SouthGobi Resources Ltd.
Condensed Consolidated Interim Financial Statements

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

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SOUTHGOBI RESOURCES LTD.

Condensed Consolidated Interim Statement of Comprehensive Income

(Unaudited)

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

	Notes	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Revenue	4	**$ 30,960**	$ 28,309	**$ 52,072**	$ 97,599
Cost of sales	6	**(20,027)**	(15,518)	**(36,464)**	(60,954)
Gross profit		**10,933**	12,791	**15,608**	36,645
Other operating expenses	7	**(575)**	(1,245)	**(5,255)**	(3,992)
Administration expenses		**(1,789)**	(2,074)	**(4,851)**	(8,061)
Evaluation and exploration expenses		**(63)**	(22)	**(171)**	(70)
Profit from operations		**8,506**	9,450	**5,331**	24,522
Finance costs	8	**(9,885)**	(7,184)	**(24,250)**	(20,915)
Finance income	8	**2,583**	68	**2,600**	4,381
Share of earnings of a joint venture		**660**	277	**882**	1,104
Profit/(loss) before tax		**1,864**	2,611	**(15,437)**	9,092
Current income tax expense	9	**(793)**	(468)	**(2,425)**	(2,708)
Net profit/(loss) attributable to equity holders of the Company		**1,071**	2,143	**(17,862)**	6,384
Other comprehensive income to be reclassified to profit or loss in subsequent periods					
Exchange difference on translation of foreign operation		**(1,576)**	(695)	**(6,365)**	(1,474)
Net comprehensive income/(loss) attributable to equity holders of the Company		**$ (505)**	$ 1,448	**$ (24,227)**	$ 4,910
Basic and diluted earnings/(loss) per share	10	**$ -**	$ 0.01	**$ (0.07)**	$ 0.02

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

SOUTHGOBI RESOURCES LTD.

Condensed Consolidated Interim Statement of Financial Position

(Unaudited)

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

		As at	
	Notes	September 30, 2020	December 31, 2019
Assets			
Current assets			
Cash and cash equivalents		**$ 3,590**	$ 7,164
Restricted cash		**885**	862
Trade and other receivables	11	**841**	1,778
Inventories	12	**39,953**	52,237
Prepaid expenses and deposits		**1,443**	2,312
Total current assets		**46,712**	64,353
Non-current assets			
Property, plant and equipment	13	**$ 131,958**	$ 137,221
Inventories	12	**2,613**	9,332
Investments in a joint venture		**16,620**	17,521
Total non-current assets		**151,191**	164,074
Total assets		**$ 197,903**	$ 228,427
Equity and liabilities			
Current liabilities			
Trade and other payables	14	**$ 77,597**	$ 87,013
Provision for commercial arbitration	15	**-**	5,593
Deferred revenue		**8,109**	16,057
Interest-bearing borrowings	16	**2,837**	2,835
Lease liabilities		**211**	460
Current portion of convertible debenture	17	**174,977**	67,106
Total current liabilities		**263,731**	179,064
Non-current liabilities			
Lease liabilities		**-**	108
Convertible debenture	17	**-**	89,868
Decommissioning liability		**7,510**	8,605
Total non-current liabilities		**7,510**	98,581
Total liabilities		**271,241**	277,645
Equity			
Common shares		**1,098,634**	1,098,634
Share option reserve		**52,696**	52,589
Capital reserve		**396**	396
Exchange reserve		**(29,593)**	(23,228)
Accumulated deficit		**(1,195,471)**	(1,177,609)
Total deficiency in assets		**(73,338)**	(49,218)
Total equity and liabilities		**$ 197,903**	$ 228,427
Net current liabilities		**$ (217,019)**	$ (114,711)
Total assets less current liabilities		**$ (65,828)**	$ 49,363

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

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

APPROVED BY THE BOARD:

"Mao Sun"	*"Dalanguerban"*
Director	Director

SOUTHGOBI RESOURCES LTD.

Condensed Consolidated Interim Statement of Changes in Equity

(Unaudited)

