SouthGobi Resources Ltd.

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

June 30, 2018
(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") loan (the "TRQ Loan"), the equipment loan and the bank loan, as the same become due;
- the Company's anticipated financing needs, development plans and future production levels;
- the Company successfully negotiating a deferral of the November 19th and May 19th Payments and the November 2017 PIK Interest (as such terms are defined below) under the June 2017 Deferral Agreement and CIC Convertible Debenture;
- the potential of the Company agreeing with First Concept Industrial Group Limited ("First Concept") on payment arrangements in respect of the Arbitration Award (as defined below) that are practical to and are in the best interest of the Company;
- the ability of the Company to successfully respond to any enforcement proceeding brought by First Concept in respect of the Arbitration Award;
- the ability of the Company to successfully negotiate a deferral of the amounts outstanding under the TRQ Loan and the May 2016 Deferral Agreement (as described under Section 5 of this MD&A under the heading entitled "*Liquidity and Capital Management – Turquoise Hill Loan Facility*");
- 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 ability of the Company to successfully negotiate a new agreement with the third party contractor relating to the operation of the wash plant at the Ovoot Tolgoi mine site;
- 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 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 outlook and objectives for 2018 and beyond (as more particularly described under Section 11 of this MD&A under the heading entitled "*Outlook*"); and
- other statements that are not historical facts.

Forward-looking information is based on certain factors and assumptions described below and elsewhere in this MD&A, including, among other things: the current mine plan for the Ovoot Tolgoi mine; mining, production, construction and exploration activities at the Company's mineral properties; the costs relating to anticipated capital expenditures; the capacity and future toll rate of the paved highway; plans for the progress of mining license application processes; mining methods; timing of the commencement of the washing facilities at Ovoot Tolgoi; the Company's anticipated business activities, planned expenditures and corporate strategies; management's business outlook, including the outlook for 2018 and beyond; currency exchange rates; operating, labour and fuel costs; the anticipated royalties payable under Mongolia's royalty regime; the future coal market conditions in China and the related impact on the Company's margins and liquidity; future coal prices, and the level of worldwide coal production. While the Company considers these assumptions to be reasonable based on the information currently available to it, they may prove to be incorrect. Forward-looking statements are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These risks and uncertainties include, among other things: the uncertain nature of mining activities, actual capital and operating costs exceeding management's estimates; variations in mineral resource and mineral reserve estimates; failure of plant, equipment or processes to operate as anticipated; the possible impacts of changes in mine life, useful life or depreciation rates on depreciation expenses; risks associated with, or changes to regulatory requirements (including environmental regulations) and the ability to obtain all necessary regulatory approvals; the potential expansion of the list of licenses published by the Government of Mongolia covering areas in which exploration and mining are purportedly prohibited on certain of the Company's mining licenses; the Government of Mongolia designating any one or more of the Company's mineral projects in Mongolia as a Mineral Deposit of Strategic Importance; continued delays in the customs clearance process at the Ceke border and risk of the Company being unable to produce and deliver coal of a quality which meets the standards of Chinese import regulations; the Company being in default under the CIC Convertible Debenture and the TRQ Loan, including the risk of CIC accelerating all amounts outstanding under the CIC Convertible Debenture and enforcing payment thereof, and the risk of Turquoise Hill demanding immediate payment of all amounts outstanding under the TRQ Loan; the risk of the Company failing to successfully negotiate a deferral of the November 19th and May 19th Payments and the November 2017 PIK Interest under the June 2017 Deferral Agreement and CIC Convertible Debenture; the possible impact of changes to the inputs to the valuation model used to value the embedded derivatives in the CIC Convertible Debenture; the risk of the Company failing to successfully negotiate a deferral of the amounts outstanding under the TRQ Loan and the May 2016 Deferral Agreement (as described under Section 5 of this MD&A under the heading entitled "*Liquidity and Capital Management – Turquoise Hill Loan Facility*") ; the risk of the Company defaulting under its existing debt obligations, including the equipment 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; the risk of the Company being unable to agree with First Concept on payment arrangements in respect of the Arbitration Award; risk that First Concept is successful in enforcing the Arbitration Award against SouthGobi Sands LLC ("SGS"), a subsidiary of the Company, through judicial measures in courts of Mongolia or in other applicable jurisdiction(s) and the ability of the Company to successfully defend itself against such enforcement proceedings; the outcome of the Class Action (as described under Section 6 of this MD&A under the heading entitled "*Regulatory Issues and Contingencies – Class Action Lawsuit*") and any damages payable by the Company as a result; the result of the internal investigation conducted by the Special Committee and the potential impact of the charges against Mr. Aminbuhe and the connection, if any, between those charges and the Company and his conduct as Chairman and Chief Executive Officer of the Company; the risk that the calculated sales price determined by the Company for the purposes determining of the amount of royalties payable to the Mongolian government is deemed as being "non-market" under Mongolian tax law; customer credit risk; cash flow and liquidity risks; risks relating to the development of the Ceke Logistics Park project, including the risk that its investment partner may not comply with the underlying agreements governing project development and may fail to meet its obligations to the Company or third parties; risk of the Company failing to successfully negotiate a new agreement with the third party contractor relating to the operation of the wash plant at the Ovoot Tolgoi mine site on terms which are favorable to the Company; the risk of SGS failing to make payment to the Mongolian government for any outstanding taxes, royalties and other government levies as such amounts become due, which may result in the relevant Mongolian authority taking enforcement actions against SGS to collect the overdue amounts; risks relating to timing of the commencement of the washing facilities at Ovoot Tolgoi, including identifying a reliable water source to permit operation of the washing facilities; 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, 2017, 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.

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INTRODUCTION

This MD&A of the Company is dated as of August 14, 2018 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, 2018. The Company's condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 - "Interim Financial Reporting" using accounting policies in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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

Prior to January 1, 2018, the functional currency of the Company's Mongolian operations (SGS, Mazaalai Resources LLC, Mazaatt Holdings LLC and Dayarbulag LLC), was the United States Dollar. The functional currency of the Company's Chinese subsidiaries (SouthGobi Trading (Beijing) Co., Ltd., Inner Mongolia SouthGobi Energy Co., Ltd., and Inner Mongolia SouthGobi Enterprise Co., Ltd.) was Renminbi ("RMB") and the functional currency for the Company's joint venture (RDCC LLC) was the Mongolian Tugrik ("MNT"). Per IAS 21 - The Effects of Changes in Foreign Exchange Rates, an entity's functional currency should be determined based on the underlying transactions, events and conditions relevant to the entity.

Determination of functional currency involves certain judgments to determine the primary economic environment and this is re-evaluated if events or conditions change. Based on management's re-evaluation, taking into consideration the primary economic environment in which the Mongolian operations carries on its business, management determined that the functional currency of the Mongolian operations changed from US dollars to MNT as at January 1, 2018 given increased mining costs and administrative costs that are denominated in MNT.

The change in functional currency of the Mongolian operations was applied prospectively from January 1, 2018 onwards in accordance with IAS 21. On January 1, 2018 (being the date on which the change in functional currency took effect), all items on the statement of financial position of the Mongolian operations were translated into MNT at the exchange rate on that date.

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 technical report (the "Ovoot Tolgoi Technical Report") prepared in accordance with NI 43-101 on the Ovoot Tolgoi Mine dated May 15, 2017, prepared by Dr. Weiliang Wang, Mr. Vincent Li and Mr.

Larry Li of Dragon Mining Consulting Limited ("DMCL"). A copy of the Ovoot Tolgoi Technical Report is available under the Company's profile on SEDAR at www.sedar.com.

Disclosure of a scientific or technical nature relating to the Soumber Deposit contained in this MD&A is derived from a technical report (the "Soumber Technical Report") prepared in accordance with NI 43-101 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 technical report (the "Zag Suuj Technical Report") prepared in accordance with NI 43-101 on the Zag Suuj Deposit dated March 25, 2013, prepared by Minarco-MineConsult. 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 487 employees as at June 30, 2018. The Company's common shares ("Common Shares") trade 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 its Chinese subsidiaries at the stockyards in Ceke (Ceke, on the Chinese side of the Shivee Khuren Border Crossing, which is a major Chinese coal distribution terminal with rail connections to key coal markets in China) or certain designated locations in China as requested by customers.

Saleable products from the Ovoot Tolgoi Mine primarily 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, 2018 and the subsequent period up to August 14, 2018 are as follows:

- ***Operating Results*** – As a result of improved market conditions and prices for coal in China as well as a higher portion of sales were made through our Inner Mongolia subsidiary, the Company experienced an increase in the average selling price of coal from $25.2 per tonne in the second quarter of 2017 to $32.8 per tonne in the second quarter of 2018. However, the volume of coal sales has decreased from 1.5 million tonnes in the second quarter of 2017 to 0.6 million tonnes in the second quarter of 2018 as a result of the delay in the customs clearance process at the Ceke border which the Company has been experiencing since July 2017 and a certain portion of the Company's coal products failing to meet the quality standards established under Chinese import regulations.

- ***Financial Results*** – The Company recorded a gross profit of $2.3 million in the second quarter of 2018 compared to $7.3 million in the second quarter of 2017 while a $19.8 million loss from operations was recorded in the second quarter of 2018 compared to a $0.9 million profit from operations in the second quarter of 2017. The overall financial results have worsened when compared to the second quarter of 2017, which was principally attributable to the diseconomies of scale driven by decreased sales volume, the recognition of a provision for doubtful notes receivables of $7.7 million and the recognition of a provision for doubtful trade and other receivables of $8.2 million during the quarter. The recognition of a provision for doubtful notes receivables and trade and other receivables follows after a credit reassessment exercise carried out during the second quarter of 2018 which concluded with the Company only continuing coal deliveries to customers with above-standard credit ratings in order to preserve the capital of the Company and discontinuing coal deliveries to certain other customers. The provision recognized relates to receivables from those customers that the Company has ceased coal shipments to. The Company is investigating the matter and exploring different options to retrieve the balance of these doubtful trade and notes receivables.

- ***CIC Convertible Debenture*** – Pursuant to the terms of the deferral agreement dated June 12, 2017 (the "June 2017 Deferral Agreement") with CIC in relation to a revised payment schedule on the $22.3 million of cash interest and associated costs originally due under the CIC Convertible Debenture on May 19, 2017 (the "May 2017 Interest Payable"), the Company was required to pay $9.7 million of cash interest and associated costs to CIC on November 19, 2017 (the "June 2017 Deferral Agreement Payment"). In addition, pursuant to the terms of the CIC Convertible Debenture, the Company was required to pay $8.1 million and $7.9 million of anniversary cash interest to CIC on November 19, 2017 and May 19, 2018, respectively (the "Anniversary Interest Payments" and together with the June 2017 Deferral Agreement Payment, the "November 19th and May 19th Payments"). Pursuant to the CIC Convertible Debenture, the Company was also obliged to issue $4.0 million worth of PIK interest shares (the "November 2017 PIK Interest") to CIC on November 19, 2017.

  As of the date of this MD&A, the Company: (i) has neither paid the November 19th and May 19th Payments nor issued the November 2017 PIK Interest shares to CIC within the cure period provided for under the CIC Convertible Debenture; and (ii) has not agreed upon a repayment plan for such amounts with CIC. Consequently, the Company is in default under the CIC Convertible Debenture and the June 2017 Deferral Agreement. Pursuant to the terms of the CIC Convertible Debenture and the June 2017 Deferral Agreement, CIC may, at its discretion, provide notice to the Company and declare all principal, interest and other amounts owing under the CIC Convertible Debenture and the June 2017 Deferral Agreement immediately due and payable, and take steps to enforce payment thereof, which would have a material adverse effect on the business and operations of the Company and may negatively affect the price and volatility of the Common Shares and any investment in such shares could suffer a significant decline or total loss in value. As of the date of this MD&A, the Company has received no indication from CIC of any intention to deliver a notice of default under the CIC Convertible Debenture and the June 2017 Deferral Agreement or to accelerate the amounts outstanding under the CIC Convertible Debenture and the June 2017 Deferral Agreement.

  The Company is in discussion with CIC for a deferral of the November 19th and May 19th Payments and the November 2017 PIK Interest; however, there can be no assurance that a favorable outcome will be reached.

  As a consequence of the Company not entering into a deferral agreement with CIC as at June 30, 2018, International Accounting Standard ("IAS") 1 requires the Company to classify the entire balance of the CIC Convertible Debenture as a current liability as at June 30, 2018, notwithstanding the fact that CIC has not indicated any intention to deliver notice of default or accelerate the maturity of the CIC Convertible Debenture. The Company anticipates that both the debt host and the fair value of the embedded derivative will be classified as a non-current liability upon the execution of a deferral agreement, unless a future event of default occurs under the terms of the CIC Convertible Debenture.

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

  Mr. Zhiwei Chen: Mr. Chen was appointed as a non-executive director on April 13, 2018.

  Mr. Xiaoxiao Li: Mr. Li was appointed as a non-executive director on April 13, 2018.

  ***Mr. Shougao Wang**:* Mr. Wang was appointed as Chief Executive Officer on June 1, 2018 and was subsequently appointed as an executive director on July 3, 2018.

  ***Mr. Weiguo Zhang**:* Mr. Zhang was appointed as Chief Financial Officer on June 1, 2018.

  ***Mr. Aiming Guo**:* Mr. Guo was appointed as Chief Operating Officer on June 1, 2018.

Mr. Bing Wang: Mr. Wang stepped down as interim Chief Executive Officer and returned to his prior position as General Manger, Sales and Marketing of the Company on June 1, 2018.

Mr. Yulan Guo: Mr. Guo stepped down as Chief Financial Officer of the Company on June 1, 2018. On June 28, 2018, Mr. Guo did not stand for re-election at the Company's annual general meeting of shareholders (the "AGM") and ceased to be a non-executive director.

Mr. Aminbuhe: On June 28, 2018, Mr. Aminbuhe did not stand for re-election at the AGM and ceased to be a non-executive director.

Mr. Zhu Liu: On June 28, 2018, Mr. Liu did not stand for re-election at the AGM and ceased to be an Independent non-executive director.

Ms. Lan Cheng: On June 28, 2018, Ms. Cheng was elected as a non-executive director of the Company at the AGM.

Mr. Tao Zhang: Mr. Zhang was appointed as a vice president of the Company on July 3, 2018.

- ***Going Concern*** – In the fourth quarter of 2016, the Company initiated a plan to change the existing product mix to higher value and higher margin outputs by washing certain grades of coal 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 construction of the wash plant was substantially completed in 2017, however commencement of washing has been delayed to the fourth quarter of 2018. The current mine plan 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 require a significant level of stripping activities over the next two years and 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.

  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, 2019, 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 interim 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 under the heading entitled "Liquidity and Capital Resources" and Section 10 of this MD&A under the heading entitled "Risk Factors" for details. As at August 14, 2018, the Company had $3.4 million of cash.

