SouthGobi Resources Ltd.

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

June 30, 2019

(Expressed in U.S. dollars)

FORWARD-LOOKING STATEMENTS

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

- the Company continuing as a going concern and its ability to realize its assets and discharge its liabilities in the normal course of operations as they become due; adjustments to the amounts and classifications of assets and liabilities in the Company's consolidated financial statements and the impact thereof;
- the Company's expectations of sufficient liquidity and capital resources to meet its ongoing obligations and future contractual commitments, including the Company's ability to settle its trade payables, to secure additional funding and to meet its obligations under each of the China Investment Corporation ("CIC") convertible debenture (the "CIC Convertible Debenture"), the 2019 Deferral Agreement (as defined below), the Amended and Restated Cooperation Agreement (as defined below), the 2018 Bank Loan (as defined below), and the Settlement Deed (as defined below) with First Concept Industrial Group Limited ("First Concept"), as the same become due;
- the Company's anticipated financing needs, development plans and future production levels;
- the Company entering into discussions with CIC regarding a potential debt restructuring plan;
- the ability of the Company to successfully respond to any enforcement proceeding brought by First Concept in respect of the Arbitration Award (as defined below) and the Settlement Deed;
- 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 impact of the Suspicious Transactions (as defined below) engaged in by Former Management and Employees (as defined below) and the results of the investigation conducted by the Special Committee (as defined below);
- the estimates and assumptions included in the Company's impairment analysis and the possible impact of changes thereof;
- the agreement with Ejin Jinda and the payments thereunder (as described under Section 6 of this MD&A under the heading entitled "*Regulatory Issues and Contingencies – Toll Wash Plant Agreement with Ejin Jinda");*
- the ability of the Company to successfully negotiate a new agreement with the third party contractor relating to the operation of the wash plant at the Ovoot Tolgoi mine site;
- the ability of the Company to successfully recover the balance of its doubtful trade and notes receivables;
- the ability to enhance the operational efficiency and the output throughput of the washing facilities at Ovoot Tolgoi;
- the estimated annual wet washing capacity of the washing facilities at Ovoot Tolgoi;
- the ability to enhance the product value by conducting coal processing and coal washing;
- the impact of the Company's activities on the environment and actions taken for the purpose of mitigation of potential environmental impacts and planned focus on health, safety and environmental performance;

- the impact of the delays in the custom clearance process at the Ceke border on the Company's operations and the restrictions established by Chinese authorities on the import of F-grade coal into China;
- the future demand for coal in China;
- future trends in the Chinese coal industry;
- the Company's outlook and objectives for 2019 and beyond (as more particularly described under Section 11 of this MD&A under the heading entitled "*Outlook*"); and
- other statements that are not historical facts.

Forward-looking information is based on certain factors and assumptions described below and elsewhere in this MD&A, including, among other things: the current mine plan for the Ovoot Tolgoi mine; mining, production, construction and exploration activities at the Company's mineral properties; the costs relating to anticipated capital expenditures; the capacity and future toll rate of the paved highway; plans for the progress of mining license application processes; mining methods; the Company's anticipated business activities, planned expenditures and corporate strategies; management's business outlook, including the outlook for 2019 and beyond; currency exchange rates; operating, labour and fuel costs; the ability of the Company to raise additional financing; the anticipated royalties payable under Mongolia's royalty regime; the future coal market conditions in China and the related impact on the Company's margins and liquidity; future coal prices, and the level of worldwide coal production. While the Company considers these assumptions to be reasonable based on the information currently available to it, they may prove to be incorrect. Forward-looking statements are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These risks and uncertainties include, among other things: the uncertain nature of mining activities, actual capital and operating costs exceeding management's estimates; variations in mineral resource and mineral reserve estimates; failure of plant, equipment or processes to operate as anticipated; the possible impacts of changes in mine life, useful life or depreciation rates on depreciation expenses; risks associated with, or changes to regulatory requirements (including environmental regulations) and the ability to obtain all necessary regulatory approvals; the potential expansion of the list of licenses published by the Government of Mongolia covering areas in which exploration and mining are purportedly prohibited on certain of the Company's mining licenses; the Government of Mongolia designating any one or more of the Company's mineral projects in Mongolia as a Mineral Deposit of Strategic Importance; the risk of continued delays in the custom clearance process at the Ceke border; the restrictions established by Chinese authorities on the import of F-grade coal into China; the possible impact of changes to the inputs to the valuation model used to value the embedded derivatives in the CIC Convertible Debenture; the risk of the Company failing to successfully negotiate favorable repayment terms on the TRQ Reimbursable Amount (as described under Section 5 of this MD&A under the heading entitled "*Liquidity and Capital Management – Costs Reimbursable to Turquoise Hill*") ; the risk of the Company or its subsidiaries defaulting under its existing debt obligations, including the Amended and Restated Cooperation Agreement, the 2018 Bank Loan, and the Settlement Deed; 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 that First Concept initiates legal proceedings against SouthGobi Sands LLC ("SGS"), a subsidiary of the Company, pursuant to the Settlement Deed (as described under Section 5 of this MD&A under the heading entitled "*Liquidity and Capital Resources – Commercial Arbitration in Hong Kong*"); 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 impact thereon on the Company; the risk that the Company is unable to successfully negotiate a debt restructuring plan with CIC; the risk that the calculated sales price determined by the Company for the purposes of determining the amount of royalties payable to the Mongolian government is deemed as being "non-market" under Mongolian tax law; customer credit risk; cash flow and liquidity risks; risks relating to the Company's decision to suspend activities relating to the development of the Ceke Logistics Park project, including the risk that its investment partner may initiate legal action against the Company for failing to comply with the underlying agreements governing project development; risks relating to the ability of the Company to enhance the operational efficiency and the output throughput of the washing facilities at Ovoot Tolgoi; the risk that the Company is unable to successfully negotiate a new agreement with the third party contractor relating to the operation of the wash plant; risks relating to the Company's ability to raise additional financing and to continue as a going concern. Please see Section 10 of this MD&A under the heading entitled "*Risk Factors*" for a discussion of these and other risks and uncertainties relating to the Company and its operations. This list is not exhaustive of the factors that may affect any of the Company's forward-looking statements.

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

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INTRODUCTION

This MD&A is dated as of August 13, 2019 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, 2019. The Company's condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 - "Interim Financial Reporting" using accounting policies in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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

The functional currency of the Company's Chinese subsidiaries (SouthGobi Trading (Beijing) Co., Ltd., Inner Mongolia SouthGobi Energy Co., Ltd., and Inner Mongolia SouthGobi Enterprise Co., Ltd.) was Renminbi ("RMB") and the functional currency of the Company's Mongolian operations (SGS, Mazaalai Resources LLC, Mazaatt Holdings LLC and Dayarbulag LLC, RDCC LLC), was the Mongolian Tugrik ("MNT").

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

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

Property	Qualified Persons	Field of Expertise	Relationship to Company
Ovoot Tolgoi	Dr. Weiliang Wang	Resources	Independent Consultant
Ovoot Tolgoi	Vincent Li	Reserves	Independent Consultant
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 496 employees as at June 30, 2019. The Company's common shares ("Common Shares") are listed for trading on the Toronto Stock Exchange ("TSX") under the symbol SGQ and on the Hong Kong Stock Exchange ("HKEX") under the stock code symbol 1878.

The Company owns a 100% interest in the Ovoot Tolgoi open pit coal mine (the "Ovoot Tolgoi Mine") and the 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 consist of SouthGobi standard ("Standard") and SouthGobi premium ("Premium") semi-soft coking coal products. Some higher ash content product is washed and sold as semi-soft coking coal product while some of the unwashed product is sold as a thermal coal product, as and when the market allows.

<u>Significant Events and Highlights</u>

The Company's significant events and highlights for the three months ended June 30, 2019 and the subsequent period to August 13, 2019 are as follows:

- ***Operating Results*** – The Company increased sales volume to 0.9 million tonnes for the second quarter of 2019 from 0.6 million tonnes for the second quarter of 2018. Given the improvement of the product mix, the average realized selling price increased from $32.8 per tonne in the second quarter of 2018 to $36.8 per tonne in the second quarter of 2019.

- ***Financial Results*** – The Company recorded a gross profit of $10.4 million in the second quarter of 2019 compared to $2.3 million in the second quarter of 2018, while a $5.2 million profit from operations was recorded in the second quarter of 2019 compared to a $18.2 million loss from operations in the second quarter of 2018 (restated). The improvement of overall financial results were principally attributable to lower unit cost of sales of products sold during the quarter and the provision for doubtful trade and other receivables of $14.8 million during the second quarter of 2018.

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

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

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

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

The Company also announced that it intends to discuss a potential debt restructuring plan with respect to amounts owing to Land Breeze II S.a.r.l., a wholly-owned subsidiary of CIC, which is mutually beneficial to the Company and CIC, and to form a special committee comprised of independent directors to ensure that the interests of its minority shareholders are fairly considered in the negotiation and review of any such restructuring; however, there can be no assurance that a favorable outcome will be reached.

- ***Notice of Arbitration*** – As of the date hereof, the Company has not paid the November 2018 and January 2019 monthly payments due under a deed of settlement (the "Settlement Deed"). On March 5, 2019, SGS received a notice from First Concept claiming that the Company is in default under the Settlement Deed and demanding payment of the full amount of the outstanding monthly payments due under the Settlement Deed, otherwise First Concept intends to commence legal action against SGS pursuant to the Settlement Deed. The Company is consulting with its independent litigation counsel regarding this matter; however, as a default is only triggered under the Settlement Deed where there has been a failure to pay two or more consecutive monthly instalment payments, the Company is of the view that SGS is not in default under the Settlement Deed. In the event that First Concept commences legal action against SGS regarding this matter, the Company intends to take appropriate steps to respond to such legal proceedings in the best interests of the Company through independent litigation counsel which has been retained by the Company for this purpose.

  As at June 30, 2019, the outstanding amount payable to First Concept amounted to $7.7 million (December 31, 2018: $12.5 million).

- ***Key Findings of Formal Investigation –*** On December 17, 2018, the Company announced that it had learned of certain information relating to past conduct engaged in by former senior executive officers and employees of the Company ("Former Management and Employees") which raised suspicions of serious fraud, misappropriation of Company assets and other criminal acts by the Former Management and Employees relating to prior transactions ("Suspicious Transactions") between 2016 and the first half of 2018 involving the Company, Inner Mongolia SouthGobi Energy Co. Ltd. ("IMSGE"), a subsidiary of the Company, and certain coal trading and transportation companies, some of which are allegedly related to or controlled by the Former Management and Employees or their related persons. The Company filed a report with local police authorities in China in respect of certain of the Suspicious Transactions and, on December 17, 2018, the Company's board of directors (the "Board") expanded the mandate of its special committee of independent non-executive directors (the "Special Committee"), which was previously established to initiate a formal internal investigation into certain legal charges against Mr. Aminbuhe (the Company's former Chairman and Chief Executive Officer), to include a formal investigation (the "Formal Investigation") of the Suspicious Transactions, the implicated Former Management and Employees, and their impact, if any, on the business and affairs of the Company.

  On March 30, 2019, the Company announced that the Special Committee concluded the Formal Investigation and delivered a final report summarizing its key findings to the Board, which was adopted and approved at a meeting held on March 30, 2019. Please refer to the Company's MD&A for the three months ended March 31, 2019 for a summary of the key findings of the Formal Investigation, a copy of which is available under the Company's profile on SEDAR at www.sedar.com.

  Based on the key findings of and information obtained from the Formal Investigation, the Company considered the resulting financial impact on its prior financial statements and restated certain items in the Company's financial statements for the years ended December 31, 2016 and December 31, 2017 (the "Prior Restatement"), as disclosed in the Company's audited annual consolidated financial statements and related management's discussion and analysis for the year ended December 31, 2018, copies of which are available under the Company's profile on SEDAR at www.sedar.com. The Prior Restatement reflects the impact of the misappropriation of assets as well as the reclassification of certain balances of assets in the prior years. With respect to the three and six months period ended June 30, 2018, the net effect of the Prior Restatement was a decrease in the net comprehensive loss of \$1.6 million and \$2.0 million for the respective periods. A summary of the requisite adjustments on the financial statements for the three and six month periods ended June 30, 2018 is set forth in the table below:

\$ in thousands **Statement of comprehensive income extract**	**Three months ended June 30, 2018 (As previously reported)**	**Loss decrease/ (increase)**	**Three months ended June 30, 2018 (Restated)**
Other operating expenses	$ (18,091)	$ 1,579	**$ (16,512)**
Finance income	140	(132)	**8**
Net loss attributable to equity holders of the Company	$ (26,603)	$ 1,447	**$ (25,156)**
Other comprehensive income for the period	898	135	**1,033**
Net comprehensive loss attributable to equity holders of the Company	$ (25,705)	$ 1,582	**$ (24,123)**

\$ in thousands **Statement of comprehensive income extract**	**Six months ended June 30, 2018 (As previously reported)**	**Loss decrease/ (increase)**	**Six months ended June 30, 2018 (Restated)**
Other operating expenses	$ (19,429)	$ 2,160	**$ (17,269)**
Finance income	366	(290)	**76**
Net loss attributable to equity holders of the Company	$ (30,063)	$ 1,870	**$ (28,193)**
Other comprehensive loss for the period	(2,430)	135	**(2,295)**
Net comprehensive loss attributable to equity holders of the Company	$ (32,493)	$ 2,005	**$ (30,488)**

- ***Resumption of Trading on HKEX and TSX*** – On May 30, 2019, the Company announced the Company had fulfilled the trading resumption guidance to the satisfaction of the HKEX and the HKEX and the TSX had accepted the Company's trading resumption application. Trading in the Common Shares on the TSX and the HKEX resumed on May 30, 2019 and May 31, 2019, respectively.