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

	Number of shares/units		Share capital		Share option reserve		Capital reserve		Exchange fluctuation reserve		Accumulated deficit		Total
Restated balances, January 1, 2019	272,703	$	1,098,634	$	52,542	$	396	$	(18,099)	$	(1,181,613)	$	(48,140)
Change in accounting policy due to IFRS 16	-		-		-		-		-		(197)		(197)
Restated balances, January 1, 2019	272,703	$	1,098,634	$	52,542	$	396	$	(18,099)	$	(1,181,810)	$	(48,337)
Share-based compensation charged to operations	-		-		36		-		-		-		36
Net profit for the period	-		-		-		-		-		6,384		6,384
Exchange differences on translation of foreign operations	-		-		-		-		(1,474)		-		(1,474)
Balances, September 30, 2019	272,703		1,098,634		52,578		396		(19,573)		(1,175,426)		(43,391)
Balances, January 1, 2020	**272,703**	**$**	**1,098,634**	**$**	**52,589**	**$**	**396**	**$**	**(23,228)**	**$**	**(1,177,609)**	**$**	**(49,218)**
Share-based compensation charged to operations	**-**		**-**		**107**		**-**		**-**		**-**		**107**
Net loss for the period	**-**		**-**		**-**		**-**		**-**		**(17,862)**		**(17,862)**
Exchange differences on translation of foreign operations	**-**		**-**		**-**		**-**		**(6,365)**		**-**		**(6,365)**
Balances, September 30, 2020	**272,703**	**$**	**1,098,634**	**$**	**52,696**	**$**	**396**	**$**	**(29,593)**	**$**	**(1,195,471)**	**$**	**(73,338)**

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

SOUTHGOBI RESOURCES LTD.

Condensed Consolidated Interim Statement of Cash Flows

(Unaudited)

(Expressed in thousands of U.S. Dollars)

	Notes	Nine months ended September 30, 2020	2019
Operating activities			
Profit/(loss) before tax		**$ (15,437)**	$ 9,092
Adjustments for:			
Depreciation and depletion		**8,662**	11,523
Share-based compensation		**107**	36
Interest expense on convertible debenture	8	**21,292**	17,485
Interest expense on borrowings	8	**283**	636
Finance costs on leased assets	8	**41**	105
Accretion of decommissioning liability	8	**479**	188
Unrealized gain on embedded derivatives in convertible debenture	8	**(44)**	(44)
Interest income	8	**(11)**	(44)
IFRS 9 adjustment on convertible debenture	8	**(2,545)**	(4,293)
Share of earnings of a joint venture		**(882)**	(1,104)
Loss/(gain) on disposal of property, plant and equipment, net	5	**61**	(29)
Loss on disposal of properties for resale	5	**-**	37
Provision/(reversal of provision) for doubtful trade and other receivables	11	**(200)**	441
Provision for commercial arbitration	5	**4,634**	406
Provision for prepaid expenses and deposits	7	**-**	260
Reversal of impairment of inventories	12	**-**	(1,823)
Operating cash flows before changes in non-cash working capital items		**16,440**	32,872
Net change in non-cash working capital items	19	**(8,783)**	(8,313)
Cash generated from operating activities		**7,657**	24,559
Interest paid		**(981)**	(1,054)
Income tax paid		**(105)**	(164)
Net cash flows from operating activities		**6,571**	23,341
Investing activities			
Expenditures on property, plant and equipment		**(7,214)**	(13,309)
Proceeds from disposal of property, plant and equipment		**156**	70
Disposal of properties for resale		**-**	174
Interest received		**11**	44
Dividend from a joint venture		**1,051**	1,640
Cash used in investing activities		**(5,996)**	(11,381)
Financing activities			
Repayment of interest-bearing loans		**-**	(700)
Principal elements of lease payments		**(412)**	(598)
Refund of customers' deposits		**(3,788)**	(12,382)
Cash used in financing activities		**(4,200)**	(13,680)
Effect of foreign exchange rate changes on cash and cash equivalents		**51**	(7)
Decrease in cash and cash equivalents		**(3,574)**	(1,727)
Cash and cash equivalents, beginning of period		**7,164**	6,959
Cash and cash equivalents, end of period		**$ 3,590**	$ 5,232

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

1. CORPORATE INFORMATION AND GOING CONCERN

SouthGobi Resources Ltd. is a publicly listed company incorporated in Canada with limited liability under the legislation of the Province of British Columbia and its shares are listed for trading on the Toronto Stock Exchange ("TSX") (Symbol: SGQ) and Hong Kong Stock Exchange ("HKEX") (Stock code: 1878). The company, together with its subsidiaries (collectively referred to as the "Company"), is an integrated coal mining, development and exploration company. At September 30, 2020, to the Company's best knowledge, Land Breeze II S.à.r.l., a wholly-owned subsidiary of China Investment Corporation (together with its wholly-owned subsidiaries and affiliates, "CIC") owned approximately 23.8% of the outstanding common shares of the Company. Novel Sunrise Investments Limited ("Novel Sunrise"), a wholly-owned subsidiary of China Cinda (HK) Investments Management Company Limited ("Cinda") and Voyage Wisdom Limited owned approximately 17.0% and 9.5% of the outstanding common shares of the Company, respectively.

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

The registered and records office of the Company is located at 20th Floor, 250 Howe Street, Vancouver, British Columbia, Canada, V6C 3R8. The principal place of business of the Company is located at Unit 1208-10, Tower One, Grand Century Place, 193 Prince Edward Road West, Mongkok, Kowloon, Hong Kong.

