploration of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares, acquire previously issued shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents. In order to facilitate management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including capital deployment, results from operations, results from the exploration and development of its properties and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

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

30. CAPITAL RISK MANAGEMENT (CONTINUED)

At December 31, 2019, the Company's capital structure consists of convertible debenture (Note 25), interest-bearing borrowings (Note 23), lease liabilities (Note 24) and the equity of the Company (Note 27). Except for disclosed elsewhere in the consolidated financial statements, the Company is not subject to any externally imposed capital requirements. In order to maximize ongoing development efforts, the Company does not pay dividends.

The gearing ratio at the end of the reporting period was as follows:

	As at December 31, 2019	As at December 31, 2018
Debt	**$ 277,645**	$ 275,746
Cash and cash equivalents	**7,164**	6,959
Net debt	**$ 270,481**	$ 268,787
Equity	**$ (49,218)**	$ (48,140)
Net debt to equity ratio	**-550%**	-558%

For the year ended December 31, 2019, there were no significant changes in the processes used by the Company or in the Company's objectives and policies for managing its capital. As at December 31, 2019, the Company had cash of $7,164 (December 31, 2018: $6,959).

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

31. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

31.1 Categories of financial instruments

The Company's financial assets and financial liabilities are categorized as follows:

	As at December 31,	
	2019	2018
Financial assets		
At amortised cost		
Cash and cash equivalents	**$ 7,164**	$ 6,959
Restricted cash	**862**	872
Trade and other receivables (Note 13)	**1,778**	5,046
Bank notes receivables (Note 14)	**-**	2,500
Total financial assets	**$ 9,804**	$ 15,377
Financial liabilities		
Fair value through profit or loss		
Convertible debenture - embedded derivatives (Note 25)	**$ 196**	$ 265
At amortised cost		
Trade and other payables (Note 20)	**87,013**	99,576
Provision for commercial arbitration (Note 21)	**5,593**	12,508
Interest-bearing borrowings (Note 23)	**2,835**	4,138
Lease liabilities (Note 24)	**568**	113
Convertible debenture - debt host (Note 25)	**156,778**	139,636
Total financial liabilities	**$ 252,983**	$ 256,236

31.2 Fair value

The fair value of financial assets and financial liabilities measured at amortized cost is determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions. The Company considers that the carrying amount of all its financial assets and financial liabilities measured at amortized cost approximates their fair value, except as disclosed below.

The fair values of the Company's financial instruments classified as FVTPL are determined as follows:

- The fair value of financial instruments that are not traded in an active market are determined using generally accepted valuation models using inputs that are directly (i.e. prices) or indirectly (i.e. derived from prices) observable. The fair value of the embedded derivatives within the convertible debenture (Note 25) is determined using a Monte Carlo simulation. None of the fair value change in the embedded derivatives for the year ended December 31, 2019 is related to a change in the credit risk of the convertible debenture. All of the change in fair value is associated with changes in market conditions.

The fair value of all the other financial instruments of the Company, except for the convertible debenture, approximates their carrying value because of the demand nature or short-term maturity of these instruments.

The following table provides an analysis of the Company's financial instruments that are measured and disclosed subsequent to initial recognition at fair value, grouped into Level 1 to 3 based on the degree to which the inputs used to determine the fair value are observable.

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

31. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1, that are observable either directly or indirectly.
- Level 3 fair value measurements are those derived from valuation techniques that include inputs that are not based on observable market data.

	As at December 31, 2019			
Recurring measurements	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial liabilities measured at fair value				
Convertible debenture - embedded derivatives	$ -	$ -	$ 196	$ 196
Total financial liabilities measured at fair value	**$ -**	**$ -**	**$ 196**	**$ 196**

	As at December 31, 2018			
Recurring measurements	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial liabilities measured at fair value				
Convertible debenture - embedded derivatives	$ -	$ -	$ 265	$ 265
Total financial liabilities measured at fair value	**$ -**	**$ -**	**$ 265**	**$ 265**

There were no transfers between Level 1, 2 and 3 for the year ended December 31, 2019 (2018: nil).

