SOUTHGOBI RESOURCES LTD.
南戈壁資源有限公司*

(A company continued under the laws of British Columbia, Canada with limited liability)

(Hong Kong Stock Code: 1878)

(Toronto Stock Code: SGQ)

SouthGobi announces fourth quarter and full year 2018 financial and operating results

SouthGobi Resources Ltd. (the "**Company**" or "**SouthGobi**") today announces its financial and operating results for the quarter and the year ended December 31, 2018.

Please see the attached announcement for more details. The information per the attached announcement is available on the SEDAR website at www.sedar.com and the website of the Hong Kong Stock Exchange at www.hkexnews.hk.

By order of the Board
SouthGobi Resources Ltd.
Mao Sun
Interim Independent Lead Director

Vancouver, March 31, 2019
Hong Kong, March 31, 2019

As at the date of this announcement, the executive director of the Company is Mr. Shougao Wang; the independent non-executive directors are Messrs. Yingbin Ian He, Mao Sun and Ms. Jin Lan Quan; and the non-executive directors are Messrs. Wen Yao, Zhiwei Chen, Xiaoxiao Li and Ms. Lan Cheng.

* *For identification purposes only*

March 31, 2019

SOUTHGOBI RESOURCES ANNOUNCES FOURTH QUARTER AND FULL YEAR 2018 FINANCIAL AND OPERATING RESULTS

HONG KONG – SouthGobi Resources Ltd. (**TSX: SGQ, HK: 1878**) (the "Company" or "SouthGobi") today announces its financial and operating results for the quarter and the year ended December 31, 2018. All figures are in U.S. dollars ("USD") unless otherwise stated.

SIGNIFICANT EVENTS AND HIGHLIGHTS

The Company's significant events and highlights for the year ended December 31, 2018 and the subsequent period to March 31, 2019 are as follows:

- ***Operating Results*** – With a higher proportion of sales made through Inner Mongolia SouthGobi Energy Co., Ltd. ("IMSGE"), a subsidiary of the Company, in 2018, the Company experienced an increase in the average selling price of coal from $28.3 per tonne in 2017 to $37.1 per tonne in 2018. The Company sold 2.8 million tonnes in 2018 as compared to 4.7 million tonnes in 2017, which was mainly as a result of the delays in the custom clearance process at the Ceke border which the Company has been experiencing since July 2017, as well as the decreased production level for 2018.

- ***Financial Results*** – The Company recorded a gross profit of $24.0 million in 2018 compared to $15.1 million in 2017, while a $10.5 million loss from operations was recorded in 2018 compared to a $14.6 million loss from operations in 2017 (Restated). The improvement of overall financial results when compared to 2017 is as a result of the Company experiencing a higher average selling price for coal in China during the year.

- ***Wash plant*** – The construction of the wash plant at the Ovoot Tolgoi mine was completed, and commissioning at the wash plant commenced, in October 2018. The Company sold 0.2 million tonnes of washed coal in the fourth quarter of 2018. The Company is in the process of making improvements to the wash plant in order to enhance the operational efficiency, as well as the output throughput. 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.

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

  As of the date of this press release, the Company: (i) has neither paid the Outstanding Cash Interest Payable nor issued the PIK Interest shares to CIC within the cure period provided for under the CIC Convertible Debenture; and (ii) has not agreed upon a repayment plan for such amounts with CIC. Consequently, the Company is in default under the CIC Convertible Debenture and the June 2017 Deferral Agreement. Furthermore, the Common Shares have now been suspended from trading on The Stock Exchange of Hong Kong Limited ("HKEX") and the Toronto Stock Exchange ("TSX"), for a period of more than 5 trading days since December 17, 2018 ("Trading Suspension") , which represents another event of default under the CIC Convertible Debenture. Pursuant to the terms of the CIC Convertible Debenture and the June 2017 Deferral Agreement, CIC may, at its discretion, provide notice to the Company and declare all principal, interest and other amounts owing under the CIC Convertible Debenture and the June 2017 Deferral Agreement immediately due and payable, and take steps to enforce payment thereof, which would have a material adverse effect on the business and operations of the Company and may negatively affect the price and volatility of the Common Shares and any investment in such shares could suffer a significant decline or total loss in value. As of the date of this press release, the Company has received no indication from CIC of any intention to deliver a notice of default under the CIC Convertible Debenture and the June 2017 Deferral Agreement or to accelerate the payment of amounts outstanding under the CIC Convertible Debenture and the June 2017 Deferral Agreement.

  The Company has been in discussions with CIC for a deferral of the Outstanding Cash Interest Payable and the PIK Interest Shares; however, there can be no assurance that a favorable outcome will be reached.

As a consequence of the Company not entering into a deferral agreement with CIC as at December 31, 2018, International Accounting Standard ("IAS") 1 requires the Company to classify the entire balance of the CIC Convertible Debenture as a current liability as at December 31, 2018, notwithstanding the fact that CIC has not indicated any intention to deliver notice of default or accelerate the maturity of the CIC Convertible Debenture. The Company anticipates that both the debt host and the fair value of the embedded derivative will be classified as a non-current liability upon the execution of a deferral agreement, unless a future event of default occurs under the terms of the CIC Convertible Debenture.

- ***Notice of Legal Proceedings from a Former Customer*** – On September 20, 2018, the Company announced that IMSGE had received a court summons (the "Summons") from the Ejinaqi People's Court of Inner Mongolia Autonomous Region of China (the "Ejinaqi Court") in relation to a dispute over certain coal sales contracts with Jiayuguan Xiyuan Trading Co., Ltd ("Xiyuan"), a former customer of IMSGE.

  According to the Summons, Xiyuan applied to the Ejinaqi Court claiming that IMSGE should repay a sum of RMB19.4 million (approximately $2.8 million) to Xiyuan, comprised of RMB19.1 million of coal prepayments and RMB0.3 million of interest. Xiyuan also claimed against Ejinaqi Fulemeng Energy Industry Co., Ltd. ("FLM") for joint liability of the above sums, as it alleged that FLM acted as an agent for IMSGE to receive coal prepayment and deliver coal on behalf of IMSGE.

  On January 24, 2019, the Company received noticed that the Ejinaqi Court rendered a judgement allowing an application by Xiyuan to voluntarily withdraw its lawsuit against IMSGE and FLM. Xiyuan's application cited a lack of evidence.

- ***Notice of Arbitration*** – On January 10, 2018, the Company received a confidential partial ruling (final except as to costs) (the "Arbitration Award") with respect to an arbitration proceeding in Hong Kong related to a dispute concerning a coal supply agreement (as amended) between SouthGobi Sands LLC ("SGS"), a subsidiary of the Company, and First Concept Industrial Group Limited ("First Concept") (together the "Coal Supply Agreement") (the "Arbitration").

  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 was final, except as to costs which were reserved for a future award.

On November 14, 2018, the Company executed a deed of settlement ("Settlement Deed") with First Concept in respect of the Arbitration Award. 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 ("Settlement Sum"), 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.

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 in default under the Settlement Deed and demanding payment of the full amount of the outstanding monthly payments due under the Settlement Deed, 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 December 31, 2018, the outstanding amount payable to First Concept amounted to $12.5 million (December 31, 2017: $13.9 million).

- ***Special Committee –*** On November 17, 2017, the Board formed a special committee of independent non-executive directors (the "Special Committee") to initiate a formal internal investigation into certain legal charges against Mr. Aminbuhe (the Company's former Chairman and Chief Executive Officer) and the connection, if any, between those charges and the Company and his conduct as Chairman and Chief Executive Officer of the Company.

On May 7, 2018, the Company provided an update on the status of its ongoing internal investigation into the charges against Mr. Aminbuhe, and reported that, to the best of its knowledge, the Chinese authorities had not laid charges against Mr. Aminbuhe, made any public statement of the basis for Mr. Aminbuhe's arrest or sought information from the Company in respect of this matter. The Company further reported that it was not aware of any definitive information which would suggest that Mr. Aminbuhe's arrest is related to any misconduct directly related to his position as Chairman and Chief Executive Officer of the Company.

With the assistance of its external legal counsel, the Special Committee has conducted an extensive review of the records involving or relating to Mr. Aminbuhe which are in the Company's possession (including communications to and from Mr. Aminbuhe's email account with the Company, relevant public disclosure and other internal documents), and interviewed several directors and senior officers of the Company who had direct contact with Mr. Aminbuhe during his tenure as Chairman and Chief Executive Officer of the Company.

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, IMSGE 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. The Special Committee engaged Blake, Cassels & Graydon LLP as independent Canadian legal counsel, Zhong Lun Law Firm, as independent Chinese legal counsel and Ernst & Young (China) Advisory Limited (the "Forensic Accountant"), as forensic accountants, to assist in the formal investigation.

On March 15, 2019, the Company provided a quarterly update on the status of the Formal Investigation pursuant to Rules 13.09(2)(a) and 13.24A of the Rules Governing the Listing of Securities on the HKEX ("HKEX's Listing Rules"), and reported that: (i) the Forensic Accountant had submitted a draft investigation report to the Special Committee; and (ii) the Special Committee would review the findings of the investigation report and work with the Company's independent auditors and legal counsel to assess the financial and legal implications and to plan for any further actions.

- ***Key Findings of Formal Investigation –*** 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.

  The Formal Investigation concentrated on the following areas of focus (the "Areas of Focus"): (i) the arrangements of the Suspicious Transactions; (ii) the relationships between the Former Management and Employees and certain coal trading and transportation companies; (iii) any unidentified questionable transactions relating to the Former Management and Employees; and (iv) the potential impact of (i), (ii) and (iii) on the financial statements of the Company and its subsidiaries. During the course of the Formal Investigation, certain incomplete accounting/operational records of one of the Companies Under Investigation (as defined below) ("Company A") were identified in the Company's employee computers. As a result, the Special Committee expanded the scope of the Area of Focus of the Formal Investigation to include: (i) a fund flow analysis of Company A; and (ii) a price analysis of the difference between Company A's purchase prices from the Company's subsidiaries and selling prices to downstream customers.

  Based on the Areas of Focus, the Special Committee examined and made findings in respect of a number of matters in connection with the Formal Investigation, including the following: (i) allegations that Mr. Aminbuhe, the Company's former Chairman and Chief Executive Officer, controlled certain companies the Company had business dealings (the "Companies Under Investigation"); (ii) uncollectable receivables from certain former customers and suppliers of the Company; (iii) the impact of the lawsuit filed by Xiyuan; and (iv) allegations of misconduct by the Former Management and Employees, including: (I) the grant of a RMB5 million loan; (II) embezzlement of bank acceptance bills of RMB12 million; (III) endorsement of commercial acceptance bills of RMB71 million which were not supported by genuine commercial transactions; (IV) prepayments of RMB8.5 million for coal transportation services which were never received by the Company; and (V) prepayment of RMB16.4 million for coal transportation services which were never received by the Company.

  Based on the information obtained from the Formal Investigation, the Special Committee has concluded that four matters examined in connection with the Formal Investigation, having an aggregate value of approximately RMB41 million, involved improper conduct, fraud or misappropriation of assets (the "Fraudulent Transactions") and that one matter examined in connection with the Formal Investigation, having an aggregate value of approximately RMB71 million, involved an accounting reclassification error. From an accounting perspective, the Company does not anticipate that the Fraudulent Transactions will have any impact on its financial statements in the future as the Company has already recorded the appropriate provisions in the financial statements as at December 31, 2018, 2017 and 2016 and for the years then ended.

Based on the key findings of and information obtained from the Formal Investigation, the Company has considered the resulting financial impact on the financial statements and determined that a restatement of prior period financial information is required. For more information, please see section "Significant Events and Highlights" of this press release entitled "Restatement of Prior Year Financial Information" below.

As of the date of this press release, the Special Committee, with the assistance of its professional advisors, is in the process of assessing the potential remedial actions and preventative measures available to the Company to address the issues which caused the Trading Suspension, which will include amendments to the Company's existing system of internal controls and risk management policies and procedures to improve and strengthen the Company's commitment to a culture of honesty, integrity and accountability and compliance with the highest standards of professional and ethical conduct, and such other actions as the Special Committee may consider necessary or appropriate to protect the Company's interests.

- ***Trading Suspension on HKEX and TSX –*** Subsequent to the announcement made by the Company on December 17, 2018 in relation to the Suspicious Transactions, the Common Shares have been suspended from trading on the HKEX and the TSX since December 17, 2018.