2. OVERVIEW OF OPERATIONAL DATA AND FINANCIAL RESULTS

Summary of Operational Data

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Sales Volumes, Prices and Costs				
Premium semi-soft coking coal				
Coal sales *(millions of tonnes)*	**0.07**	0.18	**0.10**	0.37
Average realized selling price *(per tonne)* [(i)]	**$ 59.98**	$ 45.67	**$ 62.54**	$ 45.64
Standard semi-soft coking coal/ premium thermal coal				
Coal sales *(millions of tonnes)*	**0.19**	0.79	**0.60**	1.43
Average realized selling price *(per tonne)* [(i)]	**$ 33.80**	$ 26.69	**$ 42.32**	$ 25.20
Standard thermal coal				
Coal sales *(millions of tonnes)*	**0.32**	0.51	**0.44**	0.79
Average realized selling price *(per tonne)* [(i)]	**$ 26.32**	$ 15.79	**$ 26.07**	$ 14.85
Total				
Coal sales *(millions of tonnes)*	**0.58**	1.48	**1.14**	2.59
Average realized selling price *(per tonne)* [(i)]	**$ 32.81**	$ 25.24	**$ 37.83**	$ 24.93
Raw coal production *(millions of tonnes)*	**0.98**	1.89	**1.36**	3.40
Cost of sales of product sold *(per tonne)*	**$ 26.00**	$ 18.50	**$ 27.71**	$ 19.75
Direct cash costs of product sold *(per tonne)* [(ii)]	**$ 10.12**	$ 7.84	**$ 13.43**	$ 8.52
Mine administration cash costs of product sold *(per tonne)* [(ii)]	**$ 1.00**	$ 2.22	**$ 1.12**	$ 1.70
Total cash costs of product sold *(per tonne)* [(ii)]	**$ 11.12**	$ 10.06	**$ 14.55**	$ 10.22
Other Operational Data				
Production waste material moved *(millions of bank cubic meters)*	**5.18**	6.36	**8.06**	9.66
Strip ratio *(bank cubic meters of waste material per tonne of coal produced)*	**5.26**	3.37	**5.90**	2.84
Lost time injury frequency rate [(iii)]	**0.06**	0.18	**0.10**	0.15

(i) Average realized selling price is presented before deduction of royalties.
(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 three months ended June 30, 2018, the Company had a lost time injury frequency rate of 0.06 per 200,000 man hours based on a rolling 12 month average as compared to 0.18 for the three months ended June 30, 2017.

For the three months ended June 30, 2018

As a result of improved market conditions and prices for coal in China as well as a higher portion of sales were made through our Inner Mongolia subsidiary, the Company experienced an increase in the average selling price of coal from $25.2 per tonne in the second quarter of 2017 to $32.8 per tonne in the second quarter of 2018. The product mix for the second quarter of 2018 consisted of approximately 12% of premium semi-soft coking coal, 33% of standard semi-soft coking coal/premium thermal coal and 55% of standard thermal coal compared to approximately 12% of premium semi-soft coking coal, 53% of standard semi-soft coking coal/premium thermal coal and 35% of standard thermal coal in the second quarter of 2017.

The Company sold 0.6 million tonnes for the second quarter of 2018 as compared to 1.5 million tonnes for the second quarter of 2017, as a result of the delay in the customs clearance process at the Ceke border which the Company has been experiencing since July 2017 and a certain portion of the Company's coal products failing to meet the quality standards established under Chinese import regulations. The Company's production in the second quarter of 2018 was lower than the second quarter of 2017 as a result of pacing the production to meet the expected sales, yielding 1.0 million tonnes for the second quarter of 2018 as compared to 1.9 million tonnes for the second quarter of 2017.

The Company's unit cost of sales of product sold increased to $26.0 per tonne in the second quarter of 2018 from $18.5 per tonne in the second quarter of 2017. The increase was mainly driven by decreased sales volume and the related diseconomies of scale.

<u>For the six months ended June 30, 2018</u>

Due to the delays experienced in the custom clearance process at the Ceke border and a certain portion of the Company's coal products failing to meet the quality standards established under Chinese import regulations, the Company sold 1.1 million tonnes for the first six months of 2018 as compared to 2.6 million tonnes for the first six months of 2017.

The average selling price increased from $24.9 per tonne for the first six months of 2017 to $37.8 per tonne for the first six months of 2018, which was mainly due to the improved market conditions and prices for coal in China as well as a higher portion of sales were made through our Inner Mongolia subsidiary.

The Company's production in the first six months of 2018 was lower than the first six months of 2017 as a result of pacing the production to meet the expected sales, yielding 1.4 million tonnes for the six months of 2018 as compared to 3.4 million tonnes for the first six months of 2017.

The Company's unit cost of sales of product sold increased to $27.7 per tonne in the first six months of 2018 from $19.8 per tonne in the first six months of 2017. The increase was principally attributable to the diseconomies of scale driven by decreased sales volume.

Summary of Financial Results

	Three months ended June 30,		Six months ended June 30,	
$ in thousands, except per share information	**2018**	**2017**	**2018**	**2017**
Revenue [(i),(ii)]	**$ 17,377**	$ 34,665	**$ 40,600**	$ 59,919
Cost of sales [(ii)]	**(15,078)**	(27,385)	**(31,585)**	(51,144)
Gross profit excluding idled mine asset costs	**6,079**	9,445	**16,329**	14,159
Gross profit including idled mine asset costs	**2,299**	7,280	**9,015**	8,775
Other operating expenses	**(18,091)**	(4,045)	**(19,429)**	(7,253)
Administration expenses	**(3,856)**	(2,234)	**(6,233)**	(4,619)
Evaluation and exploration expenses	**(156)**	(144)	**(280)**	(173)
Profit/(loss) from operations	**(19,804)**	857	**(16,927)**	(3,270)
Finance costs	**(5,958)**	(5,494)	**(11,932)**	(11,169)
Finance income	**140**	50	**366**	14
Share of earnings of a joint venture	**628**	388	**968**	654
Income tax expense	**(1,609)**	(2,714)	**(2,538)**	(2,759)
Net loss	**(26,603)**	(6,913)	**(30,063)**	(16,530)
Basic and diluted loss per share	**$ (0.10)**	$ (0.03)	**$ (0.11)**	$ (0.06)

(i) Revenue is presented after deduction of royalties.
(ii) Revenue and cost of sales related to the Company's Ovoot Tolgoi Mine within the Mongolian 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, 2018

The Company recorded a $19.8 million loss from operations in the second quarter of 2018 compared to a $0.9 million profit from operations in the second quarter of 2017. The overall financial results have worsened when compared to the second quarter of 2017, which was principally attributable to the diseconomies of scale driven by decreased sales, the recognition of a provision for doubtful notes receivables of $7.7 million and the recognition of a provision for doubtful trade and other receivables of $8.2 million during the quarter. The recognition of a provision for doubtful notes receivables and trade and other receivables follows after a credit reassessment exercise carried out during the second quarter of 2018 which concluded with the Company only continuing coal deliveries to customers with above-standard credit ratings in order to preserve the capital of the Company and discontinuing coal deliveries to certain other customers. The provision recognized relates to receivables from those customers that the Company has ceased coal shipments to. The Company is investigating the matter and exploring different options to retrieve the balance of these doubtful trade and notes receivables.

Revenue was $17.4 million in the second quarter of 2018 compared to $34.7 million in the second quarter of 2017. The Company's revenue is presented after deduction of royalties. The Company's effective royalty rate for the second quarter of 2018, based on the Company's average realized selling price of $32.8 per tonne, was 9.9% or $3.2 per tonne compared to 5.5% or $1.4 per tonne based on the average realized selling price of $25.2 per tonne in the second quarter of 2017.

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, customs documentation fees, insurance and loading costs should be estimated for the calculation of royalties. In the event that the calculated sales price as described above differs from the contract sales price of other entities in Mongolia (same quality of coal and same border crossing) by more than 10%, the calculated sales price will be deemed to be "non-market" under Mongolian tax law and the royalty will then be calculated based on a reference price as determined by the Government of Mongolia. See the section entitled "*Risk Factors - Company's Projects in Mongolia*" in the Company's most recently filed Annual Information Form for the year ended December 31, 2017, a copy of which is available under the Company's profile on SEDAR at www.sedar.com.

Cost of sales was $15.1 million in the second quarter of 2018 compared to $27.4 million in the second quarter of 2017. The decrease in cost of sales was mainly due to the decreased sales during the quarter. 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 quarter.

$ in thousands	Three months ended June 30, 2018	2017
Operating expenses	**$ 6,445**	$ 14,891
Share-based compensation expense	**-**	5
Depreciation and depletion	**4,853**	7,454
Impairment of coal stockpile inventories	**-**	2,870
Cost of sales from mine operations	**11,298**	25,220
Cost of sales related to idled mine assets	**3,780**	2,165
Cost of sales	**$ 15,078**	$ 27,385

Operating expenses in cost of sales were $6.4 million in the second quarter of 2018 compared to $14.9 million in the second quarter of 2017. The overall decrease in operating expenses was primarily due to the net effect of: (i) decreased sales volume from 1.5 million tonnes in the second quarter of 2017 to 0.6 million tonnes in the second quarter of 2018 and (ii) less coal stockpile inventories were impaired during the quarter.

There was no impairment of coal stockpiles for the second quarter of 2018 (second quarter of 2017: $2.9 million). The coal stockpile impairments recorded in the second quarter of 2017 primarily related to the Company's higher-ash content products.

Cost of sales related to idled mine asset costs primarily consisted of periodic costs, which were expensed as incurred and included mainly depreciation expense. Cost of sales related to idled mine assets in the second quarter of 2018 included $3.8 million related to depreciation expenses for idled equipment (second quarter of 2017: $2.2 million).

Other operating expenses was $18.1 million in the second quarter of 2018 (second quarter of 2017: $4.0 million).

$ in thousands	Three months ended June 30, 2018	2017
Provision for doubtful notes receivables	**$ (7,705)**	$ -
Provision for doubtful trade and other receivables	**(8,176)**	(1,335)
Foreign exchange loss	**(742)**	(1,607)
Provision for prepaid expenses and deposits	**(532)**	-
CIC management fee	**(395)**	-
Penalty on late settlement of trade payables	**(323)**	-
Provision for commerial arbitration	**(230)**	-
Gain on disposal of property, plant and equipment	**39**	-
Impairment of properties for resale	**-**	(1,075)
Other	**(27)**	(28)
Other operating expenses	**$ (18,091)**	$ (4,045)

The Company made a provision for doubtful notes receivables of $7.7 million in the second quarter of 2018 (second quarter of 2017: nil) for certain long aged notes receivables. Further, a provision for doubtful trade and other receivables of $8.2 million were made by the Company in the second quarter of 2018 (second quarter of 2017: $1.3 million) for certain long aged receivables based on expected credit loss model.

Administration expenses were $3.9 million in the second quarter of 2018 (second quarter of 2017: $2.2 million).

$ in thousands	Three months ended June 30, 2018		2017	
Corporate administration	**$**	**704**	$	566
Professional fees		**1,748**		533
Salaries and benefits		**1,344**		1,040
Share-based compensation expense		**21**		24
Depreciation		**39**		71
Administration expenses	**$**	**3,856**	$	2,234

The increase in salaries and benefits was mainly due to the increase of headcount, which is to support the expansion of the sales channel in China.

Evaluation and exploration expenses were $0.2 million in the second quarter of 2018 (second quarter of 2017: $0.1 million). The Company continued to minimize evaluation and exploration expenditures in 2018 in order to preserve the Company's financial resources. Evaluation and exploration activities and expenditures in the second quarter of 2018 were limited to ensuring that the Company met the Mongolian Minerals Law requirements in respect of its mining licenses.

Finance costs were $6.0 million and $5.5 million in the second quarter of 2018 and 2017 respectively, which primarily consisted of interest expense on the $250.0 million CIC Convertible Debenture.

Finance income was $0.1 million for the second quarter of 2018 (second quarter of 2017: $0.1 million), which primarily related to fair value gain on notes receivable upon redemption.

<u>For the six months ended June 30, 2018</u>

The Company recorded a $16.9 million loss from operations in the first six months of 2018 compared to a $3.3 million loss from operations in the first six months of 2017. The operations for the six months ended June 30, 2018 were impacted by the following factors: (i) improved coal prices in China; (ii) diseconomies of scale driven by decreased sales; (iii) provision for doubtful notes receivables of $7.7 million; and (iv) provision for doubtful trade and other receivables of $9.3 million. The recognition of a provision for doubtful notes receivables and trade and other receivables follows after a credit reassessment exercise carried out during the second quarter of 2018 which concluded with the Company only continuing coal deliveries to customers with above-standard credit ratings in order to preserve the capital of the Company and discontinuing coal deliveries to certain other customers. The provision recognized relates to receivables from those customers that the Company has ceased coal shipments to. The Company is investigating the matter and exploring different options to retrieve the balance of these doubtful trade and notes receivables.

Revenue was $40.6 million in the first six months of 2018 compared to $59.9 million in the first six months of 2017. The Company sold 1.1 million tonnes of coal at an average realized selling price of $37.8 per tonne in the first six months of 2018 compared to sales of 2.6 million tonnes at an average realized selling price of $24.9 per tonne in the first six months of 2017.

The Company's revenue is presented net of royalties. The Company's effective royalty rate for the first six months of 2018, based on the Company's average realized selling price of $37.8 per tonne, was 7.1% or $2.7 per tonne compared to 5.6% or $1.4 per tonne based on the average realized selling price of $24.9 per tonne in the first six months of 2017.

Cost of sales was $31.6 million in the first six months of 2018 compared to $51.1 million in the first six months of 2017 as follows:

$ in thousands	Six months ended June 30, 2018		Six months ended June 30, 2017	
Operating expenses	**$**	**16,577**	$	25,591
Share-based compensation expense		**-**		28
Depreciation and depletion		**7,694**		14,940
Impairment of coal stockpile inventories		**-**		5,201
Cost of sales from mine operations		**24,271**		45,760
Cost of sales related to idled mine assets		**7,314**		5,384
Cost of sales	**$**	**31,585**	$	51,144

Operating expenses in cost of sales were $16.6 million in the first six months of 2018 compared to $25.6 million in the first six months of 2017. The decrease in operating expenses was primarily related to the decrease in sales volume from 2.6 million tonnes in the first six months of 2017 to 1.1 million tonnes in the first six months of 2018.

Cost of sales in the first six months of 2017 included coal stockpile impairments of $5.2 million, to reduce the carrying value of the Company's coal stockpiles to their net realizable value. The coal stockpile impairments recorded in 2017 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 2018 included $7.3 million related to depreciation expenses for idled equipment (2017: $5.4 million).

Other operating expenses were $19.4 million in the first six months of 2018 compared to $7.3 million in the first six months of 2017 as follows:

$ in thousands	Six months ended June 30, 2018		Six months ended June 30, 2017	
Provision for doubtful notes receivables	**$**	**(7,705)**	$	-
Provision for doubtful trade and other receivables		**(9,279)**		(1,335)
CIC management fee		**(978)**		-
Provision for prepaid expenses and deposits		**(532)**		-
Provision for commercial arbitration		**(454)**		-
Penalty on late settlement of trade payables		**(427)**		(280)
Loss on disposal of property, plant and equipment		**(28)**		-
Foreign exchange gain/(loss)		**37**		(2,105)
Mining services, net		**-**		(2,395)
Impairment of properties for resale		**-**		(1,075)
Other		**(63)**		(63)
Other operating expenses	**$**	**(19,429)**	$	(7,253)

For the six months ended June 30, 2018, the Company made a provision for doubtful notes receivables of $7.7 million (2017: nil) for certain long aged notes receivables. Further, a provision for doubtful trade and other receivables of $9.3 million were made by the Company (2017: $1.3 million) for certain long aged receivables based on expected credit loss model.

Administration expenses were $6.2 million in the first six months of 2018 compared to $4.6 million in the first six months of 2017 as follows:

$ in thousands	Six months ended June 30, 2018	Six months ended June 30, 2017
Corporate administration	**$ 1,372**	$ 1,036
Professional fees	**2,263**	1,451
Salaries and benefits	**2,478**	1,883
Share-based compensation expense	**37**	35
Depreciation	**83**	214
Administration expenses	**$ 6,233**	$ 4,619

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 $0.3 million in the first six months of 2018 (2017: $0.2 million). The Company continued to minimize evaluation and exploration expenditures in 2018 in order to preserve the Company’s financial resources. Evaluation and exploration activities and expenditures in the first six months of 2018 were limited to ensuring that the Company met the Mongolian Minerals Law requirements in respect of its mining and exploration licenses.

Finance costs were $11.9 million and $11.2 million in the first six months of 2018 and 2017 respectively. This primarily consisted of interest expense on the CIC Convertible Debenture ($10.8 million for the first six months of 2018 and $10.7 million for the first six months of 2017).

