SouthGobi Resources Ltd.

Management's Discussion and Analysis of Financial Condition and Results of Operations

June 30, 2017

(Expressed in U.S. Dollars)

FORWARD-LOOKING STATEMENTS

Except for statements of fact relating to SouthGobi Resources Ltd. and its subsidiaries (collectively, the "Company"), certain information contained herein constitutes forward-looking statements. Forward-looking statements are frequently characterized by words such as "plan", "expect", "project", "intend", "believe", "anticipate", "could", "should", "seek", "likely", "estimate" and other similar words or statements that certain events or conditions "may" or "will" occur. Forward-looking statements relate to management's future outlook and anticipated events or results and are based on the opinions and estimates of management at the times the statements are made. Forward-looking statements in this Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") include, but are not limited to, statements regarding:

- the Company continuing as a going concern and its ability to realize its assets and discharge its liabilities in the normal course of operations as they become due; adjustments to the amounts and classifications of assets and liabilities in the Company's consolidated financial statements and the impact thereof;
- the Company's expectations of sufficient liquidity and capital resources to meet its ongoing obligations and future contractual commitments, including the Company's ability to settle its trade payables, to secure additional funding and to meet its obligations under each of the China Investment Corporation ("CIC") convertible debenture (the "CIC Convertible Debenture"), the Turquoise Hill Resources Ltd. ("Turquoise Hill") shareholder loan (the "TRQ Loan") and the bank loan, as the same become due;
- the Company's anticipated financing needs, development plans and future production levels;
- the ability of the Company to satisfy the balance of the outstanding Tax Penalty (as defined under Section 6 of this MD&A under the heading entitled "*Regulatory Issues and Contingencies - Governmental and Regulatory Investigations*");
- the ability of the Company to negotiate favorable repayment terms on the TRQ Reimbursable Amount (as described under Section 5 of this MD&A under the heading entitled "*Liquidity and Capital Management – Costs Reimbursable to Turquoise Hill*");
- the ability of the Company to meet the repayment terms as per the triparty settlement agreement with ICIC LLC ("ICIC");
- the potential consequence to the Company if the judicial order in relation to the settlement agreement with Magnai Trade LLC is taken to a bailiff service by ICIC;
- the outcome of arbitration proceedings involving the Company and First Concept Logistics Limited ("First Concept") with respect to a coal supply agreement and payments thereunder;
- the results and impact of the Ontario class action (as described under Section 6 of this MD&A under the heading entitled "*Regulatory Issues and Contingencies – Class Action Lawsuit*");
- the estimates and assumptions included in the Company's impairment analysis and the possible impact of changes thereof;
- the agreement with Ejin Jinda and the payments thereunder;
- the commencement of the washing facilities at Ovoot Tolgoi and the timing thereof;
- the ability to enhance the product value by conducting coal processing and coal washing;
- the Company's intention to develop markets for its semi-soft coking coal brands and to pursue long-term supply offtake agreements with end users in the People's Republic of China ("China");
- the evaluation, and potential pursuit of, business opportunities other than coal mining, coal trading and real estate in Mongolia, including but not limited to power generation and contract mining;
- the impact of the Company's activities on the environment and actions taken for the purpose of mitigation of potential environmental impacts and planned focus on health, safety and environmental performance;
- the Company's objectives for 2017 and beyond; and

- other statements that are not historical facts.

Forward-looking information is based on certain factors and assumptions described below and elsewhere in this MD&A, including, among other things: the current mine plan for the Ovoot Tolgoi mine; mining, production, construction and exploration activities at the Company's mineral properties; the costs relating to anticipated capital expenditures and the 2017 exploration program; the expected impacts of the remaining administrative restrictions on certain of the Company's Mongolian assets and the anticipated impact on the Company's activities; the capacity and future toll rate of the paved highway; plans for the progress of mining license application processes; mining methods; the Company's anticipated business activities, planned expenditures and corporate strategies; management's business outlook, including the outlook for the remainder of 2017 and beyond; currency exchange rates; operating, labour and fuel costs, the future coal market conditions in China and the related impact on the Company's margins and liquidity; future coal prices, and the level of worldwide coal production. While the Company considers these assumptions to be reasonable based on the information currently available to it, they may prove to be incorrect. Forward-looking statements are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These risks and uncertainties include, among other things: the uncertain nature of mining activities, risks associated with joint venture operations; actual capital and operating costs exceeding management's estimates; variations in mineral resource and mineral reserve estimates; failure of plant, equipment or processes to operate as anticipated; the possible impacts of changes in mine life, useful life or depreciation rates on depreciation expenses; risks associated with regulatory requirements and the ability to obtain all necessary regulatory approvals; the potential expansion of the list of licenses published by the Government of Mongolia covering areas in which exploration and mining are purportedly prohibited on certain of the Company's mining licenses; the Government of Mongolia designating any one or more of the Company's mineral projects in Mongolia as a Mineral Deposit of Strategic Importance; the possible impact of changes to the inputs to the valuation model used to value the embedded derivatives in the CIC Convertible Debenture; risk of the Company defaulting under its existing debt obligations, including the CIC Convertible Debenture, the TRQ Loan and bank loan; the impact of amendments to, or the application of, the laws of Mongolia, China and other countries in which the Company carries on business; modifications to existing practices so as to comply with any future permit conditions that may be imposed by regulators; delays in obtaining approvals and lease renewals; the risk of fluctuations in coal prices and changes in China and world economic conditions; risk of the Tax Verdict becoming immediately payable; the outcome of the Class Action and any damages payable by the Company as a result; the outcome of the arbitration proceedings with First Concept and any payments payable by the Company resulting therefrom; cash flow and liquidity risks; risks relating to the Company's ability to raise additional financing and to continue as a going concern. Please see the Company's most recently filed Annual Information Form for the year ended December 31, 2016, which is available under the Company's profile on SEDAR at www.sedar.com, for a discussion of these and other risks and uncertainties relating to the Company and its operations.

This list is not exhaustive of the factors that may affect any of the Company's forward-looking statements.

Due to assumptions, risks and uncertainties, including the assumptions, risks and uncertainties identified above and elsewhere in this MD&A, actual events may differ materially from current expectations. The Company uses forward-looking statements because it believes such statements provide useful information with respect to the currently expected future operations and financial performance of the Company, and cautions readers that the information may not be appropriate for other purposes. Except as required by law, the Company undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change. The reader is cautioned not to place undue reliance on the forward-looking statements, which speaks only as of the date of this MD&A; they should not rely upon this information as of any other date.

TABLE OF CONTENTS

INTRODUCTION

This MD&A of the Company is dated as of August 14, 2017 and should be read in conjunction with the condensed consolidated interim financial statements of the Company and the notes thereto for the three and six months ended June 30, 2017. The Company's condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 - "Interim Financial Reporting" using accounting policies in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The condensed consolidated interim financial statements are presented in the U.S. Dollar, which is the functional currency of SouthGobi Resources Ltd. and its controlled subsidiaries, except as subsequently mentioned. The functional currency of RDCC LLC, the joint venture in respect of the paved highway and in which the Company has an indirect 40% interest, is the Mongolian Tugrik ("MNT"). The functional currency of the two 100% owned Chinese subsidiaries, Inner Mongolia SouthGobi Energy Limited, which was incorporated in June 2016, and SouthGobi Trading (Beijing) Co., Ltd., which was incorporated in May 2015, is the Chinese Renminbi. All figures in this MD&A are presented in U.S. dollars unless otherwise stated.

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

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

Disclosure of a scientific or technical nature relating to the Ovoot Tolgoi Mine contained in this MD&A is derived from a NI 43-101 compliant technical report (the "Ovoot Tolgoi Technical Report") on the Ovoot Tolgoi Mine dated May 15, 2017, prepared by Dr. Weiliang Wang, Mr. Vincent Li and Mr. Larry Li of Dragon Mining Consulting Limited ("DMCL"). A copy of the Ovoot Tolgoi Technical Report is available under the Company's profile on SEDAR at www.sedar.com.

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

1. OVERVIEW

The Company is an integrated coal mining, development and exploration company with 438 employees as at June 30, 2017. The Company's common shares are listed and traded on the Toronto Stock Exchange ("TSX") under the symbol "SGQ" and on the Hong Kong Stock Exchange ("HKEX") under the stock code symbol "1878".

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

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

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

Significant Events and Highlights

The Company's significant events and highlights for the three months ended June 30, 2017 and subsequent period up to August 14, 2017 are as follows:

- ***Operating Results*** – As a result of improved market conditions and prices for coal in China, the Company's operating results for the quarter improved with an increase in the average selling price of coal as well as the volume of coal sales, as compared to the second quarter of 2016. The Company sold 1.48 million tonnes of coal product during the second quarter of 2017 as compared to 0.82 million tonnes for the second quarter of 2016. The average realized selling price increased from $13.65 per tonne for the second quarter of 2016 to $25.24 per tonne for the second quarter of 2017, which was mainly a result of improved market conditions as well as an improved product mix.

- ***Financial Results*** – The Company recorded a gross profit of $7.3 million during the quarter compared to a gross loss of $12.7 million in the second quarter of 2016. The Company recorded a $0.9 million profit from operations during the second quarter of 2017, as compared to a $13.8 million loss from operations in the second quarter of 2016. Revenue was $34.7 million in the second quarter of 2017 as compared to $10.4 million in the second quarter of 2016. The operations during the second quarter of 2017 improved over the comparative 2016 quarter given the improved market conditions in China.

- ***CIC Convertible Debenture*** – On June 12, 2017, the Company executed a deferral agreement (the "June 2017 Deferral Agreement") with CIC in relation to a revised repayment schedule on the $22.3 million of cash interest and associated costs originally due on May 19, 2017 (the "May 2017 Interest Payable"). The key repayment terms of the June 2017 Deferral Agreement are: (i) the Company is required to repay on average $2.2 million of the cash interest and associated costs monthly during the period from May 2017 to October 2017; and (ii) the Company is required to repay $9.7 million of cash interest and associated costs on November 19, 2017. The Company will pay a deferral fee at a rate of 6.4% per annum in consideration of the deferral.

- ***Settlement of Lawsuit Notice from a Former Fuel Supplier*** – On January 20, 2017, SouthGobi Sands LLC ("SGS"), a subsidiary of the Company, received a notice from the Khan-Uul District Civil Court of First Instance in Mongolia (the "DC Court") in relation to a claim for damages from Magnai Trade LLC (“MTLLC”), a former fuel supplier of SGS, in the aggregate amount of MNT 22.2 billion (approximately $8.9 million) representing outstanding fuel supply payments and related penalties and interest costs. On January 25, 2017, the DC Court dismissed the litigation and the matter was referred to arbitration. The Company signed a settlement agreement with MTLLC on February 10, 2017, pursuant to which SGS would pay MTLLC $8.0 million in equal monthly installments from March 2017 to June 2017 in full satisfaction of the debt outstanding. The terms of the settlement agreement was subsequently acknowledged by the arbitrator in the arbitration award.

  On June 30, 2017, the Company signed a triparty settlement agreement (the “Triparty Settlement Agreement”) with MTLLC and ICIC (an independent fuel supplier of the Company), pursuant to which: (i) MTLLC transferred to ICIC its right to receive payment from the Company for the outstanding balance of approximately $6.3 million owing under the settlement agreement (the “Outstanding Amount”) and its right to enforce the arbitration award against the Company; and (ii) the Company and ICIC agreed to a revised payment schedule for repayment of the Outstanding Amount. Pursuant to the Triparty Settlement Agreement, the Company shall pay interest on the Outstanding Amount, which shall accrue at a monthly rate of 1.8% and will be settled on a monthly basis. The Company is required to repay on average $1.3 million monthly during the period from July 2017 to November 2017.

  To date, the Company has made all payments due under the Triparty Settlement Agreement.

- ***Settlement of Trade Receivable*** – During the year ended December 31, 2016, the Company entered into a settlement agreement with one of its major customers (the “Customer”) pursuant to which 200 residential units and 40 parking spaces located in Ulaanbaatar, Mongolia, were transferred to the Company as partial consideration for settling outstanding trade receivables in the amount of $12.0 million owing by the Customer to the Company, with the balance of the receivable, totaling $7.5 million, payable in cash by the Customer to the Company. As of the date of this MD&A, the entirety of the $7.5 million balance has been repaid by, and collected from, the Customer.

- ***Changes in Directors***

  Mr. Yingbin Ian He: Mr. He was appointed as an independent non-executive director on May 16, 2017.

  Mr. Wen Yao: Mr. Yao was appointed as a non-executive director on May 18, 2017.

  Mr. Aminbuhe: Mr. Aminbuhe was appointed as Chairman of the Board immediately following the Company’s Annual General Meeting (the “AGM”) held on June 30, 2017.

  Mr. Ningqiao Li: Mr. Li did not stand for the re-election at the AGM and ceased to be an executive director and the Executive Chairman of the Board on June 30, 2017.

  Mr. Joseph Belan: Mr. Belan did not stand for the re-election at the AGM and ceased to be an independent non-executive director on June 30, 2017.

  Mr. Huiyi Wang: Mr. Wang resigned as a non-executive director on July 24, 2017.

- ***Strategic Advisory Board*** - In light of the reconstitution of the Board and appointment of new directors, the Company’s Strategic Advisory Board was dissolved on June 30, 2017.

- ***Going Concern*** – As at the date hereof, the Company has initiated a plan to change the existing product mix to higher value and higher margin outputs by washing certain grades of coal commencing in the second half of 2017 in order to produce more premium semi-soft coking coal and to initiate more processing of the lower grades of coal in order to reduce the ash content and improve the selling price and margins on its thermal coal product. The Company has also completed a new mine plan, which incorporates the coal washing and processing systems and contemplates significantly higher volumes of production in order to complement the Company's new product mix and sales volume targets. Such plans will involve the need for a significant level of stripping activities over the next two years and require certain capital expenditures to achieve the designed production outputs. Such expenditures will require the Company to seek additional financing in the form of finance leases, debt or equity. The Company has entered into an agreement for a finance lease on the new wash plant facility but will need financing to complete the thermal coal processing facilities.

  There is no guarantee that the Company will be able to successfully secure additional sources of financing. This could result in adjustments to the amounts and classifications of assets and liabilities in the Company's condensed consolidated financial statements and such adjustments could be material. Unless the Company acquires additional sources of financing and/or funding in the short term, the ability of the Company to continue as a going concern is threatened. If the Company is unable to continue as a going concern, it may be forced to seek relief under applicable bankruptcy and insolvency legislation. See Section 5 of this MD&A entitled "Liquidity and Capital Resources" and Section 10 of this MD&A entitled "Risk Factors" for details. As at August 14, 2017, the Company had $2.5 million of cash.

2. OVERVIEW OF OPERATIONAL DATA AND FINANCIAL RESULTS

Summary of Operational Data

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Sales Volumes, Prices and Costs				
Premium semi-soft coking coal				
Coal sales *(millions of tonnes)*	**0.18**	-	**0.37**	0.06
Average realized selling price *(per tonne)* (i)	**$ 45.67**	$ -	**$ 45.64**	$ 21.38
Standard semi-soft coking coal				
Coal sales *(millions of tonnes)*	**0.79**	0.52	**1.43**	1.10
Average realized selling price *(per tonne)* (i)	**$ 26.69**	$ 16.27	**$ 25.20**	$ 17.40
Thermal coal				
Coal sales *(millions of tonnes)*	**0.51**	0.30	**0.79**	0.54
Average realized selling price *(per tonne)* (i)	**$ 15.79**	$ 9.17	**$ 14.85**	$ 9.18
Total				
Coal sales *(millions of tonnes)*	**1.48**	0.82	**2.59**	1.70
Average realized selling price *(per tonne)* (i)	**$ 25.24**	$ 13.65	**$ 24.93**	$ 14.92
Raw coal production *(millions of tonnes)*	**1.89**	0.67	**3.40**	1.04
Cost of sales of product sold *(per tonne)*	**$ 18.50**	$ 28.01	**$ 19.75**	$ 24.71
Direct cash costs of product sold *(per tonne)* (ii)	**$ 7.84**	$ 12.47	**$ 8.52**	$ 10.17
Mine administration cash costs of product sold *(per tonne)* (ii)	**$ 2.22**	$ 2.32	**$ 1.70**	$ 1.76
Total cash costs of product sold *(per tonne)* (ii)	**$ 10.06**	$ 14.79	**$ 10.22**	$ 11.93
Other Operational Data				
Production waste material moved *(millions of bank cubic meters)*	**6.36**	1.82	**9.66**	2.54
Strip ratio *(bank cubic meters of waste material per tonne of coal produced)*	**3.37**	2.71	**2.84**	2.43
Lost time injury frequency rate (iii)	**0.04**	0.00	**0.03**	0.00

(i) Average realized selling price is presented before deduction of royalties and selling fees.
(ii) A non-IFRS financial measure, see section 3. Cash costs of product sold exclude idled mine asset cash costs.
(iii) Per 200,000 man hours and calculated based on a rolling 12 month average.

Overview of Operational Data

For the second quarter of 2017, the Company had a lost time injury frequency rate of 0.04 per 200,000 man hours based on a rolling 12 month average.

For the three months ended June 30, 2017

As a result of improved market conditions and prices for coal in China, the Company's operational results for the quarter improved with an increase in the average selling price of coal as well as the volume of coal sales, as compared to the second quarter of 2016.

The Company sold 1.48 million tonnes of coal product during the second quarter of 2017 as compared to 0.82 million tonnes for the second quarter of 2016. The average realized selling price increased from $13.65 per tonne for the second quarter of 2016 to $25.24 per tonne for the second quarter of 2017, which was mainly a result of improved market conditions as well as improved product mix. The product mix for the second quarter of 2017 consisted of approximately 12% of premium semi-soft coking coal, 53% of standard semi-soft coking coal and 35% of thermal coal compared to approximately 63% of standard semi-soft coking coal and 37% of thermal coal for the second quarter of 2016.

The Company also improved the pacing of production to meet demand, such that production was 1.89 million tonnes for the second quarter of 2017 as compared to 0.67 million tonnes for the second quarter of 2016.

The Company's unit cost of sales of product sold decreased to $18.50 per tonne in the second quarter of 2017 from $28.01 per tonne in the second quarter of 2016. The decrease was mainly driven by economies of scale resulted from the increased productions and sales.

For the six months ended June 30, 2017

Given the improved market conditions and prices for coal in China, the Company experienced an increase in the tonnage of coal product sold from 1.70 million tonnes during the first six months of 2016 to 2.59 million tonnes for the first six months of 2017. The average selling price also increased from $14.92 per tonne for the first six months of 2016 to $24.93 per tonne for the first six months of 2017, which was mainly a result of improved market conditions as well as improved product mix.

The production in the first six months of 2017 was higher than the first six months of 2016 as a result of pacing production with the current and expected demand.

The Company's unit cost of sales of product sold decreased to $19.75 per tonne in the first six months of 2017 from $24.71 per tonne in the first six months of 2016. The decrease was mainly driven by economies of scale resulted from the increased productions and sales.