  On January 3, 2019, the HKEX provided the Company with certain resumption guidance, setting out the conditions which the Company must satisfy in order for trading of the Common Shares to resume on the HKEX. Pursuant to the resumption guidance, the Company is required to: (i) conduct a forensic investigation (the "Forensic Investigation") of the Suspicious Transactions involving the Former Management and Employees; (ii) disclose the findings of the Forensic Investigation and take appropriate remedial actions; and (iii) inform the market of all material information in order for the Company's shareholders and investors to appraise the Company's position. The HKEX has advised that it may modify or supplement the trading resumption guidance if the Company's situation changes. Pursuant to Rule 6.01A(1) of the HKEX's Listing Rules, the HKEX may cancel the listing of any securities that have been suspended from trading for a continuous period of 18 months. In the case of the Company, this 18-month period expires on June 16, 2020. The HKEX has also advised that if the Company fails to remedy the issues causing the Trading Suspension, fully comply with the HKEX's Listing Rules to the HKEX's satisfaction and resume trading of the Common Shares on the HKEX by June 16, 2020, the Listing Department of the HKEX will recommend that the HKEX's Listing Committee proceed with cancelling the Company's listing on the HKEX. Pursuant to Rules 6.01 and 6.10 of the HKEX's Listing Rules, the HKEX also has the right to impose a shorter specific remedial period, where appropriate. Pursuant to Rule 13.24A of the HKEX's Listing Rules, the Company is required to announce quarterly updates on developments relating to its Trading Resumption Plan (as defined below), including details of the actions taken, or to be taken, in order to remedy the issues causing the Trading Suspension and fully comply with the HKEX's Listing Rules, the progress of implementing the Trading Resumption Plan, details of any material change to the Trading Resumption Plan (including any delays thereof) and impact on the Company's business operations. The Company was required to make its first quarterly update on or before March 16, 2019 and is required to announce additional updates every three months thereafter until resumption of trading on the HKEX or cancellation of the Company's listing on the HKEX (whichever is earlier).

On March 30, 2019, the Company announced that, based on the key findings of, and information obtained from, the Formal Investigation, and with the advice of its professional advisors, the Board approved the principal actions, together with the related dates of completion or anticipated completion, set forth in the table below (collectively, the "Trading Resumption Plan") in order to address the issues which caused the Trading Suspension, re-comply with the HKEX's Listing Rules and allow trading of the Common Shares to resume trading on the HKEX:

Action Item	**Date of Completion or Anticipated Completion**
The Company completes a forensic investigation into the Suspicious Transactions	The Forensic Accountant completed the forensic investigation and submitted its final investigation report to the Special Committee on March 26, 2019
The Special Committee concludes its formal investigation and, with the assistance of its professional advisors, completes its final report summarizing the key findings of the formal investigation and submits the same to the Board for consideration	The Special Committee delivered its final report to the Board on March 27, 2019
The Board meets to consider and, if deemed appropriate, approve the Special Committee's final report and the Trading Resumption Plan	The Board adopted and approved the Special Committee's final report and the key findings set out therein on March 30, 2019
The Company announces the material findings of the Special Committee in respect of the Suspicious Transactions that were investigation pursuant to the Formal Investigation and the Trading Resumption Plan	The Company announced the material findings of the Special Committee in respect of the Suspicious Transactions that were investigation pursuant to the Formal Investigation and the Trading Resumption Plan on March 30, 2019
The Company announces its financial results for the fiscal year ended December 31, 2018	The Company announced its 2018 fiscal year results on March 31, 2019

Action Item	Date of Completion or Anticipated Completion
The Special Committee, with the assistance of its professional advisors, completes its assessment of the potential remedial actions and preventative measures available to the Company to address the issues which caused the Trading Suspension and prepares a report on its conclusions and recommendations for the Board. The Board considers the recommendations of the Special Committee and formalizes and approves a set of remedial actions and preventative measures	The Special Committee expects to deliver its report and recommendations to the Board, and the Board anticipates that it will be in a position to approve specific remedial actions and preventative measures, on or before April 30, 2019
The Company applies to the HKEX and the TSX for trading in the Common Shares to resume	The Company anticipates submitting an application to the HKEX and the TSX as soon as practicable after the Board has formally approved a set of remedial actions and preventative measures
The Company announces the remedial actions and preventative measures approved by the Board and the resumption of trading on the HKEX and the TSX	As soon as practicable after the HKEX and the TSX accepts the Company's application for trading resumption

The Trading Resumption Plan set forth above was approved by the Board based on the information and advice received as of March 30, 2019 and may be subject to change. In accordance with Rule 13.24A of the HKEX's Listing Rules, the Company will announce details of any material changes to the Trading Resumption Plan (including any delays thereof) as and when necessary.

- ***Restatement of Prior Year Financial Information*** – Based on the key findings of and information obtained from the Formal Investigation, the Company has considered the resulting financial impact on the Financial Statements and determined that a restatement of prior period financial information is required. The restatements reflect the impact of the misappropriation of assets as well as the reclassification of certain balances of assets in the prior years. In particular, certain prepaid contracts recognized in 2016 were fictitious as the services were never to be received by the Company and accordingly no assets should have been recognized. Further, in 2016 there was embezzlement of bank acceptances. Consequently, in these financial statements there is no impairment related to these assets to be recorded in 2017. The net effect was an increase in the net comprehensive loss of 2016 of $4.8 million and decrease of the net comprehensive loss of $2.1 million in 2017. A summary of the requisite adjustments on the Financial Statements for the years ended 2016 and 2017 is set forth in the table below:

$ in thousands **Statement of financial position extract**	December 31, 2017	Increase/ (decrease)	**December 31, 2017 (Restated)**	December 31, 2016	Increase/ (decrease)	**January 1, 2017 (Restated)**
Trade and other receivables	$ 16,486	$ 4,648	**$ 21,134**	$ 19,434	$ –	**$ 19,434**
Notes receivables	12,520	(10,622)	**1,898**	–	–	**–**
Prepaid expenses and deposits	6,286	(1,157)	**5,129**	8,194	(4,797)	**3,397**
Deferred revenue	(27,644)	4,419	**(23,225)**	(29,849)	–	**(29,849)**
Net assets	$ 10,540	$(2,712)	**$ 7,828**	$ 46,013	$ (4,797)	**$ 41,216**
Exchange reserve	(4,737)	(342)	**$ (5,079)**	(5,158)	–	**$ (5,158)**
Accumulated deficit	(1,135,809)	(2,370)	**(1,138,179)**	(1,095,788)	(4,797)	**(1,100,585)**
Total equity	$ 10,540	$ (2,712)	**$ 7,828**	$ 46,013	$ (4,797)	**$ 41,216**

$ in thousands **Statement of comprehensive income extract**	December 31, 2017	Loss decrease/ (increase)	**December 31, 2017 (Restated)**
Other operating expenses	$(11,264)	$2,137	**$(9,127)**
Finance costs	(22,958)	290	**(22,668)**
Net loss attributable to equity holders of the Company	$(40,021)	$2,427	**$(37,594)**
Other comprehensive income for the year	421	(342)	**79**
Net comprehensive loss attributable to equity holders of the Company	$(39,600)	$2,085	**$(37,515)**

Basic and diluted loss per share for the year ended December 31, 2017 has also been restated. The correction for both basic and diluted loss per share was from a loss of \$0.15 to a loss of \$0.14.

The amounts disclosed above for the 2017 reporting period, and for the statements of financial position as at January 1, 2017 and December 31, 2017 are before restatements for the change in accounting policy due to IFRS 9.

- ***Suspension of the Ceke Logistic Park Development*** – As part of its focus on capital preservation, the Company intends to suspend indefinitely all further development activities relating to the previously announced Ceke Logistics Park Project until further notice.

- ***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.

- ***Changes in Management and Director***

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

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

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

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

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

  Mr. Bing Wang: Mr. Wang stepped down as interim Chief Executive Officer and returned to his prior position as General Manager, Sales and Marketing of the Company on June 1, 2018. Subsequently on August 26, 2018, Mr. Wang ceased to be the General Manager, Sales and Marketing of the Company.

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

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

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

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

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

- ***Going Concern*** – Since 2016, the Company has been developing plans to change its existing product mix to higher value and higher margin outputs by washing certain grades of coal in order to produce more premium semi-soft coking coal and to initiate more processing of the lower grades of coal in order to reduce the ash content and improve the selling price and margins on its thermal coal product. The construction of the wash plant at the Ovoot Tolgoi mine was completed, and operations at the wash plant commenced, in October 2018. The Company sold 0.2 million tonnes of washed coal in the fourth quarter of 2018. The Company is in the process of making improvements to the wash plant in order to enhance the operational efficiency, as well as the output throughput. 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 mine plan incorporates the coal washing and processing systems and contemplates significantly higher volumes of production in order to complement the Company's new product mix and sales volume targets. Such plans will require a significant level of stripping activities to be undertaken in 2019 and 2020 and the Company to make certain capital expenditures to achieve the designed production outputs. Such expenditures and other working capital requirements will require the Company to seek additional financing in the form of finance leases, debt or equity.

  There is no guarantee that the Company will be able to successfully execute the measures mentioned above and secure other sources of financing. If it fails to do so, or is unable to secure additional capital or otherwise restructure or refinance its business in order to address its cash requirements through December 31, 2019, then the Company is unlikely to have sufficient capital resources or cash flows from mining operations in order to satisfy its current ongoing obligations and future contractual commitments. This could result in adjustments to the amounts and classifications of assets and liabilities in the Company's consolidated financial statements and such adjustments could be material.

  Unless the Company acquires additional sources of financing and/or funding in the short term, the ability of the Company to continue as a going concern is threatened. If the Company is unable to continue as a going concern, it may be forced to seek relief under applicable bankruptcy and insolvency legislation. See Section "Liquidity and Capital Resources" for details. As at March 31, 2019, the Company had $8.7 million of cash.

OVERVIEW OF OPERATIONAL DATA AND FINANCIAL RESULTS

Summary of Annual Operational Data

		Year ended December 31, 2018		2017
Sales Volumes, Prices and Costs				
Premium semi-soft coking coal				
Coal sales *(millions of tonnes)*		**0.59**		0.86
Average realized selling price *(per tonne)*	**$**	**50.34**	$	47.84
Standard semi-soft coking coal/premium thermal coal				
Coal sales *(millions of tonnes)*		**1.26**		2.44
Average realized selling price *(per tonne)*	**$**	**37.61**	$	28.72
Standard thermal coal				
Coal sales *(millions of tonnes)*		**0.78**		1.35
Average realized selling price *(per tonne)*	**$**	**25.07**	$	15.24
Washed coal				
Coal sales *(millions of tonnes)*		**0.15**		–
Average realized selling price *(per tonne)*	**$**	**44.02**	$	–
Total				
Coal sales *(millions of tonnes)*		**2.78**		4.65
Average realized selling price *(per tonne)*	**$**	**37.12**	$	28.31
Raw coal production *(millions of tonnes)*		**4.34**		6.38
Cost of sales of product sold *(per tonne)*	**$**	**28.72**	$	22.77
Direct cash costs of product sold *(per tonne)* [(i)]	**$**	**10.31**	$	9.32
Mine administration cash costs of product sold *(per tonne)* [(i)]	**$**	**1.50**	$	2.80
Total cash costs of product sold *(per tonne)* [(i)]	**$**	**11.81**	$	12.12
Other Operational Data				
Production waste material moved *(millions of bank cubic meters)*		**18.16**		20.79
Strip ratio *(bank cubic meters of waste material per tonne of coal produced)*		**4.17**		3.26
Lost time injury frequency rate [(ii)]		**0.05**		0.18

(i) A non-IFRS financial measure, see section "Non-IFRS financial measures". 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 Annual Operational Data

As at December 31, 2018, the Company had a lost time injury frequency rate of 0.05 per 200,000 man hours based on a rolling 12-month average.

The Company experienced an increase in the average selling price of coal in 2018 from $28.3 per tonne in 2017 to $37.1 per tonne in 2018, which was mainly as a result of a combination of the following: a higher proportion of sales made through IMGSE in 2018 and an improved product mix. The product mix for 2018 consisted of approximately 21% of premium semi-soft coking coal, 46% of standard semi-soft coking coal, 28% of thermal coal and 5% of washed coal compared to approximately 19% of premium semi-soft coking coal, 52% of standard semi-soft coking coal and 29% of thermal coal in 2017.

Sales volume decreased from 4.7 million tonnes in 2017 to 2.8 million tonnes in 2018, which was mainly as a result of the delays experienced in the custom clearance process at the Ceke border which the Company has been experiencing since July 2017, as well as the decreased production level for 2018.

The Company's production in 2018 was lower than 2017 as a result of an increase in strip ratio and a focus on capital preservation, yielding 4.3 million tonnes for 2018 as compared to 6.4 million tonnes for 2017.

The Company's unit cost of sales of product sold increased to $28.7 per tonne in 2018 from $22.8 per tonne in 2017. The increase was mainly driven by decreased sales volume and the related diseconomies of scale, as well as the reclassification of royalties during the fourth quarter of 2018.