- ***Changes in Directors***

  Ms. Lan Cheng: Ms. Cheng did not stand for re-election at the Company's annual and special meeting of shareholders (the "AGM") held on May 30, 2019 and ceased to be a non-executive director following the conclusion of the AGM.

  Mr. Ben Liu*:* On May 30, 2019, Mr. Liu was elected as a non-executive director of the Company at the AGM.

- ***Going Concern*** – In 2016, the Company started its program to build a coal washing plant to upgrade the low quality fractions of its run-of-mine coals to higher value and higher margin products. The commissioning of the wash plant at the Ovoot Tolgoi mine was completed during the second quarter of 2019. The Company is currently in discussions with the wash plant operator concerning an agreement regarding the operation of the wash plant; however, there can be no assurance that a favorable outcome will be reached.

  The current operation plan contemplates significantly higher volumes of production in order to achieve the Company's revenue and cash flow targets. Such plans will require a significant level of capital expenditure in waste rock stripping in 2019 and 2020. Such expenditures and other working capital requirements may require the Company to seek additional financing. There is no guarantee that the Company will be able to successfully execute the programs mentioned above and to secure other sources of financing. In addition, the current import restrictions on F-grade coal by Chinese authorities will further affect the short term cash inflow and may in turn undermine the execution of the operation plan. If the import restrictions on F-grade coal continue for an indefinite period, or if the Company fails to execute the aforementioned programs, or is unable to secure additional capital financing, or otherwise restructure or refinance its business in order to address its cash requirements through June 30, 2020, then the Company is unlikely to have sufficient 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. 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 13, 2019, the Company had $1.6 million of cash.

2. OVERVIEW OF OPERATIONAL DATA AND FINANCIAL RESULTS

Summary of Annual Operational Data

	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Sales Volumes, Prices and Costs				
Premium semi-soft coking coal				
Coal sales *(millions of tonnes)*	**0.12**	0.07	**0.23**	0.10
Average realized selling price *(per tonne)*	**$ 32.72**	$ 59.98	**$ 39.72**	$ 62.54
Standard semi-soft coking coal/ premium thermal coal				
Coal sales *(millions of tonnes)*	**0.59**	0.19	**1.44**	0.60
Average realized selling price *(per tonne)*	**$ 35.67**	$ 33.80	**$ 34.29**	$ 42.32
Standard thermal coal				
Coal sales *(millions of tonnes)*	**-**	0.32	**0.09**	0.44
Average realized selling price *(per tonne)*	**$ -**	$ 26.32	**$ 33.92**	$ 26.07
Washed coal				
Coal sales *(millions of tonnes)*	**0.17**	-	**0.18**	-
Average realized selling price *(per tonne)*	**$ 44.20**	$ -	**$ 44.20**	$ -
Total				
Coal sales *(millions of tonnes)*	**0.88**	0.58	**1.94**	1.14
Average realized selling price *(per tonne)*	**$ 36.80**	$ 32.81	**$ 35.77**	$ 37.83
Raw coal production *(millions of tonnes)*	**1.33**	0.98	**2.36**	1.36
Cost of sales of product sold *(per tonne)*	**$ 25.04**	$ 29.27	**$ 23.42**	$ 30.44
Direct cash costs of product sold *(per tonne)* (i)	**$ 17.18**	$ 10.12	**$ 13.71**	$ 13.43
Mine administration cash costs of product sold *(per tonne)* (i)	**$ 1.39**	$ 1.00	**$ 1.40**	$ 1.12
Total cash costs of product sold *(per tonne)* (i)	**$ 18.57**	$ 11.12	**$ 15.11**	$ 14.55
Other Operational Data				
Production waste material moved *(millions of bank cubic meters)*	**5.34**	5.18	**10.25**	8.06
Strip ratio *(bank cubic meters of waste material per tonne of coal produced)*	**4.01**	5.26	**4.34**	5.90
Lost time injury frequency rate (ii)	**0.06**	0.06	**0.03**	0.10

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

Overview of Operational Data

For the three months ended June 30, 2019

For both the three months ended June 30, 2019 and 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 a result of the improved product mix, the average realized selling price increased from $32.8 per tonne in the second quarter of 2018 to $36.8 per tonne in the second quarter of 2019.

The product mix for the second quarter of 2019 consisted of approximately 14% of premium semi-soft coking coal, 67% of standard semi-soft coking coal and 19% of washed coal compared to approximately 12% of premium semi-soft coking coal, 33% of standard semi-soft coking coal and 55% of thermal coal in the second quarter of 2018.

The Company sold 0.9 million tonnes for the second quarter of 2019 as compared to 0.6 million tonnes for the second quarter of 2018.

The Company's production in the second quarter of 2019 was higher than the second quarter of 2018 as a result of pacing production to meet the expected sales as well as a lower strip ratio achieved for the quarter, yielding 1.3 million tonnes for the second quarter of 2019 as compared to 1.0 million tonnes for the second quarter of 2018.

The Company's unit cost of sales of product sold decreased to $25.0 per tonne in the second quarter of 2019 from $29.3 per tonne in the second quarter of 2018. The decrease was mainly driven by increased sales and the related economies of scale.

For the six months ended June 30, 2019

The Company sold 1.9 million tonnes for the first six months of 2019 as compared to 1.1 million tonnes for the first six months of 2018. The average selling price decreased from $37.8 per tonne for the first six months of 2018 to $35.8 per tonne for the first six months of 2019.

The Company's production in the first six months of 2019 was higher than the first six months of 2018 as a result of pacing the production to meet the expected sales, yielding 2.4 million tonnes for the six months of 2019 as compared to 1.4 million tonnes for the first six months of 2018.

The Company's unit cost of sales of product sold decreased to $23.4 per tonne in the first six months of 2019 from $30.4 per tonne in the first six months of 2018. The decrease was mainly driven by increased sales and the related economies of scale.

Summary of Financial Results

	Three months ended June 30,		Six months ended June 30,	
$ in thousands, except per share information	**2019**	**2018 (iii) (Restated)**	**2019**	**2018 (iii) (Restated)**
Revenue *(i)*	**$ 32,479**	$ 19,278	**$ 69,290**	$ 43,713
Cost of sales *(i)*	**(22,031)**	(16,979)	**(45,436)**	(34,698)
Gross profit excluding idled mine asset costs *(ii)*	**11,318**	6,079	**25,675**	16,329
Gross profit	**10,448**	2,299	**23,854**	9,015
Other operating expenses	**(2,333)**	(16,512)	**(2,747)**	(17,269)
Administration expenses	**(2,878)**	(3,856)	**(5,987)**	(6,233)
Evaluation and exploration expenses	**(23)**	(156)	**(48)**	(280)
Profit/(loss) from operations	**5,214**	(18,225)	**15,072**	(14,767)
Finance costs	**(7,001)**	(5,958)	**(13,740)**	(11,932)
Finance income	**4,305**	8	**4,322**	76
Share of earnings of a joint venture	**375**	628	**827**	968
Income tax expense	**(801)**	(1,609)	**(2,240)**	(2,538)
Net profit/(loss)	**2,092**	(25,156)	**4,241**	(28,193)
Basic and diluted earnings/(loss) per share	**$ 0.01**	$ (0.09)	**$ 0.02**	$ (0.10)

(i) Revenue and cost of sales related to the Company's Ovoot Tolgoi Mine within the Coal Division operating segment. Refer to note 3 of the condensed consolidated financial statements for further analysis regarding the Company's reportable operating segments. Royalties have been reclassified from revenue to cost of sales.
(ii) A non-IFRS financial measure, idled mine asset costs represents the depreciation expense relates to the Company's idled plant and equipment.
(iii) The financial results for the three and six months ended June 30, 2018 were restated. Refer to Section 1 of this MD&A under the heading entitled "Key Findings of Formal Investigation" for details.

Overview of Financial Results

For the three months ended June 30, 2019

The Company recorded a $5.2 million profit from operations in the second quarter of 2019 compared to a $18.2 million loss from operations in the second quarter of 2018 (restated). The improvement of overall financial results was principally attributable to lower unit cost of sales of products sold during the quarter and the provision for doubtful trade and other receivables of $14.8 million during the second quarter of 2018.

Revenue was $32.5 million in the second quarter of 2019 compared to $19.3 million in the second quarter of 2018. The Company's effective royalty rate for the second quarter of 2019, based on the Company's average realized selling price of $36.8 per tonne, was 7.2% or $2.6 per tonne, compared to 9.9% or $3.2 per tonne in the second quarter of 2018 (based on the average realized selling price of $32.8 per tonne in the second quarter of 2018).

Royalty regime in Mongolia

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

On February 1, 2016, the Government of Mongolia issued a resolution in connection with the royalty regime. From February 1, 2016 onwards, royalties are to be calculated based on the actual contract price including transportation costs to the Mongolia border. If such transportation costs have not been included in the contract, the relevant transportation costs, customs documentation fees, insurance and loading costs should be estimated for the calculation of royalties. In the event that the calculated sales price as described above differs from the contract sales price of other entities in Mongolia (same quality of coal and same border crossing) by more than 10%, the calculated sales price will be deemed to be "non-market" under Mongolian tax law and the royalty will then be calculated based on a reference price as determined by the Government of Mongolia. 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, 2018, a copy of which is available under the Company's profile on SEDAR at www.sedar.com.

Cost of sales was $22.0 million in the second quarter of 2019 compared to $17.0 million in the second quarter of 2018. The increase in cost of sales was mainly due to the increased sales during the quarter. Cost of sales consists of operating expenses and royalties, share-based compensation expense, equipment depreciation, depletion of mineral properties and idled mine asset costs. Operating expenses in cost of sales reflect the total cash costs of product sold (a Non-IFRS financial measure, see Section 3 of this MD&A for further analysis) during the quarter.

	Three months ended June 30,	
$ in thousands	**2019**	**2018**
Operating expenses	**$ 16,341**	$ 6,444
Share-based compensation expense	**3**	-
Depreciation and depletion	**2,479**	4,853
Royalties	**2,338**	1,902
Cost of sales from mine operations	**21,161**	13,199
Cost of sales related to idled mine assets	**870**	3,780
Cost of sales	**$ 22,031**	$ 16,979

Operating expenses in cost of sales were $16.3 million in the second quarter of 2019 compared to $6.4 million in the second quarter of 2018. The overall increase in operating expenses was primarily due to the effect of: (i) increased sales volume from 0.6 million tonnes in the second quarter of 2018 to 0.9 million tonnes in the second quarter of 2019; and (ii) higher inventory carrying costs given less deferred stripping cost was capitalized for the second quarter of 2019.

Cost of sales related to idled mine assets in the second quarter of 2019 included $0.9 million related to depreciation expenses for idled equipment (second quarter of 2018: $3.8 million).

Other operating expenses was $2.3 million in the second quarter of 2019 (second quarter of 2018: $16.5 million).

$ in thousands	Three months ended June 30, 2019	Three months ended June 30, 2018 (Restated)
Provision for doubtful trade and other receivables	**$ (46)**	$ (14,834)
CIC service fee	**(1,422)**	(395)
Foreign exchange loss	**(528)**	(742)
Provision for prepaid expenses and deposits	**(260)**	-
Provision for commercial arbitration	**(92)**	(230)
Gain on disposal of property, plant and equipment	**29**	39
Loss on disposal of properties for resale	**(14)**	-
Penalty on late settlement of trade payables	**-**	(323)
Other	**-**	(27)
Other operating expenses	**$ (2,333)**	$ (16,512)

During the second quarter of 2018, the Company made a provision for doubtful trade and other receivables of $14.8 million (second quarter of 2019: negligible) for certain long aged receivables based on expected credit loss model.

Administration expenses were $2.9 million in the second quarter of 2019 as compared to $3.9 million in the second quarter of 2018, as follows:

$ in thousands	Three months ended June 30, 2019	Three months ended June 30, 2018
Corporate administration	**$ 677**	$ 704
Professional fees	**856**	1,748
Salaries and benefits	**1,162**	1,344
Share-based compensation expense	**11**	21
Depreciation	**172**	39
Administration expenses	**$ 2,878**	$ 3,856

The decrease was mainly due to the decrease in professional fees incurred during the second quarter of 2019.

The Company continued to minimize evaluation and exploration expenditures in the second quarter of 2019 in order to preserve the Company's financial resources. Evaluation and exploration activities and expenditures in the second quarter of 2019 were limited to ensuring that the Company met the Mongolian Minerals Law requirements in respect of its mining licenses.

Finance costs were $7.0 million and $6.0 million in the second quarter of 2019 and 2018 respectively, which primarily consisted of interest expense on the $250.0 million CIC Convertible Debenture.

Finance income was $4.3 million for the second quarter of 2019 (second quarter of 2018: negligible), which primarily related to the modification of the terms of the CIC Convertible Debenture as a result of signing the 2019 Deferral Agreement with CIC.

For the six months ended June 30, 2019

The Company recorded a $15.1 million profit from operations in the first six months of 2019 compared to a $14.8 million loss from operations in the first six months of 2018 (restated). The improvement of overall financial results was principally attributable to lower unit cost of sales of products sold during the first six months of 2019 and the provision for doubtful trade and other receivables of $15.4 million during the first six months of 2018.

Revenue was $69.3 million in the first six months of 2019 compared to $43.7 million in the first six months of 2018. The Company sold 1.9 million tonnes of coal at an average realized selling price of $35.8 per tonne in the first six months of 2019 compared to sales of 1.1 million tonnes at an average realized selling price of $37.8 per tonne in the first six months of 2018.