Going concern assumption

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

Several adverse conditions and material uncertainties cast significant doubt upon the Company's ability to continue as a going concern and the going concern assumption used in the preparation of the Company's condensed consolidated interim financial statements. The Company had a deficiency in assets of $73,338 as at September 30, 2020 compared to a deficiency in assets of $49,218 as at December 31, 2019 while the working capital deficiency (excess current liabilities over current assets) reached $217,019 as at September 30, 2020 compared to a working capital deficiency of $114,711 as at December 31, 2019.

Included in the working capital deficiency as at September 30, 2020 are significant obligations, which include the interest amounting to $84,769 in relation to the convertible debenture with CIC ("CIC Convertible Debenture") subject to various deferral agreements as disclosed in Note 17.5.

1. CORPORATE INFORMATION AND GOING CONCERN (CONTINUED)

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

The Company also has current liabilities, including trade and other payables of $77,597 and interest payable under the CIC Convertible Debenture of $84,769 as at September 30, 2020. Out of trade and other payables, which require settlement in the short-term, are unpaid taxes of $32,702 that 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 any continuing postponement in settling certain trade and other payables owed to suppliers and creditors may impact the mining operations of the Company and may result in potential lawsuits and/or bankruptcy proceedings being filed against the Company. Except as disclosed elsewhere in these condensed consolidated interim financial statements, no such lawsuits or proceedings were pending as at January 4, 2021.

Further, the closure of the Mongolian-Chinese border during the period between February 11, 2020 to March 27, 2020 and the limitations imposed on the total volume of coal exports subsequent to the re-opening of the border on a trial basis effective as of March 28, 2020 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 December 31, 2020, SGS employed 237 employees at the Ovoot Tolgoi Mine site (December 31, 2019: 383 employees). The Company produced 1.5 million tonnes from August to December 2020, as compared to 2.3 million tonnes from August to December 2019. The Company will continue to closely monitor the development of the Coronavirus Disease 2019 (“COVID-19”) pandemic and the impact it has on coal exports to China and will react promptly to preserve the working capital of the Company.

1. CORPORATE INFORMATION AND GOING CONCERN (CONTINUED)

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

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

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

The condensed consolidated interim financial statements of the Company for the nine months ended September 30, 2020 were approved and authorized for issue by the Board of Directors of the Company on January 4, 2021.

2.2 Basis of presentation

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

2.3 Adoption of new and revised standards and interpretations

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

2.4 Significant accounting judgments and estimates

Information about judgments and estimates in applying accounting policies that have the most significant effect on the amounts recognized in the Company's consolidated financial statements are included in Note 3.22 to the Company's December 31, 2019 consolidated annual financial statements. The significant accounting judgments and estimates remain substantially unchanged from December 31, 2019.

Liquidity and the going concern assumption

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

2. BASIS OF PREPARATION (CONTINUED)

Review of carrying value of assets and impairment charges

In the determination of carrying values and impairment charges, management of the Company reviews the recoverable amount (the higher of the fair value less costs of disposal or the value in use) in the case of non-financial assets. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period. Changes in these assumptions may alter the results of non-financial asset and financial asset impairment testing, impairment charges recognized in profit or loss and the resulting carrying amounts of assets.

Ovoot Tolgoi Mine cash generating unit

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

Expected credit losses for trade and other receivables

The Company applies the IFRS 9 simplified approach to measuring expected credit losses on its trade receivables and estimates expected credit loss based on the possible default events on its trade and other receivables. The Company has determined that the loss allowance on its trade and other receivables was $22,292 (December 31, 2019: $21,976) as at September 30, 2020.

3. SEGMENTED INFORMATION

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

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

3.1 Information about major customers

During the nine months ended September 30, 2020, the Coal Division had eleven active customers. Four customers with respective revenues contributed over 10% of the total revenue during the nine months ended September 30, 2020, with the largest customer accounting for 28% of revenues, the second largest customer accounting for 20% of revenues, the third largest customer accounting for 16% of revenues and the fourth largest customer accounting for 11% of revenues. Two customers with respective revenues contributed over 10% of the total revenue during the nine months ended September 30, 2019, with the largest customer accounting for 45% of revenues and the second largest customer accounting for 35% of revenues.