Summary of Financial Results

	Three months ended June 30,		**Six months ended June 30,**	
$ in thousands, except per share information	**2017**	**2016**	**2017**	**2016**
Revenue (i),(ii)	**$ 34,665**	$ 10,361	**$ 59,919**	$ 23,088
Cost of sales (ii)	**(27,385)**	(23,105)	**(51,144)**	(42,185)
Gross profit/(loss) excluding idled mine asset costs	**9,445**	(9,926)	**14,159**	(10,975)
Gross profit/(loss) including idled mine asset costs	**7,280**	(12,744)	**8,775**	(19,097)
Other operating income/(expenses)	**(4,045)**	812	**(7,253)**	(899)
Administration expenses	**(2,234)**	(1,826)	**(4,619)**	(3,468)
Evaluation and exploration expenses	**(144)**	(52)	**(173)**	(99)
Profit/(loss) from operations	**857**	(13,810)	**(3,270)**	(23,563)
Finance costs	**(5,494)**	(5,377)	**(11,169)**	(10,845)
Finance income	**50**	324	**14**	296
Share of earnings of a joint venture	**388**	256	**654**	339
Income tax expense	**(2,714)**	(23)	**(2,759)**	(258)
Net loss	**(6,913)**	(18,630)	**(16,530)**	(34,031)
Basic and diluted loss per share	**$ (0.03)**	$ (0.07)	**$ (0.06)**	$ (0.13)

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

Overview of Financial Results

For the three months ended June 30, 2017

The Company recorded a gross profit of $7.3 million during the quarter compared to a gross loss of $12.7 million in the second quarter of 2016. The Company recorded a $0.9 million profit from operations during the quarter compared to a $13.8 million loss from operations in the second quarter of 2016. The operations for the three months ended June 30, 2017 were positively impacted by improved market conditions resulting in higher sales volumes and a better sales mix of the Company's products as well as the improved coal prices in China.

The Company earned revenue of $34.7 million in the second quarter of 2017 compared to $10.4 million in the second quarter of 2016.

The Company's revenue is presented after deduction of royalties and selling fees. The Company's effective royalty rate for the second quarter of 2017, based on the Company's average realized selling price of $25.24 per tonne, was 5.5% or $1.38 per tonne compared to 6.9% or $0.95 per tonne based on the average realized selling price of $13.65 per tonne in the second quarter of 2016.

Royalty regime in Mongolia

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

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

Cost of sales was $27.4 million in the second quarter of 2017 compared to $23.1 million in the second quarter of 2016, the increase was mainly due to the higher sales volume. Cost of sales comprises operating expenses, share-based compensation expense, equipment depreciation, depletion of mineral properties, coal stockpile inventory impairments and idled mine asset costs. Operating expenses in cost of sales reflect the total cash costs of product sold (a non-IFRS financial measure, see Section 3 of this MD&A for further analysis) during the period.

	Three months ended June 30,	
$ in thousands	**2017**	**2016**
Operating expenses	**$ 14,891**	$ 10,488
Share-based compensation expense/(recovery)	**5**	(3)
Depreciation and depletion	**7,454**	6,253
Impairment of coal stockpile inventories	**2,870**	3,549
Cost of sales from mine operations	**25,220**	20,287
Cost of sales related to idled mine assets	**2,165**	2,818
Cost of sales	**$ 27,385**	$ 23,105

Operating expenses in cost of sales were $14.9 million in the second quarter of 2017 compared to $10.5 million in the second quarter of 2016. The increase in operating expenses was primarily related to the increase in sales volume from 0.82 million tonnes in the second quarter of 2016 to 1.48 million tonnes in the second quarter of 2017.

Cost of sales in the second quarter of 2017 and 2016 included coal stockpile impairments of $2.9 million and $3.5 million, respectively, to reduce the carrying value of the Company's coal stockpiles to their net realizable value. The coal stockpile impairments recorded in both the second quarter of 2017 and 2016 primarily related to the Company's higher-ash products.

Cost of sales related to idled mine asset costs primarily consisted of period costs, which were expensed as incurred and included mainly depreciation expense. Cost of sales related to idled mine assets in the second quarter of 2017 included $2.2 million of depreciation expenses for idled equipment compared to $2.8 million in the second quarter of 2016.

Other operating expenses was $4.0 million in the second quarter of 2017 compared to other operating income of $0.8 million in the second quarter of 2016 as follows:

	Three months ended June 30,	
$ in thousands	**2017**	**2016**
Foreign exchange loss	**$ (1,607)**	$ (1,786)
Discount on settlement of trade payables	**-**	1,009
Impairment of properties held for sale	**(1,075)**	-
Reverse of provision/(provision) for doubtful trade and other receivables	**(1,335)**	1,909
Other	**(28)**	(320)
Other operating income/(expenses)	**$ (4,045)**	$ 812

For the three months ended June 30, 2017, the Company made a provision for doubtful trade and other receivables of $1.3 million (2016: reversal of provision of $1.9 million was made) for certain long aged receivables. In addition, due to the delay in commencing the sales of the properties held for sale, an impairment of $1.1 million was recorded accordingly.

Administration expenses were $2.2 million in the second quarter of 2017 compared to $1.8 million in the second quarter of 2016 as follows:

	Three months ended June 30,	
$ in thousands	**2017**	**2016**
Corporate administration	**$ 566**	$ 693
Legal and professional fees	**533**	391
Salaries and benefits	**1,040**	677
Share-based compensation expense	**24**	12
Depreciation	**71**	53
Administration expenses	**$ 2,234**	$ 1,826

The increase in salaries and benefits was mainly due to the operations of the new subsidiary in China, which was incorporated to expand the sales channels of coal in China.

Evaluation and exploration expenses were $0.1 million in the second quarter of 2017 (2016: $0.1 million). The Company continued to minimize evaluation and exploration expenditures in the second quarter of 2017 in order to preserve the Company's financial resources.

Finance costs were $5.5 million and $5.4 million respectively in the second quarter of 2017 and the second quarter of 2016. Finance costs primarily consisted of interest expense in respect of the $250.0 million CIC Convertible Debenture ($5.3 million for the second quarter of 2017 and $5.3 million for the second quarter of 2016).

For the six months ended June 30, 2017

The Company recorded a $3.3 million loss from operations in the first six months of 2017 compared to a $23.6 million loss from operations in the first six months of 2016. The operations for the six months ended June 30, 2017 were positively impacted by improved market conditions resulting in higher sales volumes and a better sales mix of the Company's products as well as the improved coal prices in China.

Revenue was $59.9 million in the first six months of 2017 compared to $23.1 million in the first six months of 2016. The Company sold 2.59 million tonnes of coal at an average realized selling price of $24.93 per tonne in the first six months of 2017 compared to sales of 1.70 million tonnes at an average realized selling price of $14.92 per tonne in the first six months of 2016, which was mainly a result of improved market conditions as well as an improved product mix.

The Company's revenue is presented net of royalties and selling fees. The Company's effective royalty rate for the first six months of 2017, based on the Company's average realized selling price of $24.93 per tonne, was 5.6% or $1.41 per tonne compared to 7.0% or $1.05 per tonne based on the average realized selling price of $14.92 per tonne in the first six months of 2016.

Cost of sales was $51.1 million in the first six months of 2017 compared to $42.2 million in the first six months of 2016 as follows:

	Six months ended June 30,	
$ in thousands	**2017**	**2016**
Operating expenses	**$ 25,591**	$ 18,533
Share-based compensation expense/(recovery)	**28**	(8)
Depreciation and depletion	**14,940**	9,832
Impairment of coal stockpile inventories	**5,201**	5,706
Cost of sales from mine operations	**45,760**	34,063
Cost of sales related to idled mine assets	**5,384**	8,122
Cost of sales	**$ 51,144**	$ 42,185

Operating expenses in cost of sales were $25.6 million in the first six months of 2017 compared to $18.5 million in the first six months of 2016. The increase in operating expenses was primarily related to the increase in sales volume from 1.70 million tonnes in the first six months of 2016 to 2.59 million tonnes in the first six months of 2017.

Cost of sales in the first six months of 2017 and the first six months of 2016 included coal stockpile impairments of $5.2 million and $5.7 million, respectively, to reduce the carrying value of the Company's coal stockpiles to their net realizable value. The coal stockpile impairments recorded in both 2017 and 2016 primarily related to the Company's higher-ash products.

Cost of sales related to idled mine asset costs primarily consisted of period costs, which were expensed as incurred and primarily included depreciation expense. Cost of sales related to idled mine assets in the first six months of 2017 included $5.4 million related to depreciation expenses for idled equipment (2016: $8.1 million).

Other operating expenses were $7.3 million in the first six months of 2017 compared to $0.9 million in the first six months of 2016 as follows:

	Six months ended June 30,	
$ in thousands	**2017**	**2016**
Foreign exchange loss	**$ (2,105)**	$ (1,514)
Impairment of properties held for sale	**(1,075)**	-
Mining services, net	**(2,395)**	-
Provision for doubtful trade and other receivables	**(1,335)**	(2)
Penalty on late settlement of trade payables	**(280)**	-
Discount on settlement of trade payables	**-**	1,009
Other	**(63)**	(392)
Other operating expenses	**$ (7,253)**	$ (899)

For the six months ended June 30, 2017, the Company made a provision for doubtful trade and other receivables of $1.3 million (2016: negligible) for certain long aged receivables. In addition, due to the delay in commencing the sales of the properties held for sale, an impairment of $1.1 million was recorded accordingly.

Mining services at the Tavan Tolgoi deposit were provided by the Company to Erdenes Tavan Tolgoi JSC ("Erdenes") in connection with settlement of the Tax Penalty at a net cost of $2.4 million in the first six months of 2017 (direct mining costs and depreciation totaling $8.0 million, net of service revenue of $5.6 million) (see Section 6 of this MD&A under the heading entitled "*Regulatory Issues and Contingencies – Governmental and Regulatory Investigations*" for more details).

Administration expenses were $4.6 million in the first six months of 2017 compared to $3.5 million in the first six months of 2016 as follows:

	Six months ended June 30,	
$ in thousands	**2017**	**2016**
Corporate administration	**$ 1,036**	$ 1,158
Legal and professional fees	**1,451**	895
Salaries and benefits	**1,883**	1,320
Share-based compensation expense	**35**	5
Depreciation	**214**	90
Administration expenses	**$ 4,619**	$ 3,468

The increase in salaries and benefits was mainly due to the operations of the new subsidiary in China, which was incorporated to expand the sales channels of coal in China.

Evaluation and exploration expenses were $0.2 million in the first six months of 2017 (2016: $0.1 million). The Company continued to minimize evaluation and exploration expenditures in the first six months of 2017 in order to preserve the Company's financial resources. Evaluation and exploration activities and expenditures in the first six months of 2017 were limited to ensuring that the Company met the Mongolian Minerals Law requirements in respect of its mining and exploration licenses.

Finance costs were $11.2 million and $10.8 million in the first six months of 2017 and 2016 respectively. This primarily consisted of interest expense on the CIC Convertible Debenture ($10.7 million for the first six months of 2017 and $10.5 million for the first six months of 2016).

Finance costs for the first six months of 2017 also included $0.1 million in respect of the unrealized fair value loss of the embedded derivative in the CIC Convertible Debenture. In comparison, in the first six months of 2016, the Company recorded within finance income an unrealized fair value gain of the embedded derivative in the CIC Convertible Debenture ($0.3 million). The fair value of the embedded derivatives in the CIC Convertible Debenture is driven by many factors including: the Common Share price, U.S. Dollar and Canadian Dollar exchange rates and share price volatility.

Summary of Quarterly Operational Data

	2017		2016				2015	
Quarter Ended	**30-Jun**	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep
Sales Volumes, Prices and Costs								
Premium semi-soft coking coal								
Coal sales *(millions of tonnes)*	**0.18**	0.19	0.15	0.07	-	0.06	0.04	0.16
Average realized selling price *(per tonne)* (i)	**$ 45.67**	$ 45.61	$ 40.49	$ 21.04	$ -	$ 21.38	$ 21.72	$ 22.32
Standard semi-soft coking coal								
Coal sales *(millions of tonnes)*	**0.79**	0.64	0.65	0.77	0.52	0.58	0.12	0.31
Average realized selling price *(per tonne)* (i)	**$ 26.69**	$ 23.36	$ 16.79	$ 15.66	$ 16.27	$ 18.42	$ 18.91	$ 19.10
Thermal coal								
Coal sales *(millions of tonnes)*	**0.51**	0.28	0.28	0.29	0.30	0.24	0.05	0.02
Average realized selling price *(per tonne)* (i)	**$ 15.79**	$ 13.17	$ 15.26	$ 14.79	$ 9.17	$ 9.19	$ 9.26	$ 10.48
Total								
Coal sales *(millions of tonnes)*	**1.48**	1.11	1.08	1.13	0.82	0.88	0.21	0.49
Average realized selling price *(per tonne)* (i)	**$ 25.24**	$ 24.52	$ 19.55	$ 15.79	$ 13.65	$ 16.11	$ 17.19	$ 19.76
Raw coal production *(millions of tonnes)*	**1.89**	1.51	1.21	1.13	0.67	0.37	0.62	0.71
Cost of sales of product sold *(per tonne)*	**$ 18.50**	$ 21.40	$ 21.15	$ 19.53	$ 28.01	$ 21.62	$ 56.59	$ 44.86
Direct cash costs of product sold *(per tonne)* (ii)	**$ 7.84**	$ 9.42	$ 7.97	$ 7.13	$ 12.47	$ 7.88	$ 6.55	$ 17.46
Mine administration cash costs of product sold *(per tonne)* (ii)	**$ 2.22**	$ 1.01	$ 3.23	$ 2.26	$ 2.32	$ 1.24	$ 1.78	$ 2.81
Total cash costs of product sold *(per tonne)* (ii)	**$ 10.06**	$ 10.43	$ 11.20	$ 9.39	$ 14.79	$ 9.12	$ 8.33	$ 20.27
Other Operational Data								
Production waste material moved *(millions of bank cubic meters)*	**6.36**	3.30	2.62	2.22	1.82	0.72	1.08	2.33
Strip ratio *(bank cubic meters of waste material per tonne of coal produced)*	**3.37**	2.18	2.16	1.96	2.71	1.94	1.75	3.25
Lost time injury frequency rate (iii)	**0.04**	0.02	0.00	0.00	0.00	0.00	0.00	0.00

(i) Average realized selling price is presented before deduction of royalties and selling fees.
(ii) A non-IFRS financial measure, see section 3. Cash costs of product sold exclude idled mine asset cash costs.
(iii) Per 200,000 man hours and calculated based on a rolling 12 month average.

Summary of Quarterly Financial Results

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

$ in thousands, except per share information	**2017**		2016				2015	
Quarter Ended	**30-Jun**	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep
Financial Results								
Revenue [(i), (ii)]	**$ 34,665**	$ 25,254	$ 18,983	$ 16,379	$ 10,361	$ 12,727	$ 2,873	$ 8,620
Cost of sales [(ii)]	**(27,385)**	(23,759)	(22,842)	(22,018)	(23,105)	(19,080)	(12,072)	(22,108)
Gross profit/(loss) excluding idled mine asset costs	**9,445**	4,714	(2,353)	(3,162)	(9,926)	(1,049)	(5,338)	(10,642)
Gross profit/(loss) including idled mine asset costs	**7,280**	1,495	(3,859)	(5,639)	(12,744)	(6,353)	(9,199)	(13,488)
Other operating income/(expenses)	**(4,045)**	(3,208)	(3,782)	4,631	812	(1,711)	(1,093)	621
Administration expenses	**(2,234)**	(2,385)	(2,378)	(2,042)	(1,826)	(1,642)	(2,154)	(1,967)
Evaluation and exploration expenses	**(144)**	(29)	(222)	(101)	(52)	(47)	(46)	(40)
Impairment of property, plant and equipment	**-**	-	(1,152)	-	-	-	(92,651)	-
Profit/(loss) from operations	**857**	(4,127)	(11,393)	(3,151)	(13,810)	(9,753)	(105,143)	(14,873)
Finance costs	**(5,494)**	(5,715)	(5,645)	(6,358)	(5,377)	(5,497)	(5,694)	(5,351)
Finance income	**50**	4	472	5	324	1	580	1,984
Share of earnings/(losses) of a joint venture	**388**	266	378	89	256	83	(7)	99
Income tax credit/(expense)	**(2,714)**	(45)	(1,294)	82	(23)	(235)	(2)	(1)
Net loss	**(6,913)**	(9,617)	(17,482)	(9,333)	(18,630)	(15,401)	(110,266)	(18,142)
Basic and diluted loss per share	**$ (0.03)**	$ (0.04)	$ (0.07)	$ (0.04)	$ (0.07)	$ (0.06)	$ (0.44)	$ (0.07)

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

3. NON-IFRS FINANCIAL MEASURES

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

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

Cash Costs

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

The following table provides a reconciliation of the cash costs of product sold disclosed for the three and six months ended June 30, 2017 and June 30, 2016. The cash costs of product sold presented below may differ from cash costs of product produced depending on the timing of coal stockpile inventory turnover and impairments of coal stockpile inventories from prior periods.

	Three months ended June 30,		Six months ended June 30,	
$ in thousands, except per tonne information	**2017**	**2016**	**2017**	**2016**
Cash costs				
Cost of sales determined in accordance with IFRS	**$ 27,385**	$ 23,105	**$ 51,144**	$ 42,185
Less non-cash expenses	**(10,329)**	(8,088)	**(19,294)**	(13,819)
Less non-cash idled mine asset costs	**(2,165)**	(2,818)	**(5,384)**	(8,122)
Total cash costs	**14,891**	12,199	**26,466**	20,244
Less idled mine asset cash costs	**-**	-	**-**	-
Total cash costs excluding idled mine asset cash costs	**14,891**	12,199	**26,466**	20,244
Coal sales *(millions of tonnes)*	**1.48**	0.82	**2.59**	1.70
Total cash costs of product sold *(per tonne)*	**$ 10.06**	$ 14.79	**$ 10.22**	$ 11.93

	Three months ended June 30,		Six months ended June 30,	
$ in thousands, except per tonne information	**2017**	**2016**	**2017**	**2016**
Cash costs				
Direct cash costs of product sold *(per tonne)*	**$ 7.84**	$ 12.47	**$ 8.52**	$ 10.17
Mine administration cash costs of product sold *(per tonne)*	**2.22**	2.32	**1.70**	1.76
Total cash costs of product sold *(per tonne)*	**$ 10.06**	$ 14.79	**$ 10.22**	$ 11.93

4. PROPERTIES

The Company currently holds six mining licenses in Mongolia. The mining licenses pertain to the Ovoot Tolgoi Mine (12726A), the Soumber Deposit (MV-016869, MV-020436 and MV-020451) and the Zag Suuj deposit (MV-020676 and MV-020675).

Operating Mines

Ovoot Tolgoi Mine

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

Saleable products from the Ovoot Tolgoi Mine primarily include the Standard and Premium semi-soft coking coal products. The Company's raw semi-soft products together with raw higher-ash content coals are suitable for washing and blending in order to be sold as a 1/3 coking coal in the Chinese market. Some higher-ash content product is sold as a thermal coal product as and when the market allows. The Company intends to continue to develop markets for both its Premium and Standard semi-soft coking coal brands and to pursue long-term supply offtake with end users in China to complement its existing customer base and to gain best value for the Company's coal in the Chinese market. The Company is committed to further enhancing the quality of its coal products through wet washing and increasing its market penetration in China.

Resources

The term "resource" is utilized to quantify coal contained in seams occurring within specified limits of thickness and depth from surface considered by the Qualified Person to have reasonable prospects for eventual economic extraction. For a complete description of a resource, refer to "mineral resource" under the heading "DEFINITIONS AND OTHER INFORMATION – Glossary of Geological and Mining Terms" in the Company's Annual Information Form dated March 31, 2017. The resource estimates presented are on an in-place basis (i.e., without adjustment for mining losses or coal recovery). Minimum seam thickness and maximum parting thickness are considered and coal intervals not meeting these criteria are not included in the reported resources.