The Company's effective royalty rate for the first six months of 2019, based on the Company's average realized selling price of $35.8 per tonne, was 6.6% or $2.4 per tonne compared to 7.1% or $2.7 per tonne based on the average realized selling price of $37.8 per tonne in the first six months of 2018.

Cost of sales was $45.4 million in the first six months of 2019 compared to $34.7 million in the first six months of 2018 as follows:

	Six months ended June 30,	
$ in thousands	**2019**	**2018**
Operating expenses	**$ 29,309**	$ 16,576
Share-based compensation expense	**5**	-
Depreciation and depletion	**6,258**	7,694
Royalties	**4,577**	3,114
Impairment of coal stockpile inventories	**3,466**	-
Cost of sales from mine operations	**43,615**	27,384
Cost of sales related to idled mine assets	**1,821**	7,314
Cost of sales	**$ 45,436**	$ 34,698

Operating expenses in cost of sales were $29.3 million in the first six months of 2019 compared to $16.6 million in the first six months of 2018. The increase in operating expenses was primarily related to the increase in sales volume from 1.1 million tonnes in the first six months of 2018 to 1.9 million tonnes in the first six months of 2019.

Cost of sales in the first six months of 2019 included coal stockpile impairments of $3.5 million, to reduce the carrying value of the Company's coal stockpiles to their net realizable value. The coal stockpile impairments recorded 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 2019 included $1.8 million related to depreciation expenses for idled equipment (first six months of 2018: $7.3 million).

Other operating expenses were $2.7 million in the first six months of 2019 compared to $17.3 million in the first six months of 2018 as follows:

$ in thousands	Six months ended June 30, 2019	Six months ended June 30, 2018 (Restated)
Provision for doubtful trade and other receivables	**$ (97)**	$ (15,356)
CIC service fee	**(2,180)**	(978)
Provision for commercial arbitration	**(226)**	(454)
Provision for prepaid expenses and deposits	**(260)**	-
Penalty on late settlement of trade payables	**-**	(427)
Loss on disposal of properties for resale	**(14)**	-
Gain/(loss) on disposal of property, plant and equipment	**29**	(28)
Foreign exchange gain	**1**	37
Other	**-**	(63)
Other operating expenses	**$ (2,747)**	$ (17,269)

During the first six months of 2018, the Company made a provision for doubtful trade and other receivables of $15.4 million (first six months of 2019: negligible) for certain long aged receivables based on expected credit loss model.

Administration expenses were $6.0 million in the first six months of 2019 compared to $6.2 million in the first six months of 2018 as follows:

$ in thousands	Six months ended June 30, 2019	Six months ended June 30, 2018
Corporate administration	**$ 1,098**	$ 1,372
Professional fees	**2,303**	2,263
Salaries and benefits	**2,231**	2,478
Share-based compensation expense	**23**	37
Depreciation	**332**	83
Administration expenses	**$ 5,987**	$ 6,233

The Company continued to minimize evaluation and exploration expenditures in the first six months of 2019 in order to preserve the Company's financial resources. Evaluation and exploration activities and expenditures in the first six months of 2019 were limited to ensuring that the Company met the Mongolian Minerals Law requirements in respect of its mining licenses.

Finance costs were $13.7 million and $11.9 million in the first six months of 2019 and 2018 respectively. This primarily consisted of interest expense on the CIC Convertible Debenture.

Finance income was $4.3 million for the first six month of 2019 (first six months of 2018: negligible), which primarily related to the modification of the terms of the CIC Convertible Debenture as a result of signing the 2019 Deferral Agreement with CIC.

Summary of Quarterly Operational Data

	2019		2018				2017	
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)*	**0.12**	0.11	0.24	0.25	0.07	0.03	0.37	0.12
Average realized selling price *(per tonne)*	**$ 32.72**	$ 47.34	$ 47.37	$ 48.15	$ 59.98	$ 67.94	$ 50.47	$ 46.55
Standard semi-soft coking coal/ premium thermal coal								
Coal sales *(millions of tonnes)*	**0.59**	0.85	0.40	0.26	0.19	0.41	0.60	0.41
Average realized selling price *(per tonne)*	**$ 35.67**	$ 33.34	$ 32.60	$ 34.40	$ 33.80	$ 46.34	$ 37.49	$ 28.32
Standard thermal coal								
Coal sales *(millions of tonnes)*	**-**	0.09	0.12	0.22	0.32	0.12	0.29	0.27
Average realized selling price *(per tonne)*	**$ -**	$ 34.88	$ 24.26	$ 23.49	$ 26.32	$ 25.40	$ 16.98	$ 14.48
Washed coal								
Coal sales *(millions of tonnes)*	**0.17**	0.01	0.15	-	-	-	-	-
Average realized selling price *(per tonne)*	**$ 44.20**	$ 45.07	$ 44.02	$ -	$ -	$ -	$ -	$ -
Total								
Coal sales *(millions of tonnes)*	**0.88**	1.06	0.91	0.73	0.58	0.56	1.26	0.80
Average realized selling price *(per tonne)*	**$ 36.80**	$ 34.91	$ 37.32	$ 35.77	$ 32.81	$ 43.02	$ 36.54	$ 26.41
Raw coal production *(millions of tonnes)*	**1.33**	1.03	1.87	1.11	0.98	0.38	0.51	2.47
Cost of sales of product sold *(per tonne)*	**$ 25.04**	$ 22.08	$ 30.80	$ 23.44	$ 29.27	$ 31.64	$ 23.54	$ 31.31
Direct cash costs of product sold *(per tonne)* [(i)]	**$ 17.18**	$ 10.82	$ 8.73	$ 7.41	$ 10.12	$ 16.86	$ 9.91	$ 10.98
Mine administration cash costs of product sold *(per tonne)* [(i)]	**$ 1.39**	$ 1.41	$ 2.19	$ 1.24	$ 1.00	$ 1.23	$ 4.92	$ 2.98
Total cash costs of product sold *(per tonne)* [(i)]	**$ 18.57**	$ 12.23	$ 10.92	$ 8.65	$ 11.12	$ 18.09	$ 14.83	$ 13.96
Other Operational Data								
Production waste material moved *(millions of bank cubic meters)*	**5.34**	4.91	5.54	4.56	5.18	2.88	4.36	6.77
Strip ratio *(bank cubic meters of waste material per tonne of coal produced)*	**4.01**	4.76	2.97	4.11	5.26	7.55	8.59	2.74
Lost time injury frequency rate [(ii)]	**0.06**	0.00	0.00	0.00	0.06	0.13	0.20	0.23

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

Summary of Quarterly Financial Results

The Company's annual financial statements are reported under IFRS issued by the IASB. 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	2019		2018				2017	
Quarter Ended	**30-Jun**	31-Mar	31-Dec	30-Sep (Restated)	30-Jun (Restated)	31-Mar (Restated)	31-Dec (Restated)	30-Sep (Restated)
Financial Results								
Revenue [(i)]	**$ 32,479**	$ 36,811	$ 33,814	$ 26,277	$ 19,278	$ 24,435	$ 41,698	$ 19,356
Cost of sales [(i)]	**(22,031)**	(23,405)	(28,027)	(17,110)	(16,979)	(17,719)	(29,665)	(25,049)
Gross profit/(loss) excluding idled mine asset costs	**11,318**	14,357	7,305	13,195	6,079	10,250	15,682	(2,094)
Gross profit/(loss) including idled mine asset costs	**10,448**	13,406	5,787	9,167	2,299	6,716	12,033	(5,693)
Other operating income/(expenses)	**(2,333)**	(414)	(2,921)	(3,417)	(16,512)	(757)	(4,971)	3,097
Administration expenses	**(2,878)**	(3,109)	(1,583)	(2,724)	(3,856)	(2,377)	(2,111)	(2,451)
Evaluation and exploration expenses	**(23)**	(25)	(36)	(40)	(156)	(124)	(52)	(48)
Impairment of property, plant and equipment	**-**	-	-	-	-	-	(11,171)	-
Profit/(loss) from operations	**5,214**	9,858	1,247	2,986	(18,225)	3,458	(6,272)	(5,095)
Finance costs	**(7,001)**	(6,739)	(10,899)	(5,758)	(5,958)	(6,006)	(5,960)	(5,674)
Finance income	**4,305**	17	13	106	8	100	143	142
Share of earnings of a joint venture	**375**	452	416	247	628	340	368	265
Income tax credit/(expense)	**(801)**	(1,439)	(1,023)	(267)	(1,609)	(929)	781	238
Net profit/(loss)	**2,092**	2,149	(10,246)	(2,686)	(25,156)	(3,037)	(10,940)	(10,124)
Basic and diluted earnings/(loss) per share	**$ 0.01**	$ 0.01	$ (0.04)	$ (0.01)	$ (0.09)	$ (0.01)	$ (0.04)	$ (0.04)

(i) *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 financial statements for further analysis regarding the Company's reportable operating segments. Royalties have been reclassified from revenue to cost of sales.*

3. NON-IFRS FINANCIAL MEASURES

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

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

Cash Costs

The Company uses cash costs to describe its cash production and associated cash costs incurred in bringing the inventories to their present locations and conditions. Cash costs incorporate all production costs, which include direct and indirect costs of production, with the exception of idled mine asset costs and non-cash expenses which are excluded. Non-cash expenses include share-based compensation expense, 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, 2019 and June 30, 2018. 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	**2019**	**2018**	**2019**	**2018**
Cash costs				
Cost of sales determined in accordance with IFRS	**$ 22,031**	$ 16,979	**$ 45,436**	$ 34,698
Less royalties	**(2,338)**	(1,902)	**(4,577)**	(3,114)
Less non-cash expenses	**(2,482)**	(4,853)	**(9,729)**	(7,694)
Less non-cash idled mine asset costs	**(870)**	(3,780)	**(1,821)**	(7,314)
Total cash costs	**16,341**	6,444	**29,309**	16,576
Less idled mine asset cash costs	**-**	-	**-**	-
Total cash costs excluding idled mine asset cash costs	**16,341**	6,444	**29,309**	16,576
Coal sales *(millions of tonnes)*	**0.88**	0.58	**1.94**	1.14
Total cash costs of product sold *(per tonne)*	**$ 18.57**	$ 11.12	**$ 15.11**	$ 14.55

	Three months ended June 30		Six months ended June 30,	
$ in thousands, except per tonne information	**2019**	**2018**	**2019**	**2018**
Cash costs				
Direct cash costs of product sold *(per tonne)*	**$ 17.18**	$ 10.12	**$ 13.71**	$ 13.43
Mine administration cash costs of product sold *(per tonne)*	**1.39**	1.00	**1.40**	1.12
Total cash costs of product sold *(per tonne)*	**$ 18.57**	$ 11.12	**$ 15.11**	$ 14.55

The cash cost of product sold per tonne was $18.6 for the second quarter of 2019, which has increased from $11.1 per tonne for the second quarter 2018. The reason for the increase is primarily related to the lower strip ratio achieved in the second quarter of 2019 in which less cost were being capitalized to mineral properties and a higher inventory carrying cost so resulted.

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. Some higher ash content product is being washed and sold as semi-soft coking coal products while some of the unwashed product is sold as a thermal coal product as and when the market allows. The Company intends to continue to develop markets for both its Premium and Standard semi-soft coking coal brands and to pursue long-term supply offtake with end users in China to complement its existing customer base and to gain best value for the Company's coal in the Chinese market. The Company is committed to further enhancing the quality of its coal products through wet washing and increasing its market penetration in China.

Resources

A resource estimate for the Ovoot Tolgoi deposit is set out in the Ovoot Tolgoi Technical Report, which was prepared by DMCL on behalf of the Company. A copy of the Ovoot Tolgoi Technical Report was filed under the Company's profile on SEDAR at www.sedar.com on May 15, 2017.

Reserves

A reserve estimate for the Ovoot Tolgoi deposit is set out in the Ovoot Tolgoi Technical Report, which was prepared by DMCL on behalf of the Company. A copy of the Ovoot Tolgoi Technical Report was filed under the Company's profile on SEDAR at www.sedar.com on May 15, 2017.

Mining Operations

Mining Method

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

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

Transportation Infrastructure

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

For the three and six months ended June 30, 2019, RDCC LLC recognized toll fee revenue of $1.8 million (2018: $2.5 million) and $3.7 million (2018: $4.1 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 19 MT4400AC (218 tonne capacity) haul trucks, together with various pieces of ancillary equipment.

Workforce

As at June 30, 2019, SGS employed 447 employees in Mongolia. Of the 447 employees, 39 are employed in the Ulaanbaatar office, 2 in an outlying office and 406 at the Ovoot Tolgoi Mine site. Of the 447 employees based in Mongolia, 422 (94%) are Mongolian nationals and of those, 230 (51%) 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 London Interbank Offered Rate ("LIBOR") in effect plus 11% per annum; a commitment fee of 35% of the interest rate payable quarterly in arrears on undrawn principal amount of facility and a front end fee of $0.1 million.

The Company repaid $0.2 million during the second quarter of 2019 and, as of the date hereof, the principal and accrued interest of the Turquoise Hill Loan Facility has been fully repaid.

Bank Loan

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

- Principal amount 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 were pledged as security for the 2018 Bank Loan. As at June 30, 2019, the net book value of the pledged items of property, plant and equipment was $1.0 million (December 31, 2018: $2.6 million).

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

Costs reimbursable to Turquoise Hill

Prior to the completion of a private placement with Novel Sunrise Investments Limited 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, 2019, the amount of reimbursable costs and fees claimed by Turquoise Hill (the "TRQ Reimbursable Amount") amounted to $8.1 million (such amount is included in the 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 although no agreement has been reached between the Company and Turquoise Hill as of the date of this MD&A. 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, 2020 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. However, in order to continue as a going concern, the Company must generate sufficient operating cash flows, secure additional capital or otherwise pursue a strategic restructuring, refinancing or other transactions to provide it with additional liquidity.