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

3. SEGMENTED INFORMATION (CONTINUED)

3.2 Geographical information

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

	Mongolia	Hong Kong	China	Consolidated Total
Revenue (i)				
For the three months ended September 30, 2020	**$ -**	**$ -**	**$ 30,960**	**$ 30,960**
For the three months ended September 30, 2019	-	-	28,309	28,309
For the nine months ended September 30, 2020	**$ -**	**$ -**	**$ 52,072**	**$ 52,072**
For the nine months ended September 30, 2019	-	-	97,599	97,599
Non-current assets				
As at September 30, 2020	**$ 150,534**	**$ 157**	**$ 500**	**$ 151,191**
As at December 31, 2019	162,865	390	819	164,074

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

4. REVENUE

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

5. EXPENSES BY NATURE

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

	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Depreciation	**$ 3,357**	$ 3,155	**$ 8,625**	$ 11,566
Auditors' remuneration	**159**	71	**542**	941
Employee benefit expense (including directors' remuneration)				
Wages and salaries	**$ 1,900**	$ 2,686	**$ 5,804**	$ 8,042
Equity-settled share option expense	**19**	8	**107**	36
Pension scheme contributions	**75**	312	**398**	1,003
	$ 1,994	$ 3,006	**$ 6,309**	$ 9,081
Lease payments under operating leases	**$ 109**	$ 22	**$ 151**	$ 100
Foreign exchange loss/(gain)	**113**	(477)	**(639)**	(478)
Reversal of impairment of coal stockpile inventories (Note 12)	**-**	(5,289)	**-**	(1,823)
CIC management fee (Note 18)	**864**	1,175	**1,399**	3,355
Royalties (Note 6)	**3,480**	2,326	**6,437**	6,903
Provision/(reversal of provision) for doubtful trade and and other receivables (Note 11)	**(482)**	344	**(200)**	441
Provision for prepaid expenses and deposits	**-**	-	**-**	260
Loss/(gain) on disposal of property, plant and equipment, net	**80**	-	**61**	(29)
Provision for commercial arbitration	**-**	180	**4,634**	406
Loss on disposal of properties for resale	**-**	23	**-**	37
Mine operating costs and other	**12,780**	14,323	**19,422**	42,317
Total operating expenses	**$ 22,454**	$ 18,859	**$ 46,741**	$ 73,077

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

6. COST OF SALES

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

	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Operating expenses	**$ 13,390**	$ 15,485	**$ 21,912**	$ 44,794
Share-based compensation expense	**4**	2	**23**	7
Depreciation and depletion	**2,297**	2,121	**4,163**	8,379
Royalties	**3,480**	2,326	**6,437**	6,903
Reversal of impairment of coal stockpile inventories	**-**	(5,289)	**-**	(1,823)
Cost of sales from mine operations	**19,171**	14,645	**32,535**	58,260
Cost of sales related to idled mine assets (i)	**856**	873	**3,929**	2,694
Cost of sales	**$ 20,027**	$ 15,518	**$ 36,464**	$ 60,954

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

Cost of inventories recognized as expense in cost of sales for the three months ended September 30, 2020 totaled $14,016 (2019: $17,667). Cost of inventories recognized as expense in cost of sales for the nine months ended September 30, 2020 totaled $23,838 (2019: $52,033).

7. OTHER OPERATING EXPENSES

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

	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Reversal of provision/(provision) for doubtful trade and other receivables (Note 11)	**$ 482**	$ (344)	**$ 200**	$ (441)
Foreign exchange gain/(loss)	**(113)**	477	**639**	478
CIC service fee	**(864)**	(1,175)	**(1,399)**	(3,355)
Provision for commercial arbitration (Note 15)	**-**	(180)	**(4,634)**	(406)
Provision for prepaid expenses and deposits	**-**	-	**-**	(260)
Loss on disposal of properties for resale	**-**	(23)	**-**	(37)
Gain/(loss) on disposal of property, plant and equipment, net (Note 13)	**(80)**	-	**(61)**	29
Other operating expenses	**$ (575)**	$ (1,245)	**$ (5,255)**	$ (3,992)

8. FINANCE COSTS AND INCOME

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

	Three months ended, September 30, 2020	Three months ended, September 30, 2019	Nine months ended, September 30, 2020	Nine months ended, September 30, 2019
Interest expense on convertible debenture (Note 17)	**$ 8,935**	$ 5,964	**$ 21,292**	$ 17,485
Value added tax on interest from intercompany loan and borrowings	**718**	905	**2,155**	2,501
Interest expense on borrowings	**85**	211	**283**	636
Finance costs on leased assets	**9**	30	**41**	105
Accretion of decommissioning liability	**138**	74	**479**	188
Finance costs	**$ 9,885**	$ 7,184	**$ 24,250**	$ 20,915

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

8. FINANCE COSTS AND INCOME (CONTINUED)

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

	Three months ended, September 30,		Nine months ended, September 30,	
	2020	2019	2020	2019
Unrealized gain on embedded derivatives in convertible debenture (Note 17)	$ 35	$ 53	$ 44	$ 44
Interest income	3	15	11	44
IFRS 9 adjustment on convertible debenture (Note 17)	2,545	-	2,545	4,293
Finance income	$ 2,583	$ 68	$ 2,600	$ 4,381