Summary of Quarterly Operational Data

	2018		2017				2016	
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)*	**0.07**	0.03	0.37	0.12	0.18	0.19	0.15	0.07
Average realized selling price *(per tonne)* *(i)*	**$ 59.98**	$ 67.94	$ 50.47	$ 46.55	$ 45.67	$ 45.61	$ 40.49	$ 21.04
Standard semi-soft coking coal/ premium thermal coal								
Coal sales *(millions of tonnes)*	**0.19**	0.41	0.60	0.41	0.79	0.64	0.65	0.77
Average realized selling price *(per tonne)* *(i)*	**$ 33.80**	$ 46.34	$ 37.49	$ 28.32	$ 26.69	$ 23.36	$ 16.79	$ 15.66
Standard thermal coal								
Coal sales *(millions of tonnes)*	**0.32**	0.12	0.29	0.27	0.51	0.28	0.28	0.29
Average realized selling price *(per tonne)* *(i)*	**$ 26.32**	$ 25.40	$ 16.98	$ 14.48	$ 15.79	$ 13.17	$ 15.26	$ 14.79
Total								
Coal sales *(millions of tonnes)*	**0.58**	0.56	1.26	0.80	1.48	1.11	1.08	1.13
Average realized selling price *(per tonne)* *(i)*	**$ 32.81**	$ 43.02	$ 36.54	$ 26.41	$ 25.24	$ 24.52	$ 19.55	$ 15.79
Raw coal production *(millions of tonnes)*	**0.98**	0.38	0.51	2.47	1.89	1.51	1.21	1.13
Cost of sales of product sold *(per tonne)*	**$ 26.00**	$ 29.48	$ 23.54	$ 31.31	$ 18.50	$ 21.40	$ 21.15	$ 19.53
Direct cash costs of product sold *(per tonne)* *(ii)*	**$ 10.12**	$ 16.86	$ 9.91	$ 10.98	$ 7.84	$ 9.42	$ 7.97	$ 7.13
Mine administration cash costs of product sold *(per tonne)* *(ii)*	**$ 1.00**	$ 1.23	$ 4.92	$ 2.98	$ 2.22	$ 1.01	$ 3.23	$ 2.26
Total cash costs of product sold *(per tonne)* *(ii)*	**$ 11.12**	$ 18.09	$ 14.83	$ 13.96	$ 10.06	$ 10.43	$ 11.20	$ 9.39
Other Operational Data								
Production waste material moved *(millions of bank cubic meters)*	**5.18**	2.88	4.36	6.77	6.36	3.30	2.62	2.22
Strip ratio *(bank cubic meters of waste material per tonne of coal produced)*	**5.26**	7.55	8.59	2.74	3.37	2.18	2.16	1.96
Lost time injury frequency rate *(iii)*	**0.06**	0.13	0.20	0.23	0.18	0.11	0.00	0.00

(i) Average realized selling price is presented before deduction of royalties.
(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 annual financial statements are reported under IFRS issued by the IASB. The Company's interim financial statements are reported under IFRS issued by the IASB as applicable to interim financial reporting. The following table provides highlights, extracted from the Company's annual and interim financial statements, of quarterly results for the past eight quarters:

$ in thousands, except per share information	**2018**		2017				2016	
Quarter Ended	**30-Jun**	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep
Financial Results								
Revenue [(i), (ii)]	**$ 17,377**	$ 23,223	$ 41,698	$ 19,356	$ 34,665	$ 25,254	$ 18,983	$ 16,379
Cost of sales [(ii)]	**(15,078)**	(16,507)	(29,665)	(25,049)	27,385	(23,759)	(22,842)	(22,018)
Gross profit/(loss) excluding idled mine asset costs	**6,079**	10,250	15,682	(2,094)	9,445	4,714	(2,353)	(3,162)
Gross profit/(loss) including idled mine asset costs	**2,299**	6,716	12,033	(5,693)	7,280	1,495	(3,859)	(5,639)
Other operating income/(expenses)	**(18,091)**	(1,338)	(7,488)	3,477	(4,045)	(3,208)	(3,782)	4,631
Administration expenses	**(3,856)**	(2,377)	(2,111)	(2,451)	(2,234)	(2,385)	(2,378)	(2,042)
Evaluation and exploration expenses	**(156)**	(124)	(52)	(48)	(144)	(29)	(222)	(101)
Impairment of property, plant and equipment	**-**	-	(11,171)	-	-	-	(1,152)	-
Profit/(loss) from operations	**(19,804)**	2,877	(8,789)	(4,715)	857	(4,127)	(11,393)	(3,151)
Finance costs	**(5,958)**	(6,006)	(6,250)	(5,674)	(5,494)	(5,715)	(5,645)	(6,358)
Finance income	**140**	258	143	142	50	4	472	5
Share of earnings of a joint venture	**628**	340	368	265	388	266	378	89
Income tax credit/(expense)	**(1,609)**	(929)	781	238	(2,714)	(45)	(1,294)	82
Net loss	**(26,603)**	(3,460)	(13,747)	(9,744)	(6,913)	(9,617)	(17,482)	(9,333)
Basic and diluted loss per share	**$ (0.10)**	$ (0.01)	$ (0.05)	$ (0.04)	$ (0.03)	$ (0.04)	$ (0.07)	$ (0.04)

(i) Revenue is presented after deduction of royalties.

(ii) Revenue and cost of sales relate to the Company's Ovoot Tolgoi Mine within the Mongolian 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, 2018 and June 30, 2017. 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	**2018**	**2017**	**2018**	**2017**
Cash costs				
Cost of sales determined in accordance with IFRS	**$ 15,078**	$ 27,385	**$ 31,585**	$ 51,144
Less non-cash expenses	**(4,853)**	(10,329)	**(7,694)**	(19,294)
Less non-cash idled mine asset costs	**(3,780)**	(2,165)	**(7,314)**	(5,384)
Total cash costs	**6,445**	14,891	**16,577**	26,466
Less idled mine asset cash costs	**-**	-	**-**	-
Total cash costs excluding idled mine asset cash costs	**6,445**	14,891	**16,577**	26,466
Coal sales *(millions of tonnes)*	**0.58**	1.48	**1.14**	2.59
Total cash costs of product sold *(per tonne)*	**$ 11.12**	$ 10.06	**$ 14.55**	$ 10.22

	Three months ended June 30		Six months ended June 30,	
$ in thousands, except per tonne information	**2018**	**2017**	**2018**	**2017**
Cash costs				
Direct cash costs of product sold *(per tonne)*	**$ 10.12**	$ 7.84	**$ 13.43**	$ 8.52
Mine administration cash costs of product sold *(per tonne)*	**1.00**	2.22	**1.12**	1.70
Total cash costs of product sold *(per tonne)*	**$ 11.12**	$ 10.06	**$ 14.55**	$ 10.22

The direct cash cost of product sold per tonne was $10.1 for the second quarter of 2018, which has increased from $7.8 per tonne for the second quarter 2017. The reason for the increase is primarily related to the higher strip ratio achieved in the second quarter of 2018 as a result of more production waste material being moved (strip ratio of 5.3 for the second quarter of 2018 as compared to 3.4 for the second quarter of 2017).

4. PROPERTIES

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

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.

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.

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 per tonne of coal 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.

On April 26, 2018, the Board of RDCC LLC increased the toll rate from MNT 1,200 per tonne of coal to MNT 1,500, effective from June 1, 2018.

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, 2018, RDCC LLC recognized toll fee revenue of $2.5 million (2017: $2.0 million) and $4.1 million (2017: $3.1 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 and 23 MT4400AC (218 tonne capacity) haul trucks, together with various pieces of ancillary equipment.

Workforce

As at June 30, 2018, SGS employed 414 employees in Mongolia. Of the 414 employees, 40 are employed in the Ulaanbaatar office, 2 in an outlying office and 372 at the Ovoot Tolgoi Mine site. Of the 414 employees based in Mongolia, 381 (92%) are Mongolian nationals and of those, 203 (49%) are residents of the local Gurvantes, Dalanzadgad, Sevrei and Noyon Soums.

5. LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Capital Management

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

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 on SEDAR (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; and (iii) the remaining balance on December 29, 2017 (the payments in (i), (ii) and (iii), the "Repayments"); and
- Interest shall continue to accrue on all outstanding obligations at the 12-month US dollar LIBOR rate.

As of the date hereof, the Company has not paid its October, November and December 2017 monthly payments and the accrued interest. Pursuant to the terms of the TRQ Loan and the May 2016 Deferral Agreement, the Company is, as of the date of this MD&A, in default of its obligations under the TRQ Loan and the May 2016 Deferral Agreement as a result of the Company failing to make the Repayments in its entirety on or before the dates set out above. Consequently, all of the outstanding obligations under the TRQ Loan and the May 2016 Deferral Agreement are immediately due and payable to Turquoise Hill as of the date hereof. The Company is in discussion with TRQ for a deferral of the amounts outstanding under the TRQ Loan and the May 2016 Deferral Agreement; however, there can be no assurance that a favorable outcome will be reached.

As at June 30, 2018, the outstanding principal and accrued interest under this facility amounted to $0.6 million and $0.7 million, respectively (December 31, 2017: the outstanding principal and accrued interest under this facility amounted to $1.0 million and $0.7 million, respectively). A fair value gain of $0.1 million was credited to accumulated deficit upon the adoption of IFRS 9 starting from January 1, 2018.

Equipment Loan

Inner Mongolia SouthGobi Energy Co., Ltd., a subsidiary of the Company, executed a $10.4 million loan agreement on August 31, 2017 with Beijing Jin Rui Tian Chen Asset Management Co Ltd. ("JRTC") for the purpose of financing the purchase of mining equipment to increase the production capacity of the Company.

The key terms of the equipment loan are as follows:

- Principal amount of $10.4 million;
- Maturity date set at 12 months from each drawdown (subsequently amended);
- Interest rate of 12% per annum and payable upon maturity; and
- The Company was to have provided a corporate guarantee to cover the principal and interest owed and certain items of property, plant and equipment were to have been pledged as security upon the completion of equipment purchase.

A loan arrangement fee of 1% of the loan principal drawn was charged and will be amortized throughout the loan term. For the three and six months ended June 30, 2018, $0.1 million and $0.1 million of loan arrangement fee was amortized, respectively (2017: nil). The Company believes the principal amount is capped at the amount drawn down to date and the related mining equipment has not been purchased as of the date of the MD&A.

As at June 30, 2018, the outstanding principal for the equipment loan amounted to $2.3 million (December 31, 2017: $ 2.3 million) and the Company owed accrued interest of $0.2 million (December 31, 2017: $0.1 million).

On July 9, 2018, the Company and JRTC entered into a supplementary agreement with the key commercial terms of the equipment loan modified as follows:

- The Company agreed to repay the outstanding principal and accrued interest owing under the equipment loan in accordance with the following repayment schedule: (i) $0.5 million on July 9, 2018; (ii) $0.7 million on August 3, 2018 and (iii) $1.4 million on November 3, 2018; and
- Penalty Interest, at a rate of 0.1% per day, will be applied on any delayed repayment.

The amounts due on July 9, 2018 and August 3, 2018 have been paid by the Company as of the date of this MD&A.

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 July 6, 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 $3.0 million;
- $2.3 million of the principal amount matured on May 6, 2018 while the remaining balance of the principal amount of $0.7 million will mature on January 4, 2019;

- Interest rate of 15.8% per annum applies to the $2.3 million portion of the principal amount, while an interest rate of 15.0% per annum applies to the remaining $0.7 million portion of the principal amount; in each case, interest is payable monthly; and
- Certain items of property, plant and equipment were pledged as security (subsequently released upon repayment of loan principal of $2.3 million).

$2.3 million of the loan principal was repaid to the Bank by the Company in May 2018.

On May 15, 2018, the Company and the Bank entered into another loan agreement with the key commercial terms as follows:

- Principal amount of the loan (the "2018 Bank Loan") of $2.8 million;
- Maturity date set at 24 months from drawdown;
- Interest rate of 15% per annum and interest is payable monthly; and
- Certain items of property, plant and equipment with value of $9.5 million as at June 30, 2018 were pledged as security for both the Bank Loan and the 2018 Bank Loan.

As at June 30, 2018, the outstanding balance for the Bank Loan together with the 2018 Bank Loan was $3.5 million (December 31, 2017: $3.0 million) and the Company owed accrued interest of $0.1 million (December 31, 2017: $0.1 million).

Costs reimbursable to Turquoise Hill

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

As at June 30, 2018, 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. As of the date of this MD&A, the Company has received no indication from Turquoise Hill of any intention to demand payment of the TRQ Reimbursable Amount.

Going concern considerations

The Company's condensed consolidated interim financial statements have been prepared on a going concern basis which assumes that the Company will continue operating until at least June 30, 2019 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 $202.9 million as at June 30, 2018 compared to $166.3 million of working capital deficiency as at December 31, 2017. Included in the working capital deficiency at June 30, 2018 are significant obligations, which include the obligation to pay CIC under the June 2017 Deferral Agreement in which the Company was required to pay $9.7 million of cash interest and associated costs on November 19, 2017. In addition, pursuant to the terms of CIC Convertible Debenture, the Company was required to pay $8.1 million and $7.9 million of anniversary cash interest on November 19, 2017 and May 19, 2018, respectively. The Company is in discussion with CIC for a deferral of the November 19th and May 19th Payments and the November 2017 PIK Interest; however, there can be no assurance that a favorable outcome will be reached. Accordingly the principal amount outstanding and all accrued and unpaid interest and other amounts owing under the CIC Convertible Debenture and the June 2017 Deferral Agreement would immediately become due and payable in the event that CIC provides notice to the Company.

Pursuant to the Arbitration Award, SGS has been ordered to repay the sum of $11.5 million to First Concept, together with accrued interest at a simple interest rate of 6% per annum from the date which the prepayment was made until the date of the Arbitration Award, and then at a simple interest rate of 8% per annum until full payment. On March 23, 2018, SGS received a notice from First Concept demanding payment of the full amount of the Arbitration Award, together with the accrued interest thereon, by no later than March 30, 2018, otherwise First Concept intends to commence enforcement proceedings against SGS in respect of the Arbitration Award. On May 10, 2018, SGS received a notice from First Concept advising that First Concept has obtained a court order dated April 27, 2018 from the High Court of Hong Kong granting leave to First Concept to enforce the Arbitration Award against SGS in Hong Kong. The Company is consulting with its independent litigation counsel regarding this matter. However, as SGS does not have any material assets, properties or place of business in Hong Kong, the Company is of the view that this court order will have little or no immediate impact on its ongoing operations. In the event that First Concept applies to enforce the Arbitration Award against SGS through judicial measures in courts of Mongolia or any other jurisdiction in which SGS has assets or properties, the Company intends to take appropriate steps to respond to such enforcement proceedings in the best interests of the Company through independent litigation counsel which has been retained by the Company for this purpose. If First Concept is successful in enforcing the Arbitration Award, the Company may not be able to re-pay the sum of $11.5 million and the associated interest. In such case, this will represent an event of default under the CIC Convertible Debenture and CIC would have another basis 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 re-pay the sum of $11.5 million and associated interest to First Concept could result in voluntary or involuntary proceedings involving the Company (including bankruptcy).

The Company also has other current liabilities, which require settlement in the short-term, including: the $1.3 million undiscounted balance of the TRQ Loan; and the principal amount of equipment loan of $2.3 million and interest due in August 2018; and $18.9 million of unpaid taxes payable by SGS to the Mongolian government.

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 risen as compared to that as at December 31, 2017, as follows:

$ in thousands	As at	
	June 30, 2018	**December 31, 2017**
Less than 1 month	**$ 17,993**	$ 20,664
1 to 3 months	**15,770**	16,132
3 to 6 months	**12,939**	8,825
Over 6 months	**39,952**	33,598
Total trade and other payables	**$ 86,654**	$ 79,219

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, 2018.