Summary of Annual Financial Results

$ in thousands, except per share information	Year ended December 31, **2018**	2017 (Restated)
Revenue [(i)]	**$ 103,804**	$ 120,973
Cost of sales [(i)]	**(79,835)**	(105,858)
Gross profit excluding idled mine asset costs[(ii)]	**36,829**	27,747
Gross profit	**23,969**	15,115
Other operating expenses	**(23,607)**	(9,127)
Administration expenses	**(10,540)**	(9,181)
Evaluation and exploration expenses	**(356)**	(273)
Impairment of property, plant and equipment	**–**	(11,171)
Loss from operations	**(10,534)**	(14,637)
Finance costs	**(28,578)**	(22,668)
Finance income	**184**	164
Share of earnings of a joint venture	**1,631**	1,287
Income tax expense	**(3,828)**	(1,740)
Net loss	**(41,125)**	(37,594)
Basic and diluted loss per share	**$ (0.15)**	$ (0.14)

(i) Revenue and cost of sales related to the Company's Ovoot Tolgoi Mine within the Mongolian Coal Division operating segment. Refer to note 2 of the selected information from the notes to the consolidated financial statements for further analysis regarding the Company's reportable operating segments.

(ii) A non-IFRS financial measure, idled mine asset costs represents the depreciation expense relates to the Company's idled plant and equipment.

Overview of Annual Financial Results

The Company recorded a $10.5 million loss from operations in 2018 compared to a $14.6 million loss from operations in 2017 (Restated). The operations for 2018 were impacted by the following factors: (i) improved coal prices; (ii) the Company recognizing a provision for doubtful trade and other receivables of $20.9 million; and (iii) the Company recognizing an impairment of coal stockpile inventories of $5.4 million. The recognition of provisions for trade and other receivables follows after a credit reassessment carried out during the second quarter of 2018 which concluded with the Company only continuing coal deliveries to customers with above-standard credit ratings in order to preserve the capital of the Company and discontinuing coal deliveries to certain other customers. The provisions relate to receivables from those former customers to whom the Company has ceased coal shipments. The Company will continue to explore different options to recover the balance of these doubtful trade and notes receivables; however, there are no assurances that the Company will be successful in recovering all, or any portion of such balances.

Revenue was $103.8 million in 2018 compared to $121.0 million in 2017. The Company's revenue is presented after deduction of royalties in 2017 but royalties were classified as cost of sales starting from the fourth quarter of 2018. The Company's effective royalty rate for 2018, based on the Company's average realized selling price of $37.1 per tonne, was 7.9% or $3.0 per tonne, compared to 5.8% or $1.7 per tonne in 2017 (based on the average realized selling price of $28.3 per tonne in 2017).

Royalty expenses were $8.2 million in 2018 compared to $7.7 million in 2017; the increase was mainly due to a larger provision for royalty expenses being recorded for the balance during the year.

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*".

Cost of sales was $79.8 million in 2018 compared to $105.9 million in 2017. The decrease in cost of sales in 2018 was mainly due to the Company recognizing coal stockpile impairments of $17.0 million in 2017 as compared to $5.4 million in 2018, as well as the decreased sales during 2018. Cost of sales consists of operating expenses and royalties, share-based compensation expense, equipment depreciation, depletion of mineral properties, coal stockpile inventory impairments and idled mine asset costs. Operating expenses in cost of sales reflect the total cash costs of product sold (a Non-IFRS financial measure, see "Non-IFRS financial measures" of this press release for further analysis) during the year.

	Year ended December 31,	
$ in thousands	**2018**	2017
Operating expenses	**$ 41,068**	$ 55,451
Share-based compensation expense	**4**	30
Depreciation and depletion	**20,466**	20,719
Impairment of coal stockpile inventories	**5,437**	17,026
Cost of sales from mine operations	**66,975**	93,226
Cost of sales related to idled mine assets	**12,860**	12,632
Cost of sales	**$ 79,835**	$ 105,858

Operating expenses in cost of sales were $41.1 million in 2018 compared to $55.5 million in 2017. The overall decrease in operating expenses was primarily due to the decreased sales volume from 4.7 million tonnes in 2017 to 2.8 million tonnes in 2018.

Cost of sales in 2018 and 2017 included coal stockpile impairments of $5.4 million and $17.0 million, respectively, to reduce the carrying value of the Company's coal stockpiles to their net realizable value. The coal stockpile impairments recorded in both years primarily related to the Company's higher-ash content products.

Cost of sales related to idled mine assets in 2018 included $12.9 million related to depreciation expenses for idled equipment (2017: $12.6 million). Cost of sales consists of operating expenses, share-based compensation expense, equipment depreciation, depletion of mineral properties, coal stockpile inventory impairments and idled mine asset costs. Operating expenses in cost of sales reflect the total cash costs of product sold (a Non-IFRS financial measure, see "Non-IFRS financial measures" of this press release for further analysis) during the year.

Other operating expenses were $23.6 million in 2018 (2017 (Restated): $9.1 million), as follows:

	Year ended December 31,	
$ in thousands	**2018**	2017 (Restated)
Reversal of provision/(provision) for doubtful trade and other receivables	**$ (20,892)**	$ 682
CIC management fee	**(2,697)**	–
Impairment of properties for resale	**(2,239)**	(1,718)
Provision for commercial arbitration	**(124)**	(2,384)
Impairment of prepaid expenses and deposits	**(134)**	(380)
Penalty on late settlement of trade payables	**(427)**	–
Loss on disposal of properties for resale	**(179)**	–
Gain on settlement of trade payables	**2,392**	–
Gain on disposal of property, plant and equipment	**994**	–
Foreign exchange loss	**(643)**	(1,116)
Net reversal of impairment of items of property, plant and equipment	**346**	–
Mining services, net	**–**	(2,395)
Underprovision of miscellaneous taxes	**–**	(1,421)
Other	**(4)**	(395)
Other operating expenses	**$ (23,607)**	$ (9,127)

The Company made a provision for doubtful trade and other receivables of $20.9 million in 2018 (2017: negligible) for certain long aged receivables based on its expected credit loss model and challenges in collecting the receivables.

Administration expenses were $10.5 million in 2018 as compared to $9.2 million in 2017, as follows:

	Year ended December 31,	
$ in thousands	**2018**	2017
Corporate administration	**$ 2,639**	$ 2,534
Professional fees	**2,685**	2,464
Salaries and benefits	**5,004**	3,726
Share-based compensation expense	**75**	89
Depreciation	**137**	368
Administration expenses	**$ 10,540**	$ 9,181

Administration expenses were higher for 2018 compared to 2017 primarily due to higher legal and professional fees and salaries incurred during the year. The increase in salaries and benefits was mainly due to the increase of headcount.

Evaluation and exploration expenses were $0.4 million and $0.3 million in 2018 and 2017, respectively. The Company continued to minimize evaluation and exploration expenditures in 2018 in order to preserve the Company's financial resources. Evaluation and exploration activities and expenditures in 2018 were limited to ensuring that the Company met the Mongolian Minerals Law requirements in respect of its mining licenses.

Finance costs were $28.6 million and $22.7 million in 2018 and 2017 (Restated), respectively, which primarily consisted of interest expense on the $250.0 million CIC Convertible Debenture.

Summary of Quarterly Operational Data

Quarter Ended	**31-Dec 2018**	30-Sep 2018	30-Jun 2018	31-Mar 2018	31-Dec 2017	30-Sep 2017	30-Jun 2017	31-Mar 2017
Sales Volumes, Prices and Costs								
Premium semi-soft coking coal								
Coal sales *(millions of tonnes)*	**0.24**	0.25	0.07	0.03	0.37	0.12	0.18	0.19
Average realized selling price (per tonne)	**$ 47.37**	$ 48.15	$ 59.98	$ 67.94	$ 50.47	$ 46.55	$ 45.67	$ 45.61
Standard semi-soft coking coal/ premium thermal coal								
Coal sales *(millions of tonnes)*	**0.40**	0.26	0.19	0.41	0.60	0.41	0.79	0.64
Average realized selling price (per tonne)	**$ 32.60**	$ 34.40	$ 33.80	$ 46.34	$ 37.49	$ 28.32	$ 26.69	$ 23.36
Standard thermal coal								
Coal sales *(millions of tonnes)*	**0.12**	0.22	0.32	0.12	0.29	0.27	0.51	0.28
Average realized selling price (per tonne)	**$ 24.26**	$ 23.49	$ 26.32	$ 25.40	$ 16.98	$ 14.48	$ 15.79	$ 13.17
Washed coal								
Coal sales *(millions of tonnes)*	**0.15**	–	–	–	–	–	–	–
Average realized selling price (per tonne)	**$ 44.02**	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Total								
Coal sales *(millions of tonnes)*	**0.91**	0.73	0.58	0.56	1.26	0.80	1.48	1.11
Average realized selling price (per tonne)	**$ 37.32**	$ 35.77	$ 32.81	$ 43.02	$ 36.54	$ 26.41	$ 25.24	$ 24.52
Raw coal production *(millions of tonnes)*	**1.87**	1.11	0.98	0.38	0.51	2.47	1.89	1.51
Cost of sales of product sold *(per tonne)*	**$ 36.19**	$ 20.99	$ 26.00	$ 29.48	$ 23.54	$ 31.31	$ 18.50	$ 21.40
Direct cash costs of product sold *(per tonne)* [(i)]	**$ 8.73**	$ 7.41	$ 10.12	$ 16.86	$ 9.91	$ 10.98	$ 7.84	$ 9.42
Mine administration cash costs of product sold *(per tonne)* [(i)]	**$ 2.19**	$ 1.24	$ 1.00	$ 1.23	$ 4.92	$ 2.98	$ 2.22	$ 1.01
Total cash costs of product sold *(per tonne)* [(i)]	**$ 10.92**	$ 8.65	$ 11.12	$ 18.09	$ 14.83	$ 13.96	$ 10.06	$ 10.43
Other Operational Data								
Production waste material moved *(millions of bank cubic meters)*	5.54	4.56	5.18	2.88	4.36	6.77	6.36	3.30
Strip ratio (bank cubic meters of waste material per tonne of coal produced)	2.97	4.11	5.26	7.55	8.59	2.74	3.37	2.18
Lost time injury frequency rate [(ii)]	0.00	0.00	0.06	0.13	0.20	0.23	0.18	0.11

(i) A non-IFRS financial measure, see section "Non-IFRS financial measures". 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 Quarterly Operational Data

For the fourth quarter of 2018, the Company had a lost time injury frequency rate of 0.00 per 200,000 man hours based on a rolling 12-month average.

The average selling price achieved by the Company for the fourth quarter of 2018 was similar to the fourth quarter of 2017 (Fourth quarter of 2018: $37.3 per tonne; fourth quarter of 2017: $36.5 per tonne). The Company's product mix has improved as a result of the commissioning of the wash plant in the fourth quarter of 2018. The product mix for the fourth quarter of 2018 consisted of approximately 27% of premium semi-soft coking coal, 44% of standard semi-soft coking coal, 13% of thermal coal and 16% of washed coal, compared to approximately 30% of premium semi-soft coking coal, 47% of standard semi-soft coking coal and 23% of thermal coal for the fourth quarter of 2017.

The Company sold 0.9 million tonnes for the fourth quarter of 2018 as compared to 1.3 million tonnes for the fourth quarter of 2017.

The Company's production in the fourth quarter of 2018 was higher than the fourth quarter of 2017 as a result of management's decision to pace production to meet expected sales as well as a lower strip ratio achieved for the quarter, yielding 1.9 million tonnes for the fourth quarter of 2018 as compared to 0.5 million tonnes for the fourth quarter of 2017.

The Company's unit cost of sales of product sold increased to $36.2 per tonne in the fourth quarter of 2018 from $23.5 per tonne in the fourth quarter of 2017. The increase was mainly driven by decreased sales volume and the related diseconomies of scale, as well as the reclassification of royalties in the fourth quarter of 2018.