9. TAXES

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

	Three months ended, September 30,		Nine months ended, September 30,	
	2020	2019	2020	2019
Current - Canada				
Charge for the period	$ -	$ -	$ -	$ -
Current - elsewhere				
Charge for the period	793	858	2,261	2,966
Underprovision/(overprovision) in prior periods	-	(390)	164	(258)
Total tax charge for the period	$ 793	$ 468	$ 2,425	$ 2,708

10. EARNINGS/(LOSS) PER SHARE

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

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Net profit/(loss)	$ 1,071	$ 2,143	$ (17,862)	$ 6,384
Weighted average number of shares	272,703	272,703	272,703	272,703
Basic and diluted earnings/(loss) per share	$ -	$ 0.01	$ (0.07)	$ 0.02

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

11. TRADE AND OTHER RECEIVABLES

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

	As at September 30, 2020	As at December 31, 2019
Trade receivables	**$ 46**	$ 1,081
Other receivables	**795**	697
Total trade and other receivables	**$ 841**	$ 1,778

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

	As at September 30, 2020	As at December 31, 2019
Less than 1 month	**$ 753**	$ 1,623
1 to 3 months	**46**	23
3 to 6 months	**42**	132
Over 6 months	**-**	-
Total trade and other receivables	**$ 841**	$ 1,778

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

The Company has determined that the loss allowance on its trade and other receivables was $22,292 as at September 30, 2020 (December 31, 2019: $21,976), based upon an expected loss rate of 10% for trade and other receivables 60 days past due and 100% for trade and other receivables 180 days past due. The closing allowances for trade and other receivables as at September 30, 2020 reconcile to the opening loss allowances as follows:

Loss allowance for trade and other receivables	
Opening loss allowance as at January 1, 2020	**$ 21,976**
Decrease in loss allowance recognised in profit or loss during the period	**(200)**
Exchange realignment	**516**
Loss allowance as at September 30, 2020	**$ 22,292**
Opening loss allowance as at January 1, 2019	$ 20,005
Increase in loan allowance recognised in profit or loss during the period	155
Loss allowance included in specific provision made during the year ended December 31, 2018	1,745
Exchange realignment	(857)
Loss allowance as at September 30, 2019	$ 21,048

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

12. INVENTORIES

The Company's inventories consist of the following amounts:

	As at	
	September 30, 2020	**December 31, 2019**
Current inventories		
Coal stockpiles	**$ 26,271**	$ 37,597
Materials and supplies	**13,682**	14,640
	39,953	52,237
Non-current inventories		
Coal stockpiles	**2,613**	9,332
Total inventories	**$ 42,566**	$ 61,569

No impairment loss nor reversal of impairment related to the Company's coal stockpile inventories was recognized for the three and nine months ended September 30, 2020 (reversal of impairment for the three and nine months ended September 30, 2019: $5,289 and $1,823, respectively).

Coal stockpile inventories of $2,613 are not expected to be utilized or sold within 12 months and are therefore classified as non-current inventories as at September 30, 2020 (December 31, 2019: $9,332).

13. PROPERTY, PLANT AND EQUIPMENT

During the nine months ended September 30, 2020, the Company acquired items of plant and equipment with a cost of approximately $8,782 (nine months ended September 30, 2019: $16,485). Items of plant and equipment with a net book value of $204 were disposed of during the nine months ended September 30, 2020 (nine months ended September 30, 2019: $579), resulting in a loss on disposal of $61 (nine months ended September 30, 2019: gain on disposal of $29).

13.1 Non-depreciable assets

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

13.2 Pledge on items of property, plant and equipment

As at September 30, 2020, certain of the Company's property, plant and equipment of $57 (December 31, 2019: $439) were pledged as security for a bank loan granted to the Company (Note 16).

13.3 Right-of-use assets

The right-of-use assets relate to the buildings amounted to $230 as at September 30, 2020.

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

14. TRADE AND OTHER PAYABLES

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

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

	As at	
	September 30, 2020	December 31, 2019
Less than 1 month	**$ 24,152**	$ 29,750
1 to 3 months	**1,396**	13,165
3 to 6 months	**2,253**	12,218
Over 6 months	**49,796**	31,880
Total trade and other payables	**$ 77,597**	$ 87,013

15. PROVISION FOR COMMERCIAL ARBITRATION

On June 24, 2015, First Concept Industrial Group Limited ("First Concept") served a notice of arbitration (the "Notice") on SGS in respect of a coal supply agreement dated May 19, 2014 as amended on June 27, 2014 (the "Coal Supply Agreement") for a total consideration of $11,500.

On January 10, 2018, the Company received a confidential partial ruling (final except as to costs) with respect to the commercial arbitration (the "Arbitration Award"). Pursuant to the Arbitration Award, SGS was ordered to repay the sum of $11,500 (which SGS had received as a prepayment for the purchase of coal) to First Concept, together with accrued interest at a simple interest rate of 6% per annum from the date which the prepayment was made until the date of the Arbitration Award, and then at a simple interest rate of 8% per annum until full payment. The Arbitration Award is final, except as to costs which were reserved for a future award.