31.3 Financial risk management objectives and policies

The financial risk arising from the Company's operations are currency risk, interest rate risk, credit risk, liquidity risk and commodity price risk. These risks arise from the normal course of operations and all transactions undertaken are to support the Company's ability to continue as a going concern. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management of the Company manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

The Company is exposed to foreign currency risk on its sales or purchases in currencies other than the U.S. dollar. The Company manages this risk by matching receipts and payments in the same currency.

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

	As at December 31,	
	2019	**2018**
Increase/decrease in foreign exchange rate against respective functional currency		
+5%	**$ 1,049**	$ 567
–5%	**$ (1,049)**	$ (567)

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

31. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

Interest rate risk

The Company is exposed to interest rate risk on the variable rate of interest earned on its cash. However, the rate of interest earned on these instruments is below 3% (2018: 3%); therefore, the interest rate risk is not significant.

The Company has not entered into any derivative instruments to manage interest rate fluctuations, however, management closely monitors interest rate exposure and the risk exposure is limited.

Credit risk

The Company is exposed to credit risk associated with its cash and trade and other receivables. The Company's maximum exposure to credit risk is equal to the carrying amount of these instruments.

The Company applies the IFRS 9 simplified approach to measuring ECL which uses a lifetime expected loss allowance for all trade and other receivables and notes receivables.

To measure the expected credit losses, trade and other receivables and notes receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 2 years before December 31, 2019 or 2018 respectively and the corresponding historical credit losses experienced within this period as well as the forecast regarding the industry environment. On that basis, the loss allowance as at December 31, 2019 and 2018 was determined as follows for trade and others receivables and notes receivables:

	Less than 1 month	1 to 3 months	3 to 6 months	Over 6 months	Total
As at December 31, 2019					
Expected loss rate	(i)	(i)	10%	100%	
Gross carrying amount - trade and other receivables	**$ 1,623**	**$ 23**	**$ 147**	**$ 21,961**	**$ 23,754**
Loss allowance	**$ -**	**$ -**	**$ 15**	**$ 21,961**	**$ 21,976**
As at December 31, 2018					
Expected loss rate	(i)	(i)	10%	100%	
Gross carrying amount - trade and other receivables	$ 5,390	$ 49	$ 1,579	$ 19,847	$ 26,865
Gross carrying amount - notes receivables	2,500	-	-	-	2,500
Loss allowance	$ -	$ -	$ 158	$ 19,847	$ 20,005

(i) The expected credit loss rate is considered insignificant.

The Company's credit risk on cash arises from possible default of the counterparty. The Company limits its exposure to counterparty credit risk on cash by only dealing with financial institutions with high credit ratings.

The Company seeks to manage its credit risk on trade and other receivables by trading with third party customers it considers to be creditworthy. It is the Company's policy that all customers are required to prepay deposits to the Company for future purchasing from the Company, and for those who wish to trade on credit terms are subject to credit verification procedures.

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

31. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to settle or manage its obligations associated with financial liabilities. Based on the Company's forecasts for the year ending December 31, 2020, the Company is expected to have sufficient capital resources in order to satisfy its ongoing obligations and future contractual commitments. Please refer to Note 1 for further details.

The Company's current and expected remaining contractual maturities for its financial liabilities with agreed repayment periods are as follows. The table includes the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to satisfy the liabilities.

	0 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
As at December 31, 2019					
Trade and other payables	**$ 87,013**	**$ -**	**$ -**	**$ -**	**$ 87,013**
Provision for commercial arbitration	**5,593**	**-**	**-**	**-**	**5,593**
Interest-bearing borrowings[(i)]	**2,993**	**-**	**-**	**-**	**2,993**
Lease liabilities[(i)]	**255**	**255**	**101**	**-**	**611**
Convertible debenture - cash interest[(i)]	**74,602**	**12,066**	**80,000**	**300,000**	**466,668**
	$ 170,456	**$ 12,321**	**$ 80,101**	**$ 300,000**	**$ 562,878**
As at December 31, 2018					
Trade and other payables	$ 99,576	$ -	$ -	$ -	$ 99,576
Provision for commercial arbitration	7,500	4,282	-	-	11,782
Interest-bearing borrowings[(i)]	1,681	210	2,993	-	4,884
Lease liabilities[(i)]	45	45	31	-	121
Convertible debenture - cash interest[(i)]	296,096	-	-	-	296,096
	$ 404,898	$ 4,537	$ 3,024	$ -	$ 412,459