Summary of Quarterly Financial Results

The Company's annual financial statements are reported under the International Financial Reporting Standards (the "IFRS") issued by the International Accounting Standard Board (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	2018				2017			
Quarter Ended	**31-Dec**	30-Sep (Restated)	30-Jun (Restated)	31-Mar (Restated)	31-Dec (Restated)	30-Sep (Restated)	30-Jun	31-Mar
Financial Results								
Revenue [(i)]	**$ 38,717**	$ 24,487	$ 17,377	$ 23,223	$ 41,698	$ 19,356	$ 34,665	$ 25,254
Cost of sales [(i)]	**(32,930)**	(15,320)	(15,078)	(16,507)	(29,665)	(25,049)	(27,385)	(23,759)
Gross profit/(loss) excluding idled mine asset costs	**7,305**	13,195	6,079	10,250	15,682	(2,094)	9,445	4,714
Gross profit/(loss) including idled mine asset costs	**5,787**	9,167	2,299	6,716	12,033	(5,693)	7,280	1,495
Other operating income/(expenses)	**(2,921)**	(3,417)	(16,512)	(757)	(4,971)	3,097	(4,045)	(3,208)
Administration expenses	**(1,583)**	(2,724)	(3,856)	(2,377)	(2,111)	(2,451)	(2,234)	(2,385)
Evaluation and exploration expenses	**(36)**	(40)	(156)	(124)	(52)	(48)	(144)	(29)
Impairment of property, plant and equipment	**–**	–	–	–	(11,171)	–	–	–
Profit/(loss) from operations	**1,247**	2,986	(18,225)	3,458	(6,272)	(5,095)	857	(4,127)
Finance costs	**(10,899)**	(5,758)	(5,958)	(6,006)	(5,960)	(5,674)	(5,494)	(5,715)
Finance income	**13**	106	8	100	143	142	50	4
Share of earnings of a joint venture	**416**	247	628	340	368	265	388	266
Income tax credit/(expense)	**(1,023)**	(267)	(1,609)	(929)	781	238	(2,714)	(45)
Net loss	**(10,246)**	(2,686)	(25,156)	(3,037)	(10,940)	(10,124)	(6,913)	(9,617)
Basic and diluted loss per share	**$ (0.04)**	$ (0.01)	$ (0.09)	$ (0.01)	$ (0.04)	$ (0.04)	$ (0.03)	$ (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 2 of the selected information from the notes to the consolidated financial statements for further analysis regarding the Company's reportable operating segments.

Overview of Quarterly Financial Results

The Company recorded a $1.2 million profit from operations in the fourth quarter of 2018 compared to a $6.3 million loss from operations in the fourth quarter of 2017 (Restated). The overall financial results have improved when compared to the fourth quarter of 2017, which was principally attributable to the Company recognizing a lower amount of impairment charges and provisions during the fourth quarter of 2018 as compared to the fourth quarter in 2017. During the fourth quarter of 2017, a specific impairment charge of $11.2 million was made on deposits related to certain purchases of property, plant and equipment (2018: $ nil) and $2.4 million of provision were made in connection with the Arbitration Award involving First Concept (2018: $ nil).

Revenue was $38.7 million in the fourth quarter of 2018 compared to $41.7 million in the fourth quarter of 2017. The Company's revenue was presented after deduction of royalties in 2017 but the royalties were classified as cost of sales starting from the fourth quarter of 2018. Royalty expenses for the quarter were $5.9 million, compared to $2.7 million for the fourth quarter of 2017; the increase was mainly due to a larger provision for royalty expenses being recorded for the balance during the quarter.

Cost of sales was $32.9 million in the fourth quarter of 2018 compared to $29.7 million in the fourth quarter of 2017. The increase in cost of sales was mainly due to the reclassification of royalty expenses during the fourth quarter of 2018 of $8.2 million. Excluding the effect of this reclassification, the cost of sales during the quarter dropped which is in line with the decrease in sales during the quarter. Cost of sales consists of operating expenses, royalties, share-based compensation expense, equipment depreciation, depletion of mineral properties, coal stockpile inventory impairments and idled mine asset costs. Operating expenses in cost of sales reflect the total cash costs of product sold (a Non-IFRS financial measure, see "Non-IFRS financial measures" of this press release for further analysis) during the quarter.

	Three months ended December 31,	
$ in thousands	**2018**	**2017**
Operating expenses	**$ 18,173**	$ 18,695
Share-based compensation expense	**3**	–
Depreciation and depletion	**7,799**	3,429
Impairment of coal stockpile inventories	**5,437**	3,892
Cost of sales from mine operations	**31,412**	26,016
Cost of sales related to idled mine assets	**1,518**	3,649
Cost of sales	**$ 32,930**	$ 29,665

Operating expenses in cost of sales were $18.2 million in the fourth quarter of 2018 compared to $18.7 million in the fourth quarter of 2017. The overall decrease in operating expenses was primarily due to the effect of: (i) lower unit costs achieved through improvement of operational efficiency; and (ii) decreased sales volume from 1.3 million tonnes in the fourth quarter of 2017 to 0.9 million tonnes in the fourth quarter of 2018, which was partially offset by the reclassification of royalties of $8.2 million during the fourth quarter of 2018.

Cost of sales in the fourth quarter of 2018 included coal stockpile impairments of $5.4 million (fourth quarter of 2017: $3.9 million), to reduce the carrying value of the Company's coal stockpiles to their net realizable value. The coal stockpile impairments recorded in the fourth quarter of 2018 primarily related to the Company's higher-ash content products as a result of import restrictions established by Chinese authorities at the Ceke border.

Cost of sales related to idled mine assets in the fourth quarter of 2018 included $1.5 million related to depreciation expenses for idled equipment (fourth quarter of 2017: $3.6 million).

Other operating expenses was $2.9 million in the fourth quarter of 2018 (fourth quarter of 2017 (Restated): $5.0 million). Upon the disposal of certain property, plant and equipment during the quarter, the Company recorded a gain of $2.2 million in the fourth quarter of 2018 (fourth quarter of 2017: $ nil).

	Three months ended December 31,	
$ in thousands	**2018**	2017 (Restated)
Reversal of provision/(provision) for doubtful trade and other receivables	**$ (1,588)**	$ 629
Impairment of properties for resale	**(866)**	(643)
Impairment of prepaid expenses and deposits	**(134)**	–
CIC management fee	**(1,360)**	–
Foreign exchange loss	**(1,373)**	(1,139)
Loss on disposal of properties for resale	**(179)**	–
Gain on disposal of property, plant and equipment	**2,167**	–
Reversal of provision/(provision) for commercial arbitration	**562**	(2,384)
Net reversal of impairment of items of property, plant and equipment	**346**	–
Adjustment on gain on settlement of trade payables	**(564)**	–
Underprovision of miscellaneous taxes	**–**	(1,421)
Others	**68**	(13)
Other operating expenses	**$ (2,921)**	$ (4,971)

Administration expenses were $1.6 million in the fourth quarter of 2018 as compared to $2.1 million in the fourth quarter of 2017. The increase in salaries and benefits was mainly due to the increase of headcount.

$ in thousands	Three months ended December 31, **2018**	**2017**
Corporate administration	**$ 308**	$ 603
Professional fees	**52**	505
Salaries and benefits	**1,184**	891
Share-based compensation expense	**28**	22
Depreciation	**11**	114
Administration expenses	**$ 1,583**	$ 2,135

Evaluation and exploration expenses were negligible for the both the fourth quarter of 2018 and the fourth quarter of 2017. The Company continued to minimize evaluation and exploration expenditures in 2018 in order to preserve the Company's financial resources. Evaluation and exploration activities and expenditures in the fourth quarter of 2018 were limited to ensuring that the Company met the Mongolian Minerals Law requirements in respect of its mining licenses.

Finance costs were $10.9 million in the fourth quarter of 2018 compared to $6.0 million in the fourth quarter of 2017 (Restated), which primarily consisted of interest expense on the CIC Convertible Debenture. The increase in finance costs was mainly due to the value added tax in relation to an intercompany loan arrangement.

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 Resources Ltd. ("Turquoise Hill") shareholder loan (the "TRQ Loan")

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.

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

On August 29, 2018, the Company and Turquoise Hill entered into a deferral agreement (the "August 2018 Deferral Agreement"), whereby Turquoise Hill agreed to a limited deferral of repayment of all remaining amounts and obligations owing under the TRQ Loan to February 28, 2019 in accordance with the schedule of repayments set out below:

- The Company agreed to effect monthly repayments on the last business day of each month in an amount of (i) $0.1 million per month from August 2018 to September 2018; (ii) $0.2 million per month from October 2018 to January 2019; and (iii) the remaining balance on February 28, 2019 (the payments in (i), (ii) and (iii), the "Repayments"); and

- Interest shall continue to accrue on all outstanding obligations at the 12-month US dollar LIBOR.

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

As of the date hereof, the Company has not paid a portion of its February 2019 monthly payment. Pursuant to the terms of the TRQ Loan and the August 2018 Deferral Agreement, the Company is, as of the date of this press release, in default of its obligations under the TRQ Loan and the August 2018 Deferral Agreement as a result of the Company failing to make the Repayments in its entirety on or before the dates set out above. Consequently, all of the outstanding obligations under the TRQ Loan and the August 2018 Deferral Agreement are immediately due and payable to Turquoise Hill as of the date hereof. As of the date of this press release, the Company has received no indication from Turquoise Hill of any intention to demand payment of the amounts outstanding under the TRQ Loan and the August 2018 Deferral Agreement.

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

Equipment Loan

IMSGE executed a loan agreement on August 31, 2017 with subsequent amendments on July 9, 2018 and November 21, 2018 with a third party for the purpose of financing the purchase of mining equipment.

The Company repaid $1.2 million to the third party in November 2018 and, as of the date hereof, the Equipment Loan has been fully repaid.

A loan arrangement fee of 1% of the loan principal drawn was charged and will be amortized throughout the loan term. For the year ended December 31, 2018, the loan arrangement fee being amortized was negligible (2017: $nil).

Bank Loan

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

On July 6, 2017, SGS and the Bank entered into a supplementary agreement with the key commercial terms of the Bank Loan modified as follows:

- Principal amount increased to $3.0 million;

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

- Interest rate of 15.8% per annum applies to the $2.3 million portion of the principal amount, while an interest rate of 15.0% per annum applies to the remaining $0.7 million portion of the principal amount; in each case, interest is payable monthly; and

- Certain items of property, plant and equipment were pledged as security (subsequently released upon repayment of loan principal of $2.3 million).

$2.3 million and $0.7 million of the loan principal was repaid to the Bank by the Company in May 2018 and January 2019, respectively, and the loan balance was fully settled.

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

- Principal amount of the loan (the “2018 Bank Loan”) of $2.8 million;

- Maturity date set at 24 months from drawdown;

- Interest rate of 15% per annum and interest is payable monthly; and

- Certain items of property, plant and equipment were pledged as security for both the Bank Loan and the 2018 Bank Loan. As at December 31, 2018, the net book value of the pledged items of property, plant and equipment was $2.6 million (December 31, 2017: $4.5 million).

As at December 31, 2018, the outstanding principal balance of the Bank Loan, together with the 2018 Bank Loan, was $3.5 million (December 31, 2017: $3.0 million) and the accrued interest owed by the Company was negligible (December 31, 2017: 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 December 31, 2018, the amount of reimbursable costs and fees claimed by Turquoise Hill (the "TRQ Reimbursable Amount") amounted to $8.0 million (such amount is included in the aging profile of trade and other payables set out below). On October 12, 2016, the Company received a letter from Turquoise Hill, which proposed an arrangement for regular payments of the outstanding TRQ Reimbursable Amount, although no agreement has been reached between the Company and Turquoise Hill as of date of this press release. As of the date of this press release, 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 consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue operating until at least December 31, 2019 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. However, in order to continue as a going concern, the Company must generate sufficient operating cash flows, secure additional capital or otherwise pursue a strategic restructuring, refinancing or other transactions to provide it with additional liquidity.

Several adverse conditions and material uncertainties cast significant doubt upon the going concern assumption. The Company had a deficiency in assets of $48.1 million as at December 31, 2018 compared to total equity of $7.8 million as at December 2017 (Restated) while the working capital deficiency (excess current liabilities over current assets) reached $203.1 million as at December 31, 2018 compared to a working capital deficiency of $169.0 million as at December 31, 2017 (Restated). Included in the working capital deficiency at December 31, 2018 are significant obligations, which include the obligation to pay CIC under the June 2017 Deferral Agreement in which the Company was required to pay $9.7 million of cash interest and associated costs on November 19, 2017. Pursuant to the terms of CIC Convertible Debenture, the Company was required to pay $8.1 million, $7.9 million and $8.1 million of anniversary cash interest on November 19, 2017, May 19, 2018 and November 19, 2018, respectively.

The Company has been in discussions with CIC for a deferral of the Outstanding Cash Interest Payable and the PIK Interest Shares; however, there can be no assurance that a favorable outcome will be reached. Accordingly the principal amount outstanding and all accrued and unpaid interest and other amounts owing under the CIC Convertible Debenture and the June 2017 Deferral Agreement would immediately become due and payable in the event that CIC provides notice to the Company.

The Company also has other current liabilities, which require settlement in the short-term, including: the $12.5 million balance of payable to First Concept under the Settlement Deed, the $0.7 million undiscounted balance of the TRQ Loan and $24.0 million of unpaid taxes payable by SGS to the Mongolian government.