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

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

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

15. PROVISION FOR COMMERCIAL ARBITRATION (CONTINUED)

On February 7, 2020, SGS was informed by its Mongolian banks that they received a request from the Court Decision Implementing Agency of Mongolia (the "CDIA") to freeze the respective bank accounts of SGS in Mongolia in relation to the enforcement of the Arbitration Award. Approximately $800 is being frozen by the banks as at February 7, 2020 and such amount was subsequently being transferred to the CDIA on March 6, 2020.

On June 7, 2020, SGS entered into a settlement agreement with First Concept, pursuant to which SGS agreed to pay to First Concept a settlement sum of $8,040 in full and final settlement of any and all claims which First Concept may have against SGS in relation to Arbitration Award, the subject matter of the Arbitration Award including any claims for interests and costs and the fees and expenses of the Arbitration Award, and any and all enforcement proceedings and applications in any jurisdictions, and in relation to the deed of settlement with First Concept (the "Full Settlement Sum"). The Full Settlement Sum was fully satisfied by the Company in June 2020 and the outstanding payable to First Concept as of the date hereof is $nil.

16. INTEREST-BEARING BORROWINGS

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

	As at	
	September 30, 2020	**December 31, 2019**
Bank loan [(i)]	**$ 2,837**	$ 2,835
Total interest-bearing borrowings	**$ 2,837**	$ 2,835

(i) Bank Loan

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

- Maturity date set at 24 months from drawdown (subsequently extended for 12 months on May 18, 2020);
- Interest rate of 15% per annum and interest is payable monthly; and
- Certain items of property, plant and equipment were pledged as security for the 2018 Bank Loan. As at September 30, 2020, the net book value of the pledged items of property, plant and equipment was $57 (December 31, 2019: $439).

As at September 30, 2020, the outstanding principal balance for the 2018 Bank Loan was $2,800 (December 31, 2019: $2,800) and the Company owed accrued interest of $37 (December 31, 2019: $35).

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

17. CONVERTIBLE DEBENTURE

17.1 Key commercial terms

On November 19, 2009, the Company issued a convertible debenture to a wholly owned subsidiary of CIC for $500,000. The convertible debenture bears interest at 8.0% per annum (6.4% payable semi-annually in cash and 1.6% payable annually in the Company's shares) and has a maximum term of 30 years. During 2010, the Company exercised a right within the debenture to call and convert $250,000 of the debenture for 21,471 common shares. Following the conversion, the outstanding principal balance was $250,000 and has remained unchanged at that balance to September 30, 2020.

17.2 Debt host and embedded derivatives

The convertible debenture is presented as a liability since it contains no equity components. The convertible debenture is a hybrid instrument, containing a debt host component and three embedded derivatives - the investor's conversion option, the issuer's conversion option and the equity based interest payment provision (the 1.6% share interest payment) (the "embedded derivatives"). The debt host component is classified as other-financial-liabilities and is measured at amortized cost using the effective interest rate method and the embedded derivatives are classified as FVTPL and all changes in fair value are recorded in profit or loss. The difference between the debt host component and the principal amount of the loan outstanding is accreted to profit or loss over the expected life of the convertible debenture.

The embedded derivatives were valued upon initial measurement and subsequent periods using a Monte Carlo simulation valuation model. A Monte Carlo simulation model is a valuation model that relies on random sampling and is often used when modeling systems with a large number of inputs and where there is significant uncertainty in the future value of inputs and where the movement of the inputs can be independent of each other. Some of the key inputs used by the Company in its Monte Carlo simulation include: the floor and ceiling conversion prices, the Company's Common Share price, the risk-free rate of return, expected volatility of the Company's Common Share price, forward foreign exchange rate curves (between the CAD$ and U.S. Dollar) and spot foreign exchange rates.

17.3 Valuation assumptions

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

	As at	
	September 30, 2020	**December 31, 2019**
Floor conversion price	**CAD$8.88**	CAD$8.88
Ceiling conversion price	**CAD$11.88**	CAD$11.88
Common share price	**CAD$0.09**	CAD$0.09
Historical volatility	**83%**	80%
Risk free rate of return	**0.99%**	1.76%
Foreign exchange spot rate (CAD$ to U.S. Dollar)	**0.75**	0.77
Forward foreign exchange rate curve (CAD$ to U.S. Dollar)	**0.707 - 0.765**	0.761 - 0.770

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

17. CONVERTIBLE DEBENTURE (CONTINUED)

17.4 Presentation

Based on the Company's valuation as at September 30, 2020, the fair value of the embedded derivatives decreased by $44 and $35 compared to that at December 31, 2019 and at June 30, 2020, respectively. The changes in fair value were recorded as finance expense for the three and nine months ended September 30, 2020, respectively.