Several adverse conditions and material uncertainties cast significant doubt upon the going concern assumption. The Company had a deficiency in assets of $44.8 million as at June 30, 2019 compared to a deficiency in assets of $48.1 million as at December 31, 2018 while the working capital deficiency (excess current liabilities over current assets) reached $118.2 million as at June 30, 2019 compared to a working capital deficiency of $203.1 million as at December 31, 2018.

The Company has executed the 2019 Deferral Agreement with CIC in relation to a deferral and revised repayment schedule in respect of the Outstanding Interest Payable and the cash and PIK Interest payments payable to CIC under the CIC Convertible Debenture from April 23, 2019 to and including May 19, 2020, pursuant to which the Company agreed to pay a total of $14.3 million over eight instalments from November 2019 to June 2020 and the remaining balance of $62.6 million on June 20, 2020.

The Company also has other current liabilities, which require settlement in the short-term, including: the $7.7 million owing to First Concept under the Settlement Deed and $30.3 million of unpaid taxes payable by SGS to the Mongolian government.

Further, the trade and other payables of the Company remain high due to liquidity constraints. The aging profile of the trade and other payables as at June 30, 2019 as compared to that as at December 31, 2018, is as follows:

	As at	
$ in thousands	**June 30, 2019**	**December 31, 2018**
Less than 1 month	**$ 28,295**	$ 34,927
1 to 3 months	**13,261**	16,336
3 to 6 months	**11,757**	5,446
Over 6 months	**35,851**	42,867
Total trade and other payables	**$ 89,164**	$ 99,576

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. Except as disclosed elsewhere in this MD&A, no such lawsuits or proceedings are pending as at August 13, 2019.

In 2016, the Company started its program to build a coal washing plant to upgrade the low quality fractions of its run-of-mine coals to higher value and higher margin products. The commissioning of the wash plant at the Ovoot Tolgoi mine was completed during the second quarter of 2019. The Company is currently in discussions with the wash plant operator concerning an agreement regarding the operation of the wash plant; however, there can be no assurance that a favorable outcome will be reached.

The current operation plan contemplates significantly higher volumes of production in order to achieve the Company's revenue and cash flow targets. Such plans will require a significant level of capital expenditure in waste rock stripping in 2019 and 2020. Such expenditures and other working capital requirements may require the Company to seek additional financing. There is no guarantee that the Company will be able to successfully execute the programs mentioned above and to secure other sources of financing. In addition, the current import restrictions on F-grade coal by Chinese authorities will further affect the short term cash inflow and may in turn undermine the execution of the operation plan. If the import restrictions on F-grade coal continue for an indefinite period, or if the Company fails to execute the aforementioned programs, or is unable to secure additional capital financing, or otherwise restructure or refinance its business in order to address its cash requirements through June 30, 2020, then the Company is unlikely to have sufficient 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.

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

As at August 13, 2019, the Company had $1.6 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, 2019, CIC owned, through its indirect wholly owned subsidiary, approximately 23.8% of the issued and outstanding Common Shares.

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

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

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

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

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

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

The Company also announced that it intends to discuss a potential debt restructuring plan with respect to amounts owing to Land Breeze II S.a.r.l., a wholly-owned subsidiary of CIC, which is mutually beneficial to the Company and CIC, and to form a special committee comprised of independent directors to ensure that the interests of its minority shareholders are fairly considered in the negotiation and review of any such restructuring; however, there can be no assurance that a favorable outcome will be reached.

Under certain conditions, including the non-payment of interest amounts as the same become due or the Common Shares being suspended or halted from trading on any stock exchange for a period of longer than five trading days, 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.

Commercial Arbitration in Hong Kong

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

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

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

As of the date hereof, the Company has not paid the November 2018 and January 2019 monthly payments due under the Settlement Deed. On March 5, 2019, SGS received a notice from First Concept claiming that the Company is default under the Settlement Deed and demanding payment of the full amount of the outstanding monthly payments due under the Settlement Deed by no later than March 11, 2019, otherwise First Concept intends to commence legal action against SGS pursuant to the Settlement Deed. The Company is consulting with its independent litigation counsel regarding this matter; however, as a default is only triggered under the Settlement Deed where there has been a failure to pay two or more consecutive monthly instalment payments, the Company is of the view that SGS is not in default under the Settlement Deed. In the event that First Concept commences legal action against SGS regarding this matter, the Company intends to take appropriate steps to respond to such legal proceedings in the best interests of the Company through independent litigation counsel which has been retained by the Company for this purpose.

As at June 30, 2019, the outstanding payables to First Concept amounted to $7.7 million (December 31, 2018: $12.5 million).

Cash Flow Highlights

	Six months ended June 30,	
$ in thousands	**2019**	**2018**
Cash generated from operating activities	**$ 18,944**	$ 13,196
Cash used in investing activities	**(8,380)**	(19,170)
Cash used in financing activities	**(13,470)**	(238)
Effect of foreign exchange rate changes on cash	**82**	209
Decrease in cash for the period	**(2,824)**	(6,003)
Cash balance, beginning of period	**6,959**	6,471
Cash balance, end of period	**$ 4,135**	$ 468

Cash generated from Operating Activities

The Company generated $18.9 million of cash from operating activities in the first six months of 2019 compared to $13.2 million in the first six months of 2018. 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 $8.4 million of cash during the first six months of 2019 in investing activities compared to $19.2 million during the first six months of 2018. In the first six months of 2019, expenditures on property, plant and equipment totaled $9.8 million (first six months of 2018: $20.7 million) and $1.3 million of dividend income was collected from RDCC LLC (first six months of 2018: $1.1 million).

Cash used in Financing Activities

Cash used in financing activities was $13.5 million in the first six months of 2019 (first six months of 2018: $0.2 million), which was principally attributable to the refund of certain customer deposits.

Contractual Obligations and Guarantees

Day-to-day mining, expansionary and sustaining capital expenditures as well as administrative operations give rise to commitments for future minimum payments. As at June 30, 2019, the Company's operating and capital commitments were:

$ in thousands	Within 1 year	2-3 years	Over 3 years	Total
As at June 30, 2019				
Capital expenditure commitments	$ 827	$ -	$ -	$ 827
Operating expenditure commitments	13,159	177	1,567	14,903
Commitments	$ 13,986	$ 177	$ 1,567	$ 15,730

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.

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

	As at	
$ in thousands	June 30, 2019	December 31, 2018
Financial assets		
At amortised cost		
Notes receivables	$ 146	$ 2,500
Cash and cash equivalents	4,135	6,959
Restricted cash	874	872
Trade and other receivables	2,435	5,046
Total financial assets	$ 7,590	$ 15,377

	As at	
$ in thousands	June 30, 2019	December 31, 2018
Financial liabilities		
Fair value through profit or loss		
Convertible debenture - embedded derivatives	$ 274	$ 265
At amortised cost		
Trade and other payables	89,164	99,576
Provision for commercial arbitration	7,735	12,508
Interest-bearing borrowings	2,835	4,138
Lease payables	899	113
Convertible debenture - debt host and interest payable	146,864	139,636
Total financial liabilities	$ 247,771	$ 256,236

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 (the "November 5, 2015 Ontario Court Decision") 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.

On consent of the plaintiff, the former senior officers and directors, originally sued as defendants, were withdrawn from the Class Action in December 2018.

Counsel for the parties have appeared in two case conferences before the motions judge. A procedure to fix the process and timing leading up to the trial of the action has been settled in broad terms including the favourable prospect of an early trial based to a large extent on the existing record. The details of the final process are being negotiated between counsel. A third case conference may be necessary.

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, 2019 was not required.

Toll Wash Plant Agreement with Ejin Jinda

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

Under the original agreement with Ejin Jinda, which required the commercial operation of the wet washing facility to commence on October 1, 2011, the additional fees payable by the Company under the wet washing contract would have been $18.5 million. At each reporting date, the Company assesses the agreement with Ejin Jinda and has determined it is not probable that this $18.5 million will be required to be paid. Accordingly, the Company has determined a provision for this matter at June 30, 2019 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 2017, the Company was ordered by the Mongolian tax authority to apply the "reference price" determined by the Government of Mongolia, as opposed to calculated sales price that is derived based on the actual contract price, in calculating the royalties payable to the Government of Mongolia. Although no official letter has been received by the Company in respect of this matter as of the date hereof, there can be no assurance that the Government of Mongolia will not disagree with the methodology employed by the Company in determining the calculated sales price and deem such price "non-market" under Mongolian tax law. Management believes that its interpretation of the relevant legislation is appropriate and the Company's positions related to the royalty will be sustained.

Restrictions on Importing F-Grade Coal into China

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

7. OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of Common Shares without par value and an unlimited number of preferred shares without par value. As at August 13, 2019, approximately 272.7 million Common Shares were issued and outstanding. There are also incentive share options outstanding to acquire approximately 4.1 million unissued Common Shares with exercise prices ranging from CAD$0.13 to CAD$0.92. There are no preferred shares outstanding.

As at August 13, 2019, to the best of the Company's knowledge:

- CIC holds a total of approximately 64.8 million Common Shares representing approximately 23.8% of the issued and outstanding Common Shares;
- Novel Sunrise holds a total of approximately 46.4 million Common Shares representing approximately 17.0% of the issued and outstanding Common Shares; and
- Voyage Wisdom Limited 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")

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management is responsible for the design of the Company's internal control over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The Company's internal controls over financial reporting include policies and procedures that pertain to the maintenance of records that, in reasonable detail accurately and fairly reflect the transactions and disposition of assets, and which are designed with the objective of providing reasonable assurance that: (i) transactions are recorded as necessary to permit preparation of the financial statements in accordance with IFRS and that receipts and expenditures are being made only in accordance with authorization of management and directors of the Company; and (ii) unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements is prevented or detected in a timely manner.

As discussed and summarized in Section 8 of the Company's management's discussion and analysis for the three month period ended March 31, 2019 (the "Q1 2019 MD&A") (a copy of which is available under the Company's profile on SEDAR at www.sedar.com), management identified certain material weaknesses in relation to the design and effectiveness of the internal controls over financial reporting as at December 31, 2018. In response, the Board adopted and approved certain remedial actions and preventative measures (the "Remedial Actions and Preventative Measures") to address and remediate these material weaknesses. A summary of the Remedial Actions and Preventative Measures is contained in Section 1 of the Q1 2019 MD&A. Based on the Remedial Actions and Preventative Measures that have been implemented, the Company now has in place internal controls and procedures which are adequate to address the aforementioned material weaknesses referred to above.

Following the implementation of the Remedial Actions and Preventative Measures, management, including the Chief Executive Officer and Chief Financial Officer of the Company, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. Management assessed the effectiveness of internal controls over financial reporting using the Internal Control – Updated Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. As of June 30, 2019, the Chief Executive Officer and Chief Financial Officer of the Company have each concluded that the Company's disclosure controls and procedures, as defined in NI 52-109 – *Certification of Disclosure in Issuer's Annual and Interim Filings* ("NI 52-109"), are effective to achieve the purpose for which they have been designed.

Because of their inherent limitations, internal controls over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements due to error or fraud. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by individual acts, by collusion of two or more individuals or by unauthorized override of controls. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Other than the Remedial Actions and Preventative Measures that have been implemented, 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, 2018.

The following new IASB standard was adopted by the Company on January 1, 2019.

IFRS 16	Leases[(i)]

(i) Effective for annual periods beginning on or after January 1, 2019

The Company has adopted IFRS 16 retrospectively from January 1, 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on January 1, 2019. A detailed summary of the adjustments recognized under IFRS 16 is included in Note 2.3 to the Company's condensed consolidated interim financial statements for the six months ended June 30, 2019.

There have been no other new IFRSs or IFRIC interpretations that is not yet effective that would be expected to have a material impact on the Company, except those disclosed in the Company's annual consolidated financial statements for the year ended December 31, 2018.

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 below, substantially unchanged from those disclosed in the Company's most recently filed Annual Information Form for the year ended December 31, 2018, which is available under the Company's profile on SEDAR at www.sedar.com.

Climate Change

Climate change continues to attract considerable public and scientific attention. There is widespread concern about the contributions of human activity to such changes, especially through the emission of greenhouse gasses. There are three primary sources of greenhouse gas associated with the coal industry. First, the end use of coal by our customers in electricity generation, coke plants, and steel making is a source of greenhouse gasses. Second, combustion of fuel by equipment used in coal production and to transport coal to our customers is a source of greenhouse gasses. Third, coal mining itself can release methane, which is considered to be a more potent greenhouse gasses than CO2, directly into the atmosphere. These emissions from coal consumption, transportation and production are subject to pending and proposed regulation as part of global and national initiatives to address climate change.

There are many legal and regulatory approaches currently in effect or being considered to address greenhouse gases, including international treaty commitments and new foreign and local legislation that may impose a carbon emissions tax. As a result, numerous proposals have been made and are likely to continue to be made at the international, national, regional and local levels of government to monitor and limit emissions of greenhouse gases. Collectively, these initiatives could result lower the demand for coal used in electric generation, which could have a material adverse impact on the Company's business, operations, results of operations, financial condition and future prospects.

11. OUTLOOK

The Company believes that coal will continue to be the primary energy source which China will rely on in the foreseeable future, as coal has supported more than half of China's total energy consumption in recent years. However, growth in the demand for coal in China is expected to decline gradually in the long run for the following reasons: (i) increased adoption and utilization of clean energy; (ii) the implementation of stricter safety and environmental rules and regulations; and (iii) total energy consumption growth rates are expected to decrease over time.