In the fourth quarter of 2016, the Company initiated a plan to change the existing product mix to higher value and higher margin outputs by washing certain grades of coal 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 construction of the wash plant was substantially completed in 2017, however commencement of washing has been delayed to the fourth quarter of 2018.

The current mine plan 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 require a significant level of stripping activities over the next two years and 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.

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, 2019, 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.

As of the date of this MD&A, the Company is in default under the CIC Convertible Debenture and the TRQ Loan. Pursuant to the terms of the CIC Convertible Debenture, CIC may, at its discretion, provide notice to the Company and declare all principal, interest and other amounts owing under the CIC Convertible Debenture immediately due and payable, and take steps to enforce payment thereof. Pursuant to the terms of the TRQ Loan, all of the outstanding obligations under the TRQ Loan are immediately due and payable to Turquoise Hill as of the date hereof. As of the date of this MD&A, the Company has received no indication from CIC of any intention to deliver a notice of default under the CIC Convertible Debenture or to accelerate the amounts outstanding under the CIC Convertible Debenture and has not received any indication from Turquoise Hill of any intention to deliver a notice of default under the TRQ Loan.

Furthermore, continuing delay in securing additional financing could ultimately result in an event of default of the equipment loan, which if not cured within cure periods in accordance with the terms of the equipment loan, may result in the principal amounts owing and all accrued and unpaid interest becoming immediately due and payable upon notice to the Company by the lender of the equipment loan.

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, 2018 and December 31, 2017, the Company was not subject to any externally imposed capital requirements.

As at August 14, 2018, the Company had $3.4 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, 2018, 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 was required to repay on average $2.2 million of the cash interest and associated costs monthly during the period from May 2017 to October 2017; and (ii) the Company was required to repay $9.7 million of cash interest and associated costs on November 19, 2017. 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 payment under the terms of the June 2017 Deferral Agreement is fully repaid, the Company is required to consult with and obtain written consent from CIC prior to effecting a replacement or termination of either or both of its Chief Executive Officer and its Chief Financial Officer, otherwise this will constitute an event of default under the CIC Convertible Debenture, but CIC shall not withhold its consent if the Board proposes to replace either or both such officers with nominees selected by the Board, provided that the Board acted honestly and in good faith with a view to the best interests of the Company in the selection of the applicable replacements.

In addition, pursuant to the terms of the CIC Convertible Debenture, the Company was required to pay $8.1 million and $7.9 million of anniversary cash interest to CIC on November 19, 2017 and May 19, 2018, respectively. Pursuant to the Convertible Debenture, the Company was also obliged to issue $4.0 million worth of November 2017 PIK Interest shares to CIC on November 19, 2017.

As of the date of this MD&A, the Company: (i) has neither paid the November 19th and May 19th Payments nor issued the November 2017 PIK Interest shares to CIC within the cure period provided for under the CIC Convertible Debenture; and (ii) has not agreed upon a repayment plan for such amounts with CIC. Consequently, the Company is in default under the CIC Convertible Debenture and the June 2017 Deferral Agreement. Pursuant to the terms of the CIC Convertible Debenture and the June 2017 Deferral Agreement, CIC may, at its discretion, provide notice to the Company and declare all principal, interest and other amounts owing under the CIC Convertible Debenture and the June 2017 Deferral Agreement immediately due and payable, and take steps to enforce payment thereof, which would have a material adverse effect on the business and operations of the Company and may negatively affect the price and volatility of the Common Shares and any investment in such shares could suffer a significant decline or total loss in value. As of the date of this MD&A, the Company has received no indication from CIC of any intention to deliver a notice of default under the CIC Convertible Debenture and the June 2017 Deferral Agreement or to accelerate the amounts outstanding under the CIC Convertible Debenture and the June 2017 Deferral Agreement.

The Company is in discussion with CIC for a deferral of the November 19th and May 19th Payments and the November 2017 PIK Interest; however, there can be no assurance that a favorable outcome will be reached.

CIC has notified the Company that, as a condition for agreeing to any deferral, it requires that the mutual co-operating agreement (the "Co-Operation Agreement") dated November 19, 2009 between the Company and CIC be amended to revise the manner in which the amount of the service fee payable to CIC under the Co-Operation Agreement is calculated with retroactive effect; however, the Company has not entered into any formal agreement in respect of the Co-Operation Agreement as of the date hereof.

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.

As a consequence of the Company not entering into a deferral agreement with CIC as at June 30, 2018, IAS 1 requires the Company to classify the entire balance of the CIC Convertible Debenture as a current liability as at June 30, 2018, notwithstanding the fact that CIC has not indicated any intention to deliver notice of default or accelerate the maturity of the debenture. The Company anticipates that both the debt host and the fair value of the embedded derivative will be classified as a non-current liability upon the execution of a deferral agreement, unless a future event of default occurs under the terms of the CIC Convertible Debenture.

Commercial Arbitration in Hong Kong

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

On January 10, 2018, the Company received a confidential partial award (final except as to costs) ("Arbitration Award") with respect to the commercial arbitration. Pursuant to the Arbitration Award, SGS has been ordered to repay the sum of $11.5 million (which SGS had received as a prepayment for the purchase of coal) to First Concept, together with accrued interest at a simple interest rate of 6% per annum from the date which the prepayment was made until the date of the Arbitration Award, and then at a simple interest rate of 8% per annum until full payment. The Arbitration Award is final, except as to costs which have been reserved for a future award. As at June 30, 2018, the Company has recorded a provision of $14.3 million for the commercial arbitration (December 31, 2017: $13.9 million).

On March 23, 2018, SGS received a notice from First Concept demanding payment of the full amount of the Arbitration Award, together with the accrued interest thereon, by no later than March 30, 2018, otherwise First Concept intends to commence enforcement proceedings against SGS in respect of the Arbitration Award. On May 10, 2018, SGS received a notice from First Concept advising that First Concept has obtained a court order dated April 27, 2018 from the High Court of Hong Kong granting leave to First Concept to enforce the Arbitration Award against SGS in Hong Kong. The Company is consulting with its independent litigation counsel regarding this matter. However, as SGS does not have any material assets, properties or place of business in Hong Kong, the Company is of the view that this court order will have little or no immediate impact on its ongoing operations. On August 7, 2018, SGS received a letter from First Concept advising of the aggregate amount of costs and disbursements that First Concept claims it has incurred in connection with the arbitration proceeding. The Company is consulting with its independent litigation counsel regarding this matter.

The Company is currently considering and reviewing its options with respect to the Arbitration Award, including exploring ways to work with First Concept on payment arrangements that are practical to and are in best interests of both parties; however, there can be no assurance that a favorable outcome will be reached.

In the event that First Concept applies to enforce the Arbitration Award against SGS through judicial measures in courts of Mongolia or any other jurisdiction in which SGS has assets or properties, the Company intends to take appropriate steps to respond to such enforcement proceedings in the best interests of the Company through independent litigation counsel which has been retained by the Company for this purpose. However, due to the inherent uncertainties of litigation, it is not possible to predict whether the Company will be successful in defending itself against any such enforcement proceedings.

If First Concept is successful in enforcing the Arbitration Award against SGS, the Company may not be able to re-pay the sum of $11.5 million and the associated interest. In such case, this will represent an event of default under the CIC Convertible Debenture and CIC would have another basis 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 re-pay the sum of $11.5 million and associated interest to First Concept could result in voluntary or involuntary proceedings involving the Company (including bankruptcy).

Cash Flow Highlights

	Six months ended June 30,	
$ in thousands	**2018**	**2017**
Cash generated from operating activities	**$ 13,196**	$ 10,317
Cash used in investing activities	**(19,170)**	(6,195)
Cash used in financing activities	**(238)**	(3,986)
Effect of foreign exchange rate changes on cash	**209**	32
Increase/(decrease) in cash for the period	**(6,003)**	168
Cash balance, beginning of period	**6,471**	966
Cash balance, end of period	**$ 468**	$ 1,134

Cash generated from Operating Activities

The Company generated $13.2 million of cash in operating activities in the first six months of 2018 compared to $10.3 million in the first six months of 2017. This is primarily due to the Company receiving an increased amount of coal sale deposits from customers.

Cash used in Investing Activities

The Company used $19.2 million of cash during the first six months of 2018 in investing activities compared to $6.2 million during the first six months of 2017. In the first six months of 2018, expenditures on property, plant and equipment totaled $20.7 million (2017: $7.3 million) and $1.1 million of dividend income was collected from RDCC LLC (2017: $1.1 million).

Cash used in Financing Activities

Cash used in financing activities was $0.2 million in the first six months of 2018, which was principally attributable to the net repayment of interest bearing loans (2017: $4.0 million).

Contractual Obligations and Guarantees

Day-to-day mining, expansionary and sustaining capital expenditures as well as administrative operations give rise to commitments for future minimum payments. As at June 30, 2018, the Company's operating and capital commitments were:

	Within 1 year	2-3 years	Over 3 years	Total
As at June 30, 2018				
Capital expenditure commitments	$ 5,362	$ -	$ -	$ 5,362
Operating expenditure commitments	23,368	1,236	2,007	26,611
Commitments	**$ 28,730**	**$ 1,236**	**$ 2,007**	**$ 31,973**

Pursuant to an Investment and Collaboration Agreement dated April 2, 2016, the Company contracted with a third party contractor to construct and operate a wash plant at the Ovoot Tolgoi mine site. Under the terms of this Investment and Collaboration Agreement, the third party contractor was responsible for all capital costs related to the construction of the wash plant facility and operating the wash plant facility during the initial term of the agreement in return for the Company paying the third party contractor a fixed tolling fee for each ton of coal that was washed through the wash plant. The parties agreed to terminate the Investment and Collaboration Agreement on October 8, 2017, and are currently in discussions regarding terms for a new agreement. There can be no assurance, however, that a favorable outcome will be reached and any delays in agreeing to a new agreement may adversely affect the timing of commencement of wash plant operations.

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, 2018. 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" ("FVLCTD") using a discounted future cash flow valuation model. The Company's cash flow valuation model takes into consideration the latest available information to the Company, including but not limited to, sales price, sales volumes and washing assumptions, operating cost and life of mine coal production assumptions as at June 30, 2018. The Company's Ovoot Tolgoi Mine cash generating unit carrying value was $78.2 million as at June 30, 2018.

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 mine plan;
- Life-of-mine coal production, strip ratio, capital costs and operating costs;
- Coal processing to increase the grade and qualities of the thermal coal produced and sold; and
- A post-tax discount rate of 12.9% 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, 2018. 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.

Financial Instruments

The fair value of financial assets and financial liabilities at amortized cost is determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions. The fair value of all the financial instruments of the Company approximates their carrying value because of the demand nature or short-term maturity of these instruments, except for the fair values of trade and other payables, interest bearing borrowings, and provision for commercial arbitration and convertible debenture below their respective carrying amounts given the current financial condition of the Company as described under Section 5 of this MD&A under the heading entitled "*Liquidity and Capital Management".*

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

The fair value of the notes receivables is determined based on the corporate bond yield of the bonds issued by the group companies of the notes issuing company.

$ in thousands	As at	
Financial assets	**June 30, 2018**	**December 31, 2017**
Fair value through profit or loss		
Notes receivables	**$ 76**	$ 12,520
Loans and receivables		
Cash	**468**	6,471
Trade and other receivables	**12,015**	16,486
Total financial assets	**$ 12,559**	$ 35,477

$ in thousands	As at	
Financial liabilities	**June 30, 2018**	**December 31, 2017**
Fair value through profit or loss		
Convertible debenture - embedded derivatives	**$ 344**	$ 402
Other financial liabilities		
Trade and other payables	**86,654**	79,219
Interest-bearing borrowings	**7,425**	7,693
Convertible debenture - debt host	**128,251**	115,972
Total financial liabilities	**$ 222,674**	$ 203,286

The net loss in the first three and six months of 2018 and 2017 included the following amounts of unrealized gain/loss from the fair value adjustments to the embedded derivatives of the CIC Convertible Debenture which is classified as FVTPL:

	Three months ended June 30,		Six months ended June 30,	
$ in thousands	2018	2017	2018	2017
Unrealized gain/(loss) on embedded derivatives in CIC Convertible Debenture	**$ (32)**	$ 40	**$ 58**	$ (137)

6. REGULATORY ISSUES AND CONTINGENCIES

Class Action Lawsuit

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

To commence and proceed with the Class Action, the plaintiff was required to 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.

On September 18, 2017, the Ontario Court of Appeal dismissed the Corporation Appeal of the original Ontario lower court decision to permit the plaintiff to commence and proceed with the Class Action. Concurrently, the Ontario Court of Appeal allowed the Individual's Appeal of the original Ontario lower court decision to dismiss the plaintiff's leave motion against certain of the Company's former officers and directors and made an order granting leave for the plaintiff to proceed against such former officers and directors of the Company in relation to the Restatement. As a result, the plaintiff is now permitted to proceed with the Class Action against both the Company and the former officers and directors.

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

Counsel for the parties are appearing in a case conference before the motions judge on September 3, 2018 to fix the process and timing leading up to the trial of the action, which trial date has not yet been fixed.

The Company firmly believes that it has a strong defense on the merits and will continue to vigorously defend itself against the Class Action through independent Canadian litigation counsel retained by the Company for this purpose. Due to the inherent uncertainties of litigation, it is not possible to predict the final outcome of the Class Action or determine the amount of potential losses, if any. However, the Company has judged a provision for this matter as at June 30, 2018 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 at June 30, 2018 is not required.

Special Needs Territory in Umnugobi

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

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

Mongolian royalties

During the year ended December 31, 2017, the Company has been ordered by the Mongolian tax authority to apply "reference price" determined by the Government of Mongolia as opposed to calculated sales price that derived based on the actual contract price. Although no official letter was received by the Company as of the date hereof, there can be no assurance that the Government of Mongolia will not disagree with the methodology employed by the Company in determining the calculated sales price and deem such price "non-market" under Mongolian tax law.

Management believes that its interpretation of the relevant legislation is appropriate and the Company's positions related to royalty will be sustained. As of June 30, 2018, recognition of a provision for addition Mongolian royalties is not necessary.

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, 2018, approximately 272.7 million Common Shares were issued and outstanding. There are also incentive share options outstanding to acquire approximately 1.9 million unissued Common Shares with exercise prices ranging from CAD$0.25 to CAD$0.92. There are no preferred shares outstanding.

As at August 14, 2018, 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, 2018, 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, 2018, Voyage Wisdom Limited holds a total of approximately 25.8 million Common Shares representing approximately 9.5% of the issued and outstanding Common Shares.

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

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

9. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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, 2017.

The following new IASB standard was adopted by the Company on January 1, 2018, refer to Section 9 of the MD&A for the quarter ended March 31, 2018 for details, which is available under the Company's profile on SEDAR at www.sedar.com.

IFRS 9	Financial Instruments[(i)]
IFRS 15	Revenue from Contracts with Customers[(i)]

(i) Effective for annual periods beginning on or after January 1, 2018

Refer to Note 2.4 of the Company's condensed consolidated interim financial statements of the quarter ended June 30, 2018 for information regarding the accounting judgments and estimates.

10. RISK FACTORS

There are certain risks involved in and related to the Company's operations, some of which are beyond its control. Material risks and uncertainties affecting the Company, their potential impact on the Company's operations and the Company's principal risk management strategies are, except as updated by this MD&A, substantially unchanged from those disclosed in the Company's most recently filed Annual Information Form for the year ended December 31, 2017, which is available under the Company's profile on SEDAR at www.sedar.com.

11. OUTLOOK

With the implementation of the "One Belt, One Road" program in China, the Company is well positioned to capture the resulting business opportunities between the two countries given the potential strategic support from its largest shareholders (CIC and Cinda), which are both state-owned-enterprises in China, and its strong operational record for the past ten years in Mongolia, being one of the largest enterprises in the country.