For the three months ended September 30, 2020, the Company recorded interest expense of $8,935 related to the convertible debenture as a finance cost (2019: $5,964). For the nine months ended September 30, 2020, the Company recorded interest expense of $21,292 related to the convertible debenture as a finance cost (2019: $17,485). The interest expense consists of the interest at the contract rate and the accretion of the debt host component of the convertible debenture. To calculate the accretion expense, the Company uses the contract life of 30 years and an effective interest rate of 22.2%.

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

	Three months ended September 30,		Nine months ended September 30,	
	2020	**2019**	**2020**	**2019**
Balance, beginning of period	**$ 168,622**	$ 147,138	**$ 156,974**	$ 139,901
Interest expense on convertible debenture	**8,935**	5,964	**21,292**	17,485
Decrease in fair value of embedded derivatives	**(35)**	(53)	**(44)**	(44)
Interest paid	**-**	-	**(700)**	-
IFRS 9 fair value adjustment	**(2,545)**	-	**(2,545)**	(4,293)
Balance, end of period	**$ 174,977**	$ 153,049	**$ 174,977**	$ 153,049

The convertible debenture balance consists of the following amounts:

	As at	
	September 30, 2020	**December 31, 2019**
Current convertible debenture		
Interest payable	**$ 84,769**	$ 67,106
Debt host	**90,056**	-
Fair value of embedded derivatives	**152**	-
	174,977	67,106
Non-current convertible debenture		
Debt host	**-**	89,672
Fair value of embedded derivatives	**-**	196
	-	89,868
Total convertible debenture	**$ 174,977**	$ 156,974

17. CONVERTIBLE DEBENTURE (CONTINUED)

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

17.5 Interest deferral and settlement

On February 19, 2020, the Company and CIC entered into an agreement (the "2020 February Deferral Agreement") pursuant to which CIC agreed to grant the Company a deferral of: (i) deferred cash interest and deferral fees of $1,300 and $2,000 which were due and payable to CIC on January 19, 2020 and February 19, 2020, respectively, under the deferral agreement dated April 23, 2019 (the "2019 Deferral Agreement") (collectively, the "2020 February Deferral Amounts"); and (ii) approximately $700 of the service fee ("Management Fee") payable to CIC under the mutual co-operation agreement (the Cooperation Agreement") dated November 19, 2009 between SGS and CIC, which was due and payable on February 14, 2020 to CIC under the amended and restated Cooperation Agreement (the "Amended and Restated Cooperation Agreement"). The 2020 February Deferral Agreement became effective on March 10, 2020, being the date on which the Company obtained the requisite acceptance of the 2020 February Deferral Agreement from the TSX as required under applicable TSX rules.

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

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

17. CONVERTIBLE DEBENTURE (CONTINUED)

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

On March 10, 2020, the Company agreed with CIC (the "2020 March Deferral Agreement") that the $2,000 which were due and payable to CIC on March 19, 2020 (the "2020 March Deferral Amount") under the 2019 Deferral Agreement will be deferred until June 20, 2020. The terms of the 2020 March Deferral Agreement are substantially the same as the terms of the 2020 February Deferral Agreement, including that the Company agreed to pay CIC a deferral fee equal to 6.4% per annum on the 2020 March Deferral Amount, commencing on March 19, 2020. The 2020 March Deferral Agreement became effective on March 25, 2020, being the date on which the Company obtained the requisite acceptance of the 2020 March Deferral Agreement from the TSX as required under applicable TSX rules.

On April 10, 2020, the Company agreed with CIC (the "2020 April Deferral Agreement") that the $2,000 which was due and payable to CIC on April 19, 2020 under the 2019 Deferral Agreement (the "2020 April Deferral Amount") will be deferred until June 20, 2020. The terms of the 2020 April Deferral Agreement are substantially the same as the terms of the 2020 February Deferral Agreement, including that the Company agreed to pay CIC a deferral fee equal to 6.4% per annum on the 2020 April Deferral Amount, commencing on April 19, 2020. The 2020 April Deferral Agreement became effective on April 29, 2020, being the date on which the Company obtained the requisite acceptance of the 2020 April Deferral Agreement from the TSX as required under applicable TSX rules.

On May 8, 2020, the Company agreed with CIC (the "2020 May Deferral Agreement") that the $2,000 which was due and payable to CIC on May 19, 2020 under the 2019 Deferral Agreement (the "2020 May Deferral Amount") will be deferred until June 20, 2020. The terms of the 2020 May Deferral Agreement are substantially the same as the terms of the 2020 February Deferral Agreement, including that the Company agreed to pay CIC a deferral fee equal to 6.4% per annum on the deferred cash interest and deferral fees commencing on May 19, 2020 and a deferral fee equal to 2.5% per annum on the deferred Management 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.