Further, the trade and other payables of the Company continue to accumulate due to liquidity constraints. The aging profile of the trade and other payables has risen as compared to that as at December 31, 2017, as follows:

	As at December 31,	
$ in thousands	**2018**	2017
Less than 1 month	**$ 34,927**	$ 20,664
1 to 3 months	**16,336**	16,132
3 to 6 months	**5,446**	8,825
Over 6 months	**42,867**	33,598
Total trade and other payables	**$ 99,576**	$ 79,219

The Company may not be able to settle all trade and other payables on a timely basis, while continuing postponement in settling the trade payables may impact the mining operations of the Company and result in potential lawsuits and/or bankruptcy proceedings being filed against the Company. Except as disclosed elsewhere in this press release, no such lawsuits or proceedings are pending as at March 31, 2019.

Since 2016, the Company has been developing plans to change its existing product mix to higher value and higher margin outputs by washing certain grades of coal in order to produce more premium semi-soft coking coal and to initiate more processing of the lower grades of coal in order to reduce the ash content and improve the selling price and margins on its thermal coal product. The construction of the wash plant at the Ovoot Tolgoi mine was completed, and the wash plant commenced commissioning, in October 2018. The Company sold 0.2 million tonnes of washed coal in the fourth quarter of 2018. The Company is in the process of making improvements to the wash plant in order to enhance the operational efficiency, as well as the output throughput, of the wash plant. 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 mine plan incorporates the coal washing and processing systems and contemplates significantly higher volumes of production in order to complement the Company's new product mix and sales volume targets. Such plans will require a significant level of stripping activities to be undertaken in 2019 and 2020 and the Company to make certain capital expenditures to achieve the designed production outputs. Such expenditures and other working capital requirements will require the Company to seek additional financing in the form of finance leases, debt or equity.

There is no guarantee that the Company will be able to successfully execute the measures mentioned above and secure other sources of financing. If it fails to do so, or is unable to secure additional capital or otherwise restructure or refinance its business in order to address its cash requirements through December 31, 2019, then the Company is unlikely to have sufficient capital resources or cash flows from mining operations in order to satisfy its current ongoing obligations and future contractual commitments. This could result in adjustments to the amounts and classifications of assets and liabilities in the Company's consolidated financial statements and such adjustments could be material.

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

As of the date of this press release, the Company is in default under the CIC Convertible Debenture, the June 2017 Deferral Agreement and the TRQ Loan. Pursuant to the terms of the CIC Convertible Debenture and the June 2017 Deferral Agreement, CIC may, at its discretion, provide notice to the Company and declare all principal, interest and other amounts owing under the CIC Convertible Debenture and the June 2017 Deferral Agreement immediately due and payable, and take steps to enforce payment thereof. Pursuant to the terms of the TRQ Loan and the August 2018 Deferral Agreement, all of the outstanding obligations under the TRQ Loan are immediately due and payable to Turquoise Hill as of the date hereof. If CIC takes steps to enforce payment under the CIC Convertible Debenture and the June 2017 Deferral Agreement, this would have a material adverse effect on the business and operations of the Company and may negatively affect the price and volatility of the Common Shares and any investment in such shares could suffer a significant decline or total loss in value. As of the date of this press release, the Company has: (i) received no indication from CIC of any intention to deliver a notice of default under the CIC Convertible Debenture and the June 2017 Deferral Agreement or to accelerate the payment of amounts outstanding under the CIC Convertible Debenture and the June 2017 Deferral Agreement; and (ii) has received no indication from Turquoise Hill of any intention to deliver a notice of default under the TRQ Loan.

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

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

As at March 31, 2019, the Company had $8.7 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 December 31, 2018, CIC owned, through its indirect wholly owned subsidiary, approximately 23.8% of the issued and outstanding Common Shares of the Company.

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

At any time before the payment under the terms of the June 2017 Deferral Agreement is fully repaid, the Company is required to consult with and obtain written consent from CIC prior to effecting a replacement or termination of either or both of its Chief Executive Officer and its Chief Financial Officer, otherwise this will constitute an event of default under the CIC Convertible Debenture, but CIC shall not withhold its consent if the Board proposes to replace either or both such officers with nominees selected by the Board, provided that the Board acted honestly and in good faith with a view to the best interests of the Company in the selection of the applicable replacements.

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

As of the date of this press release, the Company: (i) has neither paid the Outstanding Cash Interest Payable nor issued the PIK Interest shares to CIC within the cure period provided for under the CIC Convertible Debenture; and (ii) has not agreed upon a repayment plan for such amounts with CIC. Consequently, the Company is in default under the CIC Convertible Debenture and the June 2017 Deferral Agreement. Furthermore, the Common Shares have now been suspended from trading on the HKEX and on the TSX, for a period of more than 5 trading days since December 17, 2018, which represents another event of default under the CIC Convertible Debenture. Pursuant to the terms of the CIC Convertible Debenture and the June 2017 Deferral Agreement, CIC may, at its discretion, provide notice to the Company and declare all principal, interest and other amounts owing under the CIC Convertible Debenture and the June 2017 Deferral Agreement immediately due and payable, and take steps to enforce payment thereof, which would have a material adverse effect on the business and operations of the Company and may negatively affect the price and volatility of the Common Shares and any investment in such shares could suffer a significant decline or total loss in value. As of the date of this press release, the Company has received no indication from CIC of any intention to deliver a notice of default under the CIC Convertible Debenture and the June 2017 Deferral Agreement or to accelerate the payment of amounts outstanding under the CIC Convertible Debenture and the June 2017 Deferral Agreement.

The Company has been in discussions with CIC for a deferral of the Outstanding Cash Interest Payable and the PIK Interest Shares; however, there can be no assurance that a favorable outcome will be reached.

CIC has notified the Company that, as a condition for agreeing to any deferral, it will require: (i) that the mutual co-operation agreement (the "Co-Operation Agreement") dated November 19, 2009 between the Company and CIC be amended to revise the manner in which the amount of the service fee payable to CIC under the Co-Operation Agreement is calculated with retroactive effect; and (ii) the contractual right to nominate additional nominees for appointment or election to the Board; however, the Company has not entered into any formal agreement to amend the Co-Operation Agreement as of the date hereof.

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 5 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.

As a consequence of the Company not entering into a deferral agreement with CIC as at December 31, 2018, IAS 1 requires the Company to classify the entire balance of the CIC Convertible Debenture as a current liability as at December 31, 2018, notwithstanding the fact that CIC has not indicated any intention to deliver notice of default or accelerate the maturity of the CIC Convertible Debenture.

Commercial Arbitration in Hong Kong

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

On January 10, 2018, the Company received a confidential partial award (final except as to costs) with respect to the commercial arbitration. 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 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 December 31, 2018, the outstanding payables to First Concept amounted to $12.5 million (December 31, 2017: $13.9 million of provision).

Ovoot Tolgoi Mine Impairment Analysis

The Company determined that an indicator of impairment existed for its Ovoot Tolgoi Mine cash generating unit as at December 31, 2019. The impairment indicators were the uncertainty of future coal prices in China and the lower than budgeted production.

Therefore, the Company conducted an impairment test whereby the carrying value of the Company's Ovoot Tolgoi Mine cash generating unit was compared to its "fair value less costs of disposal" ("FVLCTD") using a discounted future cash flow valuation model. The Company's cash flow valuation model takes into consideration the latest available information to the Company, including but not limited to, sales price, sales volumes, coal washing capacity, operating costs and life of mine coal production estimates as at December 31, 2018. The resulting FVLCTD was $165.7 million as at December 31, 2018 while the cash generating unit carrying value of the Company's Ovoot Tolgoi Mine was $135.4 million, resulting a headroom of $30.3 million.

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

- Coal resources and reserves as estimated by an independent third party engineering firm;
- Sales price estimates from an independent market consulting firm;
- Forecasted sales volumes in line with production levels as reference of the mine plan;
- Life-of-mine coal production, strip ratio, capital costs and operating costs; and

- A post-tax discount rate of 11% based on an analysis of the market, country and asset specific factors.

Key sensitivities in the valuation model are as follows:

- For each 1% increase/(decrease) in the long term price estimates, the calculated fair value of the cash generating unit increases/(decreases) by approximately $17.3/(17.3) million;

- For each 1% increase/(decrease) in the post-tax discount rate, the calculated fair value of the cash generating unit (decreases)/increases by approximately $(9.8)/10.9 million;

- For each 1% increase/(decrease) in the cash mining cost estimates, the calculated fair value of the cash generating unit (decreases)/increases by approximately $(13.5)/13.5 million; and

- For each 1% increase/(decrease) in the Mongolian inflation rate, the calculated fair value of the cash generating unit (decreases)/increases by approximately $(76.7)/66.3 million.

The impairment analysis did not result in the identification of an impairment loss or an impairment reversal and no charge or reversal was required as at December 31, 2018. A decline of more than 1% in the long term price estimates, an increase of more than 2% in the pre-tax discount rate, an increase of more than 2% in the cash mining cost estimates or an increase of 1% in Mongolian inflation rate may trigger an impairment charge on the cash generating unit. The Company believes that the estimates and assumptions incorporated in the impairment analysis are reasonable; however, the estimates and assumptions are subject to significant uncertainties and judgments.

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.

Counsel for the parties has appeared in a case conference 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 favorable 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.

The Company firmly believes that it has a strong defense on the merits and will continue to vigorously defend itself against the Class Action through independent Canadian litigation counsel retained by the Company for this purpose. Due to the inherent uncertainties of litigation, it is not possible to predict the final outcome of the Class Action or determine the amount of potential losses, if any. However, the Company has judged a provision for this matter as at December 31, 2018 was not required.

Toll Wash Plant Agreement with Ejin Jinda

In 2011, the Company entered into an agreement with Ejin Jinda, a subsidiary of China Mongolia Coal Co. Ltd. to toll-wash 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 December 31, 2018 is not required.

Special Needs Territory in Umnugobi

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

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

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

Notice of Legal Proceedings from a Former Customer

On September 20, 2018, the Company announced that IMSGE had received the Summons from the Ejinaqi Court in relation to a dispute over certain coal sales contracts with Xiyuan, a former customer of IMSGE.

According to the Summons, Xiyuan applied to the Ejinaqi Court claiming that IMSGE should repay a sum of RMB 19.4 million (approximately $2.8 million) to Xiyuan, comprised of RMB 19.1 million of coal prepayments and RMB 0.3 million of interest. Xiyuan also claimed against FLM for joint liability of the above sums, as it alleged that FLM acted as an agent for IMSGE to receive coal prepayment and deliver coal on behalf of IMSGE.

Subsequently, on January 24, 2019, the Company received notice that the Ejinaqi Court rendered a judgement allowing an application by Xiyuan to voluntarily withdraw its lawsuit against IMSGE and FLM. Xiyuan's application cited a lack of evidence.

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.

TRANSPORTATION INFRASTRUCTURE

On April 26, 2018, the Board of RDCC LLC, a joint venture where the Company has 40% interest and operates a paved highway from the Company's Ovoot Tolgoi Mine to the Mongolia-China border for the exclusive use of third party transport companies, increased the toll rate from MNT 1,200 per tonne of coal to MNT 1,500, effective from June 1, 2018.

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

For the three months ended and the year ended December 31, 2018, RDCC LLC recognized toll fee revenue of $1.9 million (2017: $1.8 million) and $7.3 million (2017: $6.1 million), respectively.

PLEDGE OF ASSETS

As at December 31, 2018, certain of the Company's property, plant and equipment of $2.6 million (December 31, 2017 $4.5 million) were pledged as security for a bank loan granted to the Company. As at December 31, 2018, certain of the Company's mobile equipment of $0.2 million (December 31, 2017: $0.7 million) were held under finance leases.

PURCHASE, SALE OR REDEMPTION 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 year ended December 31, 2018.

COMPLIANCE WITH CORPORATE GOVERNANCE

The Company has, throughout the year ended December 31, 2018, applied the principles and complied with the requirements of its corporate governance practices as defined by the Board and all applicable statutory, regulatory and stock exchange listings standards, which include the code provisions set out in the Corporate Governance Code (the "Corporate Governance Code") contained in Appendix 14 to the HKEX's Listing Rules, except for the following:

Pursuant to code provision A.2.7 of the Corporate Governance Code, the chairman of the board should at least annually hold meetings with the non-executive directors (including independent non-executive directors) without the executive directors present. The Company does not have a Chairman since the conclusion of the AGM held on June 30, 2017. There were two meetings between the Interim Independent Lead Director, who is fulfilling the duties of the Chairman, and the non-executive directors without the presence of other executive directors held during the year ended December 31, 2018. The opportunity for such communication channel would be offered at the end of the Board meetings annually going forward.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted policies regarding Directors' securities transactions in its Corporate Disclosure, Confidentiality and Securities Trading Policy that have terms that are no less exacting than those set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the HKEX'S Listing Rules.