Assuming the successful launching of the Company's processing facilities in the coming months, the Company expects to produce and sell higher volumes of higher-quality coal products to the Chinese market at improved margins. The Company will continue to strive for revenue growth by expanding its customer base further inland into China.

Looking forward, the Company remains cautiously optimistic regarding the Chinese coal market.

The Company continues to make efforts to strengthen cost management to ensure operating efficiency.

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 the potential strategic support from its largest shareholders (CIC and Cinda), which are both state-owned-enterprises in China, and its strong operational record for the past 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.

- **A large resources and reserves base** – As a result of work performed by DMCL for the Ovoot Tolgoi Deposit, the Company's aggregate coal resources include measured and indicated mineral resources of 194.6 million tonnes and inferred resources of 32.1 million tonnes while 114.1 million tonnes were declared as mineral reserves.

- **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 2018 and the medium term are as follows:

- **Enhance product mix** – The Company is committed to enhancing the product quality by completing the commissioning of the new wash plant 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. Meanwhile, the Company is expecting there will be a significant level of stripping work to be performed at the Sunrise pit in the upcoming months to ensure a sustainable coal production over the mine life. In order to finance the stripping work, the Company will reduce the production level while utilizing the existing balance of inventory to meet the sales target.

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

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

August 14, 2018

SouthGobi Resources Ltd.
Condensed Consolidated Interim Financial Statements

June 30, 2018
(Expressed in U.S. Dollars)
(Unaudited)

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SOUTHGOBI RESOURCES LTD.

Condensed Consolidated Interim Statement of Comprehensive Income

(Unaudited)

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

	Notes	Three months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Revenue	4	**$ 17,377**	$ 34,665	**$ 40,600**	$ 59,919
Cost of sales	6	**(15,078)**	(27,385)	**(31,585)**	(51,144)
Gross profit		**2,299**	7,280	**9,015**	8,775
Other operating expenses	7	**(18,091)**	(4,045)	**(19,429)**	(7,253)
Administration expenses		**(3,856)**	(2,234)	**(6,233)**	(4,619)
Evaluation and exploration expenses		**(156)**	(144)	**(280)**	(173)
Profit/(loss) from operations		**(19,804)**	857	**(16,927)**	(3,270)
Finance costs	8	**(5,958)**	(5,494)	**(11,932)**	(11,169)
Finance income	8	**140**	50	**366**	14
Share of earnings of a joint venture	15	**628**	388	**968**	654
Loss before tax		**(24,994)**	(4,199)	**(27,525)**	(13,771)
Current income tax expense	9	**(1,609)**	(2,714)	**(2,538)**	(2,759)
Net loss attributable to equity holders of the Company		**(26,603)**	(6,913)	**(30,063)**	(16,530)
Other comprehensive income to be reclassified to profit or loss in subsequent periods					
Exchange difference on translation of foreign operation		**898**	684	**(2,430)**	943
Net comprehensive loss attributable to equity holders of the Company		**$ (25,705)**	$ (6,229)	**$ (32,493)**	$ (15,587)
Basic and diluted loss per share		**$ (0.10)**	$ (0.03)	**$ (0.11)**	$ (0.06)

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)

	Notes	As at June 30, 2018	As at December 31, 2017
Assets			
Current assets			
Cash and cash equivalents		**$ 468**	$ 6,471
Trade and other receivables	11	**12,015**	16,486
Notes receivables	12	**76**	12,520
Inventories	13	**38,432**	36,389
Prepaid expenses and deposits		**9,997**	6,286
Total current assets		**60,988**	78,152
Non-current assets			
Properties for resale		**$ 8,777**	$ 8,906
Property, plant and equipment	14	**155,736**	152,457
Investment in a joint venture	15	**20,589**	21,052
Total non-current assets		**185,102**	182,415
Total assets		**$ 246,090**	$ 260,567
Equity and liabilities			
Current liabilities			
Trade and other payables	16	**$ 86,654**	$ 79,219
Deferred revenue		**26,942**	27,644
Provision for commercial arbitration	17	**14,338**	13,884
Interest-bearing borrowings	18	**7,361**	7,352
Convertible debenture	19	**128,595**	116,374
Total current liabilities		**263,890**	244,473
Non-current liabilities			
Interest-bearing borrowings	18	**64**	341
Decommissioning liability		**5,378**	5,213
Total non-current liabilities		**5,442**	5,554
Total liabilities		**269,332**	250,027
Equity			
Common shares	20	**1,098,629**	1,098,623
Share option reserve		**52,500**	52,463
Exchange reserve		**(7,167)**	(4,737)
Accumulated deficit	20	**(1,167,204)**	(1,135,809)
Total equity		**(23,242)**	10,540
Total equity and liabilities		**$ 246,090**	$ 260,567
Net current liabilities		**$ (202,902)**	$ (166,321)
Total assets less current liabilities		**$ (17,800)**	$ 16,094

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"	***"Shouguo Wang"***
Director	Director

SOUTHGOBI RESOURCES LTD.

Condensed Consolidated Interim Statement of Changes in Equity

(Unaudited)

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

	Number of shares/units	Share capital	Share option reserve	Exchange fluctuation reserve	Accumulated deficit	Total
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 credited 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
Balances, January 1, 2018	**272,607**	**$ 1,098,623**	**$ 52,463**	**$ (4,737)**	**$ (1,135,809)**	**$ 10,540**
Change in accounting policy due to IFRS 9	**-**	**-**	**-**	**-**	**(1,332)**	**(1,332)**
Restated balances, January 1, 2018	**272,607**	**$ 1,098,623**	**$ 52,463**	**$ (4,737)**	**$ (1,137,141)**	**$ 9,208**
Shares issued for:						
Employee share purchase plan	**41**	**6**	**-**	**-**	**-**	**6**
Share-based compensation charged to operations	**-**	**-**	**37**	**-**	**-**	**37**
Net loss for the period	**-**	**-**	**-**	**-**	**(30,063)**	**(30,063)**
Exchange differences on translation of foreign operations	**-**	**-**	**-**	**(2,430)**	**-**	**(2,430)**
Balances, June 30, 2018	**272,648**	**$ 1,098,629**	**$ 52,500**	**$ (7,167)**	**$ (1,167,204)**	**$ (23,242)**

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, 2018	2017
Operating activities			
Loss before tax		**$ (27,525)**	$ (13,771)
Adjustments for:			
Depreciation and depletion		**10,178**	16,982
Share-based compensation	21	**37**	67
Finance costs	8	**11,932**	11,169
Finance income	8	**(366)**	(14)
Share of earnings of a joint venture	15	**(968)**	(654)
Interest paid		**(857)**	(9,621)
Income tax paid		**(2,022)**	(347)
Unrealized foreign exchange loss/(gain)	7	**(37)**	576
Penalty on late settlement of trade payables	5	**427**	280
Loss on disposal of fixed assets	5	**28**	-
Provision for doubtful trade and other receivables	11	**9,279**	1,335
Provision for doubtful notes receivables	12	**7,705**	-
Provision for commercial arbitration	17	**454**	-
Provision for prepaid expenses and deposits	7	**532**	-
Impairment of properties for resale		**-**	1,075
Impairment of inventories	13	**-**	5,201
Operating cash flows before changes in non-cash working capital items		**8,797**	12,278
Net change in non-cash working capital items	24	**4,399**	(1,961)
Cash generated from operating activities		**13,196**	10,317
Investing activities			
Expenditures on property, plant and equipment		**(20,656)**	(7,280)
Proceeds from disposal of property, plant and equipment		**320**	-
Interest received		**18**	14
Dividend from a joint venture	15	**1,148**	1,071
Cash used in investing activities		**(19,170)**	(6,195)
Financing activities			
Proceeds from issuance of common shares		**6**	1
New loans		**500**	300
Repayment of interest-bearing loans		**(744)**	(4,287)
Cash used in financing activities		**(238)**	(3,986)
Effect of foreign exchange rate changes on cash and cash equivalents		**209**	32
Increase/(decrease) in cash and cash equivalents		**(6,003)**	168
Cash and cash equivalents, beginning of period		**6,471**	966
Cash and cash equivalents, end of period		**$ 468**	$ 1,134

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, 2018, Land Breeze II S.a.r.l., a wholly-owned subsidiary of China Investment Corporation (“CIC”) owned approximately 23.8% of the outstanding common shares of the Company. Novel Sunrise Investments Limited ("Novel Sunrise"), a wholly-owned subsidiary of China Cinda (HK) Investments Management Company Limited (“Cinda”), and Voyage Wisdom Limited each owned approximately 17.0% and 9.5% of the outstanding common shares of the Company, respectively.

The Company owns the following significant coal projects in Mongolia: the Ovoot Tolgoi open pit producing coal mine (“Ovoot Tolgoi Mine”) and the following 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 registered and records office of the Company is located at 20th Floor, 250 Howe Street, Vancouver, British Columbia, Canada, V6C 3R8. The head office and principal place of business of the Company is located at 1150 – 355 Burrard Street, Vancouver, British Columbia, Canada, V6C 2G8.

Going concern assumption

The Company’s condensed consolidated interim financial statements have been prepared on a going concern basis which assumes that the Company will continue operating until at least June 30, 2019 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 $202,902 as at June 30, 2018 compared to $166,321 of working capital deficiency as at December 31, 2017. Included in the working capital deficiency at June 30, 2018 are significant obligations, which include the obligation to pay CIC under the deferral agreement dated June 12, 2017 (the “June 2017 Deferral Agreement”) in which the Company was required to pay $9,731 of cash interest and associated costs on November 19, 2017 (the “June 2017 Deferral Agreement Payment”). In addition, pursuant to the terms of CIC Convertible Debenture, the Company was required to pay $8,066 and $7,934 of anniversary cash interest on November 19, 2017 and May 19, 2018, respectively, (the “Anniversary Interest Payments” and together with the June 2017 Deferral Agreement Payment, the “November 19th and May 19th Payments”). The Company is in discussion with CIC for a deferral of the November 19th and May 19th Payments; however, there can be no assurance that a favorable outcome will be reached. Accordingly the principal amount outstanding and all accrued and unpaid interest and other amounts owing under the CIC Convertible Debenture and the June 2017 Deferral Agreement would immediately become due and payable in the event that CIC provides notice to the Company.

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

1. CORPORATE INFORMATION AND GOING CONCERN (CONTINUED)

Pursuant to a confidential partial award (final except as to costs) ("Arbitration Award") with respect to an the commercial arbitration on January 10, 2018 involving SouthGobi Sands LLC ("SGS"), a subsidiary of the Company, and First Concept Industrial Group Limited ("First Concept"), SGS has been ordered to repay the sum of $11,500 to First Concept, together with accrued interest at a simple interest rate of 6% per annum from the date which the prepayment was made until the date of the Arbitration Award, and then at a simple interest rate of 8% per annum until full payment. On March 23, 2018, SGS received a notice from First Concept demanding payment of the full amount of the Arbitration Award, together with the accrued interest thereon, by no later than March 30, 2018, otherwise First Concept intends to commence enforcement proceedings against SGS in respect of the Arbitration Award. On May 10, 2018, SGS received a notice from First Concept advising that First Concept has obtained a court order dated April 27, 2018 from the High Court of Hong Kong granting leave to First Concept to enforce the Arbitration Award against SGS in Hong Kong. The Company is consulting with its independent litigation counsel regarding this matter. However, as SGS does not have any material assets, properties or place of business in Hong Kong, the Company is of the view that this court order will have little or no immediate impact on its ongoing operations. In the event that First Concept applies to enforce the Arbitration Award against SGS through judicial measures in courts of Mongolia or any other jurisdiction in which SGS has assets or properties, the Company intends to take appropriate steps to respond to such enforcement proceedings in the best interests of the Company through independent litigation counsel which has been retained by the Company for this purpose. If First Concept is successful in enforcing the Arbitration Award, the Company may not be able to re-pay the sum of $11,500 and the associated interest. In such case, this will represent another event of default under the CIC Convertible Debenture and CIC would have another basis 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 re-pay the sum of $11,500 and associated interest to First Concept could result in voluntary or involuntary proceedings involving the Company (including bankruptcy).

The Company also has other current liabilities, which require settlement in the short-term, including: the $1,318 undiscounted balance of the Turquoise Hill Resources Limited ("Turquoise Hill") loan ("TRQ Loan") and the principal amount of equipment loan of $2,279 and interest due in August 2018; and $18,942 of unpaid taxes payable by SGS to the Mongolian government.

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, 2017, as follows:

	As at	
	June 30, 2018	**December 31, 2017**
Less than 1 month	**$ 17,993**	$ 20,664
1 to 3 months	**15,770**	16,132
3 to 6 months	**12,939**	8,825
Over 6 months	**39,952**	33,598
Total trade and other payables	**$ 86,654**	$ 79,219

1. CORPORATE INFORMATION AND GOING CONCERN (CONTINUED)

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, 2018.

In the fourth quarter of 2016, the Company initiated a plan to change the existing product mix to higher value and higher margin outputs by washing certain grades of coal 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 construction of the wash plant was substantially completed in 2017, however commencement of washing has been delayed to the fourth quarter of 2018.

The current mine plan 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 require a significant level of stripping activities over the next two years and 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.

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, 2019, 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.

As of the date hereof, the Company is in default under the CIC Convertible Debenture and the TRQ Loan. Pursuant to the terms of the CIC Convertible Debenture, CIC may, in its discretion, provide notice to the Company and declare all principal, interest and other amounts owing under the CIC Convertible Debenture immediately due and payable, and take steps to enforce payment thereof. Pursuant to the terms of the TRQ Loan, all of the outstanding obligations under the TRQ Loan are immediately due and payable to Turquoise Hill as of the date hereof. As of the date hereof, the Company has received no indication from CIC of any intention to deliver a notice of default under the CIC Convertible Debenture or to accelerate the amounts outstanding under the CIC Convertible Debenture, and has not received any indication from Turquoise Hill of any intention to deliver a notice of default under the TRQ Loan.

Furthermore, continuing delay in securing additional financing could ultimately result in an event of default of the equipment loan, which if not cured within cure periods in accordance with the terms of equipment loan, may result in the principal amounts owing and all accrued and unpaid interest becoming immediately due and payable upon notice to the Company by the lender of the equipment loan.

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

1. CORPORATE INFORMATION AND GOING CONCERN (CONTINUED)

Factors that impact the Company's liquidity are being closely monitored and include, but are not limited to, 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, 2018 and December 31, 2017, the Company was not subject to any externally imposed capital requirements.

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

The condensed consolidated interim financial statements of the Company for the six months ended June 30, 2018 were approved and authorized for issue by the Board of Directors of the Company on August 14, 2018.

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 March 31, 2018 condensed consolidated interim 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, 2017.

2.3 Adoption of new and revised standards and interpretations

The following new IASB standard was adopted by the Company on January 1, 2018.

IFRS 9	Financial Instruments[(i)]
IFRS 15	Revenue from Contracts with Customers[(i)]

(i) Effective for annual periods beginning on or after January 1, 2018

2. BASIS OF PREPARATION (CONTINUED)

IFRS 9, Financial Instruments ("IFRS 9"), addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Company adopted IFRS 9 on a retrospective basis without restating prior period comparatives.

IFRS 9 requires financial assets to be classified as measured at fair value through profit and loss (FVTPL), fair value through other comprehensive income/loss (FVTOCI), and those measured at amortized cost. As a result of the adoption of this standard, the Company has changed its accounting policy for financial assets. The change did not impact the carrying value of any financial assets on the transition date, January 1, 2018. The Company's cash and trade and other receivables, and notes receivables, were reclassified from loans and receivable to amortized cost.