The Company believes that the future trend of the coal industry in China will involve coal companies placing an increased emphasis on improving the quality of their coal products through enhanced screening and washing procedures and mine management.

Looking forward, the Company remains cautiously optimistic regarding the Chinese coal market. The expected benefit from the reduced supply of low quality coal and increased railway transportation capacity in China are anticipated to be offset by the uncertain Chinese macroeconomic environment.

The Company's objectives for 2019 and the medium term are as follows:

- **Enhance product mix** – The Company will focus on improving the product mix and increase production of higher quality coal by: (i) washing lower quality coal in the Company's coal wash plant; and (ii) improving mining operations and employing better mining technique and equipment.

- **Expand customer base** – The Company will endeavor to increase sales volume, expand its sales network, strengthen its sales and logistics capabilities and diversify its customer base.

- **Increase production and optimize cost structure** – The Company will aim to increase coal production volume to take advantage of economies of scale. The Company will also focus on reducing its production cost and optimizing its cost structure through innovation, training and productivity enhancement.

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

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

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

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

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

- **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.

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

August 13, 2019

SouthGobi Resources Ltd.
Condensed Consolidated Interim Financial Statements

June 30, 2019
(Expressed in U.S. Dollars)
(Unaudited)

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CONDENSED FINANCIAL STATEMENTS

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

ADDITIONAL STOCK EXCHANGE INFORMATION

SOUTHGOBI RESOURCES LTD.

Condensed Consolidated Interim Statement of Comprehensive Income

(Unaudited)

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

	Notes	Three months ended June 30, 2019	Three months ended June 30, 2018 (Restated)	Six months ended June 30, 2019	Six months ended June 30, 2018 (Restated)
Revenue	4	**$ 32,479**	$ 19,278	**$ 69,290**	$ 43,713
Cost of sales	6	**(22,031)**	(16,979)	**(45,436)**	(34,698)
Gross profit		**10,448**	2,299	**23,854**	9,015
Other operating expenses	7	**(2,333)**	(16,512)	**(2,747)**	(17,269)
Administration expenses		**(2,878)**	(3,856)	**(5,987)**	(6,233)
Evaluation and exploration expenses		**(23)**	(156)	**(48)**	(280)
Profit/(loss) from operations		**5,214**	(18,225)	**15,072**	(14,767)
Finance costs	8	**(7,001)**	(5,958)	**(13,740)**	(11,932)
Finance income	8	**4,305**	8	**4,322**	76
Share of earnings of a joint venture	14	**375**	628	**827**	968
Profit/(loss) before tax		**2,893**	(23,547)	**6,481**	(25,655)
Current income tax expense	9	**(801)**	(1,609)	**(2,240)**	(2,538)
Net profit/(loss) attributable to equity holders of the Company		**2,092**	(25,156)	**4,241**	(28,193)
Other comprehensive income to be reclassified to profit or loss in subsequent periods					
Exchange difference on translation of foreign operation		**(852)**	1,033	**(779)**	(2,295)
Net comprehensive income/(loss) attributable to equity holders of the Company		**$ 1,240**	$ (24,123)	**$ 3,462**	$ (30,488)
Basic and diluted earnings/(loss) per share		**$ 0.01**	$ (0.09)	**$ 0.02**	$ (0.10)

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, 2019	As at December 31, 2018
Assets			
Current assets			
Cash and cash equivalents		**$ 4,135**	$ 6,959
Restricted cash		**874**	872
Trade and other receivables	11	**2,435**	5,046
Notes receivables		**146**	2,500
Inventories	12	**42,358**	47,109
Prepaid expenses and deposits		**3,581**	3,295
Total current assets		**53,529**	65,781
Non-current assets			
Property, plant and equipment	13	**$ 138,507**	$ 138,901
Inventories	12	**10,241**	-
Properties for resale		**3,654**	4,093
Investments in joint ventures	14	**18,260**	18,831
Total non-current assets		**170,662**	161,825
Total assets		**$ 224,191**	$ 227,606
Equity and liabilities			
Current liabilities			
Trade and other payables	15	**$ 89,164**	$ 99,576
Deferred revenue		**14,025**	12,658
Provision for commercial arbitration	16	**7,735**	12,508
Interest-bearing borrowings	17	**2,835**	4,138
Lease liabilities	18	**573**	83
Current portion of convertible debenture	19	**57,418**	139,901
Total current liabilities		**171,750**	268,864
Non-current liabilities			
Lease liabilities	18	**326**	30
Convertible debenture	19	**89,720**	-
Decommissioning liability		**7,242**	6,852
Total non-current liabilities		**97,288**	6,882
Total liabilities		**269,038**	275,746
Equity			
Common shares	20	**1,098,634**	1,098,634
Share option reserve		**52,570**	52,542
Capital reserve		**396**	396
Exchange reserve		**(18,878)**	(18,099)
Accumulated deficit	20	**(1,177,569)**	(1,181,613)
Total deficiency in assets		**(44,847)**	(48,140)
Total equity and liabilities		**$ 224,191**	$ 227,606
Net current liabilities		**$ (118,221)**	$ (203,083)
Total assets less current liabilities		**$ 52,441**	$ (41,258)

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	Capital reserve	Exchange fluctuation reserve	Accumulated deficit	Total
Restated balances, January 1, 2018	272,607	$ 1,098,623	$ 52,463	$ -	$ (5,079)	$ (1,138,179)	$ 7,828
Change in accounting policy due to IFRS 9	-	-	-	-	-	(1,913)	(1,913)
Restated balances, January 1, 2018	272,607	$ 1,098,623	$ 52,463	$ -	$ (5,079)	$ (1,140,092)	$ 5,915
Shares issued for:							
Employee share purchase plan	41	6	-	-	-	-	6
Share-based compensation charged to operations	-	-	37	-	-	-	37
Net loss for the period	-	-	-	-	-	(25,655)	(25,655)
Exchange differences on translation of foreign operations	-	-	-	-	(2,295)	-	(2,295)
Restated balances, June 30, 2018	272,648	$ 1,098,629	$ 52,500	$ -	$ (7,374)	$ (1,165,747)	$ (21,992)
Balances, January 1, 2019	**272,703**	**$ 1,098,634**	**$ 52,542**	**$ 396**	**$ (18,099)**	**$ (1,181,613)**	**$ (48,140)**
Change in accounting policy due to IFRS 16	**-**	**-**	**-**	**-**	**-**	**(197)**	**(197)**
Restated balances, January 1, 2019	**272,703**	**$ 1,098,634**	**$ 52,542**	**$ 396**	**$ (18,099)**	**$ (1,181,810)**	**$ (48,337)**
Share-based compensation charged to operations	**-**	**-**	**28**	**-**	**-**	**-**	**28**
Net profit for the period	**-**	**-**	**-**	**-**	**-**	**4,241**	**4,241**
Exchange differences on translation of foreign operations	**-**	**-**	**-**	**-**	**(779)**	**-**	**(779)**
Balances, June 30, 2019	**272,703**	**$ 1,098,634**	**$ 52,570**	**$ 396**	**$ (18,878)**	**$ (1,177,569)**	**$ (44,847)**

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, 2019	Six months ended June 30, 2018 (Restated)
Operating activities			
Profit/(loss) before tax		**$ 6,481**	$ (25,655)
Adjustments for:			
Depreciation and depletion		**8,382**	10,178
Share-based compensation	21	**28**	37
Interest expense on convertible debenture	8	**11,521**	10,810
Interest expense on borrowings	8	**425**	1,011
Finance cost on leased assets	8	**75**	-
Loan arrangement fee	8	**-**	19
Accretion of decommissioning liability	8	**114**	92
Unrealized loss/(gain) on embedded derivatives in convertible debenture	8	**9**	-
Finance income	8	**(4,322)**	(76)
Share of earnings of a joint venture	14	**(827)**	(968)
Interest paid		**(949)**	(857)
Income tax paid		**(129)**	(2,022)
Unrealized foreign exchange gain	7	**(1)**	(37)
Penalty on late settlement of trade payables	5	**-**	427
Loss/(gain) on disposal of fixed assets	5	**(29)**	28
Loss on disposal of properties for resale		**14**	-
Provision for doubtful trade and other receivables	11	**97**	15,356
Provision for commercial arbitration		**226**	454
Provision for prepaid expenses and deposits	7	**260**	-
Impairment of inventories	12	**3,466**	-
Operating cash flows before changes in non-cash working capital items		**24,841**	8,797
Net change in non-cash working capital items	24	**(5,897)**	4,399
Cash generated from operating activities		**18,944**	13,196
Investing activities			
Expenditures on property, plant and equipment		**(9,773)**	(20,656)
Proceeds from disposal of property, plant and equipment		**70**	320
Interest received		**29**	18
Dividend from a joint venture	14	**1,294**	1,148
Cash used in investing activities		**(8,380)**	(19,170)
Financing activities			
Proceeds from issuance of common shares		**-**	6
New loans		**-**	500
Repayment of interest-bearing loans		**(700)**	(744)
Principal elements of lease payments		**(388)**	-
Refund of customers' deposits		**(12,382)**	-
Cash used in financing activities		**(13,470)**	(238)
Effect of foreign exchange rate changes on cash and cash equivalents		**82**	209
Decrease in cash and cash equivalents		**(2,824)**	(6,003)
Cash and cash equivalents, beginning of period		**6,959**	6,471
Cash and cash equivalents, end of period		**$ 4,135**	$ 468

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, 2019, to the Company's best knowledge, 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 (the "Common Shares"). 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, 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 principal place of business of the Company is located at Unit 1208-10, Tower One, 193 Prince Edward Road West, Grand Century Place, Mongkok, Kowloon, Hong Kong.

<u>Going concern assumption</u>

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, 2020 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. However, in order to continue as a going concern, the Company must generate sufficient operating cash flows, secure additional capital or otherwise pursue a strategic restructuring, refinancing or other transactions to provide it with additional liquidity.

Several adverse conditions and material uncertainties cast significant doubt upon the going concern assumption. The Company had a deficiency in assets of $44,847 as at June 30, 2019 compared to a deficiency in assets of $48,140 as at December 31, 2018 while the working capital deficiency (excess current liabilities over current assets) reached $118,221 as at June 30, 2019 compared to a working capital deficiency of $203,083 as at December 31, 2018.

On April 23, 2019, the Company executed a deferral agreement (the "2019 Deferral Agreement") with CIC in relation to a deferral and revised repayment schedule in respect of: (i) $41,797 of outstanding cash and payment in kind interest ("PIK Interest") and associated costs due and payable to CIC on November 19, 2018 (the "Outstanding Interest Payable") under the CIC Convertible Debenture and the deferral agreement dated June 12, 2017 (the "June 2017 Deferral Agreement"); and (ii) $27,934 of cash and PIK Interest payments payable to CIC under the CIC Convertible Debenture from April 23, 2019 to and including May 19, 2020. Pursuant to the 2019 Deferral Agreement, the Company agreed to pay a total of $14,317 over eight instalments from November 2019 to June 2020 and the remaining balance of $62,602 on June 20, 2020.

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

1. CORPORATE INFORMATION AND GOING CONCERN (CONTINUED)

The Company also has other current liabilities, which require settlement in the short-term, including the $7,735 balance owing to First Concept Industrial Group Limited ("First Concept") pursuant to a deed of settlement (the "Settlement Deed") dated November 14, 2018 and $30,319 of unpaid taxes payable by SouthGobi Sands LLC ("SGS"), a subsidiary of the Company, to the Mongolian government.

Further, the trade and other payables of the Company remain high due to liquidity constraints. The aging profile of the trade and other payables as at June 30, 2019 as compared to that as at December 31, 2018, is as follows:

	As at	
	June 30, 2019	December 31, 2018
Less than 1 month	**$ 28,295**	$ 34,927
1 to 3 months	**13,261**	16,336
3 to 6 months	**11,757**	5,446
Over 6 months	**35,851**	42,867
Total trade and other payables	**$ 89,164**	$ 99,576

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. Except as disclosed elsewhere in this consolidated financial statement, no such lawsuits or proceedings are pending as at August 13, 2019.

In 2016, the Company started its program to build a coal washing plant to upgrade the low quality fractions of its run-of-mine coals to higher value and higher margin products. The commissioning of the wash plant at the Ovoot Tolgoi mine was completed during the second quarter of 2019. The Company is currently in discussions with the wash plant operator concerning an agreement regarding the operation of the wash plant; however, there can be no assurance that a favorable outcome will be reached.

The current operation plan contemplates significantly higher volumes of production in order to achieve the Company's revenue and cash flow targets. Such plans will require a significant level of capital expenditure in waste rock stripping in 2019 and 2020. Such expenditures and other working capital requirements may require the Company to seek additional financing. There is no guarantee that the Company will be able to successfully execute the programs mentioned above and to secure other sources of financing. In addition, the current import restrictions on F-grade coal by Chinese authorities will further affect the short term cash inflow and may in turn undermine the execution of the operation plan. If the import restrictions on F-grade coal continue for an indefinite period, or if the Company fails to execute the aforementioned programs, or is unable to secure additional capital financing, or otherwise restructure or refinance its business in order to address its cash requirements through June 30, 2020, then the Company is unlikely to have sufficient 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.

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

1. CORPORATE INFORMATION AND GOING CONCERN (CONTINUED)

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.

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

2. BASIS OF PREPARATION

2.1 Statement of compliance

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, 2019 were approved and authorized for issue by the Board of Directors of the Company on August 13, 2019.