(i) The expected undiscounted cash flows of the above noted financial liabilities include the cash interest payment on the interest-bearing borrowings, lease liabilities and convertible debenture for the years ended December 31, 2019 and December 31, 2018. Refer to Note 23, Note 24 and Note 25 for the terms of the interest-bearing borrowings, lease liabilities and convertible debenture, respectively

32. RELATED PARTY TRANSACTIONS

The consolidated financial statements include the financial statements of SouthGobi Resources Ltd. and its significant subsidiaries listed in the following table:

		% equity interest As at December 31,	
Name	**Country of incorporation**	**2019**	**2018**
SouthGobi Resources (Hong Kong) Limited	Hong Kong	**100%**	100%
SGS	Mongolia	**100%**	100%
SGQ Coal Investment Pte. Ltd.	Singapore	**100%**	100%
SouthGobi Trading (Beijing) Co., Ltd. [(i)]	China	**100%**	100%
Inner Mongolia SouthGobi Energy Co., Ltd.	China	**100%**	100%
Inner Mongolia SouthGobi Mining Development Co., Ltd. [(ii)]	China	**100%**	N/A
Inner Mongolia SouthGobi Enterprise Co., Ltd.	China	**70%**	70%

(i) SouthGobi Trading (Beijing) Co., Ltd. was registered as a wholly-foreign-owned enterprise under law of China.
(ii) Inner Mongolia SouthGobi Mining Development Co., Ltd. was established on August 16, 2019.

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

32. RELATED PARTY TRANSACTIONS (CONTINUED)

In addition to the transactions detailed elsewhere in profit or loss, the Company had related party transactions with the following company related by way of directors or shareholders in common during the year ended December 31, 2019:

- CIC – CIC is a major shareholder of the Company, CIC holds approximately 23.8% of the issued and outstanding common shares of the Company as at December 31, 2019. The Amended and Restated Cooperation Agreement with CIC states that the Management Fee calculated based on 2.5% of the revenue shall be paid to CIC on a quarterly basis. During the year ended December 31, 2019, $3,185 was recorded in profit or loss (2018: $2,098).

32.1 Related party expenses

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

	Year ended December 31,	
	2019	2018
Finance costs	$ 23,751	$ 22,196
Management fee	3,185	2,098
Related party expenses	$ 26,936	$ 24,294

32.2 Key management personnel compensation

The remuneration of the Company's directors and other members of key management, who have the authority and responsibility for planning, directing and controlling the activities of the Company, consists of the following amounts:

	Year ended December 31,	
	2019	2018
Salaries, fees and other benefits	$ 1,571	$ 1,572
Share-based compensation	50	66
Total remuneration	$ 1,621	$ 1,638

33. SUPPLEMENTAL CASH FLOW INFORMATION

33.1 Non-cash financing and investing activities

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

	Year ended December 31,	
	2019	2018
Depreciation and amortization capitalized in mineral properties	$ 2,931	$ 8,958
Addition to decommissioning liability (Note 27)	1,609	1,454
Trade payables settled by items of property, plant and equipment	3,855	6,943
Trade payables settled by properties for resale	-	1,722

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

33. SUPPLEMENTAL CASH FLOW INFORMATION (CONTINUED)

33.2 Net change in working capital items

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

	Year ended December 31, 2019	Year ended December 31, 2018
Increase in inventories	**$ (10,211)**	$ (13,652)
Decrease/(increase) in trade and other receivables	**4,054**	(9,564)
Decrease in prepaid expenses	**366**	741
Decrease in provision for commercial arbitration	**(7,400)**	-
Increase/(decrease) in trade and other payables	**(8,366)**	34,817
Increase/(decrease) in deferred revenue	**3,770**	(10,308)
Reclassification of refund customers' deposits as financing activities	**12,382**	10,565
Increase in restricted cash	**-**	(872)
Net change in working capital items	**$ (5,405)**	$ 11,727