In accordance with NI 43-101, DMCL has made reference to the GSC Paper 88-21 during the classification, estimation and reporting of coal resources for the Ovoot Tolgoi deposit. The exercise of resource classification is initially made based on the Geology-Type of the coal deposits as defined in the GSC Paper 88-21. According to the level of confidence of coal resource existence and data density, the resources are further classified into three categories respectively: Measured, Indicated and Inferred. These were considered by the Qualified Person during the classification of the resources at the Ovoot Tolgoi deposit.

As a consequence of material changes in some key assumptions underlying the analysis of its resources subsequent to the last detailed review of the project in 2016, particularly those relating to ongoing changes in coal market conditions in China, geologic analysis, optimized mining strategy and processing strategy, the Company has updated its resource and reserve estimate for the Ovoot Tolgoi deposit as disclosed in the Ovoot Tolgoi Technical Report, a copy of which is available under the Company's profile on SEDAR at www.sedar.com.

The resource estimate presented in this MD&A is derived from the Ovoot Tolgoi Technical Report and is materially different from the previous estimate made in the technical report entitled "Coal Geology and Resources, Ovoot Tolgoi Deposit, Mongolia – SouthGobi Resources Ltd" dated May 6, 2016 prepared by Minarco-MineConsult (known as RungePincoMinarco as of the date of such report) (the "2016 Technical Report") due to the following factors:

- The Geology Type classification has been re-categorized from "Severe" to "Complex", which led to a different requirement of spatial distribution of geological data and thus resource categorization according to GSC 88-21. Resource categories have been re-classified accordingly and this has resulted in the re-designation of Measured Resources in the overall SGS resource portfolio.

- In-pit (surface) resources have been more conservatively constrained to a depth of 300m from the ground surface, compared to a depth of 350m used in the 2016 Technical Report.

- Underground resources have been re-established, as resources and considered to be of a reasonable prospect for eventual economic extraction due to recovering coal market conditions in China and Company's long-term plan for a thermal power plant for a location near the mine site which is expected to generate substantial demand for thermal coal for electricity generation.

- A more conservative approach was adopted, compared to the last technical report in 2012 that contemplated potential economic extraction for the underground portion of the Ovoot Tolgoi deposit (the "2012 Technical Report"), such that only underground resources to a depth of 500m were considered to be of a reasonable prospect for eventual economic extraction.

Resources have been estimated for the Ovoot Tolgoi Deposit as of December 31, 2016, including Measured Resources of 201.9 million tonnes ("Mt"), Indicated Resources of 100.3 Mt and Inferred Resources of 89.0 Mt.

Resource categorization was completed on a Seam Group basis. The resource categorization also took into account the continuity and confidence in drill hole intersections along each section. The updated estimate of resources at the Ovoot Tolgoi deposit is summarized in the following table.

Ovoot Tolgoi Deposit - Surface Resource Estimate				
Coalfield	**Seam Group**	**Resource (Mt)**		
		Measured	**Indicated**	**Inferred**
Sunrise Pit (depth <300m)	**7**	2.2	2.9	2.0
	6	3.4	4.8	4.2
	5U	39.6	20.5	22.6
	5L	18.2	4.1	1.0
	4	0.4	0.7	0.6
	subtotal	63.8	33.0	30.4
Sunset Pit (depth <300m)	**11**	0.1	-	-
	10	8.8	2.1	0.1
	9	17.8	3.4	0.2
	8	16.4	3.2	0.3
	5U	25.6	6.3	0.3
	5L	11.8	2.3	0.8

	subtotal	80.5	17.3	1.7
Grand Total		**144.3**	**50.3**	**32.1**

Totals may not add up due to rounding.

Ovoot Tolgoi Deposit - Underground Resource Estimate				
Coalfield	**Seam Group**	**Resource (Mt)**		
		Measured	**Indicated**	**Inferred**
Sunrise (depth 300m to 500m)	**5U**	2.0	4.9	13.1
	5L	6.0	12.0	25.0
	Total	8.0	16.9	38.1
Sunset (depth 300m to 500m)	**10**	3.0	1.9	-
	9	6.2	4.6	0.4
	8	6.9	3.8	2.2
	5U	27.9	14.9	3.4
	5L	5.6	7.9	12.8
	Total	49.6	33.1	18.8
Grand Total		**57.6**	**50.0**	**56.9**

Totals may not add up due to rounding.

Resources have been estimated as of December 31, 2016 using the Minex^{TM} models provided by SGS. The key assumptions used for the resource estimation are:

- Minimum coal thickness = 0.6m;
- Maximum coal parting = 0.3m;
- Surface resources were constrained to a depth of 300m, the same as the pit design used in the 2012 Technical Report;
- Volumes were converted to tonnages using laboratory relative density analytical results converted to an estimated in-situ basis;
- Resources were constrained to the mining lease held by SGS only;
- Resources were estimated on an in-situ basis (i.e. as an in-situ tonnage and not adjusted for mining recovery);
- Resources were depleted by mined out tonnage; and
- Resources were estimated based on the survey data made available as of December 20, 2016 for the Sunrise and Sunset coalfields.

The updated resource estimate for the Ovoot Tolgoi deposit was derived from the Ovoot Tologi Technical Report, which was prepared by DMCL on behalf of the Company. A copy of the Ovoot Tolgoi Technical Report was filed under the Company's profile on SEDAR at www.sedar.com on May 15, 2017.

Reserves

The Company previously reported 175.7 million tonnes of proven and probable reserves in respect of the Ovoot Tolgoi Deposit based on the 2012 Technical Report. Subsequently, the total resources estimated for the Ovoot Tolgoi Deposit in the 2016 Technical Report significantly decreased from the 2012 Technical Report principally due to the exclusion of previously estimated underground resources, which were assessed as not having a reasonable prospect for eventual economic extraction. In response to the declining coal prices and weak coal transaction conditions in China, the previously established underground resource at the Ovoot Tolgoi deposit was not considered to be reasonably economically viable in the 2016 Technical Report, significantly reducing the Company's reported resources, which, together with the reclassification of the Geology Type of the deposit from "Complex" to "Severe", eliminated the Company's mineable reserves that had previously been established for the Ovoot Tolgoi deposit.

In late 2016, the Company and DMCL engaged in a comprehensive review of all relevant information including technical data, mining strategy, pit optimization, mine design, production scheduling, coal processing strategy, sales strategy, coal prices and recovering coal transaction conditions, in order to prepare and update its resources and reserve estimates and prepare a new mine plan. This process resulted in re-estimation of reserves by DMCL which appears in the table below.

The reserve estimate presented below is derived from the Ovoot Tolgoi Technical Report and is materially different from the previous estimate made in the 2016 Technical Report due to the following factors:

- The Geology Type classification has been re-categorized from "Severe" to "Complex", which led to a different requirement of spatial distribution of geological data and thus resource categorization according to GSC 88-21. Resource categories were re-classified accordingly such that portions of the Indicated and Inferred Resources were reclassified as Measured and Indicated Resources respectively. Such resource reclassification further resulted in the fact that the overall resource estimation and classification could be used in mine planning in conformity with the industry practice and NI 43-101 requirements; and

- In-pit (surface) resources are more conservatively constrained to a depth of 300m from the ground surface, compared to a depth of 350m used in the 2016 Technical Report.

Ovoot Tolgoi Deposit - Reserve Estimate				
Pit	**Seam Group**	**Reserve (Mt)**		
		Proven	**Probable**	**Total**
Sunrise Pit	**7**	0.4	0.5	0.9
	6	1.7	1.4	3.1
	5U	29.3	6.3	35.6
	5L	12.4	1.7	14.1
	4	0.4	0.5	0.9
	Sub-total	44.3	10.3	54.6
Sunset Pit	**11**	0.1	-	0.1

	10	5.0	0.6	5.6
	9	10.2	0.5	10.7
	8	10.4	0.5	10.9
	5U	21.1	1.8	22.9
	5L	8.6	0.9	9.5
	Sub-total	55.2	4.3	59.5
Grand Total		**99.5**	**14.6**	**114.1**

Totals may not add up due to rounding.

The above estimate of Reserves at the Ovoot Tolgoi Deposit have been estimated as of December 31, 2016 based on the resource model provided by SGS. Measured and Indicated Resources are inclusive of those Mineral Resources modified to produce the Reserves (i.e. Reserves are not additional to Resources).

The key assumptions used for the reserve estimation are:

- The reserve estimation used coal selling prices provided by an independent market consulting firm which was commissioned by the Company in December 2016 and subsequently confirmed as reasonable and appropriate by the qualified person responsible for this reserve estimate;

- Reserves do not include any Inferred Resources which have been treated as waste (i.e. the mining costs have been covered but no revenue has been assumed for the Inferred Resources);

- A recovery factor of 95% and a dilution factor of 2.5% have been applied in the Reserve estimate;

- The pit design (and thus Reserves) was designed to a depth of 300m below the original ground surface, which is same as the pit design used in the 2012 Technical Report;

- Reserves are constrained to the mining lease held by SGS only although the open pit limits will extend across the lease boundary into the adjacent lease held by Mongolyn Alt Corporation ("MAK"). SGS and MAK have an agreement in place that allows SGS to strip off the overburden in MAK's lease. Coal within the MAK pit and within the MAK's lease has been treated as generating no revenue and having no associated cost whereas the waste within the pits and MAK's lease will be stripped off at SGS' cost; and

- Reserves are estimated to account for coal and waste that was mined as of December 31, 2016.

The updated reserve estimate for the Ovoot Tolgoi deposit was derived from the Ovoot Tologi Technical Report, which was prepared by DMCL on behalf of the Company. A copy of the Ovoot Tolgoi Technical Report was filed under the Company's profile on SEDAR at www.sedar.com on May 15, 2017.

Mining Operations

Mining Method

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

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

Operational Data and Financial Results

Refer to Section 2 of this MD&A entitled "Overview of Operational Data and Financial Results" for an overview of the operational data and financial results of the Ovoot Tolgoi Mine.

Transportation Infrastructure

On August 2, 2011, the State Property Committee of Mongolia awarded the tender to construct a paved highway from the Ovoot Tolgoi Mine to the Shivee Khuren Border Crossing (the "Paved Highway") to consortium partners NTB LLC and SGS (together referred to as "RDCC LLC"). The Company has an indirect 40% interest in RDCC LLC through its Mongolian subsidiary SGS.

On October 26, 2011, RDCC LLC signed a concession agreement with the State Property Committee of Mongolia. RDCC LLC has the right to conclude a 17-year build, operate and transfer agreement under the Mongolian Law on Concessions.

On May 8, 2015, the commercial operation of the Paved Highway commenced. The Paved Highway has significantly increased the safety of coal transportation, reduced environmental impacts and improved efficiency and capacity of coal transportation. The toll rate was set at MNT 900 per tonne of coal (subsequently increased) as compared to MNT 1,500 as stated in the signed concession agreement between RDCC LLC and the State Property Committee of Mongolia.

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.

On February 4, 2017, the Board of RDCC LLC increased the toll rate from MNT 900 per tonne of coal to MNT 1,200, effective from March 1, 2017.

The Paved Highway has a carrying capacity in excess of 20 million tonnes of coal per year.

For the three and six months ended June 30, 2017, RDCC LLC recognized toll fee revenue of $2.0 million (2016: $1.4 million) and $3.1 million (2016: $2.2 million), respectively.

Mining Equipment

The key elements of the currently commissioned mining fleet includes: two Liebherr 996 ($33m^3$ & $36m^3$) hydraulic excavators, three Liebherr R9250 ($15m^3$) hydraulic excavators, 23 MT4400AC (218 tonne capacity) haul trucks and three Terex TR100 (91 tonne capacity) haul trucks, together with various pieces of ancillary equipment.

Workforce

As at June 30, 2017, SGS employed 410 employees in Mongolia. Of the 410 employees, 46 are employed in the Ulaanbaatar office, 2 in an outlying office and 362 at the Ovoot Tolgoi Mine site. Of the 410 employees based in Mongolia, 403 (98%) are Mongolian nationals and of those, 210 (51%) are residents of the local Gurvantes, Dalanzadgad, Sevrei and Noyon Soums.

Exploration Program

The Company continued to minimize evaluation and exploration expenditures during 2017 in order to preserve the Company's financial resources. The 2017 exploration program will be limited to ensuring that the Company meets the Mongolian Minerals Law requirements in respect of its mining licenses including those related to the Soumber Deposit.

5. LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Capital Management

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

Turquoise Hill Loan Facility

On May 25, 2014, the Company announced it obtained the TRQ Loan in the form of a $10 million revolving credit facility to meet its short term working capital requirements. The terms and conditions of this facility were filed under the Company's profile on SEDAR at www.sedar.com on June 2, 2014. The key commercial terms of the facility were: an original maturity date of August 30, 2014 (subsequently extended as described below); an interest rate of one month US dollar LIBOR Rate in effect plus 11% per annum; a commitment fee of 35% of interest rate payable quarterly in arrears on undrawn principal amount of facility and a front end fee of $0.1 million.

During 2014 to 2016, the due date of the TRQ Loan, was extended several times and the maximum amount of the facility was reduced to $3.8 million.

On May 16, 2016, the Company and Turquoise Hill entered into a deferral agreement (the "May 2016 Deferral Agreement"), whereby Turquoise Hill agreed to a limited deferral of repayment of all remaining amounts and obligations owing under the TRQ Loan to December 29, 2017 in accordance with the schedule of repayments set out below:

- The Company agreed to effect monthly repayments on the last business day of each month in an amount of (i) $0.15 million per month from May 2016 to April 2017; (ii) $0.2 million per month from May 2017 to December 2017 (the payments in (i) and (ii), the "Repayments"), at which time all remaining obligations will become due.
- In the event that the Company fails to make any one of the Repayments in its entirety on or before the dates set out above, then the Company shall be in automatic and irremediable default of the obligations thereunder and under the TRQ Loan, shall immediately and irremediably lose all benefits of the May 2016 Deferral Agreement, and all then outstanding obligations shall become immediately due and payable to Turquoise Hill; and
- Interest shall continue to accrue on all outstanding obligations at the 12-month US dollar LIBOR rate.

Unless otherwise agreed by Turquoise Hill, under certain circumstances, including the non-payment of interest amounts as the same become due, amounts outstanding under the TRQ Loan may be accelerated.

Bankruptcy and insolvency events with respect to the Company or its material subsidiaries will result in an automatic acceleration of the indebtedness under the TRQ Loan. Subject to notice and cure periods, certain events of default under the TRQ Loan will result in acceleration of the indebtedness under such loan at the option of Turquoise Hill.

At June 30, 2017, the outstanding principal and accrued interest under this facility amounted to $1.4 million and $0.7 million, respectively (at December 31, 2016, the outstanding principal and accrued interest under the facility amounted to $2.2 million and $0.7 million, respectively).

The Company was late in repaying its June 2017 monthly payment under the May 2016 Deferral Agreement. As of the date of this MD&A, the Company has not paid its July 2017 monthly payment.

Bank loan

On May 6, 2016, SGS obtained a bank loan (the "Bank Loan") in the principal amount of $2.0 million from a Mongolian bank (the "Bank"). The principal terms of the Bank Loan include, among other things, an interest rate of 15.8% per annum, a maturity date of May 6, 2017 (subsequently extended as described below) and SGS being required to pledge certain of its mobile equipment in favour of the Bank as collateral for the Bank Loan.

On May 26, 2017, the Company and the Bank entered into a supplementary agreement with the key commercial terms of the Bank Loan modified as follows:

- Principal amount increased to $2.3 million;
- Maturity date extended to May 6, 2018;
- Interest rate remained at 15.8% per annum and payable monthly; and
- Certain items of property, plant and equipment with value of $3.1 million were pledged as further security.

As at June 30, 2017, the outstanding balance for the bank loan was $2.3 million (December 31, 2016: $2.0 million) and the Company owed accrued interest of $0.1 million (December 31, 2016: $0.1 million).

Costs reimbursable to Turquoise Hill

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

As at June 30, 2017, the amount of reimbursable costs and fees claimed by Turquoise Hill (the "TRQ Reimbursable Amount") amounted to $8.0 million (such amount is included in the aging profile of trade and other payables set out below). On October 12, 2016, the Company received a letter from Turquoise Hill, which proposed an arrangement for regular payments of the outstanding TRQ Reimbursable Amount. The Company is currently in negotiations with Turquoise Hill regarding the proper quantum of the TRQ Reimbursable Amount and the terms for repayment. There can be no assurance, however, that any such terms can be successfully negotiated by the Company either at all or on favorable terms.

Going concern considerations

The Company's condensed consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue operating until at least June 30, 2018 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 additional liquidity.

Several adverse conditions and material uncertainties cast significant doubt upon the going concern assumption. The Company had a working capital deficiency (excess current liabilities over current assets) of $57.0 million as at June 30, 2017 compared to $59.4 million of working capital deficiency as at December 31, 2016. Included in the working capital deficiency as at June 30, 2017 are significant obligations, which come due in the short-term, including the agreement to pay $18.9 million to CIC from July to November 2017, pursuant to the June 2017 Deferral Agreement (refer to "CIC Convertible Debenture" below).

Further, the trade and other payables of the Company have continued to accumulate due to liquidity constraints. The aging profile of trade and other payables has worsened as compared to December 31, 2016, as follows:

	As at	
$ in thousands	**June 30, 2017**	**December 31, 2016**
Less than 1 month	**$ 21,244**	$ 14,640
1 to 3 months	**13,222**	2,493
3 to 6 months	**12,105**	2,648
Over 6 months	**25,886**	23,847
Total trade and other payables	**$ 72,457**	$ 43,628

The Company may not be able to settle all trade and other payables on a timely basis, while continuing postponement in settling the trade payables may impact the mining operations of the Company and result in potential lawsuits and/or bankruptcy proceedings being filed against the Company. No such lawsuits or proceedings are pending as at August 14, 2017.

The Company also has other current liabilities, which require settlement in the short-term, including: the remaining cash payments of $3.2 million due in connection with the Tax Penalty owing to the Government of Mongolia; the ICIC settlement in the amount of $6.4 million due between July and November 2017 pursuant to the Triparty Settlement Agreement; the $2.1 million balance of the TRQ Loan payable in monthly payments with the balance due in December 2017; and the Bank Loan of $2.3 million due in May 2018.

The Company is also party to a commercial arbitration in Hong Kong with First Concept, involving an $11.5 million amount received by the Company as a coal supply contract prepayment, whereby First Concept is seeking to recover its deposit rather than completing the contracted coal purchases. Should the Company be unsuccessful in arbitration, the Company may be compelled to repay the $11.5 million deposit sought by First Concept, which would negatively impact the liquidity of the Company.

The Company has initiated a plan to change the existing product mix to higher value and higher margin outputs by washing certain grades of coal commencing in the second half of 2017 in order to produce more premium semi-soft coking coal and to initiate more processing of the lower grades of coal in order to reduce the ash content and improve the selling price and margins on its thermal coal product. The Company has also completed a new mine plan, which incorporates the coal washing and processing systems and contemplates significantly higher volumes of production in order to complement the Company's new product mix and sales volume targets. Such plans will involve the need for a significant level of stripping activities over the next two years and require certain capital expenditures to achieve the designed production outputs. Such expenditures and other working capital requirements will require the Company to seek additional financing in the form of finance leases, debt or equity. The Company has entered into an agreement for a finance lease on the new wash plant facility but will need financing to complete the thermal coal processing facilities.