2.2 Basis of presentation

These condensed consolidated interim financial statements have been prepared using accounting policies and methods of computation consistent with those applied in the Company's December 31, 2018 consolidated annual financial statements, except as disclosed below. These condensed consolidated interim financial statements do not include all the information and note disclosures required by IFRS for annual financial statements and therefore should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2018.

2.3 Adoption of new and revised standards and interpretations

The following new IASB standard was adopted by the Company on January 1, 2019.

IFRS 16	Leases[i]

(i) Effective for annual periods beginning on or after January 1, 2019

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

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

2. BASIS OF PREPARATION (CONTINUED)

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, 2018.

Adjustments recognized on adoption of IFRS 16

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

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

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

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet as at December 31, 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

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

	As at			
	June 30, 2019		**January 1, 2019**	
Buildings	**$**	**926**	$	1,159
Total right-of-use assets	**$**	**926**	$	1,159

2. BASIS OF PREPARATION (CONTINUED)

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

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

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

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

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

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

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

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

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

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

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

2. BASIS OF PREPARATION (CONTINUED)

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

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

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

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

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

2.4 Restatement of previously issued financial statements

On December 17, 2018, the Company announced that it had learned of certain information relating to past conduct engaged in by former senior executive officers and employees of the Company ("Former Management and Employees") which raised suspicions of serious fraud, misappropriation of Company assets and other criminal acts by the Former Management and Employees relating to prior transactions ("Suspicious Transactions") between 2016 and the first half of 2018 involving the Company, Inner Mongolia SouthGobi Energy Limited, a subsidiary of the Company, and certain coal trading and transportation companies, some of which are allegedly related to or controlled by the Former Management and Employees or their related persons. The Company filed a report with local police authorities in China in respect of certain of the Suspicious Transactions and, on December 17, 2018, the Board expanded the mandate of the Special Committee to include a formal investigation (the "Formal Investigation") of the Suspicious Transactions, the implicated Former Management and Employees, and their impact, if any, on the business and affairs of the Company.

On March 30, 2019, the Company announced that the Special Committee concluded the Formal Investigation and delivered a final report summarizing its key findings to the Board, which was adopted and approved at a meeting held on March 30, 2019.

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

2. BASIS OF PREPARATION (CONTINUED)

Based on the key findings of and information obtained from the Formal Investigation, the Company considered the resulting financial impact on its prior financial statements and restated certain items in the Company's financial statements for the years ended December 31, 2016 and December 31, 2017 (the "Prior Restatement"), as disclosed in the Company's audited annual consolidated financial statements and related management's discussion and analysis for the year ended December 31, 2018, copies of which are available under the Company's profile on SEDAR at www.sedar.com. The Prior Restatement reflects the impact of the misappropriation of assets as well as the reclassification of certain balances of assets in the prior years. With respect to the three and six months period ended June 30, 2018, the net effect of the Prior Restatement was a decrease in the net comprehensive loss of $1,582 and $2,005 for the respective periods. A summary of the requisite adjustments on the financial statements for the three and six months period ended June 30, 2018 is set forth in the table below:

Statement of comprehensive income extract	Three months ended June 30, 2018 (As previously reported)	Loss decrease/ (increase)	Three months ended June 30, 2018 (Restated)
Other operating expenses	$ (18,091)	$ 1,579	**$ (16,512)**
Finance income	140	(132)	**8**
Net loss attributable to equity holders of the Company	$ (26,603)	$ 1,447	**$ (25,156)**
Other comprehensive income for the period	898	135	**1,033**
Net comprehensive loss attributable to equity holders of the Company	$ (25,705)	$ 1,582	**$ (24,123)**

Statement of comprehensive income extract	Six months ended June 30, 2018 (As previously reported)	Loss decrease/ (increase)	Six months ended June 30, 2018 (Restated)
Other operating expenses	$ (19,429)	$ 2,160	**$ (17,269)**
Finance income	366	(290)	**76**
Net loss attributable to equity holders of the Company	$ (30,063)	$ 1,870	**$ (28,193)**
Other comprehensive loss for the period	(2,430)	135	**(2,295)**
Net comprehensive loss attributable to equity holders of the Company	$ (32,493)	$ 2,005	**$ (30,488)**

2. BASIS OF PREPARATION (CONTINUED)

2.5 Significant accounting judgments and estimates

Information about judgments and estimates in applying accounting policies that have the most significant effect on the amounts recognized in the Company's consolidated financial statements are included in Note 3.22 to the Company's December 31, 2018 consolidated annual financial statements. The significant accounting judgments and estimates remain substantially unchanged from December 31, 2018.

Liquidity and the going concern assumption

Management made a critical judgement that the Company will be able to continue operating until at least June 30, 2020 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. However, in order to continue as a going concern, the Company must generate sufficient operating cash flows, secure additional capital or otherwise pursue a strategic restructuring, refinancing, or other transactions to provide it with additional liquidity. Refer to Note 1 for details.

Review of carrying value of assets and impairment charges

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

Expected credit losses for trade and other receivables

The Company applies the IFRS 9 simplified approach to measuring expected credit losses on its trade receivables and estimates expected credit loss based on the possible default events on its trade and other receivables. The Company has determined that the loss allowance on its trade and other receivables was $21,412 (December 31, 2018: $20,005) as at June 30, 2019.

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, 2019, the Coal Division had 9 active customers with the largest customer accounting for 51% of revenues, the second largest customer accounting for 33% of revenues, the third largest customer accounting for 7% of revenues and the other customers accounting for the remaining 9% 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, 2019	$	**221,521**	$	**2,670**	$	**224,191**
As at December 31, 2018		223,200		4,406		227,606
Segment liabilities						
As at June 30, 2019	$	**107,500**	$	**161,538**	$	**269,038**
As at December 31, 2018		124,229		151,517		275,746
Segment revenues						
For the three months ended June 30, 2019	$	**32,479**	$	**-**	$	**32,479**
For the three months ended June 30, 2018		19,278		-		19,278
For the six months ended June 30, 2019	$	**69,290**	$	**-**	$	**69,290**
For the six months ended June 30, 2018		43,713		-		43,713
Segment profit/(loss)						
For the three months ended June 30, 2019	$	**(889)**	$	**2,981**	$	**2,092**
For the three months ended June 30, 2018 (Restated) (iv)		(23,853)		(1,303)		(25,156)
For the six months ended June 30, 2019	$	**2,285**	$	**1,956**	$	**4,241**
For the six months ended June 30, 2018 (Restated) (iv)		(25,806)		(2,387)		(28,193)
Impairment charge on assets (ii) (iii)						
For the three months ended June 30, 2019	$	**306**	$	**-**	$	**306**
For the three months ended June 30, 2018 (Restated) (iv)		14,834		-		14,834
For the six months ended June 30, 2019	$	**3,823**	$	**-**	$	**3,823**
For the six months ended June 30, 2018 (Restated) (iv)		15,356		-		15,356
Depreciation and amortization						
For the three months ended June 30, 2019	$	**5,743**	$	**139**	$	**5,882**
For the three months ended June 30, 2018		9,547		16		9,563
For the six months ended June 30, 2019	$	**11,863**	$	**265**	$	**12,128**
For the six months ended June 30, 2018		19,188		41		19,229
Share of earnings of a joint venture						
For the three months ended June 30, 2019	$	**375**	$	**-**	$	**375**
For the three months ended June 30, 2018		628		-		628
For the six months ended June 30, 2019	$	**827**	$	**-**	$	**827**
For the six months ended June 30, 2018		968		-		968

(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, 2019	$ 1,002	$ 5,999	$ 7,001
For the three months ended June 30, 2018	403	5,555	5,958
For the six months ended June 30, 2019	$ 2,012	$ 11,728	$ 13,740
For the six months ended June 30, 2018	1,110	10,822	11,932
Finance income			
For the three months ended June 30, 2019	$ 12	$ 4,293	$ 4,305
For the three months ended June 30, 2018 (Restated) (iv)	8	-	8
For the six months ended June 30, 2019	$ 29	$ 4,293	$ 4,322
For the six months ended June 30, 2018 (Restated) (iv)	18	58	76
Current income tax			
For the three months ended June 30, 2019	$ 801	$ -	$ 801
For the three months ended June 30, 2018	1,609	-	1,609
For the six months ended June 30, 2019	$ 2,240	$ -	$ 2,240
For the six months ended June 30, 2018	2,538	-	2,538

(i) The unallocated amount contains all amounts associated with the Corporate Division.
(ii) The impairment charges on assets for the three months ended June 30, 2019 relate to trade and other receivables (Note 11) and prepaid expenses and deposits. The impairment charges on assets for the six months ended June 30, 2019 relate to trade and other receivables (Note 11), inventories (Note 12) and prepaid expenses and deposits.
(iii) The impairment charge on assets for the three and six months ended June 30, 2018 relate to trade and other receivables (Note 11).
(iv) The segment loss, impairment charge on assets and finance income for the three and six months ended June 30, 2018 have been restated to reflect the impact of the key findings of and information obtained from the Formal Investigation. Refer to Note 2.4 for details.

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, 2019	$ -	$ -	$ 32,479	$ 32,479
For the three months ended June 30, 2018	-	-	19,278	19,278
For the six months ended June 30, 2019	$ -	$ -	$ 69,290	$ 69,290
For the six months ended June 30, 2018	-	-	43,713	43,713
Non-current assets				
As at June 30, 2019	$ 169,142	$ 535	$ 985	$ 170,662
As at December 31, 2018	161,002	140	683	161,825

(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 operating expenses by nature are summarized as follows:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018 (Restated) (i)	2019	2018 (Restated) (i)
Depreciation	**$ 3,521**	$ 8,672	**$ 8,411**	$ 15,091
Auditors' remuneration	**597**	179	**870**	290
Employee benefit expense (including directors' remuneration)				
Wages and salaries	**$ 2,762**	$ 2,495	**$ 5,356**	$ 4,984
Equity-settled share option expense (Note 21)	**14**	21	**28**	37
Pension scheme contributions	**384**	238	**691**	513
	$ 3,160	$ 2,754	**$ 6,075**	$ 5,534
Lease payments under operating leases	**$ 19**	$ 303	**$ 78**	$ 459
Foreign exchange loss/(gain)	**528**	742	**(1)**	(37)
Impairment of coal stockpile inventories (Note 12)	**-**	-	**3,466**	-
CIC service fee (Note 22)	**1,422**	395	**2,180**	978
Royalties (Note 6)	**2,338**	1,902	**4,577**	3,114
Provision for doubtful trade and and other receivables (Note 11)	**46**	14,834	**97**	15,356
Provision for prepaid expenses and deposits	**260**	-	**260**	-
Loss/(gain) on disposal of property, plant and equipment (Note 13)	**(29)**	(39)	**(29)**	28
Provision for commercial arbitration (Note 16)	**92**	230	**226**	454
Penalty on late settlement with trade payables	**-**	323	**-**	427
Loss on disposal of properties for resale	**14**	-	**14**	-
Mine operating costs and other	**15,297**	7,208	**27,994**	16,786
Total operating expenses	**$ 27,265**	$ 37,503	**$ 54,218**	$ 58,480

(i) The figures for the three and six months ended June 30, 2018 have been restated to reflect the impact of the key findings of and information obtained from the Formal Investigation. Refer to Note 2.4 for details. Royalties have been reclassified from revenue to cost of sales.

6. COST OF SALES

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

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Operating expenses	**$ 16,341**	$ 6,444	**$ 29,309**	$ 16,576
Share-based compensation expense	**3**	-	**5**	-
Depreciation and depletion	**2,479**	4,853	**6,258**	7,694
Royalties	**2,338**	1,902	**4,577**	3,114
Impairment of coal stockpile inventories	**-**	-	**3,466**	-
Cost of sales from mine operations	**21,161**	13,199	**43,615**	27,384
Cost of sales related to idled mine assets (i)	**870**	3,780	**1,821**	7,314
Cost of sales	**$ 22,031**	$ 16,979	**$ 45,436**	$ 34,698

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

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

6. COST OF SALES (CONTINUED)

Cost of inventories recognized as expense in cost of sales for the three months ended June 30, 2019 totaled $18,200 (2018: $9,956). Cost of inventories recognized as expense in cost of sales for the six months ended June 30, 2019 totaled $34,366 (2018: $21,804).

7. OTHER OPERATING EXPENSES

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

	Three months ended June 30,		Six months ended June 30,	
	2019	2018 (Restated) (i)	2019	2018 (Restated) (i)
Provision for doubtful trade and other receivables (Note 11)	**$ (46)**	$ (14,834)	**$ (97)**	$ (15,356)
Foreign exchange gain/(loss)	**(528)**	(742)	**1**	37
CIC service fee	**(1,422)**	(395)	**(2,180)**	(978)
Provision for commercial arbitration (Note 16)	**(92)**	(230)	**(226)**	(454)
Provision for prepaid expenses and deposits	**(260)**	-	**(260)**	-
Loss on disposal of properties for resale	**(14)**	-	**(14)**	-
Penalty on late settlement of trade payables	**-**	(323)	**-**	(427)
Gain/(loss) on disposal of property, plant and equipment (Note 13)	**29**	39	**29**	(28)
Others	**-**	(27)	**-**	(63)
Other operating expenses	**$ (2,333)**	$ (16,512)	**$ (2,747)**	$ (17,269)

(i) The figures for the three and six months ended June 30, 2018 have been restated to reflect the impact of the key findings of and information obtained from the Formal Investigation. Refer to Note 2.4 for details.