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

33. SUPPLEMENTAL CASH FLOW INFORMATION (CONTINUED)

33.3 Reconciliation of liabilities arising from financing activities

	Trade and other payables	Interest-bearing borrowings	Lease liabilities	Convertible debenture	Total
At January 1, 2018	$ 79,219	$ 7,190	$ 503	$ 116,374	$ 203,286
Changes from financing cash flow:					
Proceeds from new loans	-	2,800	-	-	2,800
Repayment of interest-bearing loans	-	(5,505)	(390)	-	(5,895)
Refund of customers' deposits	(10,565)	-	-	-	(10,565)
Interest payments	-	(776)	(26)	-	(802)
Total changes from financing cash flows	(10,565)	(3,481)	(416)	-	(14,462)
Other charges:					
Interest expenses	-	645	26	22,195	22,866
Changes in fair value of embedded derivatives	-	-	-	(137)	(137)
Amortization of loan arrangement fee	-	21	-	-	21
Fair value adjustment upon adoption of IFRS 9	-	(137)	-	1,469	1,332
Increase in trade and other payables in operating activities	45,382	-	-	-	45,382
Trade payables settled by items of property, plant and equipment	(6,943)	-	-	-	(6,943)
Trade payables settled by properties for resale	(1,722)	-	-	-	(1,722)
Income tax expenses	3,610	-	-	-	3,610
Income tax paid	(3,157)	-	-	-	(3,157)
	37,170	529	26	23,527	61,252
Exchange adjustments	(6,248)	(100)	-	-	(6,348)
At December 31, 2018	$ 99,576	$ 4,138	$ 113	$ 139,901	$ 243,728
Impact on initial application of IFRS 16 (note 2)	**-**	**-**	**1,098**	**-**	**1,098**
Restated balance at January 1, 2019	**$ 99,576**	**$ 4,138**	**$ 1,211**	**$ 139,901**	**$ 244,826**
Changes from financing cash flow:					
Repayment of interest-bearing loans	**-**	**(700)**	**-**	**-**	**(700)**
Refund of customers' deposits	**(12,382)**	**-**	**-**	**-**	**(12,382)**
Interest payments	**-**	**(1,160)**	**-**	**(2,316)**	**(3,476)**
Capital element of lease rentals paid	**-**	**-**	**(639)**	**-**	**(639)**
Interest element of lease rentals paid	**-**	**-**	**(129)**	**-**	**(129)**
Total changes from financing cash flows	**(12,382)**	**(1,860)**	**(768)**	**(2,316)**	**(17,326)**
Other charges:					
Interest expenses	**-**	**562**	**129**	**23,751**	**24,442**
Changes in fair value of embedded derivatives	**-**	**-**	**-**	**(69)**	**(69)**
Fair value adjustment upon adoption of IFRS 9	**-**	**-**	**-**	**(4,293)**	**(4,293)**
Increase in trade and other payables in operating activities	**4,016**	**-**	**-**	**-**	**4,016**
Trade payables settled by items of property, plant and equipment	**(3,855)**	**-**	**-**	**-**	**(3,855)**
Income tax expenses	**3,165**	**-**	**-**	**-**	**3,165**
Income tax paid	**(809)**	**-**	**-**	**-**	**(809)**
	2,517	**562**	**129**	**19,389**	**22,597**
Exchange adjustments	**(2,698)**	**(5)**	**(4)**	-	**(2,707)**
At December 31, 2019	**$ 87,013**	**$ 2,835**	**$ 568**	**$ 156,974**	**$ 247,390**

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

34. COMMITMENTS FOR EXPENDITURE

The Company's commitments for expenditure that have not been disclosed elsewhere in the consolidated financial statements are as follows:

	Within 1 year	2-3 years	Over 3 years	Total
As at December 31, 2019				
Capital expenditure commitments	**$ 5,173**	**$ -**	**$ -**	**$ 5,173**
Operating expenditure commitments	**6,807**	**49**	**313**	**7,169**
Commitments	**$ 11,980**	**$ 49**	**$ 313**	**$ 12,342**
As at December 31, 2018				
Capital expenditure commitments	$ 1,254	$ -	$ -	$ 1,254
Operating expenditure commitments	9,783	970	1,798	12,551
Commitments	$ 11,037	$ 970	$ 1,798	$ 13,805

Management is currently in discussions with the third party contractor who built the wash plant to negotiate certain terms of the contract.