There is no guarantee that the Company will be able to successfully execute the measures mentioned above and secure other sources of financing. If it fails to do so, or is unable to secure additional capital or otherwise restructure or refinance its business in order to address its cash requirements through June 30, 2018, then the Company is unlikely to have sufficient capital resources or cash flows from mining operations in order to satisfy its current ongoing obligations and future contractual commitments. This could result in adjustments to the amounts and classifications of assets and liabilities in the Company's condensed consolidated financial statements and such adjustments could be material.

Unless the Company acquires additional sources of financing and/or funding in the short term, the ability of the Company to continue as a going concern is threatened. If the Company is unable to continue as a going concern, it may be forced to seek relief under applicable bankruptcy and insolvency legislation.
Continuing delay in securing additional financing could ultimately result in an event of default of the CIC Convertible Debenture, the TRQ Loan and the Bank Loan, which if not cured within applicable cure periods in accordance with the terms of respective instruments, may result in the principal amounts owing and all accrued and unpaid interest becoming immediately due and payable upon notice to the Company by CIC, Turquoise Hill and the lender of the Bank Loan, respectively.

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

As at June 30, 2017, the Company's gearing ratio was 0.37 (December 31, 2016: 0.37), which was calculated based on the Company's long term liabilities to total assets. As at June 30, 2017 and December 31, 2016, the Company was not subject to any externally imposed capital requirements.

As at August 14, 2017, the Company had $2.5 million of cash.

CIC Convertible Debenture

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

On March 29, 2010, the Company exercised its right to call for the conversion of up to $250.0 million of the CIC Convertible Debenture into approximately 21.5 million shares at a conversion price of $11.64 (CAD$11.88). As at June 30, 2017, CIC owned, through its indirect wholly-owned subsidiary, approximately 23.8% of the issued and outstanding common shares of the Company.

On June 12, 2017, the Company executed the June 2017 Deferral Agreement with CIC for a revised repayment schedule on the May 2017 Interest Payable. The key repayment terms of the June 2017 Deferral

Agreement are: (i) the Company is required to repay on average $2.2 million of the cash interest and associated costs monthly during the period from May 2017 to October 2017; and (ii) the Company is required to repay $9.7 million of cash interest and associated costs on November 19, 2017. The Company will pay a deferral fee at a rate of 6.4% per annum in consideration for the deferral.

At any time before the May 2017 Interest Payable 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.

To date, the Company has made all payments due under the June 2017 Deferral Agreement.

Under certain conditions, including the non-payment of interest amounts as the same become due, amounts outstanding under the CIC Convertible Debenture may be accelerated. Bankruptcy and insolvency events with respect to the Company or its material subsidiaries will result in an automatic acceleration of the indebtedness under the CIC Convertible Debenture. Subject to notice and cure periods, certain events of default under the CIC Convertible Debenture will result in acceleration of the indebtedness under such debenture at the option of CIC. Such other events of default include, but are not limited to, non-payment, breach of warranty, non-performance of obligations under the CIC Convertible Debenture, default on other indebtedness and certain adverse judgments.

Cash Flow Highlights

	Six months ended June 30,	
$ in thousands	**2017**	**2016**
Cash generated from operating activities	**$ 10,317**	$ 440
Cash used in investing activities	**(6,195)**	(994)
Cash generated from/(used in) financing activities	**(3,986)**	3,109
Effect of foreign exchange rate changes on cash	**32**	53
Increase in cash for the year	**168**	2,608
Cash balance, beginning of year	**966**	377
Cash balance, end of year	**$ 1,134**	$ 2,985

Cash generated from Operating Activities

The Company generated $10.3 million of cash in operating activities in the first six months of 2017 compared to $0.4 million in the first six months of 2016. The primary reason for the increase is due to increased sales during the period.

Cash used in Investing Activities

In the first six months of 2017, the Company used $6.2 million of cash in investing activities compared to $1.0 million in the first six months of 2016. In the first six months of 2017, expenditures on property, plant and equipment totaled $7.3 million (2016: $1.5 million) and $1.1 million of dividend income was collected from RDCC LLC (2016: $0.5 million). The cash used in investing activities primarily related to capitalized deferred stripping expenditure included within property, plant and equipment.

Cash generated from/(used in) Financing Activities

The cash used in financing activities in the first six months of 2017 primarily related to repayment of the principal amount outstanding under the short-term bridge loan. The cash generated from financing activities in the first six months of 2016 primarily related to the net drawdown of loans.

Contractual Obligations and Guarantees

Day-to-day mining, expansionary and sustaining capital expenditures as well as administrative operations give rise to commitments for future minimum payments. As at June 30, 2017, the Company's operating and capital commitments were:

	Within 1 year	2-3 years	Over 3 years	Total
As at June 30, 2017				
Capital expenditure commitments	$ 7,068	$ -	$ -	$ 7,068
Operating expenditure commitments	12,505	702	1,895	15,102
Commitments	**$ 19,573**	**$ 702**	**$ 1,895**	**$ 22,170**

Ovoot Tolgoi Mine Impairment Analysis

The Company determined that an indicator of impairment existed for its Ovoot Tolgoi Mine cash generating unit as at June 30, 2017. The impairment indicator was the uncertainty of future coal prices in China.

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" 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 price, sales volumes and washing assumptions, operating cost and life of mine coal production assumptions as at June 30, 2017. The Company's Ovoot Tolgoi Mine cash generating unit carrying value was $130.8 million as at June 30, 2017.

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 per the updated mine plan;
- Updated life-of-mine coal production, strip ratio, capital costs and operating costs;
- Coal washing to increase the volume of premium semi-soft coking coal sold;
- Coal processing to increase the grade and qualities of the thermal coal produced and sold; and
- A post-tax discount rate of 14.1% based on an analysis of the market, country and asset specific factors.

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 June 30, 2017. 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.

Investment in RDCC LLC Impairment Analysis

At each reporting date, the Company reviews its investment in RDCC LLC to determine whether there are any indications of impairment. As at June 30, 2017, management of the Company determined that the current toll rate being lower than the rate per the concession agreement, constituted an impairment indicator. Therefore the Company completed an impairment assessment for the investment in RDCC LLC whereby the carrying value of the investment was compared to its recoverable amount using assumptions consistent with those used at December 31, 2016. Management's impairment evaluation did not result in the identification of an impairment loss as at June 30, 2017.

6. REGULATORY ISSUES AND CONTINGENCIES

Governmental and Regulatory Investigations

In 2014, the Company was subject to investigations by Mongolia's Independent Authority Against Corruption (the "IAAC") regarding allegations of breaches of Mongolia's anti-corruption laws (the "Anti-Corruption Case"), and tax evasion and money laundering (the "Tax Evasion Case").

While the IAAC has not made any formal accusations against any current or former employee of the Company or the Company under the Anti-Corruption Case, administrative penalties were imposed on certain of the Company's Mongolian assets in connection with the investigation, including certain funds held in bank accounts in Mongolia totaling $1.2 million (the "Restricted Funds"). The Company has been informed that the Anti-Corruption Case has been suspended; however, it has not received formal notice that the investigation is completed.

With respect to the Tax Evasion Case, on December 30, 2014, the Capital City Prosecutor's Office (Ulaanbaatar, Mongolia) dismissed the allegations of money laundering as not having been proven during the investigation; however, proceedings in respect of tax evasion by former employees of the Company proceeded and culminated in February 2015, when the Company received the written verdict (the "Tax Verdict") of the Mongolian Second District Criminal Court. The Tax Verdict pronounced the three former employees of SGS guilty and declared SGS to be financially liable as a "civil defendant" for a penalty (the "Tax Penalty") of MNT 35.3 billion (approximately $18.2 million on February 1, 2015). Following the refusal of the Supreme Court of Mongolia to hear the case on appeal in June 2015, the Tax Verdict entered into force. The Tax Verdict is, however, not immediately payable and enforceable against SGS absent further actions prescribed by the laws of Mongolia. However, the Company made a corresponding provision for the court case penalty of $18.0 million in the second quarter of 2015 given the Tax Verdict had entered into force.

On October 6, 2015, the Company was informed by its Mongolian banks (where the Restricted Funds were held) that they had received an official request from the Court Decision Implementation Agency of Mongolia ("CDIA") to transfer the Restricted Funds according to the court decision. $1.2 million was transferred to the CDIA from the frozen bank accounts in October and November 2015.

Following the submission by the Company of various proposals to resolve the dispute giving rise to the Tax Verdict, in May 2016, the Resolution 258 of the Government of Mongolia was issued, which approved the Company's proposal to partially settle the Tax Penalty by way of certain cash payments in 2016 and 2017 and by the Company performing certain mining operations at the Tavan Tolgoi deposit on behalf of Erdenes. Subsequent to this Resolution, the Company made cash payments of $2.4 million during 2016 as a partial settlement of the Tax Penalty.

In compliance with the Resolution 258, in November 2016, the Company entered into an agreement with Erdenes under which the Company agreed to perform certain mining operations equivalent to MNT 20.3

billion (approximately $8.1 million) in the West Tsankhi section of the Tavan Tolgoi deposit during the period from November 2016 to February 2017. In March 2017, the Company has completed the mining operations at the Tavan Tolgoi deposit equivalent to MNT 20.3 billion (approximately $8.1 million) as set out in the agreement with Erdenes.

The Company has provided $3.2 million for the court case penalty at June 30, 2017. The decrease from $18.0 million as at June 30, 2015 is as a result of subsequent transfers from frozen bank accounts of $1.2 million, additional cash payments by the Company in 2016 of $2.4 million, the provision of mining services at the Tavan Tolgoi deposit of $8.1 million and the foreign exchange adjustments.

The Company is required to make further cash payments of $3.2 million in 2017 to complete repayment of the balance of the penalty owing.

As described above, the Company is working with the relevant authorities in Mongolia to resolve the dispute giving rise to the tax verdict in a manner that is appropriate having regard to the Company's limited financial resources and supportive of a positive environment for foreign investment in Mongolia. Should the Company fail to meet the terms of the agreed repayment plan and to receive a discharge of the judgment from the applicable Mongolian court, this may result in an event of default under the CIC Convertible Debenture and CIC would have the right to declare the full principal and accrued interest owing thereunder immediately due and payable. Such an event of default under the CIC Convertible Debenture or the Company's inability to pay the penalty could result in voluntary or involuntary proceedings involving the Company, including bankruptcy.

Mongolian IAAC investigation

In the first quarter of 2013, the Company was subject to orders imposed by the IAAC which placed restrictions on certain of the Company's Mongolian assets. The orders were imposed on the Company in connection with the IAAC's investigations of the Company as described under the section entitled "Governmental and Regulatory Investigations" above and continued to be enforced by the Mongolian State Investigation Office. The restrictions on the assets were reaffirmed in the Tax Verdict and form part of the Tax Penalty payable by the Company.

The orders related to certain items of operating equipment and infrastructure and the Company's Mongolian bank accounts. The orders related to the operating equipment and infrastructure restricts the sale of these items; however, the orders do not restrict the use of these items in the Company's mining activities. The orders related to the Company's Mongolian bank accounts restricted the use of in-country funds but did not have any material impact on the Company's activities. The Restricted Funds were transferred to the CDIA as partial payment of the Tax Verdict in October and November 2015. See the section entitled "Governmental and Regulatory Investigations" above.

Following a review by the Company and its advisers, it is the Company's view that the orders placing restrictions on certain of the Company's Mongolian assets did not result in an event of default as defined under the terms of the CIC Convertible Debenture. However, the enforcement of the orders could ultimately result in an event of default of the Company's CIC Convertible Debenture, which if it remains uncured for ten business days, would result in the principal amount owing and all accrued and unpaid interest will become immediately due and payable upon notice to the Company by CIC.

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, Deloitte LLP, in the Ontario Court in relation to the Company's restatement of consolidated financial statements as previously disclosed in the Company's public filings.

To commence and proceed with the Class Action, the plaintiff was required to bring a preliminary leave motion and to certify the Class Action as a class proceeding (the "Leave Motion"). The Ontario Court rendered its decision on the Leave Motion on November 5, 2015 and dismissed the plaintiff's Leave Motion as against each of the former senior officers and directors of the Company named in the Class Action on the basis that the "large volume of compelling evidence" proved the defense of reasonable investigation on the balance of probabilities and provided the basis for dismissing the Leave Motion as against them.

However, the Ontario Court allowed the Class Action to proceed under Part XXIII.1 of the Ontario Securities Act, permitting the plaintiff to commence and proceed with an action against the Company in respect of alleged misrepresentations affecting trades in the secondary market for the Company's securities arising from the restatement. The Company appealed this portion of the decision of the Ontario Court (the "Corporation Appeal").

The plaintiff appealed that part of the November 5, 2015 Ontario Court decision dismissing the action against former officers and directors of the Company (the "Individual's Appeal"). The Individual's Appeal was brought as of right to the Ontario Court of Appeal.

By Order dated September 12, 2016, the Corporation Appeal was transferred to the Ontario Court of Appeal to be heard together with the Individuals' Appeal. The Corporation Appeal was perfected on October 25, 2016 in the Ontario Court of Appeal.

Both the Individuals' Appeal and the Corporation Appeal were orally argued together on June 9, 2017. The Court of Appeal reserved its decisions in both appeals. Subsequent to June 9, 2017, the plaintiff's sought to file a decision of the Ontario Securities Commission dealing with the issue of due diligence. This application was opposed in writing. The Company awaits the Court's ruling on whether it will receive the new case. If it does, the Company has asked permission to file a written submission explaining why the case does not help the plaintiff. Otherwise, the Company expects the reasons for the Court's decision in the fall of this year.

The Company disputes and is vigorously defending itself against the plaintiff's claims through independent Canadian litigation counsel retained by the Company and the other defendants for this purpose. Due to the inherent uncertainties of litigation, it is not possible to predict the final outcome of the Class Action or determine the amount of potential losses, if any. However, the Company has judged a provision for this matter as at June 30, 2017 was not required.

Toll wash plant agreement with Ejin Jinda

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

Under the original agreement with Ejin Jinda, which required the commercial operation of the wet washing facility to commence on October 1, 2011, the additional fees payable by the Company under the wet washing contract would have been $18.5 million. At each reporting date, the Company assesses the agreement with Ejin Jinda and has determined it is not probable that these $18.5 million will be required to be paid. Accordingly, the Company has determined a provision for this matter as at June 30, 2017 was not required.

Mining Prohibition in Specified Areas Law

In July 2009, Mongolia promulgated the Law on Prohibiting Mineral Exploration and Extraction Near Water Sources, Protected Areas and Forests (the "Mining Prohibition in Specified Areas Law"). Pursuant to the Mining Prohibition in Specified Areas Law, the Government of Mongolia has defined the boundaries of certain areas in which exploration and mining is purportedly prohibited. A list of licenses was prepared that overlap with the prohibited areas described in the law based on information submitted by water authority agencies, forest authority agencies and local authorities for submission to the Government of Mongolia.

In order to address the issues facing its implementation, in February 2015 the Parliament of Mongolia adopted an amendment to the Law on Implementation of the Mining Prohibition in Specified Areas Law (the "Amended Law on Implementation"). The Amended Law on Implementation provided an opportunity for license holders covered within the scope of application of the Mining Prohibition in Specified Areas Law to continue their mining operations subject to advance placement of funds to cover 100% of the future environmental rehabilitation costs. A model contract and a specific Government regulation on this requirement will be adopted by the Government. The license holders were required to apply within 3 months after the amendment to the Law on Implementation came into effect for permission to the Mineral Resources Authority of Mongolia to resume activities. The Company considered the development projects may be affected, but not the operating mines. The Company submitted its application with respect to its mining licenses before the deadline set on June 16, 2015.

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

In accordance with Article 22.3 of Law of Mongolia on Water, 5,602.96 hectares of land, including Sukhaityn Bulag, Uvur Zadgai, and Zuun Shand pertaining to exploration license 9443X, which was converted to mining license MV-0125436 in January 2016, was overlapping with protected area boundary. It has been officially handed over to the local administration. (Resolution No.688 issued on September 24, 2015 by the Head of Cadastral Division of the Mineral Resource Authority). In connection with the nullification of Annex 2 of government order No.194 "On determining boundary" issued on June 5, 2012, the area around the water reservoir located at MV-016869 license area and Soumber exploration license 9449X, which was converted to mining license MV-020451 in January 2016, was annulled from the Specified Area Law.

Therefore, mining licenses 12726A and MV-016869 and exploration licenses 9443X and 9449X were removed from the list of licenses that overlaps with the prohibited areas described in the law.

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

Special Needs Territory in Umnugobi

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

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

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

Commercial arbitration in Hong Kong

On June 24, 2015, First Concept served a notice of arbitration (the "Notice") on SGS in respect of a coal supply agreement dated May 19, 2014 as amended on June 27, 2014 (the "Coal Supply Agreement") for a total consideration of $11.5 million. The arbitral proceedings (the "Arbitration") are deemed to have commenced on June 24, 2015, as of the date when the respondent received the Notice.

The Company firmly rejected the allegations of First Concept in the Notice as lacking any merit. The Arbitration was held in the fourth quarter of 2016 and the decision is not expected until the third quarter of 2017.

There can be no assurance, however, that the Company will prevail in the Arbitration. Should SGS be unsuccessful in the Arbitration, the Company may not be able to repay the sum of $11.5 million. In such case, this may result in an event of default under the CIC Convertible Debenture and CIC would have the right to declare the full principal and accrued interest owing thereunder immediately due and payable. Such an event of default under the CIC Convertible Debenture or the Company's inability to repay the sum of $11.5 million to First Concept could result in voluntary or involuntary proceedings involving the Company (including bankruptcy).

Settlement of Lawsuit Notice from a Former Fuel Supplier

On January 20, 2017, SGS received a notice from the DC Court in relation to a claim for damages from MTLLC, a former fuel supplier of SGS, in the aggregate amount of MNT 22.2 billion (approximately $8.9 million) consisting of MNT 14.6 billion (approximately $5.8 million) of outstanding fuel supply payments and MNT 7.6 billion (approximately $3.1 million) of late payment penalties and associated interest costs.

SGS disputed the amount claimed by MTLLC in the proceedings before the DC Court and filed an application with the DC Court to dismiss the litigation, on the basis that the contract required an arbitration process prior to the initiation of court proceedings. On January 25, 2017, the DC Court dismissed the litigation and the matter was referred to arbitration.

The Company signed a settlement agreement with MTLLC on February 10, 2017 pursuant to which SGS would pay MTLLC $8.0 million in equal monthly installments of $2.0 million each from March 2017 to June 2017 in full satisfaction of the debt outstanding. The terms of the settlement agreement was subsequently acknowledged by the arbitrator in the arbitration award.

As a result of the Company failing to honor the repayment schedule set out in the settlement agreement after the installment of March 2017 ($2.0 million) has been settled, the Company received on May 1, 2017 a judicial order issued by the DC Court which stated that, subject to MTLLC filing the requisite notice with the DC Court, the arbitration award will be executed by the CDIA and taken to bailiff service for further action.