In response to a specific enquiry made by the Company on each of the directors, all directors, except the former director Mr. Aminbuhe who was not able to confirm because of his current situation, confirmed that they had complied with the required standards as set out in the Model Code and the Company's Corporate Disclosure, Confidentiality and Securities Trading Policy throughout the year ended December 31, 2018.

EMPHASIS OF MATTER – GOING CONCERN ASSUMPTION

Without qualifying their opinion, the independent auditors of the Company are likely to include a paragraph in their report to draw the attention of the Company's shareholders to notes to the consolidated financial statements which indicate that several adverse conditions and material uncertainties cast significant doubt upon the going concern assumption. The Company's consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue operating until at least December 31, 2019 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. However, in order to continue as a going concern, the Company must generate sufficient operating cash flows, secure additional capital or otherwise pursue a strategic restructuring, refinancing or other transaction to provide it with additional liquidity. If it fails to do so, or is unable to secure additional capital or otherwise restructure or refinance its business in order to address its cash requirements through December 31, 2019, then the Company is unlikely to have sufficient capital resources or cash flows from mining operations in order to satisfy its ongoing obligations and future contractual commitments. As a result, it may not be able to continue as a going concern.

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 to 2019, 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 of 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 (ie, 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.

NON-IFRS FINANCIAL MEASURES

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.

Consolidated Statement of Comprehensive Income
(Expressed in thousands of USD, except for share and per share amounts)

	Year ended December 31,	
	2018	2017 (Restated)
Revenue	**$ 103,804**	$ 120,973
Cost of sales	**(79,835)**	(105,858)
Gross profit	**23,969**	15,115
Other operating expenses	**(23,607)**	(9,127)
Administration expenses	**(10,540)**	(9,181)
Evaluation and exploration expenses	**(356)**	(273)
Impairment of property, plant and equipment	**–**	(11,171)
Loss from operations	**(10,534)**	(14,637)
Finance costs	**(28,578)**	(22,668)
Finance income	**184**	164
Share of earnings of a joint venture	**1,631**	1,287
Loss before tax	**(37,297)**	(35,854)
Current income tax expense	**(3,828)**	(1,740)
Net loss attributable to equity holders of the Company	**(41,125)**	(37,594)
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		
Exchange difference on translation of foreign operation	**(13,020)**	79
Net comprehensive loss attributable to equity holders of the Company	**$ (54,145)**	$ (37,515)
Basic and diluted loss per share	**$ (0.15)**	$ (0.14)

Consolidated Statement of Financial Position
(Expressed in thousands of USD)

	December 31, 2018	As at December 31, 2017 (Restated)	January 1, 2017 (Restated)
Assets			
Current assets			
Cash and cash equivalents	**$ 6,959**	$ 6,471	$ 966
Restricted cash	**872**	–	–
Trade and other receivables	**5,046**	21,134	19,434
Notes receivables	**2,500**	1,898	–
Inventories	**47,109**	36,389	28,583
Prepaid expenses and deposits	**3,295**	5,129	3,397
Total current assets	**65,781**	71,021	52,380
Non-current assets			
Property, plant and equipment	**138,901**	152,457	180,809
Properties for resale	**4,093**	8,906	–
Investment in joint ventures	**18,831**	21,052	21,335
Total non-current assets	**161,825**	182,415	202,144
Total assets	**$ 227,606**	$ 253,436	$ 254,524
Equity and liabilities			
Current liabilities			
Trade and other payables	**$ 99,576**	$ 79,219	$ 43,628
Deferred revenue	**12,658**	23,225	29,849
Provision for court case penalty	**–**	–	9,074
Provision for commercial arbitration	**12,508**	13,884	–
Interest-bearing borrowings	**4,221**	7,352	8,454
Current portion of convertible debenture	**139,901**	116,374	25,597
Total current liabilities	**268,864**	240,054	116,602
Non-current liabilities			
Interest-bearing borrowings	**30**	341	425
Convertible debenture	**–**	–	91,993
Decommissioning liability	**6,852**	5,213	4,288
Total non-current liabilities	**6,882**	5,554	96,706
Total liabilities	**275,746**	245,608	213,308
Equity			
Common shares	**1,098,634**	1,098,623	1,094,619
Share option reserve	**52,542**	52,463	52,340
Capital reserve	**396**	–	–
Exchange reserve	**(18,099)**	(5,079)	(5,158)
Accumulated deficit	**(1,181,613)**	(1,138,179)	(1,100,585)
Total equity/(deficiency in assets)	**(48,140)**	7,828	41,216
Total equity and liabilities	**$ 227,606**	$ 253,436	$ 254,524
Net current liabilities	**$ (203,083)**	$ (169,033)	$ (64,222)
Total assets less current liabilities	**$ (41,258)**	$ 13,382	$ 137,922

SELECTED INFORMATION FROM THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Additional information required by the HKEX and not disclosed elsewhere in this press release is as follows. All amounts are expressed in thousands of USD and shares and options in thousands, unless otherwise indicated.

1. BASIS OF PREPARATION

1.1 Corporate information and liquidity

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

Several adverse conditions and material uncertainties cast significant doubt upon the going concern assumption. The Company had a deficiency in assets of $48,140 as at December 31, 2018 compared to total equity of $7,828 as at December 2017 (Restated) while the working capital deficiency (excess current liabilities over current assets) reached $203,083 as at December 31, 2018 compared to a working capital deficiency of $169,033 as at December 31, 2017 (Restated). Included in the working capital deficiency as at December 31, 2018 are significant obligations, which include the obligation to pay CIC under the June 2017 Deferral Agreement in which the Company was required to pay the June 2017 Deferral Agreement Payment. Pursuant to the terms of CIC Convertible Debenture, the Company was required to pay the Anniversary Interest Payments. Pursuant to the CIC Convertible Debenture, the Company was also obligated to issue to CIC the PIK Interest Shares.

The Company has been in discussions with CIC for a deferral of the Outstanding Cash Interest Payable and the PIK Interest Shares; however, there can be no assurance that a favorable outcome will be reached. Accordingly the principal amount outstanding and all accrued and unpaid interest and other amounts owing under the CIC Convertible Debenture and the June 2017 Deferral Agreement would immediately become due and payable in the event that CIC provides notice to the Company.

Pursuant to the Arbitration Award with respect to the commercial arbitration on January 10, 2018 involving SGS and First Concept, SGS has been ordered to repay the sum of $11,500 to First Concept, together with accrued interest at a simple interest rate of 6% per annum from the date which the prepayment was made until the date of the Arbitration Award, and then at a simple interest rate of 8% per annum until full payment. On November 14, 2018, the Company executed the Settlement Deed with First Concept. 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, SGS agreed to pay to First Concept the Settlement Sum, 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. 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. The Company report $1,500 to First Concept in 2018 (2017: $ nil). As at December 31, 2018, the outstanding amount payable to First Concept amounted to $12,508 (2017: $13,884).

The Company also has other current liabilities, which require settlement in the short-term, including the $732 undiscounted balance of the TRQ Loan and $24,023 of unpaid taxes payable by SGS to the Mongolian government.

Further, the trade and other payables of the Company continue to accumulate due to liquidity constraints. The aging profile of the trade and other payables has risen as compared to that as at December 31, 2017, as follows:

	As at December 31, **2018**	2017
Less than 1 month	**$ 34,927**	$ 20,664
1 to 3 months	**16,336**	16,132
3 to 6 months	**5,446**	8,825
Over 6 months	**42,867**	33,598
Total trade and other payables	**$ 99,576**	$ 79,219

The Company may not be able to settle all trade and other payables on a timely basis, and as a result continuing postponement in settling the trade and other payables may impact the mining operations of the Company and may result in potential lawsuits and/or bankruptcy proceedings being filed against the Company. Except as disclosed elsewhere in the consolidated financial statements, no such lawsuits or proceedings are pending as at March 31, 2019.

Since 2016, the Company has been developing plans to change its existing product mix to higher value and higher margin outputs by washing certain grades of coal in order to produce more premium semi-soft coking coal and to initiate more processing of the lower grades of coal in order to reduce the ash content and improve the selling price and margins on its thermal coal product. The construction of the wash plant at the Ovoot Tolgoi mine was completed, and the wash plant commenced commissioning, in October 2018. The Company sold 0.2 million tonne of washed coal in the fourth quarter of 2018. The Company is in the process of making improvements to the wash plant in order to enhance the operational efficiency, as well as the output throughput, of the wash plant. 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 mine plan incorporates the coal washing and processing systems and contemplates significantly higher volumes of production in order to complement the Company's new product mix and sales volume targets. Such plans will require a significant level of stripping activities to be undertaken in 2019 and 2020 and the Company to make certain capital expenditures to achieve the designed production outputs. Such expenditures and other working capital requirements will require the Company to seek additional financing in the form of finance leases, debt or equity.

There is no guarantee that the Company will be able to successfully execute the measures mentioned above and secure other sources of financing. If it fails to do so, or is unable to secure additional capital or otherwise restructure or refinance its business in order to address its cash requirements through December 31, 2019, then the Company is unlikely to have sufficient capital resources or cash flows from mining operations in order to satisfy its current ongoing obligations and future contractual commitments. This could result in adjustments to the amounts and classifications of assets and liabilities in the Company's consolidated financial statements and such adjustments could be material.

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

As of the date hereof, the Company is in default under the CIC Convertible Debenture, the June 2017 Deferral Agreement and the TRQ Loan. Pursuant to the terms of the CIC Convertible Debenture and the June 2017 Deferral Agreement, CIC may, at its discretion, provide notice to the Company and declare all principal, interest and other amounts owing under the CIC Convertible Debenture and the June 2017 Deferral Agreement immediately due and payable, and take steps to enforce payment thereof. Pursuant to the terms of the TRQ Loan and the August 2018 Deferral Agreement, all of the outstanding obligations under the TRQ Loan are immediately due and payable to Turquoise Hill as of the date hereof. If CIC takes steps to enforce payment under the CIC Convertible Debenture and the June 2017 Deferral Agreement, this would have a material adverse effect on the business and operations of the Company and may negatively affect the price and volatility of the Common Shares and any investment in such shares could suffer a significant decline or total loss in value. As of the date of this press release, the Company has: (i) received no indication from CIC of any intention to deliver a notice of default under the CIC Convertible Debenture and the June 2017 Deferral Agreement or to accelerate the payment of amounts outstanding under the CIC Convertible Debenture and the June 2017 Deferral Agreement; and (ii) has received no indication from Turquoise Hill of any intention to deliver a notice of default under the TRQ Loan.

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

1.2 Statement of compliance

The consolidated financial statements, including comparatives, have been prepared in accordance with the IFRS issued by the IASB.

The consolidated financial statements of the Company for the year ended December 31, 2018 were approved and authorized for issue by the Board of Directors of the Company on March 31, 2019.

1.3 Basis of presentation

The consolidated financial statements have been prepared on a historical cost basis except for certain financial assets and financial liabilities which are measured at fair value.

1.4 Restatement of previously issued financial statements

On November 17, 2017, the Board formed the Special Committee to initiate a formal internal investigation into certain legal charges against Mr. Aminbuhe (the Company's former Chairman and Chief Executive Officer) and the connection, if any, between those charges and the Company and his conduct as Chairman and Chief Executive Officer of the Company.

On May 7, 2018, the Company provided an update on the status of its ongoing internal investigation into the charges against Mr. Aminbuhe, and reported that, to the best of its knowledge, the Chinese authorities had not laid charges against Mr. Aminbuhe, made any public statement of the basis for Mr. Aminbuhe's arrest or sought information from the Company in respect of this matter. The Company further reported that it was not aware of any definitive information which would suggest that Mr. Aminbuhe's arrest is related to any misconduct directly related to his position as Chairman and Chief Executive Officer of the Company.

On December 17, 2018, the Company announced that it had learned of certain information relating to past conduct engaged in by 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 Suspicious Transactions between 2016 and the first half of 2018 involving the Company, IMSGE 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 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. The Special Committee engaged Blake, Cassels & Graydon LLP as independent Canadian legal counsel, Zhong Lun Law Firm, as independent Chinese legal counsel, and Ernst & Young (China) Advisory Limited, as forensic accountants, to assist in the formal investigation.

On March 30, 2019, the Company announced that, based on the key findings of, and information obtained from, the Formal Investigation, and with the advice of its professional advisors, the Board approved the proposed actions, together with the related dates of completion or anticipated completion, in order to address the issues which caused the Trading Suspension, re-comply with the HKEX's Listing Rules and allow trading of the Common Shares to resume trading on the HKEX.