35. CONTINGENCIES

35.1 Class Action Lawsuit

In January 2014, Siskinds LLP, a Canadian law firm, filed a class action (the "Class Action") against the Company, certain of its former senior officers and directors, and its former auditors (the "Former Auditors"), in the Ontario Superior Court in relation to the Company's November 2013 restatement of certain financial statements, which statements were previously disclosed in the Company's earlier public financial statement filings (the "Restatement").

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

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

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

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

35. CONTINGENCIES (CONTINUED)

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

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

35.2 Toll Wash Plant Agreement with Ejin Jinda

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

Under the original agreement with Ejin Jinda, which required the commercial operation of the wet washing facility to commence on October 1, 2011, the additional fees payable by the Company under the wet washing contract would have been $18,500. At each reporting date, the Company assesses the agreement with Ejin Jinda and has determined it is not probable that this $18,500 will be required to be paid. Accordingly, the Company has determined a provision for this matter at December 31, 2019 is not required.

35.3 Tax legislation

Mongolian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant authorities. The Mongolian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged by tax authorities. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. The Mongolian tax legislation does not provide definitive guidance in certain areas, specifically in areas such as VAT, withholding tax, corporate income tax, personal income tax, transfer pricing and other areas. From time to time, the Company adopts interpretations of such uncertain areas that reduce the overall tax rate of the Company. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices. The impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

Management believes that its interpretation of the relevant legislation is appropriate and the Company's positions related to tax and other legislation will be sustained. Management believes that tax and legal risks are remote at present. The management performs regular re-assessment of tax risk and its position may change in the future as a result of the change in conditions that cannot be anticipated with sufficient certainty at present. As of December 31, 2019, management has assessed that recognition of a provision for uncertain tax position is not necessary.

35. CONTINGENCIES (CONTINUED)

35.4 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 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.

36. EVENTS AFTER THE REPORTING PERIOD

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. 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.

36. EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

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 of result of the Company’s failure to file: (i) its annual consolidated financial statements for the year ended December 31, 2019 and the accompanying 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 2019 Annual Information Form and its interim financial statements for the three month periods ended March 31, 2020 and three and six-month period ended June 30, 2020 and the accompanying 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.

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.

36. EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

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

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

Apart from the above, please also refer to Note 21 and Note 25.5 for other events after the reporting period.

(Expressed in thousands of U.S. dollars and shares in thousands, unless otherwise indicated)

ADDITIONAL STOCK EXCHANGE INFORMATION

Additional information required by the HKEX and not shown elsewhere in this report is as follows:

A1. DIRECTOR AND EMPLOYEE EMOLUMENTS

Directors' emoluments

The Company's directors' emoluments consist of the following amounts:

	Year ended December 31, 2019	Year ended December 31, 2018
Directors' fees	**$ 262**	$ 465
Other emoluments for executive and non-executive directors		
Salaries and other benefits	**390**	473
Share-based compensation	**22**	39
Directors' emoluments	**$ 674**	$ 977

Year ended December 31, 2019

Name of director	Directors' fees	Salaries and other benefits	Share-based compensation	Total
Executive directors				
Shougao Wang [iii]	$ -	$ 390	$ 12	$ 402
	$ -	$ 390	$ 12	$ 402
Non-executive directors				
Zhiwei Chen	$ -	$ -	$ -	$ -
Lan Cheng [ii]	-	-	-	-
Xiaoxiao Li [iii]	-	-	-	-
Wen (Wayne) Yao [iii]	-	-	-	-
Ben Niu [i]	-	-	-	-
Yingbin Ian He	83	-	3	86
Jin Lan Quan	77	-	3	80
Mao Sun	102	-	4	106
	$ 262	$ -	$ 10	$ 272
Directors' emoluments	$ 262	$ 390	$ 22	$ 674

(i) Appointed to the Board of Directors during the year ended December 31, 2019.
(ii) Resigned from the Board of Directors during the year ended December 31, 2019.
(iii) Resigned from the Board of Directors during the year ending December 31, 2020.
(iv) Mr. Dalanguerban was appointed to the Board of Directors during the year ending December 31, 2020.