On June 30, 2017, the Company signed the Triparty Settlement Agreement with MTLLC and ICIC pursuant to which: (i) MTLLC transferred to ICIC its right to receive payment from the Company for the Outstanding Amount owing under the settlement agreement and its right to enforce the arbitration award against the Company; and (ii) the Company and ICIC agreed to a revised payment schedule for repayment of the Outstanding Amount. Pursuant to the Triparty Settlement Agreement, the Company will pay interest on the Outstanding Amount, which shall accrue at a monthly rate of 1.8% and will be settled on a monthly basis. The Company is required to repay on average $1.3 million monthly during the period from July 2017 to November 2017 pursuant to the Triparty Settlement Agreement.

To date, the Company has made all payments due under the Triparty Settlement Agreement.

7. OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of Common Shares without par value and an unlimited number of preferred shares without par value. As at August 14, 2017, approximately 272.6 million Common Shares were issued and outstanding. There are also incentive share options outstanding to acquire approximately 2.3 million unissued Common Shares with exercise prices ranging from CAD$0.25 to CAD$1.92. There are no preferred shares outstanding.

As at August 14, 2017, CIC holds a total of approximately 64.8 million Common Shares representing approximately 23.8% of the issued and outstanding Common Shares.

As at August 14, 2017, Novel Sunrise holds a total of approximately 46.4 million Common Shares representing approximately 17.0% of the issued and outstanding Common Shares.

As at August 14, 2017, Voyage Wisdom holds a total of approximately 25.8 million Common Shares representing approximately 9.5% of the issued and outstanding Common Shares.

8. INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

9. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

A detailed summary of all of the Company's significant accounting policies is included in Note 3 to the Company's consolidated financial statements for the year ended December 31, 2016. Please refer to Note 2.4 of the Company's condensed consolidated interim financial statements of the quarter ended June 30, 2017 for information regarding the accounting judgments and estimates.

10. RISK FACTORS

There are certain risks involved in and related to the Company's operations, some of which are beyond its control. Material risks and uncertainties affecting the Company, their potential impact on the Company's operations and the Company's principal risk management strategies are, except as updated by this MD&A, substantially unchanged from those disclosed in the Company's most recently filed Annual Information for the year ended December 31, 2016, which is available under the Company's profile on SEDAR at www.sedar.com.

11. OUTLOOK

The outlook for Mongolian coal exports remains dependent on the Chinese economy. Looking forward, the Company remains cautiously optimistic regarding the Chinese coal market, which is expected to continue stabilizing.

The Company intends to improve its product mix by commencing coal washing operations in 2017 to beneficiate a portion of its lower grade and higher-ash content coal into washed coal products, in order to meet increasing market demand for higher quality coal. The construction of the washing facilities at Ovoot Tolgoi has commenced and the operation is expected to start in the second half of 2017.

The Company will continue to reach out to end customers in order to enhance the sales profile and revenue growth.

The Company remains well positioned in the market, with a number of key competitive strengths, including:

- **Bridge between Mongolia and China** – The Company is well positioned to capture the resulting business opportunities between the two countries given: (i) strong strategic support from its largest shareholders (CIC and Cinda (Novel Sunrise's parent company)), which are both state-owned-enterprises in China; and (ii) the Company has a strong operational record for ten years in Mongolia, being one of the largest enterprises in the country.

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

- **Expanded resources and declared reserves** – As a result of work performed by DMCL, the Company increased its estimate of total measured resources, indicated resources and inferred resources at the Ovoot Tolgoi deposit as of December 31, 2016 to 201.9 Mt, 100.3 Mt and 89.0 Mt, respectively. Further, the Company has declared proven reserves and probable reserves for the Ovoot Tolgoi deposit of 99.5 Mt and 14.6 Mt, respectively.

- **Several growth options** – The Company has several growth options including the Soumber Deposit and Zag Suuj Deposit, located approximately 20km east and approximately 150km east of the Ovoot Tolgoi Mine, respectively.

Objectives

The Company's objectives for 2017 and the medium term are as follows:

- **Enhance product mix** – The Company is committed to enhancing the product quality by completing the construction and commissioning of the new wash plant, and completing a study of refurbishing, completing and implementing certain components of the former dry coal handling facility, which would enable the processing of lower grade coal into higher margin products on a larger scale.

- **Expand customer base** – The Company aims to strengthen its sales and logistics capabilities to expand the customer base further inland in China.

- **Optimize cost structure** – The Company is focused on further cost reduction by improving productivity and operational efficiency with the engagement of third party contract mining companies while maintaining product quality and the sustainability of production.

- **Progress growth options** – Subject to available financial resources, the Company plans to further the development of the Soumber Deposit, while staying compliant with all government requirements in relation to its licenses and agreements.

- **Diversify the risk profile of the Company** – The Company is evaluating various business opportunities besides coal mining, coal trading and real estate in Mongolia including, but not limited to, power generation and contract mining.

- **Operate in a socially responsible manner** – The Company is focused on maintaining the highest standards in health, safety and environmental performance.

August 14, 2017

SouthGobi Resources

SouthGobi Resources Ltd.

Condensed Consolidated Interim Financial Statements

June 30, 2017

(Expressed in U.S. Dollars)

(Unaudited)

TABLE OF CONTENTS

CONDENSED FINANCIAL STATEMENTS

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

ADDITIONAL STOCK EXCHANGE INFORMATION

SOUTHGOBI RESOURCES LTD.

Condensed Consolidated Interim Statement of Comprehensive Income

(Unaudited)

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

	Notes	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Revenue	4	**$ 34,665**	$ 10,361	**$ 59,919**	$ 23,088
Cost of sales	6	**(27,385)**	(23,105)	**(51,144)**	(42,185)
Gross profit/(loss)		**7,280**	(12,744)	**8,775**	(19,097)
Other operating income/(expenses)	7	**(4,045)**	812	**(7,253)**	(899)
Administration expenses	8	**(2,234)**	(1,826)	**(4,619)**	(3,468)
Evaluation and exploration expenses		**(144)**	(52)	**(173)**	(99)
Profit/(loss) from operations		**857**	(13,810)	**(3,270)**	(23,563)
Finance costs	9	**(5,494)**	(5,377)	**(11,169)**	(10,845)
Finance income	9	**50**	324	**14**	296
Share of earnings of a joint venture	16	**388**	256	**654**	339
Loss before tax		**(4,199)**	(18,607)	**(13,771)**	(33,773)
Current income tax expense	10	**(2,714)**	(23)	**(2,759)**	(258)
Net loss attributable to equity holders of the Company		**(6,913)**	(18,630)	**(16,530)**	(34,031)
Other comprehensive income to be reclassified to profit or loss in subsequent periods					
Exchange difference on translation of foreign operation	16	**684**	879	**943**	367
Net comprehensive loss attributable to equity holders of the Company		**$ (6,229)**	$ (17,751)	**$ (15,587)**	$ (33,664)
Basic and diluted loss per share		**$ (0.03)**	$ (0.07)	**$ (0.06)**	$ (0.13)

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)

		As at	
	Notes	June 30, 2017	December 31, 2016
Assets			
Current assets			
Cash and cash equivalents		**$ 1,134**	$ 966
Trade and other receivables	12	**15,546**	19,434
Properties held for sale	13	**9,677**	-
Inventories	14	**35,861**	28,583
Prepaid expenses and deposits		**10,301**	8,194
Total current assets		**72,519**	57,177
Non-current assets			
Property, plant and equipment	15	**167,040**	180,809
Investment in a joint venture	16	**21,861**	21,335
Total non-current assets		**188,901**	202,144
Total assets		**$ 261,420**	$ 259,321
Equity and liabilities			
Current liabilities			
Trade and other payables	17	**$ 72,457**	$ 43,628
Provision for court case penalty	18	**3,193**	9,074
Deferred revenue		**26,458**	29,849
Interest-bearing borrowings	19	**4,586**	8,454
Current portion of convertible debenture	20	**22,810**	25,597
Total current liabilities		**129,504**	116,602
Non-current liabilities			
Interest-bearing borrowings	19	**424**	425
Convertible debenture	20	**92,259**	91,993
Decommissioning liability		**4,739**	4,288
Total non-current liabilities		**97,422**	96,706
Total liabilities		**226,926**	213,308
Equity			
Common shares	21	**1,098,620**	1,094,619
Share option reserve		**52,407**	52,340
Exchange reserve		**(4,215)**	(5,158)
Accumulated deficit	21	**(1,112,318)**	(1,095,788)
Total equity		**34,494**	46,013
Total equity and liabilities		**$ 261,420**	$ 259,321
Net current liabilities		**$ (56,985)**	$ (59,425)
Total assets less current liabilities		**$ 131,916**	$ 142,719

Corporate information and going concern (Note 1), commitments for expenditure (Note 25) and contingencies (Note 26)

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

APPROVED BY THE BOARD:

"Mao Sun" — Director

"Yulan Guo" — 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	Exchange fluctuation reserve	Accumulated deficit	Total
Balances, January 1, 2016	257,683	$ 1,094,618	$ 52,292	$ (1,275)	$ (1,034,942)	$ 110,693
Shares issued for:						
Employee share purchase plan	11	1	-	-	-	1
Share-based compensation credited to operations	-	-	(6)	-	-	(6)
Net loss for the period	-	-	-	-	(34,031)	(34,031)
Exchange differences on translation of foreign operations	-	-	-	367	-	367
Balances, June 30, 2016	257,694	$ 1,094,619	$ 52,286	$ (908)	$ (1,068,973)	$ 77,024
Balances, January 1, 2017	**257,698**	**$ 1,094,619**	**$ 52,340**	**$ (5,158)**	**$ (1,095,788)**	**$ 46,013**
Shares issued for:						
Interest settlement on convertible debenture	**14,892**	**4,000**	**-**	**-**	**-**	**4,000**
Employee share purchase plan	**3**	**1**	**-**	**-**	**-**	**1**
Share-based compensation charged to operations	**-**	**-**	**67**	**-**	**-**	**67**
Net loss for the period	**-**	**-**	**-**	**-**	**(16,530)**	**(16,530)**
Exchange differences on translation of foreign operations	**-**	**-**	**-**	**943**	**-**	**943**
Balances, June 30, 2017	**272,593**	**$ 1,098,620**	**$ 52,407**	**$ (4,215)**	**$ (1,112,318)**	**$ 34,494**

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	Six months ended June 30, 2017	Six months ended June 30, 2016
Operating activities			
Loss before tax		**$ (13,771)**	$ (33,773)
Adjustments for:			
Depreciation and depletion		**16,982**	18,723
Share-based (recovery)/compensation	22	**67**	(6)
Finance costs	9	**11,169**	10,845
Finance income	9	**(14)**	(296)
Share of earnings of a joint venture	16	**(654)**	(339)
Interest paid		**(9,621)**	(4,037)
Income tax paid		**(347)**	(54)
Unrealized foreign exchange loss		**576**	555
Penalty on late settlement of trade payables	7	**280**	-
Provision for doubtful trade and other receivables	12	**1,335**	2
Impairment of properties held for sale	13	**1,075**	-
Impairment of inventories	14	**5,201**	5,706
Operating cash flows before changes in non-cash working capital items		**12,278**	(2,674)
Net change in non-cash working capital items	24	**(1,961)**	3,114
Cash generated from operating activities		**10,317**	440
Investing activities			
Expenditures on property, plant and equipment		**(7,280)**	(1,485)
Interest received		**14**	2
Dividend from a joint venture	16	**1,071**	489
Cash used in investing activities		**(6,195)**	(994)
Financing activities			
Proceeds from issuance of common shares		**1**	1
New loans		**300**	3,520
Repayment of interest-bearing loans		**(4,287)**	(412)
Cash generated from/(used in) financing activities		**(3,986)**	3,109
Effect of foreign exchange rate changes on cash		**32**	53
Increase in cash		**168**	2,608
Cash, beginning of period		**966**	377
Cash, end of period		**$ 1,134**	$ 2,985

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 on the Toronto Stock Exchange (Symbol: SGQ) and Hong Kong Stock Exchange (Symbol: 1878). The company, together with its subsidiaries (collectively referred to as the “Company”), is an integrated coal mining, development and exploration company. As of June 30, 2017, (i) Land Breeze II S.a.r.l., a wholly-owned subsidiary of China Investment Corporation (“CIC”) owned approximately 24% of the outstanding common shares of the Company; (ii) Novel Sunrise Investments Limited ("Novel Sunrise"), a wholly-owned subsidiary of China Cinda (HK) Investments Management Company Limited (“Cinda”), and Voyage Wisdom Limited each owned approximately 17% and 9% 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”) and the following significant development projects, the Soumber Deposit, the Zag Suuj Deposit and the Ovoot Tolgoi Underground Deposit. These projects are located in the Umnugobi Aimag (South Gobi Province) of Mongolia, within 150 kilometers of each other and in close proximity to the Mongolia-China border. The Company owns a 100% interest in these coal projects.

The head office, principal address and registered and records office of the Company is located at 1100 - 355 Burrard Street, Vancouver, British Columbia, Canada, V6C 2G8.

Going concern assumption

The Company’s condensed consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue operating until at least June 30, 2018 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 additional liquidity.

Several adverse conditions and material uncertainties cast significant doubt upon the going concern assumption. The Company had a working capital deficiency (excess current liabilities over current assets) of $56,985 as at June 30, 2017 compared to $59,425 of working capital deficiency as at December 31, 2016. Included in the working capital deficiency as at June 30, 2017 are significant obligations, which come due in the short-term, including the agreement to pay $18,861 to CIC from July to November 2017, pursuant to the interest deferral agreement (Note 20.5).

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

1. CORPORATE INFORMATION AND GOING CONCERN (CONTINUED)

Further, the trade and other payables of the Company continue to accumulate due to liquidity constraints. The aging profile of the trade and other payables has worsened as compared to that as at December 31, 2016, as follows:

	As at	
	June 30, 2017	**December 31, 2016**
Less than 1 month	**$ 21,244**	$ 14,640
1 to 3 months	**13,222**	2,493
3 to 6 months	**12,105**	2,648
Over 6 months	**25,886**	23,847
Total trade and other payables	**$ 72,457**	$ 43,628

The Company may not be able to settle all trade and other payables on a timely basis, while continuing postponement in settling the trade payables may impact the mining operations of the Company and result in potential lawsuits and/or bankruptcy proceedings being filed against the Company. No such lawsuits or proceedings are pending as at August 14, 2017.

The Company also has other current liabilities, which require settlement in the short-term, including: the remaining cash payments of $3,193 due in connection with the Tax Penalty owing to the Government of Mongolia (Note 18); the ICIC LLC (“ICIC”) settlement in the amount of $6,407 due between July and November 2017 pursuant to the Triparty Settlement Agreement (Note 17.1); the $2,097 balance of the Turquoise Hill Resources Limited (“Turquoise Hill”) shareholder loan (“TRQ Loan”) payable in monthly payments with the balance due in December 2017; and the bank loan of $2,334 due in May 2018.

The Company is also party to a commercial arbitration in Hong Kong (Note 26.6) with First Concept Logistics Limited (“First Concept”), involving an $11,500 amount received by the Company as a coal supply contract prepayment, whereby First Concept is seeking to recover its deposit rather than completing the contracted coal purchases. Should the Company be unsuccessful in arbitration, the Company may be compelled to repay the $11,500 deposit sought by First Concept, which would negatively impact the liquidity of the Company.

The Company has initiated a plan to change the existing product mix to higher value and higher margin outputs by washing certain grades of coal commencing in the second half of 2017 in order to produce more premium semi-soft coking coal and to initiate more processing of the lower grades of coal in order to reduce the ash content and improve the selling price and margins on its thermal coal product. The Company has also completed a new mine plan, which incorporates the coal washing and processing systems and contemplates significantly higher volumes of production in order to complement the Company’s new product mix and sales volume targets. Such plans will involve the need for a significant level of stripping activities over the next two years and require certain capital expenditures to achieve the designed production outputs. Such expenditures and other working capital requirements will require the Company to seek additional financing in the form of finance leases, debt or equity. The Company has entered into an agreement for a finance lease on the new wash plant facility (Note 26) but will need financing to complete the thermal coal processing facilities.

1. CORPORATE INFORMATION AND GOING CONCERN (CONTINUED)

There is no guarantee that the Company will be able to successfully execute the measures mentioned above and secure other sources of financing. If it fails to do so, or is unable to secure additional capital or otherwise restructure or refinance its business in order to address its cash requirements through June 30, 2018, then the Company is unlikely to have sufficient capital resources or cash flows from mining operations in order to satisfy its current ongoing obligations and future contractual commitments. This could result in adjustments to the amounts and classifications of assets and liabilities in the Company's consolidated financial statements and such adjustments could be material.

Unless the Company acquires additional sources of financing and/or funding in the short term, the ability of the Company to continue as a going concern is threatened. If the Company is unable to continue as a going concern, it may be forced to seek relief under applicable bankruptcy and insolvency legislation.

Continuing delay in securing additional financing could ultimately result in an event of default of the CIC Convertible Debenture, the TRQ Loan and the bank loan, which if not cured within applicable cure periods in accordance with the terms of respective instruments, may result in the principal amounts owing and all accrued and unpaid interest becoming immediately due and payable upon notice to the Company by CIC, Turquoise Hill and the lender of the bank loan, respectively.

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

As at June 30, 2017, the Company's gearing ratio was 0.37 (December 31, 2016: 0.37), which was calculated based on the Company's long term liabilities to total assets. As at June 30, 2017 and December 31, 2016, 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 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 three months ended June 30, 2017 were approved and authorized for issue by the Board of Directors of the Company on August 14, 2017.

2. BASIS OF PREPARATION (CONTINUED)

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, 2016 consolidated annual financial statements. 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, 2016.

2.3 Adoption of new and revised standards and interpretations

There were no new or revised IASB standards and interpretations adopted by the Company on January 1, 2017. 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, 2016.

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 3.23 to the Company's December 31, 2016 consolidated annual financial statements. Except for the significant accounting judgments and estimates disclosed below, the significant accounting judgments and estimates remain substantially unchanged from December 31, 2016.

Liquidity and the going concern assumption

In the determination of the Company's ability to meet its ongoing obligations and future contractual commitments, management relies on the Company's planning, budgeting and forecasting process to help determine the funds required to support the Company's normal operations on an ongoing basis and its expansionary plans. The key inputs used by the Company in this process include forecasted capital deployment, results from operations, results from the exploration and development of its properties and general industry conditions as well as the expected timing of payments of suppliers and the repayment of debt and other financial liabilities. Refer to Note 1 for details.

While the Company intends to secure additional sources of financing as soon as possible, a continued delay in securing additional financing could ultimately result in an event of default of the CIC Convertible Debenture, the TRQ Loan and the bank loan, which if not cured within applicable cure periods in accordance with the terms of such instruments, may result in the principal amounts owing and all accrued and unpaid interest becoming immediately due and payable upon notice to the Company by CIC, Turquoise Hill and the lender of the bank loan, respectively.

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 and objective evidence indicating impairment in the case of financial assets. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period. Changes in these assumptions may alter the results of non-financial asset and financial asset impairment testing, impairment charges recognized in profit or loss and the resulting carrying amounts of assets.

Ovoot Tolgoi Mine cash generating unit

The Company determined that an indicator of impairment existed for its Ovoot Tolgoi Mine cash generating unit as at June 30, 2017. The impairment indicator was the uncertainty of future coal prices in China.

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" 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 price, sales volumes and washing assumptions, operating cost and life of mine coal production assumptions as at June 30, 2017. The Company's Ovoot Tolgoi Mine cash generating unit carrying value was $130,760 as at June 30, 2017.