For financial liabilities, the standard retains most of the IAS 39 requirements except when there is a modification of the terms of any financial liability, non-substantial modifications do not result in derecognition. IFRS 9 requires the Company to recalculate the amortized cost of the modified financial liability by discounting the modified contractual cash flows using the original effective interest rate and recognizing any adjustment in profit or loss. The Company has had several past modifications of its CIC Convertible Debenture and the TRQ Loan. Therefore, on initial application of IFRS 9, due to the modification of the financial liabilities, $1,332 was recorded to increase the opening accumulated deficit and increase the carrying value of the financial liabilities upon the application of the transitional relief.

Additionally, the new impairment model requires the recognition of impairment provisions based on expected credit losses ("ECL") rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortized cost. The ECL model requires judgement as to how changes in economic factors affect ECLs, which are determined on a probability-weighted basis. The Company applies the IFRS 9 simplified approach to measuring expected credit losses on its trade receivables and estimates expected credit loss based on the possible default events on its trade and other receivables within the next twelve months. The Company has determined that, due to the unsecured nature of its trade and other receivables and notes receivables, the loss allowance on its trade and other receivables and notes receivables increased by $9,279 and $7,705 during the period ended June 30, 2018, respectively, relating to an expected loss rate of 10% for trade and notes receivables 60 days past due and 100% for trade and notes receivables 180 days past due.

IFRS 15, Revenue from Contracts with Customers ("IFRS 15"), deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 *Revenue* and IAS 11 *Construction Contracts*, and related interpretations.

The Company has concluded there were no significant changes in the accounting for sales as a result of the transition to IFRS 15. The Company produces coal products and the relevant performance obligations relate primarily to the delivery of the coal products to customers, with each delivery representing a separate performance obligation.

2. BASIS OF PREPARATION (CONTINUED)

Revenue from the sale of coal product is recognized at the point the customer obtains control of the product, in which the significant risks and rewards of ownership pass to the buyer and the Company has a present right to payment for the product.

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, 2017.

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, 2017 consolidated annual financial statements. The significant accounting judgments and estimates remain substantially unchanged from December 31, 2017.

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.

Review of carrying value of assets and impairment charges

As of the date hereof, the Company is in default under the CIC Convertible Debenture and the TRQ Loan. Pursuant to the terms of the CIC Convertible Debenture, CIC may, in its discretion, provide notice to the Company and declare all principal, interest and other amounts owing under the CIC Convertible Debenture immediately due and payable, and take steps to enforce payment thereof. Pursuant to the terms of the TRQ Loan, all of the outstanding obligations under the TRQ Loan are immediately due and payable to Turquoise Hill as of the date hereof. As of the date hereof, the Company has received no indication from CIC of any intention to deliver a notice of default under the CIC Convertible Debenture or to accelerate the amounts outstanding under the CIC Convertible Debenture, and has not received any indication from Turquoise Hill of any intention to deliver a notice of default under the TRQ Loan.

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 equipment 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 lender of the equipment loan.

2. BASIS OF PREPARATION (CONTINUED)

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, 2018. 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" ("FVLCTD") using a discounted future cash flow valuation model. The Company's cash flow valuation model takes into consideration the latest available information to the Company, including but not limited to, sales price, sales volumes, operating cost and life of mine coal production assumptions as at June 30, 2018. The Company's Ovoot Tolgoi Mine cash generating unit carrying value was $78,217 as at June 30, 2018.

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;
- Life-of-mine coal production, strip ratio, capital costs and operating costs;
- Coal processing to increase the grade and qualities of the thermal coal produced and sold; and
- A post-tax discount rate of 12.9% 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, 2018. 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.

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, and logistics and trading of coal in Mongolia and China. The Company's Corporate Division does not earn revenues and therefore does not meet the definition of an operating segment.

During the six months ended June 30, 2018, the Coal Division had 16 active customers with the largest customer accounting for 20% of revenues, the second largest customer accounting for 15% of revenues, the third largest customer accounting for 12% of revenues and the other customers accounting for the remaining 53% 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, 2018	**$ 244,790**	**$ 1,300**	**$ 246,090**
As at December 31, 2017	253,256	7,311	260,567
Segment liabilities			
As at June 30, 2018	**$ 125,393**	**$ 143,939**	**$ 269,332**
As at December 31, 2017	119,095	130,932	250,027
Segment revenues			
For the three months ended June 30, 2018	**$ 17,377**	**$ -**	**$ 17,377**
For the three months ended June 30, 2017	34,665	-	34,665
For the six months ended June 30, 2018	**$ 40,600**	**$ -**	**$ 40,600**
For the six months ended June 30, 2017	59,919	-	59,919
Segment profit/(loss)			
For the three months ended June 30, 2018	**$ (25,300)**	**$ (1,303)**	**$ (26,603)**
For the three months ended June 30, 2017	442	(7,355)	(6,913)
For the six months ended June 30, 2018	**$ (27,676)**	**$ (2,387)**	**$ (30,063)**
For the six months ended June 30, 2017	(1,454)	(15,076)	(16,530)
Impairment charge on assets (ii) (iii)			
For the three months ended June 30, 2018	**$ 16,413**	**$ -**	**$ 16,413**
For the three months ended June 30, 2017	5,280	-	5,280
For the six months ended June 30, 2018	**$ 17,516**	**$ -**	**$ 17,516**
For the six months ended June 30, 2017	7,611	-	7,611
Depreciation and amortization			
For the three months ended June 30, 2018	**$ 9,547**	**$ 16**	**$ 9,563**
For the three months ended June 30, 2017	12,095	73	12,168
For the six months ended June 30, 2018	**$ 19,188**	**$ 41**	**$ 19,229**
For the six months ended June 30, 2017	23,729	143	23,872
Share of earnings of a joint venture			
For the three months ended June 30, 2018	**$ 628**	**$ -**	**$ 628**
For the three months ended June 30, 2017	388	-	388
For the six months ended June 30, 2018	**$ 968**	**$ -**	**$ 968**
For the six months ended June 30, 2017	654	-	654

(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, 2018	**$ 403**	**$ 5,555**	**$ 5,958**
For the three months ended June 30, 2017	115	5,379	5,494
For the six months ended June 30, 2018	**$ 1,110**	**$ 10,822**	**$ 11,932**
For the six months ended June 30, 2017	413	10,756	11,169
Finance income			
For the three months ended June 30, 2018	**$ 140**	**$ -**	**$ 140**
For the three months ended June 30, 2017	10	40	50
For the six months ended June 30, 2018	**$ 308**	**$ 58**	**$ 366**
For the six months ended June 30, 2017	14	-	14
Current income tax			
For the three months ended June 30, 2018	**$ 1,609**	**$ -**	**$ 1,609**
For the three months ended June 30, 2017	2,714	-	2,714
For the six months ended June 30, 2018	**$ 2,538**	**$ -**	**$ 2,538**
For the six months ended June 30, 2017	2,759	-	2,759

(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, 2018 relate to trade and other receivables (Note 11), notes receivables (Note 12) and prepaid expenses and deposits.
(iii) The impairment charge on assets for the three and six months ended June 30, 2017 related to trade and other receivables (Note 11), properties for resale and inventories (Note 13).

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

	Mongolia	Hong Kong	China	Consolidated Total
Revenue (i)				
For the three months ended June 30, 2018	**$ -**	**$ -**	**$ 17,377**	**$ 17,377**
For the three months ended June 30, 2017	-	-	34,665	34,665
For the six months ended June 30, 2018	**$ -**	**$ -**	**$ 40,600**	**$ 40,600**
For the six months ended June 30, 2017	-	-	59,919	59,919
Non-current assets				
As at June 30, 2018	**$ 184,486**	**$ 196**	**$ 420**	**$ 185,102**
As at December 31, 2017	181,603	467	345	182,415

(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, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Depreciation	**$ 8,672**	$ 9,690	**$ 15,091**	$ 20,538
Auditors' remuneration	**179**	172	**290**	274
Employee benefit expense (including directors' remuneration)				
Wages and salaries	**$ 1,507**	$ 2,144	**$ 2,748**	$ 4,050
Equity-settled share option expense (Note 21)	**21**	30	**37**	67
Pension scheme contributions	**100**	194	**202**	399
	$ 1,628	$ 2,368	**$ 2,987**	$ 4,516
Minimum lease payments under operating leases	**$ 303**	$ 203	**$ 459**	$ 406
Foreign exchange loss/(gain)	**742**	1,607	**(37)**	2,105
Impairment of coal stockpile inventories (Note 13)	**-**	2,870	**-**	5,201
Provision for doubtful trade and and other receivables (Note 11)	**8,176**	1,335	**9,279**	1,335
Provision for doubtful notes receivables (Note 12)	**7,705**	-	**7,705**	-
Provision for prepaid expenses and deposits	**532**	-	**532**	-
Loss/(gain) on disposal of property, plant and equipment	**(39)**	-	**28**	-
Provision for commercial arbitration (Note 17)	**230**		**454**	
Penalty on late settlement with trade payables	**323**	-	**427**	280
Mining services, net	**-**	-	**-**	2,395
Impairment of properties for resale	**-**	1,075	**-**	1,075
Mine operating costs and other	**8,730**	14,488	**20,312**	25,064
Total expenses	**$ 37,181**	$ 33,808	**$ 57,527**	$ 63,189

6. COST OF SALES

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

	Three months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Operating expenses	**$ 6,445**	$ 14,891	**$ 16,577**	$ 25,591
Share-based compensation expense	**-**	5	**-**	28
Depreciation and depletion	**4,853**	7,454	**7,694**	14,940
Impairment of coal stockpile inventories	**-**	2,870	**-**	5,201
Cost of sales from mine operations	**11,298**	25,220	**24,271**	45,760
Cost of sales related to idled mine assets (i)	**3,780**	2,165	**7,314**	5,384
Cost of sales	**$ 15,078**	$ 27,385	**$ 31,585**	$ 51,144

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

Cost of inventories recognized as expense in cost of sales for the three months ended June 30, 2018 totaled $9,956 (2017: $28,290). Cost of inventories recognized as expense in cost of sales for the six months ended June 30, 2018 totaled $21,804 (2017: $44,534).

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

7. OTHER OPERATING EXPENSES

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

	Three months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Provision for doubtful notes receivables (Note 12)	**$ (7,705)**	-	**$ (7,705)**	-
Provision for doubtful trade and other receivables (Note 11)	**(8,176)**	(1,335)	**(9,279)**	(1,335)
Foreign exchange gain/(loss)	**(742)**	(1,607)	**37**	(2,105)
Provision for prepaid expenses and deposits	**(532)**	-	**(532)**	-
CIC management fee	**(395)**	-	**(978)**	-
Provision for commercial arbitration (Note 17)	**(230)**	-	**(454)**	-
Penalty on late settlement of trade payables	**(323)**	-	**(427)**	(280)
Gain/(loss) on disposal of property, plant and equipment (Note 14)	**39**	-	**(28)**	-
Impairment of properties for resale	**-**	(1,075)	**-**	(1,075)
Mining services, net	**-**	-	**-**	(2,395)
Others	**(27)**	(28)	**(63)**	(63)
Other operating expenses	**$ (18,091)**	$ (4,045)	**$ (19,429)**	$ (7,253)

8. FINANCE COSTS AND INCOME

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

	Three months ended, June 30, 2018	Three months ended, June 30, 2017	Six months ended, June 30, 2018	Six months ended, June 30, 2017
Interest expense on convertible debenture (Note 19)	**$ 5,516**	$ 5,330	**$ 10,810**	$ 10,607
Unrealized loss on embedded derivatives in convertible debenture (Note 19)	**32**	-	**-**	137
Interest expense on borrowings (Note 18)	**358**	125	**1,011**	268
Loan arrangement fee (Note 18)	**6**	-	**19**	81
Accretion of decommissioning liability	**46**	39	**92**	76
Finance costs	**$ 5,958**	$ 5,494	**$ 11,932**	$ 11,169

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

	Three months ended, June 30, 2018	Three months ended, June 30, 2017	Six months ended, June 30, 2018	Six months ended, June 30, 2017
Unrealized gain on embedded derivatives in convertible debenture (Note 19)	**$ -**	$ 40	**$ 58**	$ -
Interest income	**8**	10	**18**	14
Fair value gain on notes receivable upon redemption (Note 12)	**132**	-	**290**	-
Finance income	**$ 140**	$ 50	**$ 366**	$ 14

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

9. TAXES

The Canadian statutory tax rate was 26% (2017: 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,	
	2018	2017	2018	2017
Current - Canada				
Charge for the period	**$ -**	$ -	**$ -**	$ -
Current - elsewhere				
Charge for the period	**1,348**	2,714	**2,277**	2,759
Underprovision in prior periods	**261**	-	**261**	-
Total tax charge for the period	**$ 1,609**	$ 2,714	**$ 2,538**	$ 2,759

10. 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,	
	2018	2017	2018	2017
Net loss	**$ (26,603)**	$ (6,913)	**$ (30,063)**	$ (16,530)
Weighted average number of shares	**272,644**	272,592	**272,641**	272,183
Basic and diluted loss per share	**$ (0.10)**	$ (0.03)	**$ (0.11)**	$ (0.06)

Potentially dilutive items not included in the calculation of diluted loss per share for the three and six months ended June 30, 2018 include the convertible debenture (Note 19) and stock options (Note 21) that were anti-dilutive.

11. TRADE AND OTHER RECEIVABLES

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

	As at	
	June 30, 2018	December 31, 2017
Trade receivables	**$ 7,665**	$ 12,901
Other receivables	**4,350**	3,585
Total trade and other receivables	**$ 12,015**	$ 16,486

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

11. TRADE AND OTHER RECEIVABLES (CONTINUED)

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, 2018	December 31, 2017
Less than 1 month	$ 4,405	$ 15,962
1 to 3 months	245	296
3 to 6 months	7,365	19
Over 6 months	-	209
Total trade and other receivables	**$ 12,015**	$ 16,486

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.

The Company made a provision of $9,279 on its trade and other receivables for the six months ended June 30, 2018 (2017: $1,335). As at June 30, 2018, the provision for doubtful trade and other receivables amounted to $9,964 (December 31, 2017: $697).

12. NOTES RECEIVABLES

Notes receivables are financial instruments in the Chinese banking system. As at June 30, 2018, bank notes receivables of $76 (December 31, 2017: $1,898) are readily convertible into cash or can be utilized as settlement of outstanding payables. As at December 31, 2017, commercial notes receivables of $10,622 with maturity within 6 months were recorded. A provision for commercial notes receivables of $7,705 was made during the three and six months ended June 30, 2018 (2017: nil) as the counterparty did not honor its obligations. Finance income of $132 and $290 was recorded for the commercial notes receivables during the three and six months ended June 30, 2018, respectively (2017: nil).

13. INVENTORIES

The Company's inventories consist of the following amounts:

	As at	
	June 30, 2018	December 31, 2017
Coal stockpiles	$ 21,779	$ 18,223
Materials and supplies	16,653	18,166
Total inventories	**$ 38,432**	$ 36,389

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. Nil impairment was noted during three months and six months ended June 30, 2018.

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

14. 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, 2018	$ 350,540	$ 28,874	$ 72,194	$ 173,401	$ 28,967	$ 653,976
Additions	**1,061**	**411**	**-**	**26,025**	**230**	**27,727**
Disposals	**(1,023)**	**(78)**	**-**	**-**	**(1,962)**	**(3,063)**
Exchange realignment	**(5,344)**	**(204)**	**(825)**	**(2,000)**	**(17)**	**(8,390)**
As at June 30, 2018	**$ 345,234**	**$ 29,003**	**$ 71,369**	**$ 197,426**	**$ 27,218**	**$ 670,250**
Accumulated depreciation and impairment charges						
As at January 1, 2018	$ (297,264)	$ (28,326)	$ (51,443)	$ (100,297)	$ (24,189)	$ (501,519)
Depreciation for the period	**(15,710)**	**(140)**	**(2,356)**	**(1,023)**	**-**	**(19,229)**
Eliminated on disposals	**544**	**78**	**-**	**-**	**-**	**622**
Exchange realignment	**4,258**	**255**	**571**	**405**	**123**	**5,612**
As at June 30, 2018	**$ (308,172)**	**$ (28,133)**	**$ (53,228)**	**$ (100,915)**	**$ (24,066)**	**$ (514,514)**
Carrying amount						
As at December 31, 2017	$ 53,276	$ 548	$ 20,751	$ 73,104	$ 4,778	$ 152,457
As at June 30, 2018	**$ 37,062**	**$ 870**	**$ 18,141**	**$ 96,511**	**$ 3,152**	**$ 155,736**

14.1 Non-depreciable assets

The non-depreciable assets include the construction in progress and deposits on purchasing items of property, plant and equipment of $2,180 (December 31, 2017: $4,169), 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.