(Expressed in thousands of U.S. dollars and shares in thousands, unless otherwise indicated)

A1. DIRECTOR AND EMPLOYEE EMOLUMENTS (CONTINUED)

Year ended December 31, 2018

Name of director	Directors' fees	Salaries and other benefits	Share-based compensation	Total
Executive directors				
Shougao Wang [(i)]	$ -	$ 290	$ 15	$ 305
	$ -	$ 290	$ 15	$ 305
Non-executive directors				
Zhiwei Chen [(i)]	$ -	$ -	$ -	$ -
Lan Cheng [(i)]	-	-	-	-
Xiaoxiao Li [(i)]	-	-	-	-
Wen (Wayne) Yao	-	-	-	-
Yingbin Ian He	133	-	7	140
Jin Lan Quan	119	-	7	126
Mao Sun	167	-	10	177
Zhu Liu [(ii)]	46	-	-	46
Aminbuhe [(ii)]	-	-	-	-
Yulan Guo [(ii)]	-	183	-	183
	$ 465	$ 183	$ 24	$ 672
Directors' emoluments	$ 465	$ 473	$ 39	$ 977

(i) Appointed to the Board of Directors during the year ended December 31, 2018.
(ii) Resigned from the Board of Directors during the year ended December 31, 2018.

Five highest paid individuals

The five highest paid individuals included one director of the Company for the years ended December 31, 2019 (2018: one director). The emoluments of the five highest paid individuals are as follows:

	Year ended December 31, 2019	2018
Salaries and other benefits	$ 1,358	$ 1,314
Share-based compensation	22	35
Total emoluments	$ 1,380	$ 1,349

The emoluments for the five highest paid individuals were within the following bands:

	Year ended December 31, 2019	2018
HK$ 1,500,001 to HK$ 2,000,000	3	2
HK$ 2,000,001 to HK$ 2,500,000	1	3
HK$ 3,000,001 to HK$ 3,500,000	1	-
	5	5

(Expressed in thousands of U.S. dollars and shares in thousands, unless otherwise indicated)

A2. FIVE YEAR SUMMARY

The following table contains a five year summary of the Company's results, assets and liabilities:

	Year ended December 31,				
	2019	2018	2017 (Restated)	2016 (Restated)	2015
Revenue	**$ 129,712**	$ 103,804	$ 120,973	$ 58,450	$ 16,030
Gross profit/(loss)	**45,312**	23,969	15,115	(28,595)	(47,661)
Net comprehensive loss attributable to equity holders of the Company	**$ (928)**	$ (54,145)	$ (37,515)	$ (69,526)	$ (188,040)
Basic and diluted earnings/(loss) per share	**$ 0.02**	$ (0.15)	$ (0.14)	$ (0.25)	$ (0.79)

	As at December 31,				
	2019	2018	2017 (Restated)	2016 (Restated)	2015
Total assets	**$ 228,427**	$ 227,606	$ 253,436	$ 254,524	$ 290,474
Less: total liabilities	**(277,645)**	(275,746)	(245,608)	(213,308)	(179,781)
Total equity/(deficiency in assets)	**$ (49,218)**	$ (48,140)	$ 7,828	$ 41,216	$ 110,693

A3. CASH

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

	As at December 31,	
	2019	2018
Denominated in U.S. Dollars	**$ 39**	$ 2,207
Denominated in Chinese Renminbi	**6,860**	4,514
Denominated in Mongolian Tugriks	**240**	123
Denominated in Canadian Dollars	**20**	33
Denominated in Hong Kong Dollars	**5**	82
Cash	**$ 7,164**	$ 6,959