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 per the updated mine plan;
- Updated life-of-mine coal production, strip ratio, capital costs and operating costs;
- Coal washing to increase the volume of premium semi-soft coking coal sold;
- Coal processing to increase the grade and qualities of the thermal coal produced and sold; and
- A post-tax discount rate of 14.1% based on an analysis of the market, country and asset specific factors.

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 June 30, 2017. 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.

2. BASIS OF PREPARATION (CONTINUED)

Investment in RDCC LLC

At each reporting date, the Company reviews its investment in RDCC LLC to determine whether there are any indications of impairment. As at June 30, 2017, management of the Company determined that the current toll rate being lower than the rate per the concession agreement, constituted an impairment indicator. Therefore, the Company completed an impairment assessment for the investment in RDCC LLC whereby the carrying value of the investment was compared to its recoverable amount using assumptions consistent with those used at December 31, 2016. Management's impairment evaluation did not result in the identification of an impairment loss as at June 30, 2017.

3. 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. The Company's Corporate Division does not earn revenues and therefore does not meet the definition of an operating segment.

During the six months ended June 30, 2017, the Coal Division had 18 active customers with the largest customer accounting for 29% of revenues, the second largest customer accounting for 18% of revenues, the third largest customer accounting for 16% of revenues and the other customers accounting for the remaining 37% of revenues.

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

3. 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	Unallocated [(i)]	Consolidated Total
Segment assets			
As at June 30, 2017	**$ 259,099**	**$ 2,321**	**$ 261,420**
As at December 31, 2016	257,256	2,065	259,321
Segment liabilities			
As at June 30, 2017	**$ 98,350**	**$ 128,576**	**$ 226,926**
As at December 31, 2016	81,288	132,020	213,308
Segment revenues			
For the three months ended June 30, 2017	**$ 34,665**	**$ -**	**$ 34,665**
For the three months ended June 30, 2016	10,361	-	10,361
For the six months ended June 30, 2017	**$ 59,919**	**$ -**	**$ 59,919**
For the six months ended June 30, 2016	23,088	-	23,088
Segment profit/(loss)			
For the three months ended June 30, 2017	**$ 442**	**$ (7,355)**	**$ (6,913)**
For the three months ended June 30, 2016	(11,776)	(6,854)	(18,630)
For the six months ended June 30, 2017	**$ (1,454)**	**$ (15,076)**	**$ (16,530)**
For the six months ended June 30, 2016	(20,115)	(13,916)	(34,031)
Impairment charge on assets [(ii) (iii)]			
For the three months ended June 30, 2017	**$ 5,280**	**$ -**	**$ 5,280**
For the three months ended June 30, 2016	1,640	-	1,640
For the six months ended June 30, 2017	**$ 7,611**	**$ -**	**$ 7,611**
For the six months ended June 30, 2016	5,708	-	5,708
Depreciation and amortization			
For the three months ended June 30, 2017	**$ 12,095**	**$ 73**	**$ 12,168**
For the three months ended June 30, 2016	11,513	44	11,557
For the six months ended June 30, 2017	**$ 23,729**	**$ 143**	**$ 23,872**
For the six months ended June 30, 2016	23,156	71	23,227
Share of earnings of a joint venture			
For the three months ended June 30, 2017	**$ 388**	**$ -**	**$ 388**
For the three months ended June 30, 2016	256	-	256
For the six months ended June 30, 2017	**$ 654**	**$ -**	**$ 654**
For the six months ended June 30, 2016	339	-	339

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

3. SEGMENTED INFORMATION (CONTINUED)

	Coal Division	Unallocated (i)	Consolidated Total
Finance cost			
For the three months ended June 30, 2017	$ 115	$ 5,379	$ 5,494
For the three months ended June 30, 2016	75	5,302	5,377
For the six months ended June 30, 2017	$ 413	$ 10,756	$ 11,169
For the six months ended June 30, 2016	104	10,741	10,845
Finance income			
For the three months ended June 30, 2017	$ 10	$ 40	$ 50
For the three months ended June 30, 2016	324	-	324
For the six months ended June 30, 2017	$ 14	$ -	$ 14
For the six months ended June 30, 2016	293	3	296
Current income tax			
For the three months ended June 30, 2017	$ 2,714	$ -	$ 2,714
For the three months ended June 30, 2016	23	-	23
For the six months ended June 30, 2017	$ 2,759	$ -	$ 2,759
For the six months ended June 30, 2016	258	-	258

(i) The unallocated amount contains all amounts associated with the Corporate Division.
(ii) The impairment charges on assets for the three and six months ended June 30, 2017 relate to trade and other receivables (Note 12), properties held for sale (Note 13) and inventories (Note 14).
(iii) The impairment charge on assets for the three and six months ended June 30, 2016 related to trade and other receivables (Note 12) and inventories (Note 14).

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

	Mongolia	Hong Kong	Canada	China	Consolidated Total
Revenue (i)					
For the three months ended June 30, 2017	$ -	$ -	$ -	$ 34,665	$ 34,665
For the three months ended June 30, 2016	-	-	-	10,361	10,361
For the six months ended June 30, 2017	$ -	$ -	$ -	$ 59,919	$ 59,919
For the six months ended June 30, 2016	-	-	-	23,088	23,088
Non-current assets					
As at June 30, 2017	$ 187,956	$ 532	$ 100	$ 313	$ 188,901
As at December 31, 2016	201,053	599	100	392	202,144

(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.

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

5. EXPENSES BY NATURE

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

	Three months ended June 30,		Six months ended June 30,	
	2017	**2016**	**2017**	**2016**
Depreciation	**$ 9,690**	$ 9,124	**$ 20,538**	$ 18,044
Auditors' remuneration	**172**	100	**274**	221
Employee benefit expense (including directors' remuneration)				
Wages and salaries	**$ 2,144**	$ 1,729	**$ 4,050**	$ 3,519
Equity-settled share option expense/(recovery) (Note 22)	**30**	8	**67**	(6)
Pension scheme contributions	**194**	174	**399**	341
	$ 2,368	$ 1,911	**$ 4,516**	$ 3,854
Minimum lease payments under operating leases	**$ 203**	$ 230	**$ 406**	$ 462
Foreign exchange loss	**1,607**	1,786	**2,105**	1,514
Impairment of coal stockpile inventories (Note 14)	**2,870**	3,549	**5,201**	5,706
Provision/(reversal of provision) for doubtful trade and other receivables (Note 12)	**1,335**	(1,909)	**1,335**	2
Penalty on late settlement with trade payables (Note 7)	**-**	-	**280**	-
Mining services, net (Note 7)	**-**	-	**2,395**	-
Impairment of properties held for sale (Note 13)	**1,075**	-	**1,075**	-
Mine operating costs and other	**14,488**	9,380	**25,064**	16,848
Total expenses	**$ 33,808**	$ 24,171	**$ 63,189**	$ 46,651

6. COST OF SALES

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

	Three months ended June 30,		Six months ended June 30,	
	2017	**2016**	**2017**	**2016**
Operating expenses	**$ 14,891**	$ 10,488	**$ 25,591**	$ 18,533
Share-based compensation expense/(recovery) (Note 22)	**5**	(3)	**28**	(8)
Depreciation and depletion	**7,454**	6,253	**14,940**	9,832
Impairment of coal stockpile inventories (Note 14)	**2,870**	3,549	**5,201**	5,706
Cost of sales from mine operations	**25,220**	20,287	**45,760**	34,063
Cost of sales related to idled mine assets (i)	**2,165**	2,818	**5,384**	8,122
Cost of sales	**$ 27,385**	$ 23,105	**$ 51,144**	$ 42,185

(i) Cost of sales related to idled mine assets for the three months ended June 30, 2017 includes $2,165 of depreciation expenses (2016: includes $2,818 of depreciation expenses). Cost of sales related to idled mine assets for the six months ended June 30, 2017 includes $5,384 of depreciation expenses (2016: includes $8,122 of depreciation expenses). The depreciation expense relates to the Company's idled plant and equipment.

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

6. COST OF SALES (CONTINUED)

Cost of inventories recognized as expense in cost of sales for the three months ended June 30, 2017 totaled $28,290 (2016: $14,105). Cost of inventories recognized as expense in cost of sales for the six months ended June 30, 2017 totaled $44,534 (2016: $24,046).

7. OTHER OPERATING INCOME/(EXPENSES)

The Company's other operating income/(expenses) consist of the following amounts:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Foreign exchange loss	**$ (1,607)**	(1,786)	**$ (2,105)**	(1,514)
Reversal of provision/(provision) for doubtful trade and other receivables (Note 12)	**(1,335)**	1,909	**(1,335)**	(2)
Impairment of properties held for sale (Note 13)	**(1,075)**	-	**(1,075)**	-
Mining services, net	**-**	-	**(2,395)**	-
Penalty on late settlement of trade payables	**-**	-	**(280)**	-
Discount on settlement of trade payables	**-**	1,009	**-**	1,009
Other	**(28)**	(320)	**(63)**	(392)
Other operating income/(expenses)	**$ (4,045)**	$ 812	**$ (7,253)**	$ (899)

Mining services at the Tavan Tolgoi deposit were provided at a net cost of $2,395, consisting of direct mining costs and depreciation totaling $7,957, net of service revenue of $5,562. No similar amount was incurred during the three and six months ended June 30, 2016.

8. ADMINISTRATION EXPENSES

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

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Corporate administration	**$ 566**	$ 693	**$ 1,036**	$ 1,158
Professional fees	**533**	391	**1,451**	895
Salaries and benefits	**1,040**	677	**1,883**	1,320
Share-based compensation expense (Note 22)	**24**	12	**35**	5
Depreciation	**71**	53	**214**	90
Administration expenses	**$ 2,234**	$ 1,826	**$ 4,619**	$ 3,468

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

9. FINANCE COSTS AND INCOME

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

	Three months ended, June 30,		Six months ended, June 30,	
	2017	**2016**	**2017**	**2016**
Interest expense on convertible debenture (Note 20)	**$ 5,330**	$ 5,274	**$ 10,607**	$ 10,522
Unrealized loss on embedded derivatives in convertible debenture (Note 20)	**-**	-	**137**	-
Interest expense on borrowings (Note 19)	**125**	81	**268**	272
Loan arrangement fee (Note 19)	**-**	-	**81**	-
Accretion of decommissioning liability	**39**	22	**76**	51
Finance costs	**$ 5,494**	$ 5,377	**$ 11,169**	$ 10,845

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

	Three months ended, June 30,		Six months ended, June 30,	
	2017	**2016**	**2017**	**2016**
Unrealized gain on embedded derivatives in convertible debenture (Note 20)	**$ 40**	$ 322	**$ -**	$ 293
Interest income	**10**	2	**14**	3
Finance income	**$ 50**	$ 324	**$ 14**	$ 296

10. TAXES

The Canadian statutory tax rate was 26% (2016: 26%) on the estimated assessable profits arising in Canada during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Company operates.

	Three months ended, June 30,		Six months ended, June 30,	
	2017	**2016**	**2017**	**2016**
Current - Canada				
Charge for the period	**$ -**	$ -	**$ -**	$ -
Current - elsewhere				
Charge for the period	**2,714**	23	**2,759**	258
Overprovision in prior periods	**-**	-	**-**	-
Total tax charge for the period	**$ 2,714**	$ 23	**$ 2,759**	$ 258

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

11. LOSS PER SHARE

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

	Three months ended June 30,		Six months ended June 30,	
	2017	**2016**	**2017**	**2016**
Net loss	**$ (6,913)**	$ (18,630)	**$ (16,530)**	$ (34,031)
Weighted average number of shares	**272,592**	257,691	**272,183**	257,692
Basic and diluted loss per share	**$ (0.03)**	$ (0.07)	**$ (0.06)**	$ (0.13)

Potentially dilutive items not included in the calculation of diluted loss per share for the three and six months ended June 30, 2017 include the convertible debenture (Note 20) and stock options (Note 22) that were anti-dilutive.

12. TRADE AND OTHER RECEIVABLES

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

	As at	
	June 30, 2017	**December 31, 2016**
Trade receivables	**$ 12,910**	$ 17,774
Other receivables	**2,636**	1,660
Total trade and other receivables	**$ 15,546**	$ 19,434

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

	As at	
	June 30, 2017	**December 31, 2016**
Less than 1 month	**$ 6,231**	$ 5,777
1 to 3 months	**6,538**	5,622
3 to 6 months	**2,155**	7,937
Over 6 months	**622**	98
Total trade and other receivables	**$ 15,546**	$ 19,434

Trade receivables are normally paid within 6 months from the date of billing. 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.

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

12. TRADE AND OTHER RECEIVABLES (CONTINUED)

During the year ended December 31, 2016, the Company entered into a settlement agreement with one of its major customers (the "Customer") pursuant to which 200 residential units and 40 parking spaces (collectively, the "240 Units") located in Ulaanbaatar, Mongolia, were transferred to the Company as partial consideration for settling an outstanding trade receivables in the amount of $12,000 owing by the Customer to the Company, with the balance of the receivable, totaling $7,500, payable in cash by the Customer to the Company by March 31, 2017 (subsequently extended to June 30, 2017). As at August 14, 2017, the entirety of the $7,500 balance has been repaid by, and collected from, the Customer.

As the transfers of title to the 240 Units were substantially completed during the first quarter of 2017, the 240 Units have been recorded at $10,752, net of impairment, in the Company's accounts accordingly (Note 13). The settlement agreement includes an option for the Company to return any unsold units back to the Customer, until September 30, 2017, at the same price per unit for immediate payment of the balance in cash.

For the three months ended June 30, 2017, the Company recorded a provision of $1,335 on its trade and other receivables (2016: reversal of provision of $1,909). For the six months ended June 30, 2017, the Company recorded a $1,335 provision on its trade and other receivables in other operating expenses (2016: $2). The Company anticipates full recovery of its remaining outstanding trade and other receivables; therefore, no further loss provisions have been recorded in respect of the Company's trade and other receivables.

13. PROPERTIES HELD FOR SALE

Properties held for sale 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 three and six months ended June 30, 2017, the Company recorded an impairment of $1,075 on the unsold units of properties held for sale (2016: nil).

14. INVENTORIES

The Company's inventories consist of the following amounts:

	As at	
	June 30, 2017	**December 31, 2016**
Coal stockpiles	**$ 15,855**	$ 7,228
Materials and supplies	**20,006**	21,355
Total inventories	**$ 35,861**	$ 28,583

Cost of sales for the three months and six months ended June 30, 2017 includes an impairment loss of $2,870 and $5,201, respectively, related to the Company's coal stockpile inventories (For three and six months ended June 30, 2016: $3,549 and $5,706, respectively). As at June 30, 2017, $6,423 of the Company's coal stockpile inventories are carried at their net realizable value (December 31, 2016: $321).

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

15. PROPERTY, PLANT AND EQUIPMENT

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

	Mobile equipment	Other operating equipment	Buildings and roads	Mineral properties	Non-depreciable assets	Total
Cost						
As at January 1, 2017	$ 346,299	$ 28,755	$ 72,194	$ 148,938	$ 28,564	$ 624,750
Additions	**2,540**	**90**	**-**	**7,161**	**312**	**10,103**
As at June 30, 2017	**$ 348,839**	**$ 28,845**	**$ 72,194**	**$ 156,099**	**$ 28,876**	**$ 634,853**
Accumulated depreciation and impairment charges						
As at January 1, 2017	$ (260,518)	$ (27,655)	$ (46,759)	$ (95,991)	$ (13,018)	$ (443,941)
Depreciation for the period	**(18,565)**	**(390)**	**(2,342)**	**(2,575)**	**-**	**(23,872)**
As at June 30, 2017	**$ (279,083)**	**$ (28,045)**	**$ (49,101)**	**$ (98,566)**	**$ (13,018)**	**$ (467,813)**
Carrying amount						
As at December 31, 2016	$ 85,781	$ 1,100	$ 25,435	$ 52,947	$ 15,546	$ 180,809
As at June 30, 2017	**$ 69,756**	**$ 800**	**$ 23,093**	**$ 57,533**	**$ 15,858**	**$ 167,040**

15.1 Non-depreciable assets

The non-depreciable assets include the construction in progress and deposits on purchasing items of property, plant and equipment of $15,340 (December 31, 2016: $15,340), which primarily relate to ordered but not yet delivered mobile equipment or mobile equipment delivered to the location of its intended use but not yet commissioned.

15.2 Pledge on items of property, plant and equipment

As at June 30, 2017, certain of the Company's property, plant and equipment of $3,078 (December 31, 2016: $3,678) were pledged as security for a bank loan granted to the Company (Note 19).

15.3 Items of property, plant and equipment held under finance leases

As at June 30, 2017, certain of the Company's mobile equipment of $761 (December 31, 2016: $720) were held under finance leases.

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

16. INVESTMENT IN A JOINT VENTURE

The Company's investment consists of the following amounts:

	As at	
	June 30, 2017	December 31, 2016
Non-current investment in joint venture		
Investment in RDCC LLC	**$ 21,861**	$ 21,335
Total investments	**$ 21,861**	$ 21,335

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:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Balance, beginning of period	**$ 21,438**	$ 24,973	**$ 21,335**	$ 25,667
Dividend received	**(649)**	(224)	**(1,071)**	(489)
Share of earnings of a joint venture	**388**	256	**654**	339
Share of other comprehensive income of a joint venture	**684**	879	**943**	367
Balance, end of period	**$ 21,861**	$ 25,884	**$ 21,861**	$ 25,884

For the three and six months ended June 30, 2017, RDCC LLC recognized toll fee revenue of $1,953 and $3,134, respectively (For the three and six months ended June 30, 2016: $1,361 and 2,195, respectively). For the three and six months ended June 30, 2017, RDCC LLC had a net income of $971 and $1,635, respectively (For the three and six months ended June 30, 2016: $641 and $848, respectively).

17. 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.

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

17. TRADE AND OTHER PAYABLES (CONTINUED)

The aging of the Company's trade and other payables is as follows:

	As at	
	June 30, 2017	**December 31, 2016**
Less than 1 month	**$ 21,244**	$ 14,640
1 to 3 months	**13,222**	2,493
3 to 6 months	**12,105**	2,648
Over 6 months	**25,886**	23,847
Total trade and other payables	**$ 72,457**	$ 43,628

Trade and other payables as at June 30, 2017 included payables resulting from civil claims:

17.1 Settlement of Lawsuit Notice from a Former Fuel Supplier

On January 20, 2017, SouthGobi Sands LLC ("SGS"), a subsidiary of the Company, received a notice from the Khan-Uul District Civil Court of First Instance in Mongolia (the "DC Court") in relation to a claim for damages from Magnai Trade LLC ("MTLLC"), a former fuel supplier of SGS, in the aggregate amount of MNT 22.2 billion (approximately $8,900) consisting of MNT 14.6 billion (approximately $5,800) of outstanding fuel supply payments and MNT 7.6 billion (approximately $3,100) of late payment penalties and associated interest costs.

SGS disputed the amount claimed by MTLLC in the proceedings before the DC Court and filed an application with the DC Court to dismiss the litigation, on the basis that the contract required an arbitration process prior to the initiation of court proceedings. On January 25, 2017, the DC Court dismissed the litigation and the matter was referred to arbitration.

The Company signed a settlement agreement with MTLLC on February 10, 2017 pursuant to which SGS would pay MTLLC $8,047 in equal monthly installments from March 2017 to June 2017 in full satisfaction of the debt outstanding. The terms of the settlement agreement was subsequently acknowledged by the arbitrator in the arbitration award.