8. FINANCE COSTS AND INCOME

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

	Three months ended, June 30,		Six months ended, June 30,	
	2019	2018	2019	2018
Interest expense on convertible debenture (Note 19)	**$ 5,824**	$ 5,516	**$ 11,521**	$ 10,810
Unrealized loss on embedded derivatives in convertible debenture (Note 19)	**8**	32	**9**	-
Value added tax on interest from intercompany loan	**798**	-	**1,596**	-
Interest expense on borrowings (Note 17)	**247**	358	**425**	1,011
Finance costs on leased assets (Note 18)	**32**	-	**75**	-
Loan arrangement fee	**-**	6	**-**	19
Accretion of decommissioning liability	**92**	46	**114**	92
Finance costs	**$ 7,001**	$ 5,958	**$ 13,740**	$ 11,932

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

8. FINANCE COSTS AND INCOME (CONTINUED)

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

	Three months ended, June 30,		Six months ended, June 30,	
	2019	2018 (Restated) (i)	2019	2018 (Restated) (i)
Unrealized gain on embedded derivatives in convertible debenture (Note 19)	**$ -**	$ -	**$ -**	$ 58
Interest income	**12**	8	**29**	18
IFRS 9 adjustment on convertible debenture (Note 19)	**4,293**	-	**4,293**	-
Finance income	**$ 4,305**	$ 8	**$ 4,322**	$ 76

(i) The figures for the three and six months ended June 30, 2018 have been restated to reflect the impact of the key findings of and information obtained from the Formal Investigation. Refer to Note 2.4 for details.

9. TAXES

The Canadian statutory tax rate was 27% (2018: 27%) on the estimated assessable profits arising in Canada during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Company operates.

	Three months ended, June 30,		Six months ended, June 30,	
	2019	2018	2019	2018
Current - Canada				
Charge for the period	**$ -**	$ -	**$ -**	$ -
Current - elsewhere				
Charge for the period	**1,128**	1,348	**2,240**	2,277
Underprovision/(overprovision) in prior periods	**(327)**	261	**-**	261
Total tax charge for the period	**$ 801**	$ 1,609	**$ 2,240**	$ 2,538

10. EARNINGS/(LOSS) PER SHARE

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

	Three months ended June 30,		Six months ended June 30,	
	2019	2018 (Restated) (i)	2019	2018 (Restated) (i)
Net profit/(loss)	**$ 2,092**	$ (25,156)	**$ 4,241**	$ (28,193)
Weighted average number of shares	**272,703**	272,644	**272,703**	272,641
Basic and diluted earnings/(loss) per share	**$ 0.01**	$ (0.09)	**$ 0.02**	$ (0.10)

(i) The figures for the three and six months ended June 30, 2018 have been restated to reflect the impact of the key findings of and information obtained from the Formal Investigation. Refer to Note 2.4 for details.

Potentially dilutive items not included in the calculation of diluted earnings per share for the three and six months ended June 30, 2019 include the CIC Convertible Debenture (Note 19) and stock options (Note 21) that were anti-dilutive.

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

11. TRADE AND OTHER RECEIVABLES

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

	As at June 30, 2019	As at December 31, 2018
Trade receivables	**$ 1,219**	$ 2,710
Other receivables	**1,216**	2,336
Total trade and other receivables	**$ 2,435**	$ 5,046

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

	As at June 30, 2019	As at December 31, 2018
Less than 1 month	**$ 2,018**	$ 4,952
1 to 3 months	**365**	49
3 to 6 months	**52**	45
Over 6 months	**-**	-
Total trade and other receivables	**$ 2,435**	$ 5,046

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

The Company has determined that the loss allowance on its trade and other receivables was $21,412 as at June 30, 2019 (December 31, 2018: $20,005), based upon an expected loss rate of 10% for trade and other receivables 60 days past due and 100% for trade and other receivables 180 days past due. The closing allowances for trade and other receivables as at June 30, 2019 reconcile to the opening loss allowances as follows:

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

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

12. INVENTORIES

The Company's inventories consist of the following amounts:

	As at	
	June 30, 2019	December 31, 2018
Current inventories		
Coal stockpiles	**$ 27,638**	$ 31,783
Materials and supplies	**14,720**	15,326
	42,358	47,109
Non-current inventories		
Coal stockpiles	**10,241**	-
Total inventories	**$ 52,599**	$ 47,109

Cost of sales for the three months and six months ended June 30, 2019 includes an impairment loss of $nil and $3,466, respectively related to the Company's coal stockpile inventories. Nil impairment was recorded during three months and six months ended June 30, 2018.

Coal stockpile inventories of $10,241 are not expected to be utilized or sold within 12 months and are therefore classified as non-current inventories.

13. 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, 2019	$ 284,647	$ 25,827	$ 72,734	$ 197,726	$ 26,709	$ 607,643
Change in accounting policy due to IFRS 16	**-**	**-**	**1,159**	**-**	**-**	**1,159**
Restated balance, January 1, 2019	**$ 284,647**	**$ 25,827**	**$ 73,893**	**$ 197,726**	**$ 26,709**	**$ 608,802**
Additions	**1,822**	**540**	**-**	**9,569**	**-**	**11,931**
Disposals	**(3,963)**	**-**	**-**	**-**	**(479)**	**(4,442)**
Transfers	**-**	**101**	**-**	**-**	**(101)**	**-**
Exchange realignment	**(1,470)**	**(71)**	**(322)**	**(754)**	**(62)**	**(2,679)**
As at June 30, 2019	**$ 281,036**	**$ 26,397**	**$ 73,571**	**$ 206,541**	**$ 26,067**	**$ 613,612**
Accumulated depreciation and impairment charges						
As at January 1, 2019	$ (266,129)	$ (23,926)	$ (52,915)	$ (102,013)	$ (23,759)	$ (468,742)
Depreciation for the period	**(6,533)**	**(318)**	**(2,611)**	**(2,666)**	**-**	**(12,128)**
Eliminated on disposals	**3,922**	**-**	**-**	**-**	**-**	**3,922**
Exchange realignment	**1,377**	**75**	**229**	**162**	**-**	**1,843**
As at June 30, 2019	**$ (267,363)**	**$ (24,169)**	**$ (55,297)**	**$ (104,517)**	**$ (23,759)**	**$ (475,105)**
Carrying amount						
As at January 1, 2019, restated	$ 18,518	$ 1,901	$ 20,978	$ 95,713	$ 2,950	$ 140,060
As at June 30, 2019	**$ 13,673**	**$ 2,228**	**$ 18,274**	**$ 102,024**	**$ 2,308**	**$ 138,507**

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

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

13.1 Non-depreciable assets

The non-depreciable assets include the construction in progress and deposits on purchasing items of property, plant and equipment of $729 (December 31, 2018: $1,210), 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.

13.2 Pledge on items of property, plant and equipment

As at June 30, 2019, certain of the Company's property, plant and equipment of $958 (December 31, 2018: $2,643) were pledged as security for a bank loan granted to the Company (Note 17).

13.3 Items of property, plant and equipment held under leases

Carrying value of leased assets as at June 30, 2019 was $1,078 (January 1, 2019 (Restated): $1,344).

14. INVESTMENTS IN JOINT VENTURES

The Company's investment consists of the following amounts:

	As at June 30, 2019	As at December 31, 2018
Non-current investments in joint ventures		
Investment in RDCC LLC	**$ 18,251**	$ 18,822
Investment in Nariin Sukhait Erchim LLC ("NSE")	**9**	9
Total investments	**$ 18,260**	$ 18,831

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

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

	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Balance, beginning of period	**$ 18,823**	$ 21,142	**$ 18,822**	$ 21,052
Dividend received	**(764)**	(660)	**(1,294)**	(1,148)
Share of earnings of a joint venture	**375**	628	**827**	968
Share of other comprehensive loss of a joint venture	**(183)**	(521)	**(104)**	(283)
Balance, end of period	**$ 18,251**	$ 20,589	**$ 18,251**	$ 20,589

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

14. INVESTMENTS IN JOINT VENTURES (CONTINUED)

For the three and six months ended June 30, 2019, RDCC LLC recognized toll fee revenue of $1,839 and $3,676, respectively (For the three and six months ended June 30, 2018: $2,503 and $4,060, respectively). For the three and six months ended June 30, 2019, RDCC LLC had a net income of $925 and $2,056, respectively (For the three and six months ended June 30, 2018: $1,570 and $2,419, respectively).

15. TRADE AND OTHER PAYABLES

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

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

	As at	
	June 30, 2019	**December 31, 2018**
Less than 1 month	**$ 28,295**	$ 34,927
1 to 3 months	**13,261**	16,336
3 to 6 months	**11,757**	5,446
Over 6 months	**35,851**	42,867
Total trade and other payables	**$ 89,164**	$ 99,576

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

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

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

16. PROVISION FOR COMMERCIAL ARBITRATION (CONTINUED)

As of the date hereof, the Company has not paid the November 2018 and January 2019 monthly payments due under the Settlement Deed. On March 5, 2019, SGS received a notice from First Concept claiming that the Company is default under the Settlement Deed and demanding payment of the full amount of the outstanding monthly payments due under the Settlement Deed by no later than March 11, 2019, otherwise First Concept intends to commence legal action against SGS pursuant to the Settlement Deed. The Company is consulting with its independent litigation counsel regarding this matter; however, as a default is only triggered under the Settlement Deed where there has been a failure to pay two or more consecutive monthly instalment payments, the Company is of the view that SGS is not in default under the Settlement Deed. In the event that First Concept commences legal action against SGS regarding this matter, the Company intends to take appropriate steps to respond to such legal proceedings in the best interests of the Company through independent litigation counsel which has been retained by the Company for this purpose.

As at June 30, 2019, the outstanding amount payable to First Concept amounted to $7,735 (December 31, 2018: $12,508).

17. INTEREST-BEARING BORROWINGS

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

	As at	
	June 30, 2019	**December 31, 2018**
Turquoise Hill Loan Facility (i)	**$ -**	$ 595
Bank loan (ii)	**2,835**	3,543
Total interest-bearing borrowings	**$ 2,835**	$ 4,138

(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.

The Company repaid $224 during the second quarter of 2019 and, as of the date hereof, the principal and accrued interest of the TRQ Loan has been fully repaid.

(ii) Bank Loan

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

- 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

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

17. INTEREST-BEARING BORROWINGS (CONTINUED)

- Certain items of property, plant and equipment were pledged as security for the 2018 Bank Loan. As at June 30, 2019, the net book value of the pledged items of property, plant and equipment was $958 (December 31, 2018: $2,643).

As at June 30, 2019, the outstanding principal balance for the 2018 Bank Loan was $2,800 (December 31, 2018: $2,800) and the Company owed accrued interest of $35 (December 31, 2018: $43). $700 outstanding principal balance of another bank loan from the Bank, which was settled during the first quarter of 2019, was included in the balance as at December 31, 2018.

18. LEASE LIABILITIES

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

At June 30, 2019, the total future minimum lease payments and their present values were as follows:

	Minimum lease payments As at		Present value of minimum lease payments As at	
	June 30, 2019	**December 31, 2018**	**June 30, 2019**	**December 31, 2018**
Amounts payable:				
Within one year	**$ 660**	$ 90	**$ 573**	$ 83
In the second year	**336**	25	**326**	24
In the third to fifth years, inclusive	**-**	6	**-**	6
Total minimum lease payments	**$ 996**	$ 121	**$ 899**	$ 113
Future finance charges	**(97)**	(8)		
Total net lease payables	**$ 899**	$ 113		
Portion classified as current liabilities	**(573)**	(83)		
Non-current portion	**$ 326**	$ 30		

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, 2019.

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.

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

19. CONVERTIBLE DEBENTURE (CONTINUED)

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, 2019	**December 31, 2018**
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$0.14
Historical volatility	**81%**	82%
Risk free rate of return	**1.66%**	2.11%
Foreign exchange spot rate (CAD$ to U.S. Dollar)	**0.76**	0.73
Forward foreign exchange rate curve (CAD$ to U.S. Dollar)	**0.764 - 0.769**	0.731 - 0.746

19.4 Presentation

Based on the Company's valuation as at June 30, 2019, the fair value of the embedded derivatives increased by $9 compared to that at December 31, 2018 and increased by $8 compared to that at March 31, 2019. The changes in fair value were recorded as finance expense for the three and six months ended June 30, 2019.

For the three months ended June 30, 2019, the Company recorded interest expense of $5,824 related to the convertible debenture as a finance cost (2018: $5,516). For the six months ended June 30, 2019, the Company recorded interest expense of $11,521 related to the convertible debenture as a finance cost (2018: $10,810). 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%.

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

19. CONVERTIBLE DEBENTURE (CONTINUED)

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

	Three months ended June 30,		Six months ended June 30,	
	2019	**2018**	**2019**	**2018**
Balance, beginning of period	**$ 145,599**	$ 123,047	**$ 139,901**	$ 116,374
Interest expense on convertible debenture	**5,824**	5,516	**11,521**	10,810
Increase/(decrease) in fair value of embedded derivatives	**8**	32	**9**	(58)
IFRS 9 fair value adjustment	**(4,293)**	-	**(4,293)**	1,469
Balance, end of period	**$ 147,138**	$ 128,595	**$ 147,138**	$ 128,595

The convertible debenture balance consists of the following amounts:

	As at	
	June 30, 2019	**December 31, 2018**
Current convertible debenture		
Interest payable	**$ 57,418**	$ 46,096
Debt host	**-**	93,540
Fair value of embedded derivatives	**-**	265
	57,418	139,901
Non-current convertible debenture		
Debt host	**89,446**	-
Fair value of embedded derivatives	**274**	-
	89,720	-
Total convertible debenture	**$ 147,138**	$ 139,901

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 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.