17. CONVERTIBLE DEBENTURE (CONTINUED)

On November 19, 2020, the Company and CIC entered into an agreement (the "2020 November Deferral Agreement") pursuant to which CIC agreed to grant the Company a deferral of: (i) deferred cash interest and deferral fees of $75,194 which were due and payable to CIC on or before September 14, 2020, under the 2020 June Deferral Agreement; (ii) semi-annual cash interest payments in the aggregate amount of $16,000 payable to CIC on November 19, 2020 and May 19, 2021; (iii) $4,000 worth of PIK Interest shares ("2020 November PIK Interest") issuable to CIC on November 19, 2020 under the CIC Convertible Debenture; and (iv) the Management 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 in Note 21) to, amongst other things, permit the Company to execute the 2020 November Deferral Agreement.

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

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

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

17. CONVERTIBLE DEBENTURE (CONTINUED)

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

18. RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in profit or loss, the Company had related party transactions with the following company related by way of directors or shareholders in common during the three and nine months ended September 30, 2020:

- CIC – CIC is a major shareholder of the Company, CIC holds approximately 23.8% of the issued and outstanding common shares of the Company as at September 30, 2020. The Amended and Restated Cooperation Agreement states that an amount of Management Fee being calculated based on 2.5% of the revenue of SGS shall be paid to CIC on a quarterly basis. During the three and nine months ended September 30, 2020, $864 and $1,399 was recorded, respectively (three and nine months ended September 30, 2019: $1,175 and $3,355, respectively).

18.1 Related party expenses

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

	Three months ended September 30,		Nine months ended September 30,	
	2020	**2019**	**2020**	**2019**
Finance costs	**$ 6,390**	$ 5,964	**$ 18,747**	$ 17,485
Service fee	**864**	1,175	**1,399**	3,355
Related party expenses	**$ 7,254**	$ 7,139	**$ 20,146**	$ 20,840

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

19. SUPPLEMENTAL CASH FLOW INFORMATION

19.1 Non-cash financing and investing activities

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

	Nine months ended September 30,			
	2020		2019	
Addition to decommissioning liability	**$**	**1,200**	$	933
Amortization of deferred stripping being capitalized		**2,658**		2,288
Net depreciation capitalized into/(utilized from) inventories		**(3,090)**		3,749
Trade payables offset by fixed assets		**-**		538
Trade payables offset by properties for resale		**-**		2,086

19.2 Net change in non-cash working capital items

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

	Nine months ended September 30,			
	2020		2019	
Decrease/(increase) in inventories	**$**	**13,499**	$	(9,765)
Decrease/(increase) in trade and other receivables and notes receivables		**(716)**		4,886
Decrease/(increase) in prepaid expenses and deposits		**673**		(439)
Decrease in trade and other payables		**(8,517)**		(9,590)
Increase/(decrease) in deferred revenue		**(7,283)**		1,613
Decrease in provision for commercial arbitration		**(10,227)**		(7,400)
Reclassification of refund customers' deposits as financing activities		**3,788**		12,382
Net change in non-cash working capital items	**$**	**(8,783)**	$	(8,313)

20. COMMITMENTS FOR EXPENDITURE

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

	Within 1 year		2-3 years		Over 3 years		Total	
As at September 30, 2020								
Capital expenditure commitments	**$**	**2,490**	**$**	**-**	**$**	**-**	**$**	**2,490**
Operating expenditure commitments		**2,941**		**153**		**1,228**		**4,322**
Commitments	**$**	**5,431**	**$**	**153**	**$**	**1,228**	**$**	**6,812**
As at December 31, 2019								
Capital expenditure commitments	$	5,173	$	-	$	-	$	5,173
Operating expenditure commitments		6,807		49		313		7,169
Commitments	$	11,980	$	49	$	313	$	12,342

21. EVENTS AFTER THE REPORTING PERIOD

Cease trade order

On June 19, 2020, the BCSC issued a general “failure to file” cease trade order (“CTO”), to prohibit the trading by any person of any securities of the Company in Canada. Trading in the common shares on the TSX was halted as a result of the CTO. The CTO was issued as 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 condensed consolidated interim 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 makes a successful application to the BCSC to have the CTO revoked. While the Company is taking such actions as it considers necessary in order to remedy its filing defaults as soon as possible, there can be no assurance that the Company will have the CTO lifted in a timely manner or at all. For so long as the CTO remains in effect, it will have a significant adverse impact on the liquidity of the common shares and shareholders may suffer a significant decline or total loss in value of its investment in the common shares as a result.

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

Guidance on the resumption of trading of the common shares

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

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

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

21. EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

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

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

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

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