14.2 Pledge on items of property, plant and equipment

As at June 30, 2018, certain of the Company's property, plant and equipment of $9,472 (December 31, 2017: $4,539) were pledged as security for a bank loan granted to the Company (Note 18).

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

As at June 30, 2018, certain of the Company's mobile equipment of $229 (December 31, 2017: $672) were held under finance leases.

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

15. INVESTMENT IN A JOINT VENTURE

The Company's investment consists of the following amounts:

	As at	
	June 30, 2018	December 31, 2017
Non-current investment in joint venture		
Investment in RDCC LLC	**$ 20,589**	$ 21,052
Total investments	**$ 20,589**	$ 21,052

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,	
	2018	2017	2018	2017
Balance, beginning of period	**$ 21,142**	$ 21,438	**$ 21,052**	$ 21,335
Dividend received	**(660)**	(649)	**(1,148)**	(1,071)
Share of earnings of a joint venture	**628**	388	**968**	654
Share of other comprehensive income of a joint venture	**(521)**	684	**(283)**	943
Balance, end of period	**$ 20,589**	$ 21,861	**$ 20,589**	$ 21,861

For the three and six months ended June 30, 2018, RDCC LLC recognized toll fee revenue of $2,503 and $4,060, respectively (For the three and six months ended June 30, 2017: $1,953 and $3,134, respectively). For the three and six months ended June 30, 2018, RDCC LLC had a net income of $1,570 and $2,419, respectively (For the three and six months ended June 30, 2017: $971 and $1,635, respectively).

16. 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)

16. TRADE AND OTHER PAYABLES (CONTINUED)

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

	As at	
	June 30, 2018	**December 31, 2017**
Less than 1 month	**$ 17,993**	$ 20,664
1 to 3 months	**15,770**	16,132
3 to 6 months	**12,939**	8,825
Over 6 months	**39,952**	33,598
Total trade and other payables	**$ 86,654**	$ 79,219

17. PROVISION FOR COMMERCIAL ARBITRATION

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

On January 10, 2018, the Company received a confidential partial award (final except as to costs) with respect to the commercial arbitration. Pursuant to the Arbitration Award, SGS has been ordered to repay the sum of $11,500 (which SGS had received as a prepayment for the purchase of coal) to First Concept, together with accrued interest at a simple interest rate of 6% per annum from the date which the prepayment was made until the date of the Arbitration Award, and then at a simple interest rate of 8% per annum until full payment. The Arbitration Award is final, except as to costs which have been reserved for a future award. As at June 30, 2018, the Company has recorded a provision of $14,338 for the commercial arbitration. (December 31, 2017: $13,884).

On March 23, 2018, SGS received a notice from First Concept demanding payment of the full amount of the Arbitration Award, together with the accrued interest thereon, by no later than March 30, 2018, otherwise First Concept intends to commence enforcement proceedings against SGS in respect of the Arbitration Award. On May 10, 2018, SGS received a notice from First Concept advising that First Concept has obtained a court order dated April 27, 2018 from the High Court of Hong Kong granting leave to First Concept to enforce the Arbitration Award against SGS in Hong Kong. The Company is consulting with its independent litigation counsel regarding this matter. However, as SGS does not have any material assets, properties or place of business in Hong Kong, the Company is of the view that this court order will have little or no immediate impact on its ongoing operations. On August 7, 2018, SGS received a letter from First Concept advising of the aggregate amount of costs and disbursements that First Concept claims it has incurred in connection with the arbitration proceeding. The Company is consulting with its independent litigation counsel regarding this matter.

The Company is currently considering and reviewing its options with respect to the Arbitration Award, including exploring ways to work with First Concept on payment arrangements that are practical to and are in best interests of both parties; however, there can be no assurance that a favorable outcome will be reached.

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

17. PROVISION FOR COMMERCIAL ARBITRATION (CONTINUED)

In the event that First Concept applies to enforce the Arbitration Award against SGS through judicial measures in courts of Mongolia or any other jurisdictions in which SGS has assets or properties, the Company intends to take appropriate steps to respond to such enforcement proceedings in the best interests of the Company through independent litigation counsel which has been retained by the Company for this purpose. However, due to the inherent uncertainties of litigation, it is not possible to predict whether the Company will be successful in defending itself against any such enforcement proceedings.

If First Concept is successful in enforcing the Arbitration Award against SGS, the Company may not be able to re-pay the sum of $11,500 and the associated interest. In such case, this will represent another event of default under the CIC Convertible Debenture and CIC would have another basis 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 re-pay the sum of $11,500 and associated interest to First Concept could result in voluntary or involuntary proceedings involving the Company (including bankruptcy).

18. INTEREST-BEARING BORROWINGS

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

	As at	
	June 30, 2018	**December 31, 2017**
Turquoise Hill Loan Facility (i)	**$ 1,181**	$ 1,708
Equipment loan (ii)	**2,544**	2,441
Bank loan (iii)	**3,542**	3,041
Finance leases payable (iv)	**158**	503
Total interest-bearing borrowings	**$ 7,425**	$ 7,693

(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.

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:

18. INTEREST-BEARING BORROWINGS (CONTINUED)

- 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 from May 2017 to December 2017; and (iii) the remaining balance on December 29, 2017 (the payments in (i), (ii) and (iii), the "Repayments"); and
- Interest shall continue to accrue on all outstanding obligations at the 12-month US dollar LIBOR rate.

As of the date hereof, the Company has not paid its October, November and December 2017 monthly payments and the accrued interest. Pursuant to the terms of the TRQ Loan and the May 2016 Deferral Agreement, the Company is, as of the date hereof, in default of its obligations under the TRQ Loan and the May 2016 Deferral Agreement as a result of the Company failing to make the Repayments in its entirety on or before the dates set out above. Consequently, all of the outstanding obligations under the TRQ Loan and the May 2016 Deferral Agreement are immediately due and payable to Turquoise Hill as of the date hereof. The Company is in discussion with TRQ for a deferral of the amounts outstanding under the TRQ Loan and the May 2016 Deferral Agreement; however, there can be no assurance that a favorable outcome will be reached.

As at June 30, 2018, the outstanding principal and accrued interest under this facility amounted to $600 and $718, respectively (at December 31, 2017, the outstanding principal and accrued interest under this facility amounted to $1,000 and $708, respectively). A fair value gain of $137 was credited to accumulated deficit upon the adoption of IFRS 9 starting from January 1, 2018.

(ii) Equipment Loan

Inner Mongolia SouthGobi Energy Co., Ltd., a subsidiary of the Company executed a $10,369 loan agreement on August 31, 2017 with Beijing Jin Rui Tian Chen Asset Management Co Ltd ("JRTC"). for the purpose of financing the purchase of mining equipment to increase the production capacity of the Company.

The key terms of the equipment loan are as follows:

- Principal amount of $10,369;
- Maturity date set at 12 months from each drawdown (subsequently amended);
- Interest rate of 12% per annum and payable upon maturity; and
- The Company was to have provided a corporate guarantee to cover the principal and interest owed and certain items of property, plant and equipment were to have been pledged as security upon the completion of equipment purchase.

A loan arrangement fee of 1% of the loan principal drawn was charged and will be amortized throughout the loan term. For the period ended June 30, 2018, $19 of loan arrangement fee was amortized (2017: nil). The Company believes the principal amount is capped at the amount drawn down to date and the related mining equipment has not been purchased as of the date hereof.

As at June 30, 2018, the outstanding principal and accrued interest for the equipment loan amounted to $2,279 and $265, respectively (at December 31, 2017, the outstanding principal and accrued interest for the equipment loan amounted to $2,309 and $132, respectively).

18. INTEREST-BEARING BORROWINGS (CONTINUED)

On July 9, 2018, the Company and JRTC entered into a supplementary agreement with the key commercial terms of the Equipment Loan modified as follows:

- The Company agreed to repay the outstanding principal and accrued interest owing under the Equipment Loan in accordance with the following repayment schedule: (i) $502 on July 9, 2018; (ii) $658 on August 3, 2018 and (iii) $1,448 to JRTC on November 3, 2018; and
- Penalty Interest, at a rate of 0.1% per day, will be applied on any delayed repayment.

The amounts due on July 9, 2018 and August 3, 2018 have been paid by the Company as of the date hereof.

(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 July 6, 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 $3,000;
- $2,300 of the principal amount matured on May 6, 2018 while the remaining balance of the principal amount of $700 will mature on January 4, 2019;
- Interest rate of 15.8% per annum applies to the $2,300 portion of the principal amount, while an interest rate of 15.0% per annum applies to the remaining $700 portion of the principal amount; in each case, interest is payable monthly; and
- Certain items of property, plant and equipment were pledged as security (subsequently released upon repayment of loan principal of $2,300).

$2,300 of the loan principal was repaid to the Bank by the Company in May 2018.

On May 15, 2018, the Company and the Bank entered into another loan agreement with the key commercial terms as follows:

- Principal amount of the loan (the “2018 Bank Loan”) of $2,800;
- Maturity date set at 24 months from drawdown;
- Interest rate of 15% per annum and interest is payable monthly; and
- Certain items of property, plant and equipment with value of $9,472 as at June 30, 2018 were pledged as security for both the Bank Loan and the 2018 Bank Loan.

As at June 30, 2018, the outstanding balance for the Bank Loan together with the 2018 Bank Loan was $3,500 (December 31, 2017: $3,000) and the Company owed accrued interest of $42 (December 31, 2017: $41).

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

18. INTEREST-BEARING BORROWINGS (CONTINUED)

(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, 2018, 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, 2018	**December 31, 2017**	**June 30, 2018**	**December 31, 2017**
Amounts payable:				
Within one year	**$ 107**	$ 192	**$ 94**	$ 162
In the second year	**54**	174	**51**	160
In the third to fifth years, inclusive	**13**	188	**13**	181
Total minimum finance lease payments	**$ 174**	$ 554	**$ 158**	$ 503
Future finance charges	**(16)**	(51)		
Total net lease finance payables	**$ 158**	$ 503		
Portion classified as current liabilities	**(94)**	(162)		
Non-current portion	**$ 64**	$ 341		

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

19. CONVERTIBLE DEBENTURE

19.1 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, 2018.

19.2 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.

19.3 Valuation assumptions

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

	As at	
	June 30, 2018	**December 31, 2017**
Floor conversion price	**CAD$8.88**	CAD$8.88
Ceiling conversion price	**CAD$11.88**	CAD$11.88
Common share price	**CAD$0.16**	CAD$0.18
Historical volatility	**82%**	82%
Risk free rate of return	**2.20%**	2.22%
Foreign exchange spot rate (CAD$ to U.S. Dollar)	**0.76**	0.80
Forward foreign exchange rate curve (CAD$ to U.S. Dollar)	**0.76 - 0.78**	0.795 - 0.802

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

19. CONVERTIBLE DEBENTURE (CONTINUED)

19.4 Presentation

Based on the Company's valuation as at June 30, 2018, the fair value of the embedded derivatives decreased by $58 compared to that at December 31, 2017 and increased by $32 compared to that at March 31, 2018. The changes in fair value were recorded as finance income and finance expense for the three and six months ended June 30, 2018, respectively.

For the three months ended June 30, 2018, the Company recorded interest expense of $5,516 related to the convertible debenture as a finance cost (2017: $5,330). For the six months ended June 30, 2018, the Company recorded interest expense of $10,810 related to the convertible debenture as a finance cost (2017: $10,607). 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,	
	2018	**2017**	**2018**	**2017**
Balance, beginning of period	**$ 123,047**	$ 115,204	**$ 116,374**	$ 117,590
Interest expense on convertible debenture	**5,516**	5,330	**10,810**	10,607
Increase/(decrease) in fair value of embedded derivatives	**32**	(40)	**(58)**	137
Fair value adjustment upon adoption of IFRS 9	**-**	-	**1,469**	-
Interest paid	**-**	(5,425)	**-**	(13,265)
Balance, end of period	**$ 128,595**	$ 115,069	**$ 128,595**	$ 115,069

The convertible debenture balance consists of the following amounts:

	As at	
	June 30, 2018	**December 31, 2017**
Current convertible debenture		
Interest payable	**$ 34,892**	$ 24,242
Debt host	**93,359**	91,730
Fair value of embedded derivatives	**344**	402
Total convertible debenture	**$ 128,595**	$ 116,374

19. CONVERTIBLE DEBENTURE (CONTINUED)

19.5 Interest deferral and settlement

On June 12, 2017, the Company executed 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 was required to repay on average $2,170 of the cash interest and associated costs monthly during the period from May 2017 to October 2017; and (ii) the Company was required to repay $9,731 of cash interest and associated costs on November 19, 2017. 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.

In addition, pursuant to the terms of the CIC Convertible Debenture, the Company was required to pay $8,066 and $7,934 of anniversary cash interest to CIC on November 19, 2017 and May 19, 2018, respectively. Pursuant to the Convertible Debenture, the Company was also obliged to issue $4,000 worth of November 2017 PIK Interest shares to CIC on November 19, 2017.

As of the date hereof, the Company: (i) has neither paid the November 19th and May 19th Payments nor issued the November 2017 PIK Interest shares to CIC within the cure period provided for in the CIC Convertible Debenture; and (ii) has not agreed upon a repayment plan for such amounts with CIC. Consequently, the Company is in default under the CIC Convertible Debenture and the June 2017 Deferral Agreement. Pursuant to the terms of the CIC Convertible Debenture and the June 2017 Deferral Agreement, CIC may, in its discretion, provide notice to the Company and declare all principal, interest and other amounts owing under the CIC Convertible Debenture and the June 2017 Deferral Agreement immediately due and payable, and take steps to enforce payment thereof, which would have a material adverse effect on the business and operations of the Company and may negatively affect the price and volatility of the Common Shares and any investment in such shares could suffer a significant decline or total loss in value. As of the date hereof, the Company has received no indication from CIC of any intention to deliver a notice of default under the CIC Convertible Debenture and the June 2017 Deferral Agreement or to accelerate the amounts outstanding under the CIC Convertible Debenture and the June 2017 Deferral Agreement.

19. CONVERTIBLE DEBENTURE (CONTINUED)

The Company is in discussion with CIC for a deferral of the November 19th and May 19th Payments and the November 2017 PIK Interest; however, there can be no assurance that a favorable outcome will be reached.

CIC has notified the Company that it requires that the mutual co-operating agreement (the “Co-Operation Agreement”) dated November 19, 2009 between the Company and CIC be amended to revise the manner in which the amount of the service fee payable to CIC under the Co-Operation Agreement is calculated with retroactive effect; however, the Company has not entered into any formal agreement in respect of the Co-Operation Agreement as of the date hereof.

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.

As a consequence of the Company not entering into a deferral agreement with CIC as at June 30, 2018, IAS 1 requires the Company to classify the entire balance of the CIC Convertible Debenture as a current liability as at June 30, 2018, notwithstanding the fact that CIC has not indicated any intention to deliver notice of default or accelerate the maturity of the debenture. The Company anticipates that both the debt host and the fair value of the embedded derivative will be classified as a non-current liability upon the execution of a deferral agreement, unless a future event of default occurs under the terms of the CIC Convertible Debenture.