On April 23, 2019, the Company executed the 2019 Deferral Agreement with CIC in relation to a deferral and revised repayment schedule in respect of (i) $41,797 of the Outstanding Interest Payable under the CIC Convertible Debenture and the June 2017 Deferral Agreement; and (ii) $27,934 of cash and PIK Interest payments payable to Land Breeze II S.a.r.l. under the CIC Convertible Debenture from April 23, 2019 to and including May 19, 2020. Pursuant to Section 501(c) of the TSX Company Manual, the 2019 Deferral Agreement was approved at the Company's adjourned annual and special meeting of shareholders on June 13, 2019.

19. CONVERTIBLE DEBENTURE (CONTINUED)

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

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

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

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

Under certain conditions, including the non-payment of interest amounts as the same become due or the Common Shares being suspended or halted from trading on any stock exchange for a period of longer than five trading days, 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.

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, 2019, the Company had 272,703 Common Shares outstanding (December 31, 2018: 272,703) and no preferred shares outstanding (December 31, 2018: nil).

20.2 Accumulated deficit and dividends

At June 30, 2019, the Company has accumulated a deficit of $1,177,569 (December 31, 2018: $1,181,613). No dividends have been paid or declared by the Company since inception.

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, 2019 and June 30, 2018.

The total share-based compensation expenses for the three months ended June 30, 2019 was $14 (2018: $21). Share-based compensation expenses of $11 (2018: $21) has been allocated to administration expenses and $3 share-based compensation expenses has been allocated to cost of sales (2018: nil).

The total share-based compensation expenses for the six months ended June 30, 2019 was $28 (2018: $37). Share-based compensation expenses of $23 (2018: $37) has been allocated to administration expenses and $5 share-based compensation expenses has been allocated to cost of sales (2018: nil).

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

21. SHARE-BASED PAYMENTS (CONTINUED)

21.2 Outstanding stock options

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

	Six months ended June 30, 2019			Six months ended June 30, 2018		
	Number of options		Weighted average exercise price (CAD$)	Number of options		Weighted average exercise price (CAD$)
Balance, beginning of period	**4,695**	**$**	**0.23**	2,290	$	0.38
Options granted	**-**		**-**	-		-
Options forfeited	**-**		**-**	-		-
Options expired	**(609)**		**0.31**	(350)		0.30
Balance, end of period	**4,086**	**$**	**0.22**	1,940	$	0.38

The stock options outstanding and exercisable as at June 30, 2019 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)
$0.13 - $0.29	**2,955**	**$**	**0.14**	**3.93**	**200**	**$**	**0.29**	**1.46**
$0.33 - $0.39	**950**		**0.34**	**2.77**	**950**		**0.34**	**2.77**
$0.58 - $0.92	**181**		**0.87**	**0.67**	**181**		**0.87**	**0.67**
	4,086	**$**	**0.22**	**3.52**	**1,331**	**$**	**0.40**	**2.29**

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, 2019:

- CIC – CIC is a major shareholder of the Company, CIC holds approximately 23.75% of the issued and outstanding Common Shares as at June 30, 2019. The Amended and Restated Cooperation Agreement with Fullbloom states that an amount of service fee calculated based on 2.5% of the revenue shall be paid to CIC on a quarterly basis. During the three and six months ended June 30, 2019, $1,422 and $2,180 was recorded, respectively (three and six months ended June 30, 2018: $395 and $978, respectively).

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

22. RELATED PARTY TRANSACTIONS (CONTINUED)

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,	
	2019	**2018**	**2019**	**2018**
Finance costs	**$ 5,824**	$ 5,516	**$ 11,521**	$ 10,810
Service fee	**1,422**	395	**2,180**	978
Related party expenses	**$ 7,246**	$ 5,911	**$ 13,701**	$ 11,788

23. FAIR VALUE MEASUREMENTS

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

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

- The fair value of financial instruments that are not traded in an active market are determined using generally accepted valuation models using inputs that are directly (i.e. prices) or indirectly (i.e. derived from prices) observable. The fair value of the embedded derivatives within the convertible debenture (Note 19) is determined using a Monte Carlo simulation. None of the fair value change in the embedded derivatives for the three months ended June 30, 2019 is related to a change in the credit risk of the convertible debenture. All of the change in fair value is associated with changes in market conditions.

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

The following table provides an analysis of the Company's financial instruments that are measured 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.

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

23. FAIR VALUE MEASUREMENTS (CONTINUED)

	As at June 30, 2019			
Recurring measurements	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial liabilities measured at fair value				
Convertible debenture - embedded derivatives	$ -	$ -	$ 274	$ 274
Total financial liabilities measured at fair value	**$ -**	**$ -**	**$ 274**	**$ 274**

	As at June 30, 2019			
Financial liabilities disclosed at fair value	**Level 1**	**Level 2**	**Level 3**	**Total**
Convertible debenture - debt host	-	-	250,000	250,000
Total financial liabilities disclosed at fair value	**$ -**	**$ -**	**$ 250,000**	**$ 250,000**

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

	As at December 31, 2018			
Financial liabilities disclosed at fair value	**Level 1**	**Level 2**	**Level 3**	**Total**
Convertible debenture - debt host	-	-	250,000	250,000
Total financial liabilities disclosed at fair value	**$ -**	**$ -**	**$ 250,000**	**$ 250,000**

There were no transfers between Level 1, 2 and 3 for the three and six months ended June 30, 2019.

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,	
	2019	**2018 (Restated)**
Addition to decommissioning liability	**$ 315**	$ 73
Amortization of deferred stripping being capitalized	**1,792**	7,148
Trade payables offset by fixed assets	**479**	2,090
Trade payables offset by properties for resale	**524**	-
Trade receivables offset by deferred revenue	**-**	5,573

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

24. SUPPLEMENTAL CASH FLOW INFORMATION (CONTINUED)

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, 2019	Six months ended June 30, 2018 (Restated)
Increase in inventories	**$ (7,240)**	$ (1,020)
Decrease/(increase) in trade and other receivables and notes receivables	**4,718**	(6,035)
Increase in prepaid expenses and deposits	**(754)**	(4,036)
Increase/(decrease) in trade and other payables	**(11,304)**	10,620
Increase in deferred revenue	**1,301**	4,870
Decrease in provision for commercial arbitration	**(5,000)**	-
Reclass of refund customers' deposits as financing activities	**12,382**	-
Net change in non-cash working capital items	**$ (5,897)**	$ 4,399

25. COMMITMENTS FOR EXPENDITURE

As at June 30, 2019, 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, 2019				
Capital expenditure commitments	**$ 827**	**$ -**	**$ -**	**$ 827**
Operating expenditure commitments	**13,159**	**177**	**1,567**	**14,903**
Commitments	**$ 13,986**	**$ 177**	**$ 1,567**	**$ 15,730**
As at December 31, 2018				
Capital expenditure commitments	$ 1,254	$ -	$ -	$ 1,254
Operating expenditure commitments	9,783	970	1,798	12,551
Commitments	$ 11,037	$ 970	$ 1,798	$ 13,805

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").

26. CONTINGENCIES (CONTINUED)

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.

On consent of the plaintiff, the former senior officers and directors, originally sued as defendants, were withdrawn from the Class Action in December 2018.

Counsel for the parties have appeared in two case conferences before the motions judge. A procedure to fix the process and timing leading up to the trial of the action has been settled in broad terms including the favourable prospect of an early trial based to a large extent on the existing record. The details of the final process are being negotiated between counsel. A third case conference may be necessary.

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, 2019 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.

26. CONTINGENCIES (CONTINUED)

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, 2019 is not required.

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, 2019, management has assessed that recognition of a provision for uncertain tax position is not necessary.

26.4 Mongolian royalties

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

(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, 2019	December 31, 2018
Denominated in U.S. Dollars	**$ 649**	$ 2,207
Denominated in Chinese Renminbi	**2,237**	4,514
Denominated in Mongolian Tugriks	**504**	123
Denominated in Canadian Dollars	**293**	33
Denominated in Hong Kong Dollars	**452**	82
Cash	**$ 4,135**	$ 6,959

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, 2019	December 31, 2018
Increase/decrease in foreign exchange rate against respective functional currency		
+5%	**$ 770**	$ 567
–5%	**$ (770)**	$ (567)

A2. COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has, throughout the six months ended June 30, 2019, 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, 2019.

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, 2019.

A5. SUBSTANTIAL SHAREHOLDERS

As at June 30, 2019, 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 [(b)]	Interest of controlled corporation	64,766,591	23.75%
CIC [(b)]	Interest of controlled corporation	64,766,591	23.75%
Novel Sunrise [(c)]	Beneficial	46,358,978	17.00%
Hope Rosy Limited [(c)]	Interest of controlled corporation	46,358,978	17.00%
China Cinda (HK) Investments Management Company Limited [(c)]	Interest of controlled corporation	46,358,978	17.00%
China Cinda (HK) Holdings Company Limited [(c)]	Interest of controlled corporation	46,358,978	17.00%
China Cinda Asset Management Co., Ltd. [(c)]	Interest of controlled corporation	46,358,978	17.00%
The Ministry of Finance of the People's Republic of China ("MOF") [(c)]	Interest of controlled corporation	46,358,978	17.00%
Voyage Wisdom Limited [(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, which is wholly owned by CIC. Accordingly, Fullbloom and CIC are deemed to be interested in shares held by Land Breeze II S.a.r.l. and CIC.
(c) Novel Sunrise is a wholly-owned subsidiary of Hope Rosy Limited, which is a wholly-owned subsidiary of China Cinda (HK) Investments Management Company Limited. China Cinda (HK) Investments Management Company Limited is a wholly-owned subsidiary of China Cinda (HK) Holdings Company Limited, which is wholly owned by China Cinda Asset Management Co. Ltd. China Cinda Asset Management Co., Ltd. is 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, 2019.
(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, 2019 (i.e. 272,702,835 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, 2019.

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

As at June 30, 2019, 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	-	-	-	-	700,000	700,000	0.26%
Jin Lan Quan	-	-	-	-	550,000	550,000	0.20%
Yingbin Ian He	-	-	-	-	400,000	400,000	0.15%
Shougao Wang	-	-	-	-	400,000	400,000	0.15%
Wen Yao	-	-	-	-	-	-	-
Ben Liu	-	-	-	-	-	-	-
Zhiwei Chen	-	-	-	-	-	-	-
Xiaoxiao Li	-	-	-	-	-	-	-
Former Directors							
Aminbuhe [(1)]	-	-	25,768,162	-	-	25,768,162	9.45%
Yulan Guo [(2)]	-	-	25,768,162	-	-	25,768,162	9.45%
Ningqiao Li [(3)]	-	-	25,768,162	-	-	25,768,162	9.45%

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, 2019. .
(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, 2019.
(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, 2019.
(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, 2019 (i.e. 272,702,835 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, 2019.

(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 21 hereof. The following table discuss movements in the Company's share options during the six month ended June 30, 2019.

	Number of share options								
Name	At January 1, 2019	Granted during the period	Exercised during the period	Forfeited during the period	Expired during the period	At June 30, 2019	Date of grant of share options	Exercise period of share options	Exercise price (CAD$ per share)
Directors									
Mao Sun	100,000	-	-	-	-	100,000	December 14, 2015	December 14, 2016 - December 14, 2020	0.29
	100,000	-	-	-	-	100,000	November 16, 2016	November 16, 2017 - November 16, 2021	0.33
	100,000	-	-	-	-	100,000	November 16, 2016	November 16, 2018 - November 16, 2021	0.33
	200,000	-	-	-	-	200,000	June 30, 2017	June 30, 2018 - June 30, 2022	0.33
	200,000	-	-	-	-	200,000	July 03, 2018	July 03, 2019 - July 03, 2023	0.13
	700,000	**-**	**-**	**-**	**-**	**700,000**			
Jin Lan Quan	100,000	-	-	-	-	100,000	December 14, 2015	December 14, 2016 - December 14, 2020	0.29
	75,000	-	-	-	-	75,000	November 16, 2016	November 16, 2017 - November 16, 2021	0.33
	75,000	-	-	-	-	75,000	November 16, 2016	November 16, 2018 - November 16, 2021	0.33
	150,000	-	-	-	-	150,000	June 30, 2017	June 30, 2018 - June 30, 2022	0.33
	150,000	-	-	-	-	150,000	July 03, 2018	July 03, 2019 - July 03, 2023	0.13
	550,000	**-**	**-**	**-**	**-**	**550,000**			
Yingbin Ian He	100,000	-	-	-	-	100,000	June 5, 2017	June 5, 2018 - June 5, 2022	0.39
	150,000	-	-	-	-	150,000	June 30, 2017	June 30, 2018 - June 30, 2022	0.33
	150,000	-	-	-	-	150,000	July 03, 2018	July 03, 2019 - July 03, 2023	0.13
	400,000	**-**	**-**	**-**	**-**	**400,000**			
Shougao Wang	400,000	-	-	-	-	400,000	August 16, 2018	August 16, 2019 - August16, 2023	0.13
	400,000	**-**	**-**	**-**	**-**	**400,000**			
Wen Yao	**-**	**-**	**-**	**-**	**-**	**-**			
Ben Liu	**-**	**-**	**-**	**-**	**-**	**-**			
Zhiwei Chen	**-**	**-**	**-**	**-**	**-**	**-**			
Xiaoxiao Li	**-**	**-**	**-**	**-**	**-**	**-**			
Former Directors									
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	**2,650,000**	**-**	**-**	**-**	**(600,000)**	**2,050,000**			
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
	1,855,000	-	-	-	-	1,855,000	August 16, 2018	August 16, 2019 - August 16, 2023	0.13
Total for other share option holders	**2,045,462**	**-**	**-**	**-**	**(8,885)**	**2,036,577**			
Total	**4,695,462**	**-**	**-**	**-**	**(608,885)**	**4,086,577**			