Based on the key findings of and information obtained from the Formal Investigation, the Company has considered the resulting financial impact on the Financial Statements and determined that a restatement of prior period financial information is required. The restatements reflect the impact of the misappropriation of assets as well as the reclassification of certain balances of assets in the prior years. In particular, certain prepaid contracts recognized in 2016 were fictitious as the services were never to be received by the Company and accordingly no assets should have been recognized. Further, in 2016 there was embezzlement of bank acceptances. Consequently, in these financial statements there is no impairment related to these assets to be recorded in 2017. The net effect was an increase in the net comprehensive loss of 2016 of $4,797 and decrease of the net comprehensive loss of $2,085 in 2017. A summary of the requisite adjustments on the Financial Statements for the years ended 2016 and 2017 is set forth in the table below:

Statement of financial position extract	December 31, 2017	Increase/ (decrease)	**December 31, 2017** (Restated)	December 31, 2016	Increase/ (decrease)	**January 1, 2017** (Restated)
Trade and other receivables	$ 16,486	$ 4,648	**$ 21,134**	$ 19,434	$ –	**$ 19,434**
Notes recevibales	12,520	(10,622)	**1,898**	–	–	**–**
Prepaid expenses and deposits	6,286	(1,157)	**5,129**	8,194	(4,797)	**3,397**
Deferred revenue	(27,644)	4,419	**(23,225)**	(29,849)	–	**(29,849)**
Net assets	$ 10,540	$ (2,712)	**$ 7,828**	$ 46,013	$ (4,797)	**$ 41,216**
Exchange reserve	(4,737)	(342)	**$ (5,079)**	(5,158)	–	**$ (5,158)**
Accumulated deficit	(1,135,809)	(2,370)	**(1,138,179)**	(1,095,788)	(4,797)	**(1,100,585)**
Total equity	$ 10,540	$ (2,712)	**$ 7,828**	$ 46,013	$ (4,797)	**$ 41,216**

Statement of comprehensive income extract	**December 31, 2017**	**Loss decerease/ (increase)**	**December 31, 2017** (Restated)
Other operating expenses	$ (11,264)	$ 2,137	**$ (9,127)**
Finance costs	(22,958)	290	**(22,668)**
Net loss attributable to equity holders of the Company	$ (40,021)	$ 2,427	**$ (37,594)**
Other comprehensive income for the year	421	(342)	**79**
Net comprehensive loss attributable to equity holders of the Company	$ (39,600)	$ 2,085	**$ (37,515)**

Basic and diluted loss per share for the year ended December 31, 2017 has also been restated. The correction for both basic and diluted loss per share was from a loss of $0.15 to a loss of $0.14.

The amounts disclosed above for the 2017 reporting period, and for the statements of financial position as at January 1, 2017 and December 31, 2017 are before restatements for the change in accounting policy due to adoption of IFRS 9.

2. SEGMENTED INFORMATION

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

During the year ended December 31, 2018, the Coal Division had 20 active customers with the largest customer accounting for 39% of revenues, the second largest customer accounting for 18% of revenues, the third largest customer accounting for 10% of revenues, the fourth largest customer accounting for 6% of revenues and the other customers accounting for the remaining 27% of revenues.

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 December 31, 2018	$	**223,463**	$	**4,406**	$	**227,869**
As at December 31, 2017 (Restated)		246,125		7,311		253,436
As at January 1, 2017 (Restated)		252,459		2,065		254,524
Segment liabilities						
As at December 31, 2018	$	**124,493**	$	**151,516**	$	**276,009**
As at December 31, 2017 (Restated)		114,676		130,932		245,608
As at January 1, 2017		81,288		132,020		213,308
Segment loss						
For the year ended December 31, 2018	$	**(16,523)**	$	**(24,602)**	$	**(41,125)**
For the year ended December 31, 2017 (Restated)		(9,853)		(27,741)		(37,594)
Segment revenues						
For the year ended December 31, 2018	$	**103,804**	$	**–**	$	**103,804**
For the year ended December 31, 2017		120,973		–		120,973
Impairment charge on assets [ii]						
For the year ended December 31, 2018	$	**28,356**	$	**–**	$	**28,356**
For the year ended December 31, 2017 (Restated)		30,295		–		30,295
Depreciation and amortization						
For the year ended December 31, 2018	$	**36,668**	$	**75**	$	**36,743**
For the year ended December 31, 2017		46,142		273		46,415
Share of earnings of a joint venture						
For the year ended December 31, 2018	$	**1,631**	$	**–**	$	**1,631**
For the year ended December 31, 2017		1,287		–		1,287
Finance cost						
For the year ended December 31, 2018	$	**6,369**	$	**22,209**	$	**28,578**
For the year ended December 31, 2017 (Restated)		623		22,045		22,668
Finance income						
For the year ended December 31, 2018	$	**47**	$	**137**	$	**184**
For the year ended December 31, 2017		24		140		164
Current income tax charge						
For the year ended December 31, 2018	$	**3,828**	$	**–**	$	**3,828**
For the year ended December 31, 2017		1,740		–		1,740

(i) The unallocated amount contains all amounts associated with the Corporate Division.

(ii) The impairment charge on assets for the year ended December 31, 2018 relates to trade and other receivables, properties for resale, inventories, prepaid expenses and deposits and property, plant and equipment. The impairment charge on assets for the year ended December 31, 2017 relates to properties for resale, inventories, prepaid expenses and deposits and property, plant and equipment.

3. REVENUE

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

4. EXPENSES BY NATURE

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

	Year ended December 31, 2018	2017 (Restated)
Depreciation	**$ 33,463**	$ 33,719
Auditors' remuneration	**493**	430
Employee benefit expense (including directors' remuneration)		
Wages and salaries	**$ 9,838**	$ 7,995
Equity-settled share option expense	**79**	123
Pension scheme contributions	**966**	797
	$ 10,883	$ 8,915
Lease payments under operating leases	**$ 925**	$ 864
Foreign exchange loss	**643**	1,116
Impairment/(net reversal of impairment) of property, plant and equipment	**(346)**	11,171
Impairment of coal stockpile inventories	**5,437**	17,026
Provision/(reversal of provision) for doubtful trade and other receivables	**20,892**	(682)
Royalties	**8,237**	–
CIC management fee	**2,697**	3,103
Penalty on late settlement of trade payables	**427**	–
Loss on disposal of properties for resale	**179**	–
Gain on settlement of trade payables	**(2,392)**	–
Gain on disposal of property, plant and equipment	**(994)**	–
Impairment of properties for resale	**2,239**	1,718
Impairment of prepaid expenses and deposits	**134**	380
Provision of commercial arbitration	**124**	2,384
Mining services, net	**–**	2,395
Underprovision of miscellaneous taxes	**–**	1,421
Mine operating costs and other	**31,297**	51,650
Total operating expenses	**$ 114,338**	$ 135,610

5. COST OF SALES

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

	Year ended December 31, 2018	2017
Operating expenses	**$ 41,068**	$ 55,451
Share-based compensation expense	**4**	30
Depreciation and depletion	**20,466**	20,719
Impairment of coal stockpile inventories	**5,437**	17,026
Cost of sales from mine operations	**66,975**	93,226
Cost of sales related to idled mine assets (1)	**12,860**	12,632
Cost of sales	**$ 79,835**	$ 105,858

(i) Cost of sales related to idled mine assets for the year ended December 31, 2018 includes $12,860 of depreciation expense (2017: includes $12,632 of depreciation expenses). The depreciation expense relates to the Company's idled plant and equipment.

Cost of inventories recognized as expense in cost of sales for the year ended December 31, 2018 totaled $48,204 (2017: $77,383).

6. OTHER OPERATING EXPENSES

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

	Year ended December 31, 2018	2017 (Restated)
Reversal of provision/(provision) for doubtful trade and other receivables	**$ (20,892)**	$ 682
Foreign exchange loss	**(643)**	(1,116)
Impairment of prepaid expenses and deposits	**(134)**	(380)
Impairment of properties for resale	**(2,239)**	(1,718)
CIC management fee	**(2,697)**	–
Provision for commercial arbitration	**(124)**	(2,384)
Penalty on late settlement of trade payables	**(427)**	–
Loss on disposal of properties for resale	**(179)**	–
Mining services, net	**–**	(2,395)
Underprovision of miscellaneous taxes	**–**	(1,421)
Gain on settlement of trade payables	**2,392**	–
Gain on disposal of property, plant and equipment	**994**	–
Net reversal of impairment of items of property, plant and equipment	**346**	–
Others	**(4)**	(395)
Other operating expenses	**$ (23,607)**	$ (9,127)

7. ADMINISTRATION EXPENSES

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

	Year ended December 31, 2018	2017
Corporate administration	**$ 2,639**	$ 2,534
Legal and professional fees	**2,685**	2,464
Salaries and benefits	**5,004**	3,726
Share-based compensation expense	**75**	89
Depreciation	**137**	368
Administration expenses	**$ 10,540**	$ 9,181

8. FINANCE COSTS AND INCOME

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

	Year ended December 31, 2018	2017 (Restated)
Interest expense on convertible debenture	**$ 22,195**	$ 21,315
Interest expense on borrowings	**2,788**	1,103
Value added tax on interest from intercompany loan	**3,038**	–
Loan arrangement fee	**21**	90
Accretion of decommissioning liability	**536**	160
Finance costs	**$ 28,578**	$ 22,668

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

	Year ended December 31, 2018	2017
Unrealized gain on embedded derivatives in convertible debenture	**$ 137**	$ 137
Interest income	**47**	27
Finance income	**$ 184**	$ 164

9. TAXES

9.1 Income tax recognized in profit or loss

The Canadian statutory tax rate was 27% (2017: 26%). A reconciliation between the Company's tax expense and the product of the Company's loss before tax multiplied by the Company's domestic tax rate is as follows:

	Year ended December 31, 2018	2017 (Restated)
Loss before tax	**$ (37,297)**	$ (35,854)
Statutory tax rate	**27%**	26%
Income tax recovery based on combined Canadian federal and provincial statutory rates	**(10,071)**	(9,322)
Lower effective tax rate in foreign jurisdictions	**4,260**	252
Underprovision in prior year	**261**	–
Tax effect of tax losses and temporary differences not recognized	**6,394**	7,221
Tax loss utilzed	**–**	(12,164)
Profits or losses attributable to joint venture	**408**	322
Income not subject to tax	**(7,774)**	–
Non-deductible expenses	**(10,350)**	15,431
Income tax expenses	**$ 3,828**	$ 1,740

9.2 Unrecognized deductible temporary differences and unused tax losses

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

	As at December 31, 2018	2017
Non-capital losses	**$ 191,307**	$ 166,274
Capital losses	**30,049**	30,049
Foreign exchange and others	**477,656**	392,573
Total unrecognized amounts	**$ 699,012**	$ 588,896

9.3 Expiry dates

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

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

10. LOSS PER SHARE

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

	Year ended December 31,	
	2018	**2017 (Restated)**
Net loss	**$ (41,125)**	$ (37,594)
Weighted average number of shares	**272,661**	272,188
Basic and diluted loss per share	**$ (0.15)**	$ (0.14)

Potentially dilutive items not included in the calculation of diluted loss per share for the year ended December 31, 2018 include the underlying shares comprised in the convertible debenture and stock options that were anti-dilutive.

11. TRADE AND OTHER RECEIVABLES

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

	As at December 31, 2018	As at December 31, 2017 (Restated)	As at January 1, 2017 (Restated)
Trade receivables	**$ 2,710**	$ 17,549	$ 17,774
Other receivables	**2,336**	3,585	1,660
Total trade and other receivables	**$ 5,046**	$ 21,134	$ 19,434

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

	As at December 31, 2018	As at December 31, 2017 (Restated)	As at January 1, 2017 (Restated)
Less than 1 month	**$ 4,952**	$ 14,900	$ 5,777
1 to 3 months	**49**	2,302	5,622
3 to 6 months	**45**	3,723	7,937
Over 6 months	**–**	209	98
Total trade and other receivables	**$ 5,046**	$ 21,134	$ 19,434

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 new impairment model under IFRS 9 requires the recognition of impairment provisions based on expected credit loss ("ECL") rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortized cost. The ECL model requires judgment as to how changes in economic factors affect ECLs, which are determined on a probability-weighted basis. The Company applies the IFRS 9 simplified approach to measuring ECL on its trade receivables and estimates ECL based on the possible default events on its trade and other receivables over the lifetime of the instruments.

The Company has determined that the loss allowance on its trade and other receivables was $20,005 (2017: $697 which was not calculated under the ECL model) as at December 31, 2018, 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. In addition, a specific provision of certain trade and other receivables of $1,814 was made due to challenges in collecting the trade and other receivables during the year ended December 31, 2018 (2017: reversal of provision of $682).

12. NOTES RECEIVABLES

Notes receivables are financial instruments in the Chinese banking system. As at December 31, 2018, bank notes receivables of $2,500 (2017: $1,898) are readily convertible into cash or can be utilized as settlement of outstanding payables.