20. EQUITY

20.1 Share Capital

The Company has authorized an unlimited number of common and preferred shares with no par value. At June 30, 2018, the Company had 272,649 common shares outstanding (December 31, 2017: 272,607) and no preferred shares outstanding (December 31, 2017: nil).

20.2 Accumulated deficit and dividends

As at June 30, 2018, the Company has accumulated a deficit of $1,167,204 (December 31, 2017: $1,135,809). No dividends have been paid or declared by the Company since inception.

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

21. SHARE-BASED PAYMENTS

21.1 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.

The Company did not grant any stock options to officers, employees, directors and other eligible persons for the six months ended June 30, 2018. 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.

The total share-based compensation expenses for the three months ended June 30, 2018 was $21 (2017: $30). Share-based compensation expenses of $21 (2017: $24) has been allocated to administration expenses, nil share-based compensation expenses has been allocated to cost of sales and evaluation and exploration expenses (2017: $5 and $1, respectively).

The total share-based compensation expenses for the six months ended June 30, 2018 was $37 (2017: $67). Share-based compensation expenses of $37 (2017: $35) has been allocated to administration expenses, nil share-based compensation expenses has been allocated to cost of sales and evaluation and exploration expenses (2017: $28 and $4, respectively).

21.2 Outstanding stock options

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

	Six months ended June 30, 2018			Six months ended June 30, 2017		
	Number of options		Weighted average exercise price (CAD$)	Number of options		Weighted average exercise price (CAD$)
Balance, beginning of period	**2,290**	**$**	**0.38**	1,910	$	0.61
Options granted	**-**		**-**	750		0.34
Options forfeited	**-**		**-**	(3)		0.92
Options expired	**(350)**		**0.30**	(330)		1.54
Balance, end of period	**1,940**	**$**	**0.38**	2,327	$	0.39

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

21. SHARE-BASED PAYMENTS (CONTINUED)

The stock options outstanding and exercisable as at June 30, 2018 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$)	Weighted average remaining contractual life (years)
0.25 to 0.58	**1,774**	**$**	**0.33**	**3.35**	**1,524**	**$**	**0.32**	**3.35**
0.65 to 0.92	**166**		**0.91**	**1.70**	**166**		**0.91**	**1.70**
	1,940	**$**	**0.38**	**3.21**	**1,690**	**$**	**0.38**	**3.18**

22. RELATED PARTY TRANSACTIONS

In additional to the transactions detailed elsewhere in profit or loss, the Company had related party transactions with the following company related by way of directors or shareholders in common during the three and six months ended June 30, 2018:

- CIC – CIC is a major shareholder of the Company, CIC holds approximately 23.75% of the issued and outstanding common shares of the Company as at June 30, 2018. A co-operation agreement was signed on November 19, 2009 between the Company and CIC, in which an amount of service fee calculated based on 2.5% of the revenue of SGS shall be paid to CIC on a quarterly basis. During the three and six months ended June 30, 2018, $395 and $978 was recorded in profit or loss, respectively (three and six months ended June 30, 2017: $681 and $1,212, respectively).

Furthermore, the Company is in discussions with CIC for a further deferral of the November 19th and May 19th Payments and the November 2017 PIK Interest; however, there can be no assurance that a favorable outcome will be reached. As part of these discussions, CIC has notified the Company that, as a condition to agreeing to any deferral, it requires that the Co-Operation Agreement between the Company and CIC be amended to revise the manner in which the amount of the service fee payable to CIC under the Co-Operation Agreement is calculated with retroactive effect; however, the Company has not entered into any formal agreement in respect of the Co-Operation Agreement as of the date hereof.

22.1 Related party expenses

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

	Three months ended June 30,				Six months ended June 30,			
	2018		**2017**		**2018**		**2017**	
Finance costs	**$**	**5,516**	$	5,331	**$**	**10,810**	$	10,607
Management fee		**395**		681		**978**		1,212
Related party expenses	**$**	**5,911**	$	6,012	**$**	**11,788**	$	11,819

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

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, except for the fair values of trade and other payables, interest bearing borrowings, and provision for commercial arbitration and convertible debenture below their respective carrying amounts given the several adverse conditions and material uncertainties that cast significant doubt upon the going concern assumption.

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, 2018			
Recurring measurements	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial liabilities measured at fair value				
Convertible debenture - embedded derivatives	$ -	$ 344	$ -	$ 344
Total financial liabilities measured at fair value	$ -	$ 344	$ -	$ 344

	As at June 30, 2018			
Financial liabilities disclosed at fair value	**Level 1**	**Level 2**	**Level 3**	**Total**
Convertible debenture - debt host	-	202,168	-	202,168
Total financial liabilities disclosed at fair value	$ -	$ 202,168	$ -	$ 202,168

	As at December 31, 2017			
Recurring measurements	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial liabilities measured at fair value				
Convertible debenture - embedded derivatives	$ -	$ 402	$ -	$ 402
Total financial liabilities measured at fair value	$ -	$ 402	$ -	$ 402

	As at December 31, 2017			
Financial liabilities disclosed at fair value	**Level 1**	**Level 2**	**Level 3**	**Total**
Convertible debenture - debt host	-	216,154	-	216,154
Total financial liabilities disclosed at fair value	$ -	$ 216,154	$ -	$ 216,154

There were no transfers between Level 1, 2 and 3 for the three and six months ended June 30, 2018.

(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,	
	2018	**2017**
Addition to decommissioning liability	**$ 73**	$ 375
Amortization of deferred stripping being capitalized	**7,148**	2,077
Proceed from disposal of fixed asset offset against payable	**2,090**	-
Trade receivables offset by deferred revenue	**2,553**	-
Notes receivables offset by deferred revenue	**3,020**	-
Convertible debenture interest settlement in shares (Note 19)	**-**	4,000
Trade receivables settled by properties for sale	**-**	10,752
Settlement of court case penalty via provision of mining services	**-**	6,184
Purchase of vehicles financed by loans	**-**	100
Total non-cash financing and investing activities	**$ 14,884**	$ 23,488

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,	
	2018	**2017**
Increase in inventories	**$ (1,020)**	$ (7,937)
Increase in trade and other receivables and notes receivables	**(6,035)**	(13,718)
Increase in prepaid expenses and deposits	**(4,036)**	(2,107)
Increase in trade and other payables	**10,620**	25,425
Increase/(decrease) in deferred revenue	**4,870**	(3,624)
Net change in non-cash working capital items	**$ 4,399**	$ (1,961)

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

25. COMMITMENTS FOR EXPENDITURE

As at June 30, 2018, 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, 2018				
Capital expenditure commitments	**$ 5,362**	**$ -**	**$ -**	**$ 5,362**
Operating expenditure commitments	**23,368**	**1,236**	**2,007**	**26,611**
Commitments	**$ 28,730**	**$ 1,236**	**$ 2,007**	**$ 31,973**
As at December 31, 2017				
Capital expenditure commitments	$ 4,363	$ -	$ -	$ 4,363
Operating expenditure commitments	3,422	622	2,350	6,394
Commitments	$ 7,785	$ 622	$ 2,350	$ 10,757

26. CONTINGENCIES

26.1 Class action lawsuit

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

To commence and proceed with the Class Action, the plaintiff was required to 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)

On September 18, 2017, the Ontario Court of Appeal dismissed the Corporation Appeal of the original Ontario lower court decision to permit the plaintiff to commence and proceed with the Class Action. Concurrently, the Ontario Court of Appeal allowed the Individual's Appeal of the original Ontario lower court decision to dismiss the plaintiff's leave motion against certain of the Company's former officers and directors and made an order granting leave for the plaintiff to proceed against such former officers and directors of the Company in relation to the Restatement. As a result, the plaintiff is now permitted to proceed with the Class Action against both the Company and the former officers and directors.

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

Counsel for the parties are appearing in a case conference before the motions judge on September 3, 2018 to fix the process and timing leading up to the trial of the action, which trial date has not yet been fixed.

The Company firmly believes that it has a strong defense on the merits and will continue to vigorously defend itself against the Class Action through independent Canadian litigation counsel retained by the Company for this purpose. Due to the inherent uncertainties of litigation, it is not possible to predict the final outcome of the Class Action or determine the amount of potential losses, if any. However, the Company has judged a provision for this matter as at June 30, 2018 was not required.

26.2 Toll wash plant agreement with Ejin Jinda

In 2011, the Company entered into an agreement with Ejin Jinda, a subsidiary of China Mongolia Coal Co. Ltd. to toll-wash 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, 2018 is not required.

26. CONTINGENCIES (CONTINUED)

26.3 Tax legislation

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

Management believes that its interpretation of the relevant legislation is appropriate and the Company's positions related to tax and other legislation will be sustained. Management believes that tax and legal risks are remote at present. The management performs regular re-assessment of tax risk and its position may change in the future as a result of the change in conditions that cannot be anticipated with sufficient certainty at present. As of June 30, 2018, management has assessed that recognition of a provision for uncertain tax position is not necessary.

26.4 Mongolian royalties

During 2017, the Company has been ordered by the Mongolian tax authority to apply "reference price" determined by the Government of Mongolia as opposed to calculated sales price that derived based on the actual contract price. Although no official letter was received by the Company as of the date hereof, there can be no assurance that the Government of Mongolia will not disagree with the methodology employed by the Company in determining the calculated sales price and deem such price "non-market" under Mongolian tax law.

Management believes that its interpretation of the relevant legislation is appropriate and the Company's positions related to royalty will be sustained. As of June 30, 2018, recognition of a provision for addition Mongolian royalties 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, 2018	**December 31, 2017**
Denominated in U.S. Dollars	**$ 12**	$ 5,234
Denominated in Chinese Renminbi	**193**	802
Denominated in Mongolian Tugriks	**137**	164
Denominated in Canadian Dollars	**14**	39
Denominated in Hong Kong Dollars	**112**	232
Cash	**$ 468**	$ 6,471

Exposure to fluctuations in foreign exchange rates

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

	As at	
	June 30, 2018	**December 31, 2017**
Increase/ decrease in foreign exchange rate against US Dollar		
+5%	**$ (2,086)**	$ (2,457)
–5%	**2,086**	2,457

A2. COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has, throughout the six months ended June 30, 2018, 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.

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

A3. COMPLIANCE WITH MODEL CODE

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

The Board of Directors confirms that all of the Directors of the Company have complied with the required policies in the Company's Corporate Disclosure, Confidentiality and Securities Trading policy throughout the six months ended June 30, 2018.

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

The Company did not redeem its listed securities, nor did the Company or any of its subsidiaries purchase or sell such securities during the six months ended June 30, 2018.

A5. SUBSTANTIAL SHAREHOLDERS

As at June 30, 2018, the persons or corporations (not being a Director or chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register of interests in shares required to be kept by the Company were as follows:

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

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

A5. SUBSTANTIAL SHAREHOLDERS (CONTINUED)

Notes:

(a) The information as to the Shares beneficially owned or controlled or directed that is not within the knowledge of the Company, its Directors or its officers has been furnished by the applicable Shareholders or has been extracted from the public filings.
(b) Land Breeze II S.a.r.l. is a wholly-owned subsidiary of Fullbloom 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.
(c) Novel Sunrise is a wholly-owned subsidiary of Hope Rosy Limited, which is a wholly-owned subsidiary of China Cinda (HK) Investments Management Company Limited. China Cinda (HK) Investments Management Company Limited is a wholly-owned subsidiary of China Cinda (HK) Holdings Company Limited, which is wholly owned by China Cinda Asset Management Co. Ltd. China Cinda Asset Management Co., Ltd. is 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.
(d) Messrs. Aminbuhe, Guo and Li, all former directors of the Company, are directors of Voyage Wisdom Limited, a private company which owned 9.45% interest in the Company as at June 30, 2018.
(e) 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, 2018 (i.e. 272,648,738 Shares).
(f) All interests stated above are long positions.

Other than as disclosed above, the Company has not been notified of any relevant interests or short positions in the issued share capital of the Company as at June 30, 2018.

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

As at June 30, 2018, the interests of the Company's directors in the shares, underlying shares and debentures of the Company and its associated corporations were as follows:

	Number of Shares interested				Number of underlying Shares interested		
Name of directors	**Directly beneficially owned**	**Through spouse or minor children**	**Through controlled company**	**Beneficiary of a trust**	**Directly benefically owned (4)**	**Total (6)**	**Percentage interest in the company (5)**
Current Directors							
Mao Sun	-	-	-	-	500,000	500,000	0.18%
Jin Lan Quan	-	-	-	-	400,000	400,000	0.15%
Yingbin Ian He	-	-	-	-	250,000	250,000	0.09%
Wen Yao	-	-	-	-	-	-	-
Lan Cheng	-	-	-	-	-	-	-
Zhiwei Chen	-	-	-	-	-	-	-
Xiaoxiao Li	-	-	-	-	-	-	-
Former 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%
Ningqiao Li (3)	-	-	25,768,162	-	100,000	25,868,162	9.49%
Zhu Liu	-	-	-	-	400,000	400,000	0.15%

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

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, 2018. .
(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, 2018.
(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, 2018.
(4) These interests represented the underlying Shares comprised in the share options granted by the Company.
(5) 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, 2018 (i.e. 272,648,738 Shares).
(6) All interests stated are long positions.

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, 2018.

(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 20 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, 2018.

Name	Number of share options: At January 1, 2018	Granted during the period	Exercised during the period	Forfeited during the period	Expired during the period	At June 30, 2018	Date of grant of share options	Exercise period of share options	Exercise price (CAD$ per share)
Directors									
Mao Sun	100,000	-	-	-	-	100,000	December 14, 2015	December 14, 2016 - December 14, 2020	0.29
	100,000	-	-	-	-	100,000	November 16, 2016	November 16, 2017 - November 16, 2021	0.33
	100,000	-	-	-	-	100,000	November 16, 2016	November 16, 2018 - November 16, 2021	0.33
	200,000	-	-	-	-	200,000	June 30, 2017	June 30, 2018 - June 30, 2022	0.33
	500,000	**-**	**-**	**-**	**-**	**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
	400,000	**-**	**-**	**-**	**-**	**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	**-**	**-**	**-**	**-**	**-**	**-**			
Lan Cheng	**-**	**-**	**-**	**-**	**-**	**-**			
Zhiwei Chen	**-**	**-**	**-**	**-**	**-**	**-**			
Xiaoxiao Li	**-**	**-**	**-**	**-**	**-**	**-**			
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
Zhu Liu	100,000	-	-	-	-	100,000	December 14, 2015	December 14, 2016 - June 28, 2019	0.29
	75,000	-	-	-	-	75,000	November 16, 2016	November 16, 2017 - June 28, 2019	0.33
	75,000	-	-	-	-	75,000	November 16, 2016	November 16, 2018 - June 28, 2019	0.33
	150,000	-	-	-	-	150,000	June 30, 2017	June 30, 2018 - June 28, 2019	0.33
	400,000	**-**	**-**	**-**	**-**	**400,000**			
Aminbuhe	**100,000**	**-**	**-**	**-**	**-**	**100,000**	December 14, 2015	December 14, 2016 - June 28, 2019	0.29
Yulan Guo	**100,000**	**-**	**-**	**-**	**-**	**100,000**	December 14, 2015	December 14, 2016 - June 28, 2019	0.29
Total for directors	**2,100,000**	**-**	**-**	**-**	**(350,000)**	**1,750,000**			
Other share option holders	8,885	-	-	-	-	8,885	March 26, 2014	March 26, 2015 - March 26, 2019	0.65
	24,134	-	-	-	-	24,134	August 13, 2014	August 13, 2015 - March 13, 2016	0.58
	157,443	-	-	-	-	157,443	April 1, 2015	April 1, 2016 - April 1, 2020	0.92
Total for other share option holders	**190,462**	**-**	**-**	**-**	**-**	**190,462**			
Total	**2,290,462**	**-**	**-**	**-**	**(350,000)**	**1,940,462**			