As a result of the Company failing to honor the repayment schedule set out in the settlement agreement after the installment of March 2017 ($2,034) has been settled, the Company received on May 1, 2017 a judicial order issued by the DC Court which stated that, subject to MTLLC filing the requisite notice with the DC Court, the arbitration award will be executed by the Court Decision Implementation Agency of Mongolia ("CDIA") and taken to bailiff service for further action.

On June 30, 2017, the Company signed the Triparty Settlement Agreement with MTLLC and ICIC (an independent fuel supplier of the Company), pursuant to which: (i) MTLLC transferred to ICIC its right to receive payment from the Company for the Outstanding Amount owing under the settlement agreement and its right to enforce the arbitration award against the Company; and (ii) the Company and ICIC agreed to a revised payment schedule for repayment of the Outstanding Amount. Pursuant to the Triparty Settlement Agreement, the Company will pay interest on the Outstanding Amount, which shall accrue at a monthly rate of 1.8% and will be settled on a monthly basis. The Company is required to repay on average $1,281 monthly during the period from July 2017 to November 2017 pursuant to the Triparty Settlement Agreement.

18. PROVISION FOR COURT CASE PENALTY

In 2014, the Company was subject to several investigations by Mongolia's Independent Authority Against Corruption (the "IAAC") regarding allegations of breaches of Mongolia's anti-corruption laws (the "Anti-Corruption Case"), and tax evasion and money laundering (the "Tax Evasion Case").

While the IAAC has not made any formal accusations against any current or former employee of the Company or the Company under the Anti-Corruption Case, administrative penalties were imposed on certain of the Company's Mongolian assets in connection with the investigation, including certain funds held in bank accounts in Mongolia totaling $1,200 (the "Restricted Funds"). The Company has been informed that the Anti-Corruption Case has been suspended; however, it has not received formal notice that the investigation is completed.

With respect to the Tax Evasion Case, on December 30, 2014, the Capital City Prosecutor's Office (Ulaanbaatar, Mongolia) dismissed the allegations of money laundering as not having been proven during the investigation; however, proceedings in respect of tax evasion by former employees of the Company proceeded and culminated in February 2015, when the Company received the written verdict (the "Tax Verdict") of the Mongolian Second District Criminal Court. The Tax Verdict pronounced the three former employees of SGS guilty and declared SGS to be financially liable as a "civil defendant" for a penalty (the "Tax Penalty") of MNT 35.3 billion (approximately $18,200 on February 1, 2015). Following the refusal of the Supreme Court of Mongolia to hear the case on appeal in June 2015, the Tax Verdict entered into force. The Tax Verdict is, however, not immediately payable and enforceable against SGS absent further actions prescribed by the laws of Mongolia. However, the Company made a corresponding provision for the court case penalty of $18,000 in the second quarter of 2015 given the Tax Verdict had entered into force.

On October 6, 2015, the Company was informed by its Mongolian banks (where the Restricted Funds were held) that they had received an official request from the CDIA to transfer the Restricted Funds according to the court decision. $1,200 was transferred to the CDIA from the frozen bank accounts in October and November 2015.

Following the submission by the Company of various proposals to resolve the dispute giving rise to the Tax Verdict, in May 2016, the Resolution 258 of the Government of Mongolia was issued, which approved the Company's proposal to partially settle the Tax Penalty by way of certain cash payments in 2016 and 2017 and by the Company performing certain mining operations at the Tavan Tolgoi deposit on behalf of Erdenes Tavan Tolgoi JSC ("Erdenes"). Subsequent to this Resolution, the Company made cash payments of $2,406 during 2016 as a partial settlement of the Tax Penalty.

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

18. PROVISION FOR COURT CASE PENALTY (CONTINUED)

In compliance with the Resolution 258, in November 2016, the Company entered into an agreement with Erdenes under which the Company agreed to perform certain mining operations equivalent to MNT 20.3 billion (approximately $8,135) in the West Tsankhi section of the Tavan Tolgoi deposit during the period from November 2016 to February 2017. In March 2017, the Company has completed the mining operations at the Tavan Tolgoi deposit equivalent to MNT 20.3 billion (approximately $8,135) as set out in the agreement with Erdenes.

The Company has provided $3,193 for the court case penalty at June 30, 2017. The decrease from $18,049 as at June 30, 2015 is as a result of subsequent transfers from frozen bank accounts of $1,200, additional cash payments by the Company of $2,406, the provision of mining services at the Tavan Tolgoi deposit of $8,135 and the foreign exchange adjustments.

The Company is required to make further cash payments of $3,193 in 2017 to complete repayment of the balance of the penalty owing.

As described above, the Company is working with the relevant authorities in Mongolia to resolve the dispute giving rise to the tax verdict in a manner that is appropriate having regard to the Company's limited financial resources and supportive of a positive environment for foreign investment in Mongolia. Should the Company fail to meet the terms of the agreed repayment plan and to receive a discharge of the judgment from the applicable Mongolian court, this may result in an event of default under the CIC Convertible Debenture and CIC would have the right to declare the full principal and accrued interest owing thereunder immediately due and payable. Such an event of default under the CIC Convertible Debenture or the Company’s inability to pay the penalty could result in voluntary or involuntary proceedings involving the Company, including bankruptcy.

19. INTEREST-BEARING BORROWINGS

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

	As at	
	June 30, 2017	**December 31, 2016**
Turquoise Hill Loan Facility (i)	**$ 2,097**	$ 2,881
Short-term bridge loan (ii)	**-**	3,425
Bank loan (iii)	**2,334**	2,026
Finance leases payable (iv)	**579**	547
Total interest-bearing borrowings	**$ 5,010**	$ 8,879

(i) Turquoise Hill Loan Facility

On May 25, 2014, the Company announced it obtained a loan from Turquoise Hill in the form of a $10,000 revolving credit facility to meet its short term working capital requirements (the “TRQ Loan”). The key commercial terms of the facility were: an original maturity date of August 30, 2014 (subsequently extended as described below); an interest rate of one month US dollar LIBOR Rate in effect plus 11% per annum; a commitment fee of 35% of interest rate payable quarterly in arrears on undrawn principal amount of facility and a front end fee of $100.

19. INTEREST-BEARING BORROWINGS (CONTINUED)

During 2014 and 2015, the due date of the TRQ Loan, was extended several times and the maximum amount of the facility was reduced to $3,800.

On May 16, 2016, the Company and Turquoise Hill entered into a deferral agreement (the “May 2016 Deferral Agreement”), whereby Turquoise Hill agreed to a limited deferral of repayment of all remaining amounts and obligations owing under the TRQ Loan to December 29, 2017 in accordance with the schedule of repayments set out below:

- The Company agreed to effect monthly repayments on the last business day of each month in an amount of (i) $150 per month from May 2016 to April 2017; (ii) $200 per month starting from May 2017 to December 2017 (the payments in (i) and (ii), the "Repayments"), at which time all remaining obligation will become due;
- In the event that the Company fails to make any one of the Repayments in its entirety on or before the dates set out above, then the Company shall be in automatic and irremediable default of the obligations thereunder and under the TRQ Loan, shall immediately and irremediably lose all benefits of the May 2016 Deferral Agreement, and all then outstanding obligations shall become immediately due and payable to Turquoise Hill; and
- Interest shall continue to accrue on all outstanding obligations at the 12-month US dollar LIBOR rate.

Unless otherwise agreed by Turquoise Hill, under certain circumstances, including the non-payment of interest amounts as the same become due, amounts outstanding under the TRQ Loan may be accelerated. Bankruptcy and insolvency events with respect to the Company or its material subsidiaries will result in an automatic acceleration of the indebtedness under the TRQ Loan. Subject to notice and cure periods, certain events of default under the TRQ Loan will result in acceleration of the indebtedness under such loan at the option of Turquoise Hill.

As at June 30, 2017, the outstanding principal and accrued interest under this facility amounted to $1,400 and $697, respectively (at December 31, 2016, the outstanding principal and accrued interest under this facility amounted to $2,200 and $681, respectively).

The Company was late in repaying its June 2017 monthly payment under the May 2016 Deferral Agreement. As of the date hereof, the Company has not paid its July 2017 monthly payment.

(ii) Short-term Bridge Loan

On October 27, 2015, the Company executed a $10,000 bridge loan agreement with an independent Asian based private equity fund. The interest rate is 8% per annum with interest payable upon the repayment of loan principal.

The Company repaid the first tranche of the short-term bridge loan with interest of $5,042 up to August 11, 2016. During June and July 2016, the Company drew the second tranche of $5,038, of which $1,504 was to mature in March and $3,534 was to mature in April 2017. In December 2016, $1,454 was repaid for the short-term bridge loan and a further $1,818 and $1,592 was subsequently repaid in January 2017 and March 2017, respectively and the loan principal was fully settled. The outstanding interest was settled in April 2017.

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

19. INTEREST-BEARING BORROWINGS (CONTINUED)

A loan arrangement fee of 5% of the loan principal drawn was charged, totaling $252 for the loans drawn during June and July 2016 and amortized throughout the loan term. For the six months ended June 30, 2017, $81 of loan arrangement fee was amortized (2016: nil).

(iii) Bank Loan

On May 6, 2016, SGS obtained a bank loan (the “Bank Loan”) in the principal amount of $2,000 from a Mongolian bank (the “Bank”). The principal terms of the Bank Loan include, among other things, an interest rate of 15.8% per annum, a maturity date of May 6, 2017 (subsequently extended as described below) and SGS being required to pledge certain of its mobile equipment in favour of the bank as collateral for the Bank Loan.

On May 26, 2017, the Company and the Bank entered into a supplementary agreement with the key commercial terms of the Bank Loan modified as follows:

- Principal amount increased to $2,300;
- Maturity date extended to May 6, 2018;
- Interest rate remained at 15.8% per annum and payable monthly; and
- Certain items of property, plant and equipment with value of $3,078 were pledged as further security.

As at June 30, 2017, the outstanding balance for the bank loan was $2,300 (December 31, 2016: $2,000) and the Company owed accrued interest of $34 (December 31, 2016: $26).

(iv) Finance Leases Payable

The Company leases certain of its mobile equipment for daily operations. These leases are classified as finance leases and have remaining lease terms ranging from 2 to 5 years.

At June 30, 2017, the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments As at		Present value of minimum lease payments As at	
	June 30, 2017	**December 31, 2016**	**June 30, 2017**	**December 31, 2016**
Amounts payable:				
Within one year	**$ 192**	$ 152	**$ 155**	$ 122
In the second year	**192**	152	**170**	131
In the third to fifth years, inclusive	**267**	314	**254**	294
Total minimum finance lease payments	**$ 651**	$ 618	**$ 579**	$ 547
Future finance charges	**(72)**	(71)		
Total net lease finance payables	**$ 579**	$ 547		
Portion classified as current liabilities	**(155)**	(122)		
Non-current portion	**$ 424**	$ 425		

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

20. CONVERTIBLE DEBENTURE

20.1 Key commercial terms

On November 19, 2009, the Company issued a convertible debenture to a wholly owned subsidiary of CIC for $500,000. The convertible debenture bears interest at 8.0% per annum (6.4% payable semi-annually in cash and 1.6% payable annually in the Company's shares) and has a maximum term of 30 years. During 2010, the Company exercised a right within the debenture to call and convert $250,000 of the debenture for 21,471 Common Shares. Following the conversion the outstanding principal balance was $250,000 and has remained unchanged at that balance to June 30, 2017.

20.2 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.

20.3 Valuation assumptions

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

	As at	
	June 30, 2017	**December 31, 2016**
Floor conversion price	**CAD$8.88**	CAD$8.88
Ceiling conversion price	**CAD$11.88**	CAD$11.88
Common share price	**CAD$0.33**	CAD$0.27
Historical volatility	**79%**	79%
Risk free rate of return	**2.07%**	2.23%
Foreign exchange spot rate (CAD$ to U.S. Dollar)	**0.77**	0.74
Forward foreign exchange rate curve (CAD$ to U.S. Dollar)	**0.77 - 0.81**	0.74 - 0.77

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

20. CONVERTIBLE DEBENTURE (CONTINUED)

20.4 Presentation

Based on the Company's valuation as at June 30, 2017, the fair value of the embedded derivatives increased by $137 compared to that at December 31, 2016 and decreased by $40 compared to that at March 31, 2017. The changes in fair value were recorded as finance expense and finance income for the three and six months ended June 30, 2017, respectively.

For the three months ended June 30, 2017, the Company recorded interest expense of $5,330 related to the convertible debenture as a finance cost (2016: $5,274). For the six months ended June 30, 2017, the Company recorded interest expense of $10,607 related to the convertible debenture as a finance cost (2016: $10,522). The interest expense consists of the interest at the contract rate and the accretion of the debt host component of the convertible debenture. To calculate the accretion expense, the Company uses the contract life of 30 years and an effective interest rate of 22.2%.

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

	Three months ended June 30,		Six months ended June 30,	
	2017	**2016**	**2017**	**2016**
Balance, beginning of period	**$ 115,204**	$ 110,936	**$ 117,590**	$ 108,659
Interest expense on convertible debenture	**5,330**	5,274	**10,607**	10,522
Increase/(decrease) in fair value of embedded derivatives	**(40)**	(322)	**137**	(293)
Interest paid	**(5,425)**	(1,000)	**(13,265)**	(4,000)
Balance, end of period	**$ 115,069**	$ 114,888	**$ 115,069**	$ 114,888

The convertible debenture balance consists of the following amounts:

	As at	
	June 30, 2017	**December 31, 2016**
Current convertible debenture		
Interest payable	**$ 22,810**	$ 25,597
Non-current convertible debenture		
Debt host	**91,583**	91,453
Fair value of embedded derivatives	**676**	540
	92,259	91,993
Total convertible debenture	**$ 115,069**	$ 117,590

20. CONVERTIBLE DEBENTURE (CONTINUED)

20.5 Interest deferral and settlement

On June 12, 2017, the Company executed a deferral agreement (the “June 2017 Deferral Agreement”) with CIC for a revised repayment schedule on the $22,254 of cash interest and associated costs originally due on May 19, 2017 (the “May 2017 Interest Payable”). The key repayment terms of the June 2017 Deferral Agreement are: (i) the Company is 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 is required to repay $9,731 of cash interest and associated costs on November 19, 2017. The Company will pay a deferral fee at a rate of 6.4% per annum in consideration for the deferral.

Under certain conditions, including the non-payment of interest amounts as the same become due, amounts outstanding under the CIC Convertible Debenture may be accelerated. Bankruptcy and insolvency events with respect to the Company or its material subsidiaries will result in an automatic acceleration of the indebtedness under the CIC Convertible Debenture. Subject to notice and cure periods, certain events of default under the CIC Convertible Debenture will result in acceleration of the indebtedness under such debenture at the option of CIC. Such other events of default include, but are not limited to, non-payment, breach of warranty, non-performance of obligations under the CIC Convertible Debenture, default on other indebtedness and certain adverse judgments.

21. EQUITY

21.1 Share Capital

The Company has authorized an unlimited number of common and preferred shares with no par value. At June 30, 2017, the Company had 272,593 common shares outstanding (December 31, 2016: 257,698) and no preferred shares outstanding (December 31, 2016: nil). On January 11, 2017, 14,892 common shares were issued by the Company to settle the $4,000 November 19, 2016 share interest payment.

21.2 Accumulated deficit and dividends

At June 30, 2017, the Company has accumulated a deficit of $1,112,318 (December 31, 2016: $1,095,788). No dividends have been paid or declared by the Company since inception.

22. SHARE-BASED PAYMENTS

22.1 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.

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

22. SHARE-BASED PAYMENTS (CONTINUED)

For the six months ended June 30, 2017, the Company granted 100 stock options to a director at an exercise price of CAD$0.39 and an expiry date of June 5, 2022 and granted 650 stock options to directors at an exercise price of CAD$0.33 and an expiry date of June 30, 2022. The weighted average fair value of the options granted in the six months ended June 30, 2017 was estimated at $0.08 (CAD$0.11) per option at the grant date using the Black-Scholes option pricing model.

A share-based compensation expense of $55 for the options granted in the six months ended June 30, 2017 will be amortized over the vesting period, of which $1 was recognized in the six months ended June 30, 2017.

For the six months ended June 30, 2016, the Company did not grant any stock options to officers, employees, directors and other eligible persons.

The total share-based compensation expenses for the three months ended June 30, 2017 was $30 (2016: $8). Share-based compensation expenses of $24 (2016: $12) has been allocated to administration expenses, share-based compensation expenses of $5 (2016: share-based compensation recovery of $3) has been allocated to cost of sales and share-based compensation expenses of $1 (2016: share-based compensation recovery of $1) has been allocated to evaluation and exploration expenses.

The total share-based compensation expenses for the six months ended June 30, 2017 was $67 (2016: share-based compensation recovery of $6). Share-based compensation expenses of $35 (2016: $5) has been allocated to administration expenses, share-based compensation expenses $28 (2016: share-based compensation recovery of $8) has been allocated to cost of sales and share-based compensation expenses of $4 (2016: share-based compensation recovery of $3) has been allocated to evaluation and exploration expenses.

22.2 Outstanding stock options

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

	Six months ended June 30, 2017		**Six months ended June 30, 2016**	
	Number of options	Weighted average exercise price (CAD$)	Number of options	Weighted average exercise price (CAD$)
Balance, beginning of period	**1,910**	**$ 0.61**	2,399	$ 1.52
Options granted	**750**	**0.34**	-	-
Options forfeited	**(3)**	**0.92**	(305)	0.85
Options expired	**(330)**	**1.54**	(133)	0.95
Balance, end of period	**2,327**	**$ 0.39**	1,961	$ 1.55

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

22. SHARE-BASED PAYMENTS (CONTINUED)

The stock options outstanding and exercisable as at June 30, 2017 are as follows:

	Options Outstanding				Options Exercisable			
Exercise price (CAD$)	Options outstanding		Weighted average exercise price (CAD$)	Weighted average remaining contractual life (years)	Options outstanding and exercisable		Weighted average exercise price (CAD$)	Weighted average remaining contractual life (years)
0.25 to 0.65	**2,133**	**$**	**0.32**	**4.29**	**875**	**$**	**0.30**	**2.43**
0.92 to 1.92	**194**		**1.10**	**2.34**	**140**		**1.17**	**2.15**
	2,327	**$**	**0.39**	**4.13**	**1,015**	**$**	**0.42**	**2.39**

23. FAIR VALUE MEASUREMENTS

The fair value of all the financial instruments of the Company approximates their carrying value because of the demand nature or short-term maturity of these instruments.

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

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

	As at June 30, 2017							
Recurring measurements		**Level 1**		**Level 2**		**Level 3**		**Total**
Financial liabilities at fair value								
Convertible debenture - embedded derivatives	**$**	**-**	**$**	**676**	**$**	**-**	**$**	**676**
Convertible debenture - debt host		**-**		**202,472**		**-**		**202,472**
Total financial liabilities at fair value	**$**	**-**	**$**	**203,148**	**$**	**-**	**$**	**203,148**

	As at December 31, 2016							
Recurring measurements		**Level 1**		**Level 2**		**Level 3**		**Total**
Financial iabilities at fair value								
Convertible debenture - embedded derivatives	$	-	$	540	$	-	$	540
Convertible debenture - debt host		-		217,195		-		217,195
Total financial liabilities at fair value	$	-	$	217,735	$	-	$	217,735

There were no transfers between Level 1, 2 and 3 for the three and six months ended June 30, 2017.