13. TRADE AND OTHER PAYABLES

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

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

	As at December 31,	
	2018	**2017**
Less than 1 month	**$ 34,927**	$ 20,664
1 to 3 months	**16,336**	16,132
3 to 6 months	**5,446**	8,825
Over 6 months	**42,867**	33,598
Total trade and other payables	**$ 99,576**	$ 79,219

14. DEFERRED REVENUE

At December 31, 2018, the Company had deferred revenue of $12,658, which represents cash prepayments from customers for future coal sales (2017 (Restated): $23,225).

15. INTEREST-BEARING BORROWINGS

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

	As at December 31, 2018	2017
Turquoise Hill Loan Facility *(i)*	**$ 595**	$ 1,708
Equipment loan *(ii)*	**–**	2,441
Bank loan *(iii)*	**3,543**	3,041
Finance leases payable *(iv)*	**113**	503
Total interest-bearing borrowings	**$ 4,251**	$ 7,693

(i) Turquoise Hill Loan Facility

On May 25, 2014, the Company announced it obtained a loan from Turquoise Hill in the form of a $10,000 revolving credit facility to meet its short term working capital requirements. The 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 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 $100.

During 2014 and 2016, the due date of the TRQ Loan, was extended several times and the maximum amount of the facility was reduced to $3,800.

On August 29, 2018, the Company and Turquoise Hill entered into a deferral agreement (the "August 2018 Deferral Agreement"), whereby Turquoise Hill agreed to a limited deferral of repayment of all remaining amounts and obligations owing under the TRQ Loan to February 28, 2019 in accordance with the schedule of repayments set out below:

- The Company agreed to effect monthly repayments on the last business day of each month in an amount of (i) $100 per month from August 2018 to September 2018; (ii) $200 per month from October 2018 to January 2019; and (iii) the remaining balance on February 28, 2019 (the payments in (i), (ii) and (iii), the "Repayments"); and

- Interest shall continue to accrue on all outstanding obligations at the 12-month US dollar LIBOR.

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

As of the date hereof, the Company has not paid a portion of its February 2018 monthly payment. Pursuant to the terms of the TRQ Loan and the August 2018 Deferral Agreement, the Company is, as of the date hereof, in default of its obligations under the TRQ Loan and the August 2018 Deferral Agreement as a result of the Company failing to make the Repayments in its entirety on or before the dates set out above. Consequently, all of the outstanding obligations under the TRQ Loan and the August 2018 Deferral Agreement are immediately due and payable to Turquoise Hill as of the date hereof. As of the date hereof, the Company has received no indication from Turquoise Hill of any intention to demand payment of the amounts outstanding under the TRQ Loan and the August 2018 Deferral Agreement.

As at December 31, 2018, the outstanding principal and accrued interest under this facility amounted to $nil and $732, respectively (December 31, 2017: the outstanding principal and accrued interest under this facility amounted to $1,000 and $708, respectively). A fair value gain of $137 was credited to accumulated deficit upon the adoption of IFRS 9 starting from January 1, 2018.

(ii) Equipment Loan

IMSGE executed a loan agreement on August 31, 2017 with subsequent amendments on July 9, 2018 and November 21, 2018 with a third party for the purpose of financing the purchase of mining equipment.

The Company repaid $1,286 to the third party in November 2018 and, as of the date hereof, the Equipment Loan has been fully repaid.

(iii) Bank Loan

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

On July 6, 2017, SGS and the Bank entered into a supplementary agreement with the key commercial terms of the Bank Loan modified as follows:

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

$2,300 and $700 of the loan principal was repaid to the Bank by the Company in May 2018 and January 2019, respectively, and the loan balance was fully settled.

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

- Principal amount of the loan (the "2018 Bank Loan") of $2,800;
- Maturity date set at 24 months from drawdown;
- Interest rate of 15% per annum and interest is payable monthly; and
- Certain items of property, plant and equipment were pledged as security for both the Bank Loan and the 2018 Bank Loan. As at December 31, 2018, the net book value of the pledged items of property, plant and equipment was $2,643 (December 31, 2017: $4,539).

As at December 31, 2018, the outstanding principal balance of the Bank Loan, together with the 2018 Bank Loan was $3,500 (December 31, 2017: $3,000) and the Company owed accrued interest of $43 (December 31, 2017: $41).

(iv) Finance Leases Payable

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

At December 31, 2018, the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments As at December 31,		**Present value of minimum lease payments As at December 31,**	
	2018	**2017**	**2018**	**2017**
Amounts payable:				
Within one year	**$ 90**	$ 192	**$ 83**	$ 162
In the second year	**25**	174	**24**	160
In the third to fifth years, inclusive	**6**	188	**6**	181
Total minimum finance lease payments	**$ 121**	$ 554	**$ 113**	$ 503
Future finance charges	**(8)**	(51)		
Total net lease finance payables	**$ 113**	$ 503		
Portion classified as current liabilities	**(83)**	(162)		
Non-current portion	**$ 30**	$ 341		

16. CONVERTIBLE DEBENTURE

On November 19, 2009, the Company issued a convertible debenture to a wholly owned subsidiary of CIC for $500,000.

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

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

16.1 Partial conversion

On March 29, 2010, the Company exercised a right within the debenture to call and convert $250,000 of the debenture for 21,471 Common Shares.

16.2 Presentation

Based on the Company's valuation as at December 31, 2018, the fair value of the embedded derivatives decreased by $137 compared to December 31, 2017. The decrease was recorded as finance income for the year ended December 31, 2018.

For the year ended December 31, 2018, the Company recorded interest expense of $22,195 related to the convertible debenture as a finance cost (2017: $21,315). The interest expense consists of the interest at the contract rate and the accretion of the debt host component of the convertible debenture. To calculate the accretion expense, the Company uses the contract life of 30 years and an effective interest rate of 22.2%.

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

	Year ended December 31, 2018	2017
Balance, beginning of year	**$ 116,374**	$ 117,590
Interest expense on convertible debenture	**22,195**	21,315
Decrease in fair value of embedded derivatives	**(137)**	(137)
Fair value adjustment upon adoption of IFRS 9	**1,469**	–
Interest paid	**–**	(22,394)
Balance, end of year	**$ 139,901**	$ 116,374

The convertible debenture balance consists of the following amounts:

	As at December 31, 2018	2017
Current convertible debenture		
Interest payable	**$ 46,096**	$ 24,242
Debt host	**93,540**	91,730
Fair value of embedded derivatives	**265**	402
Total convertible debenture	**$ 139,901**	$ 116,374

17. ACCUMULATED DEFICIT AND DIVIDENDS

At December 31, 2018, the Company has accumulated a deficit of $1,181,613 (2017 (Restated): $1,138,179). No dividend has been paid or declared by the Company since inception.

The Board did not recommend the payment of any final dividend for the year ended December 31, 2018 (2017: nil).

REVIEW OF RESULTS AND RELEASE OF AUDITED RESULTS

The annual results of the Company for the year ended December 31, 2018 were reviewed by the Audit Committee of the Company and approved and authorized for issue by the Board on March 31, 2019.

The figures in respect of the Company's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended December 31, 2018, as set out in this press release have been agreed by the Company's independent auditor, PricewaterhouseCoopers LLP ("PwC"), to the amounts set out in the Company's audited consolidated financial statements for the year. The work performed by PwC in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by PwC on this press release.

The Company's results for the year ended December 31, 2018 are contained in the audited consolidated financial statements and unaudited Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), which will be available on March 31, 2019 on the SEDAR website at www.sedar.com and the Company's website at www.southgobi.com. Copies of the Company's 2018 Annual Report containing the audited consolidated financial statements and the MD&A, and the Annual Information Form will be available at www.southgobi.com. Shareholders with registered addresses in Hong Kong who have elected to receive a copy of the Company's Annual Report will receive one. Other shareholders of the Company may request a hard copy of the 2018 Annual Report free of charge by contacting our Investor Relations department by email at info@southgobi.com.

QUALIFIED PERSONS

Disclosure of a scientific or technical nature in this press release in respect of the Company's material mineral projects was prepared by or under the supervision of the Qualified Persons (as that term is defined in NI 43-101 of the Canadian Securities Administrators) listed below.

Disclosure of a scientific or technical nature 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 NI 43-101:

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 is derived from 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. 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 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.

ABOUT SOUTHGOBI

SouthGobi, listed on the Toronto and Hong Kong stock exchanges, owns and operates its flagship Ovoot Tolgoi coal mine in Mongolia. It also holds the mining licences of its other metallurgical and thermal coal deposits in South Gobi Region of Mongolia. SouthGobi produces and sells coal to customers in China.

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Except for statements of fact relating to the Company, certain information contained herein constitutes forward-looking statements. Forward-looking statements are frequently characterized by words such as “plan”, “expect”, “project”, “intend”, “believe”, “anticipate”, “could”, “should”, “seek”, “likely”, “estimate” and other similar words or statements that certain events or conditions “may” or “will” occur. Forward-looking statements relate to management’s future outlook and anticipated events or results and are based on the opinions and estimates of management at the times the statements are made. Forward-looking statements in this press release 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 CIC Convertible Debenture, the June 2017 Deferral Agreement, the TRQ Loan, the Bank Loan and 2018 Bank Loan, and the Settlement Deed with First Concept, as the same become due;

- the Company’s anticipated financing needs, development plans and future production levels;

- the Company successfully negotiating a deferral of the Outstanding Cash Interest Payable and the PIK Interest Shares under the June 2017 Deferral Agreement and CIC Convertible Debenture;

- the ability of the Company to successfully respond to any enforcement proceeding brought by First Concept in respect of the Arbitration Award and Settlement Deed;

- the results and impact of the Ontario class action (as described under section “*Regulatory Issues and Contingencies*” of this press release under the heading entitled “*Class Action Lawsuit*”);

- the impact of the Suspicious Transactions engaged in by Former Management and Employees and the results of the investigation, conducted by the Special Committee;

- the remedial actions and preventative measures the Company will implement to address the issues which caused the Trading Suspension;

- the ability of the Company to successfully satisfy the conditions necessary to resume trading of the Common Shares on the HKEX and the TSX;

- the expected timing to complete the actions set out in the Trading Resumption Plan and to resume trading of the Common Shares on the HKEX and TSX;
- 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 "*Regulatory Issues and Contingencies*" of this press release under the heading entitled "*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; and
- other statements that are not historical facts.

Forward-looking information is based on certain factors and assumptions described below and elsewhere in this press release, 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; the Special Committee completing its assessment of the potential remedial actions and preventative measures available to the Company, and the Board approving a set of specific actions and measures, in a timely manner; 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; 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 Company being in default under the CIC Convertible Debenture, the June 2017 Deferral Agreement and the TRQ Loan, including the risk of CIC accelerating all amounts outstanding under the CIC Convertible Debenture and enforcing payment thereof, and the risk of Turquoise Hill demanding immediate payment of all amounts outstanding under the TRQ Loan, respectively; the risk of the Company failing to successfully negotiate a deferral of the Outstanding Cash Interest Payable, and the PIK Interest Shares, (as such terms are defined below) under the June 2017 Deferral Agreement and CIC Convertible Debenture; the possible impact of changes to the inputs to the valuation model used to value the embedded derivatives in the CIC Convertible Debenture; the risk of the Company failing to successfully negotiate favorable repayment terms on the TRQ Reimbursable Amount (as described under section *"Liquidity and Capital Management"* of this press release under the heading entitled *"Costs Reimbursable to Turquoise Hill"*); the risk of the Company or its subsidiaries defaulting under its existing debt obligations, including the Bank Loan and 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 SGS pursuant to the Settlement Deed (as described under section "*Liquidity and Capital Resources – Commercial Arbitration in Hong Kong*"); the outcome of the Class Action (as described under section "Regulatory Issues and Contingencies" of this press release under the heading entitled "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 fails to properly implement the remedial actions and preventative measures to address the issues which caused the Trading Suspension; the risk that the remedial actions and preventative measures fail to successfully address the issues which caused the Trading Suspension; the risk that the Company is unable to satisfy the conditions required to resume trading of the Common Shares on the TSX and the HKEX, including the risk that the Company fails to properly complete its Trading Resumption Plan; the risk that the Common Shares are delisted from trading on the TSX and the HKEX; the risk that the calculated sales price determined by the Company for the purposes determining of the amount of royalties payable to the Mongolian government is deemed as being "non-market" under Mongolian tax law; customer credit risk; cash flow and liquidity risks; the risk of continued delays in the custom clearance process at the Ceke border; 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. 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 press release, actual events may differ materially from current expectations. The Company uses forward-looking statements because it believes such statements provide useful information with respect to the currently expected future operations and financial performance of the Company, and cautions readers that the information may not be appropriate for other purposes. Except as required by law, the Company undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change. The reader is cautioned not to place undue reliance on the forward-looking statements, which speaks only as of the date of this press release; they should not rely upon this information as of any other date.

The English text of this press release shall prevail over the Chinese text in case of inconsistencies.