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

24. SUPPLEMENTAL CASH FLOW INFORMATION

24.1 Non-cash financing and investing activities

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

	Six months ended June 30, 2017	Six months ended June 30, 2016
Convertible debenture interest settlement in shares (Note 20)	**$ 4,000**	$ -
Trade receivables settled by properties held for sale (Note 12)	**10,752**	-
Settlement of court case penalty via provision of mining services (Note 18)	**6,184**	-
Purchase of vehicles financed by loans	**100**	-
Addition to decommissioning liability	**375**	657
Amortization of deferred stripping being capitalized	**2,077**	1,366
Total non-cash financing and investing activities	**$ 23,488**	$ 2,023

24.2 Net change in non-cash working capital items

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

	Six months ended June 30, 2017	Six months ended June 30, 2016
Decrease/(increase) in inventories	**$ (7,937)**	$ 2,754
Increase in trade and other receivables	**(13,718)**	(4,787)
Increase in prepaid expenses and deposits	**(2,107)**	(2,736)
Increase in trade and other payables	**25,425**	7,781
Decrease in provision for court case penalty	**-**	(1,524)
Increase/(decrease) in deferred revenue	**(3,624)**	1,626
Net change in non-cash working capital items	**$ (1,961)**	$ 3,114

25. COMMITMENTS FOR EXPENDITURE

As at June 30, 2017, the Company's commitments for expenditure that have not been disclosed elsewhere in the condensed consolidated financial statements are as follows:

	Within 1 year	2-3 years	Over 3 years	Total
As at June 30, 2017				
Capital expenditure commitments	**$ 7,068**	**$ -**	**$ -**	**$ 7,068**
Operating expenditure commitments	**12,505**	**702**	**1,895**	**15,102**
Commitments	**$ 19,573**	**$ 702**	**$ 1,895**	**$ 22,170**
As at December 31, 2016				
Capital expenditure commitments	$ 1,897	$ -	$ -	$ 1,897
Operating expenditure commitments	6,546	700	213	7,459
Commitments	$ 8,443	$ 700	$ 213	$ 9,356

26. CONTINGENCIES

26.1 Mongolian IAAC investigation

In the first quarter of 2013, the Company was subject to orders imposed by the IAAC which placed restrictions on certain of the Company's Mongolian assets. The orders were imposed on the Company in connection with the IAAC's investigations of the Company as described above under "Governmental and Regulatory Investigations" and continued to be enforced by the Mongolian State Investigation Office. The restrictions on the assets were reaffirmed in the Tax Verdict and form part of the Tax Penalty payable by the Company (Note 18).

The orders related to certain items of operating equipment and infrastructure and the Company's Mongolian bank accounts. The orders related to the operating equipment and infrastructure restricts the sale of these items; however, the orders do not restrict the use of these items in the Company's mining activities. The orders related to the Company's Mongolian bank accounts restricted the use of in-country funds but did not have any material impact on the Company's activities. The Restricted Funds were transferred to the CDIA as partial payment of the Tax Verdict in October and November 2015 (Note 18).

Following a review by the Company and its advisers, it is the Company's view that the orders placing restrictions on certain of the Company's Mongolian assets did not result in an event of default as defined under the terms of the CIC Convertible Debenture. However, the enforcement of the orders could ultimately result in an event of default of the Company's CIC Convertible Debenture, which if remains uncured for ten business days, would result in the principal amount owing and all accrued and unpaid interest will become immediately due and payable upon notice to the Company by CIC.

26.2 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, Deloitte LLP, in the Ontario Court in relation to the Company's restatement of consolidated financial statements as previously disclosed in the Company's public filings.

To commence and proceed with the Class Action, the plaintiff was required to bring a preliminary leave motion and to certify the Class Action as a class proceeding (the "Leave Motion"). The Ontario Court rendered its decision on the Leave Motion on November 5, 2015 and dismissed the plaintiff's Leave Motion as against each of the former senior officers and directors of the Company named in the Class Action on the basis that the "large volume of compelling evidence" proved the defense of reasonable investigation on the balance of probabilities and provided the basis for dismissing the Leave Motion as against them.

However, the Ontario Court allowed the Class Action to proceed under Part XXIII.1 of the Ontario Securities Act, permitting the plaintiff to commence and proceed with an action against the Company in respect of alleged misrepresentations affecting trades in the secondary market for the Company's securities arising from the restatement. The Company appealed this portion of the decision of the Ontario Court (the "Corporation Appeal").

The plaintiff appealed that part of the November 5, 2015 Ontario Court decision dismissing the action against former officers and directors of the Company (the "Individual's Appeal"). The Individual's Appeal was brought as of right to the Ontario Court of Appeal.

26. CONTINGENCIES (CONTINUED)

By Order dated September 12, 2016, the Corporation Appeal was transferred to the Ontario Court of Appeal to be heard together with the Individuals' Appeal. The Corporation Appeal was perfected on October 25, 2016 in the Ontario Court of Appeal.

Both the Individuals' Appeal and the Corporation Appeal were orally argued together on June 9, 2017. The Court of Appeal reserved its decisions in both appeals. Subsequent to June 9, 2017, the plaintiff's sought to file a decision of the Ontario Securities Commission dealing with the issue of due diligence. This application was opposed in writing. The Company awaits the Court's ruling on whether it will receive the new case. If it does, the Company has asked permission to file a written submission explaining why the case does not help the plaintiff. Otherwise, the Company expects for the Court's reasons for decision in the fall of this year.

The Company disputes and is vigorously defending itself against the plaintiff's claims through independent Canadian litigation counsel retained by the Company and the other defendants for this purpose. Due to the inherent uncertainties of litigation, it is not possible to predict the final outcome of the Class Action or determine the amount of potential losses, if any. However, the Company has judged a provision for this matter as at June 30, 2017 was not required.

26.3 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 coals from the Ovoot Tolgoi Mine. The agreement has a duration of five years from commencement of the contract and provides 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 these $18,500 will be required to be paid. Accordingly, the Company has determined a provision for this matter as at June 30, 2017 was not required.

26.4 Mining prohibition in Specified Areas Law

In July 2009, Mongolia promulgated the Law on Prohibiting Mineral Exploration and Extraction Near Water Sources, Protected Areas and Forests (the "Mining Prohibition in Specified Areas Law"). Pursuant to the Mining Prohibition in Specified Areas Law, the Government of Mongolia has defined the boundaries of certain areas in which exploration and mining is purportedly prohibited. A list of licenses was prepared that overlap with the prohibited areas described in the law based on information submitted by water authority agencies, forest authority agencies and local authorities for submission to the Government of Mongolia.

26. CONTINGENCIES (CONTINUED)

In order to address the issues facing its implementation, in February 2015 the Parliament of Mongolia adopted an amendment to the Law on Implementation of the Mining Prohibition in Specified Areas Law (the “Amended Law on Implementation”). The Amended Law on Implementation provided an opportunity for license holders covered within the scope of application of the Mining Prohibition in Specified Areas Law to continue their mining operations subject to advance placement of funds to cover 100% of the future environmental rehabilitation costs. A model contract and a specific Government regulation on this requirement will be adopted by the Government. The license holders were required to apply within 3 months after the amendment to the Law on Implementation came into effect for permission to the Mineral Resources Authority of Mongolia to resume activities. The Company considered the development projects may be affected, but not the operating mines.

The Company submitted its application with respect to its mining licenses before the deadline set on June 16, 2015.

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

In accordance with Article 22.3 of Law of Mongolia on Water, 5,602.96 hectares of land, including Sukhaityn Bulag, Uvur Zadgai, and Zuun Shand pertaining to exploration license 9443X, which was converted to mining license MV-0125436 in January 2016, was overlapping with protected area boundary. It has been officially handed over to the local administration. (Resolution No.688 issued on September 24, 2015 by the Head of Cadastral Division of the Mineral Resource Authority). In connection with the nullification of Annex 2 of government order No.194 “On determining boundary” issued on June 5, 2012, the area around the water reservoir located at MV-016869 license area and Soumber exploration license 9449X, which was converted to mining license MV-020451 in January 2016, was annulled from the Specified Area Law.

Therefore, mining licenses 12726A and MV-016869 and exploration licenses 9443X and 9449X were removed from the list of licenses that overlaps with the prohibited areas described in the law.

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

26.5 Special Needs Territory in Umnugobi

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

26. CONTINGENCIES (CONTINUED)

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

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

26.6 Commercial arbitration in Hong Kong

On June 24, 2015, First Concept served a notice of arbitration (the "Notice") on SGS in respect of a coal supply agreement dated May 19, 2014 as amended on June 27, 2014 (the "Coal Supply Agreement") for a total consideration of $11,500. The arbitral proceedings (the "Arbitration") are deemed to have commenced on June 24, 2015, as of the date when the respondent received the Notice.

The Company firmly rejected the allegations of First Concept in the Notice as lacking any merit. The Arbitration was held in the fourth quarter of 2016 and the decision is not expected until the third quarter of 2017.

There can be no assurance, however, that the Company will prevail in the Arbitration. Should SGS be unsuccessful in the Arbitration, the Company may not be able to repay the sum of $11,500. In such case, this may result in an event of default under the CIC Convertible Debenture and CIC would have the right to declare the full principal and accrued interest owing thereunder immediately due and payable. Such an event of default under the CIC Convertible Debenture or the Company's inability to repay the sum of $11,500 to First Concept could result in voluntary or involuntary proceedings involving the Company (including bankruptcy).

26. CONTINGENCIES (CONTINUED)

26.7 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 June 30, 2017, management has assessed that recognition of a provision for uncertain tax position is not necessary.

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

ADDITIONAL STOCK EXCHANGE INFORMATION

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

A1. FINANCIAL INSTRUMENTS

Cash

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

	As at	
	June 30, 2017	December 31, 2016
Denominated in U.S. Dollars	$ 122	$ 269
Denominated in Chinese Renminbi	177	296
Denominated in Mongolian Tugriks	406	287
Denominated in Canadian Dollars	13	85
Denominated in Hong Kong Dollars	416	29
Cash	$ 1,134	$ 966

Exposure to fluctuations in foreign exchange rates

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

	As at	
	June 30, 2017	December 31, 2016
Increase/ decrease in foreign exchange rate against US Dollar		
+5%	$ 23	$ 24
–5%	(23)	(24)

A2. COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has, throughout the six months ended June 30, 2017, applied the principles and complied with the requirements of its corporate governance practices as defined by the Board of Directors and all applicable statutory, regulatory and stock exchange listings standards.

A3. COMPLIANCE WITH MODEL CODE

The Company has adopted policies regarding directors' securities transactions in its Corporate Disclosure, Confidentiality and Securities Trading policy that have terms that are no less exacting than those set out in the Model Code of Appendix 10 of the rules governing the listing of securities on the Hong Kong Stock Exchange.

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

A3. COMPLIANCE WITH MODEL CODE (CONTINUED)

The Board of Directors confirms that all of the Directors of the Company have complied with the required policies in the Company's Corporate Disclosure, Confidentiality and Securities Trading policy throughout the six months ended June 30, 2017.

A4. PURCHASE, SALE OR REDEPMTION OF THE COMPANY'S SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company during the six months ended June 30, 2017.

A5. SUBSTANTIAL SHAREHOLDERS

As at June 30, 2017, the persons or corporations (not being a Director or chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register of interests in shares required to be kept by the Company were as follows:

Name	Nature of interest	Shares held	Approximate % of issued shares
Novel Sunrise (note a)	Beneficial	46,358,978	17.01%
Hope Rosy Limited (note a)	Interest of controlled corporation	46,358,978	17.01%
China Cinda (HK) Investments Management Company Limited (note a)	Interest of controlled corporation	46,358,978	17.01%
China Cinda (HK) Holdings Company Limited (note a)	Interest of controlled corporation	46,358,978	17.01%
China Cinda Asset Management Co., Ltd. (note a)	Interest of controlled corporation	46,358,978	17.01%
The Ministry of Finance of the People's Republic of China ("MOF") (note a)	Interest of controlled corporation	46,358,978	17.01%
Land Breeze II S.a.r.l. (note b)	Beneficial	64,766,591	23.76%
Fullbloom Investment Corporation (note b)	Interest of controlled corporation	64,766,591	23.76%
CIC (note b)	Interest of controlled corporation	64,766,591	23.76%
Voyage Wisdom Limited	Beneficial	25,768,162	9.45%
China Wish Limited	Beneficial	15,000,013	5.50%

Notes:

(a) Novel Sunrise is a wholly-owned subsidiary of Hope Rosy Limited, which is a wholly-owned subsidiary of China Cinda (HK) Investments Management Company Limited. China Cinda (HK) Investments Management Company Limited is a wholly-owned subsidiary of China Cinda (HK) Holdings Company Limited, which is wholly owned by China Cinda Asset Management Co. Ltd. China Cinda Asset Management Co., Ltd. is partially owned by MOF. Accordingly, Hope Roxy Limited is deemed to be interested in shares held by Novel Sunrise; and each of China Cinda (HK) Investments Management Company Limited, China Cinda (HK) Holdings Company Limited, China Cinda Asset Management Co., Ltd. and MOF.

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

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

A5. SUBSTANTIAL SHAREHOLDERS (CONTINUED)

Other than as disclosed above, the Company has not been notified of any relevant interests or short positions in the issued share capital of the Company as at June 30, 2017.

A6. DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at June 30, 2017, the interests of the Company's directors in the shares, underlying shares and debentures of the Company and its associated corporations were as follows:

	Number of Shares interested				Number of underlying Shares interested		
Name of directors	**Directly beneficially owned**	**Through spouse or minor children**	**Through controlled company**	**Beneficiary of a trust**	**Directly beneficially owned**	**Total**	**Percentage interest in the company [4]**
Current Directors							
Aminbuhe [1]	-	-	25,768,162	-	100,000	25,868,162	9.49%
Yulan Guo [2]	-	-	25,768,162	-	100,000	25,868,162	9.49%
Yingbin Ian He	-	-	-	-	250,000	250,000	0.09%
Zhu Liu	-	-	-	-	400,000	400,000	0.15%
Jin Lan Quan	-	-	-	-	400,000	400,000	0.15%
Mao Sun	-	-	-	-	500,000	500,000	0.18%
Wen Yao	-	-	-	-	-	-	-
Former Directors							
Joseph Belan	-	-	-	-	250,000	250,000	0.09%
Ningqiao Li [3]	-	-	-	-	100,000	100,000	0.04%
Huiyi Wang	-	-	-	-	-	-	-

Notes:

(1) Mr. Aminbuhe is a director of and owns 45% of Voyage Wisdom Limited, a private company which owned a 9.45% interest in the Company as at June 30, 2017.
(2) Mr. Guo is a director of and owns 10% of Voyage Wisdom Limited, a private company which owned a 9.45% interest in the Company as at June 30, 2017.
(3) Mr. Li is a director of and owns 45% of Voyage Wisdom Limited, a private company which owned a 9.45% interest in the Company as at June 30, 2017.
(4) The percentage represents the total number of the Shares and the underlying Shares interested divided by the number of issued Shares as at June 30, 2017 (i.e. 272,591,929 Shares).

Other than the shareholdings disclosed in the preceding table, none of the Directors of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at June 30, 2017.

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

A7. SHARE OPTION PLAN

The particulars of the Company's share option plan are set out in Note 22 of the condensed consolidated interim financial statements. The following table discuss movements in the Company's share options during the six month ended June 30, 2017.

	Number of share options								
Name	At January 1, 2017	Granted during the period	Exercised during the period	Forfeited during the period	Expired during the period	At June 30, 2017	Date of grant of share options	Exercise period of share options	Exercise price (CAD$ per share)
Directors									
Aminbuhe	**100,000**	**-**	**-**	**-**	**-**	**100,000**	December 14, 2015	December 14, 2016 - December 14, 2020	0.29
Yulan Guo	**100,000**	**-**	**-**	**-**	**-**	**100,000**	December 14, 2015	December 14, 2016 - December 14, 2020	0.29
Zhu Liu	100,000	-	-	-	-	100,000	December 14, 2015	December 14, 2016 - December 14, 2020	0.29
	75,000	-	-	-	-	75,000	November 16, 2016	November 16, 2017 - November 16, 2021	0.33
	75,000	-	-	-	-	75,000	November 16, 2016	November 16, 2018 - November 16, 2021	0.33
	-	150,000	-	-	-	150,000	June 30, 2017	June 30, 2018 - June 30, 2022	0.33
	250,000	**150,000**	**-**	**-**	**-**	**400,000**			
Mao Sun	100,000	-	-	-	-	100,000	December 14, 2015	December 14, 2016 - December 14, 2020	0.29
	100,000	-	-	-	-	100,000	November 16, 2016	November 16, 2017 - November 16, 2021	0.33
	100,000	-	-	-	-	100,000	November 16, 2016	November 16, 2018 - November 16, 2021	0.33
	-	200,000	-	-	-	200,000	June 30, 2017	June 30, 2018 - June 30, 2022	0.33
	300,000	**200,000**	**-**	**-**	**-**	**500,000**			
Jin Lan Quan	100,000	-	-	-	-	100,000	December 14, 2015	December 14, 2016 - December 14, 2020	0.29
	75,000	-	-	-	-	75,000	November 16, 2016	November 16, 2017 - November 16, 2021	0.33
	75,000	-	-	-	-	75,000	November 16, 2016	November 16, 2018 - November 16, 2021	0.33
	-	150,000	-	-	-	150,000	June 30, 2017	June 30, 2018 - June 30, 2022	0.33
	250,000	**150,000**	**-**	**-**	**-**	**400,000**			
Yingbin Ian He	-	100,000	-	-	-	100,000	June 5, 2017	June 5, 2018 - June 5, 2022	0.39
	-	150,000	-	-	-	150,000	June 30, 2017	June 30, 2018 - June 30, 2022	0.33
	-	**250,000**	**-**	**-**	**-**	**250,000**			
Wen Yao	**-**	**-**	**-**	**-**	**-**	**-**			
Former Directors									
Joseph Belan	100,000	-	-	-	-	100,000	August 26, 2016	June 30, 2017 - June 30, 2018	0.25
	75,000	-	-	-	-	75,000	November 16, 2016	June 30, 2017 - June 30, 2018	0.33
	75,000	-	-	-	-	75,000	November 16, 2016	June 30, 2017 - June 30, 2018	0.33
	250,000	-	-	-	-	**250,000**			
Ningqiao Li	**100,000**	**-**	**-**	**-**	**-**	**100,000**	December 14, 2015	December 14, 2016 - June 30, 2018	0.29
Huiyi Wang	**-**	**-**	**-**	**-**	**-**	**-**			
Total for directors	**1,350,000**	**750,000**	**-**	**-**	**-**	**2,100,000**			
Other share option holders	52,000	-	-	-	(52,000)	-	March 21, 2012	March 21, 2013 - March 21, 2017	6.16
	54,500	-	-	-	(20,000)	34,500	December 6, 2012	December 6, 2013 - December 6, 2017	1.92
	8,885	-	-	-	-	8,885	March 26, 2014	March 26, 2015 - March 26, 2019	0.65
	281,486	-	-	-	(257,352)	24,134	August 13, 2014	August 13, 2015 - March 13, 2016	0.58
	163,056	-	-	(2,872)	(963)	159,221	April 1, 2015	April 1, 2016 - April 1, 2020	0.92
Total for other share option holders	**559,927**	**-**	**-**	**(2,872)**	**(330,315)**	**226,740**			
Total	**1,909,927**	**750,000**	**-**	**(2,872)**	**(330,315)**	**2,326,740**			