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**SouthGobi
Resources**
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 Resources announces the second quarter 2017 results

HONG KONG – SouthGobi Resources Ltd. (TSX: SGQ, HK: 1878) (the “Company”) today announces its financial and operating results for the three and six months ended June 30, 2017.

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.
Mr. Aminbuhe
Chairman

Hong Kong, August 14, 2017

As at the date of this announcement, the executive directors of the Company are Messrs. Aminbuhe and Yulan Guo; the independent non-executive directors are Messrs. Yingbin Ian He, Zhu Liu and Mao Sun and Ms. Jin Lan Quan; the non-executive director is Mr. Wen Yao.

* For identification purposes only

SouthGobi Resources announces second quarter 2017 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 three and six months ended June 30, 2017. All figures are in U.S. dollars (“USD”) unless otherwise stated.

SIGNIFICANT EVENTS AND HIGHLIGHTS

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

- **Operating Results** – As a result of improved market conditions and prices for coal in the People’s Republic of China (“China”), the Company’s operating results for the quarter improved with an increase in the average selling price of coal as well as the volume of coal sales, as compared to the second quarter of 2016. The Company sold 1.48 million tonnes of coal product during the second quarter of 2017 as compared to 0.82 million tonnes for the second quarter of 2016. The average realized selling price increased from \$13.65 per tonne for the second quarter of 2016 to \$25.24 per tonne for the second quarter of 2017, which was mainly a result of improved market conditions as well as an improved product mix.
- **Financial Results** – The Company recorded a gross profit of \$7.3 million during the quarter compared to a gross loss of \$12.7 million in the second quarter of 2016. The Company recorded a \$0.9 million profit from operations during the second quarter of 2017, as compared to a \$13.8 million loss from operations in the second quarter of 2016. Revenue was \$34.7 million in the second quarter of 2017 as compared to \$10.4 million in the second quarter of 2016. The operations during the second quarter of 2017 improved over the comparative 2016 quarter given the improved market conditions in China.

- ***China Investment Corporation (“CIC”) Convertible Debenture (“CIC Convertible Debenture”)*** – On June 12, 2017, the Company executed a deferral agreement (the “June 2017 Deferral Agreement”) with CIC in relation to a revised repayment schedule on the \$22.3 million of cash interest and associated costs originally due on May 19, 2017 (the “May 2017 Interest Payable”). The key repayment terms of the June 2017 Deferral Agreement are: (i) the Company is required to repay on average \$2.2 million of the cash interest and associated costs monthly during the period from May 2017 to October 2017; and (ii) the Company is required to repay \$9.7 million of cash interest and associated costs on November 19, 2017. The Company will pay a deferral fee at a rate of 6.4% per annum in consideration of the deferral.
- ***Settlement of Lawsuit Notice from a Former Fuel Supplier*** – On January 20, 2017, SouthGobi Sands LLC (“SGS”), a subsidiary of the Company, received a notice from the Khan-Uul District Civil Court of First Instance in Mongolia (the “DC Court”) in relation to a claim for damages from Magnai Trade LLC (“MTLLC”), a former fuel supplier of SGS, in the aggregate amount of MNT 22.2 billion (approximately \$8.9 million) representing outstanding fuel supply payments and related penalties and interest costs. On January 25, 2017, the DC Court dismissed the litigation and the matter was referred to arbitration. The Company signed a settlement agreement with MTLLC on February 10, 2017, pursuant to which SGS would pay MTLLC \$8.0 million in equal monthly installments from March 2017 to June 2017 in full satisfaction of the debt outstanding. The terms of the settlement agreement was subsequently acknowledged by the arbitrator in the arbitration award.

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

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

- **Settlement of Trade Receivable** – During the year ended December 31, 2016, the Company entered into a settlement agreement with one of its major customers (the “Customer”) pursuant to which 200 residential units and 40 parking spaces (collectively, the “240 Units”) located in Ulaanbaatar, Mongolia, were transferred to the Company as partial consideration for settling outstanding trade receivables in the amount of \$12.0 million owing by the Customer to the Company, with the balance of the receivable, totaling \$7.5 million, payable in cash by the Customer to the Company. As of the date of this announcement, the entirety of the \$7.5 million balance has been repaid by, and collected from, the Customer.
- **Changes in Directors**

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

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

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

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

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

Mr. Huiyi Wang: Mr. Wang resigned as a non-executive director on July 24, 2017.
- **Strategic Advisory Board** – In light of the reconstitution of the Board and appointment of new directors, the Company’s Strategic Advisory Board was dissolved on June 30, 2017.

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

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

OVERVIEW OF OPERATIONAL DATA AND FINANCIAL RESULTS

Summary of Operational Data

	Three months ended June 30, 2017		2016	Six months ended June 30, 2017		2016
Sales Volumes, Prices and Costs						
Premium semi-soft coking coal						
Coal sales (<i>millions of tonnes</i>)		0.18		—	0.37	0.06
Average realized selling price (<i>per tonne</i>) ⁽ⁱ⁾	\$	45.67	\$	—	\$ 45.64	\$ 21.38
Standard semi-soft coking coal						
Coal sales (<i>millions of tonnes</i>)		0.79		0.52	1.43	1.10
Average realized selling price (<i>per tonne</i>) ⁽ⁱ⁾	\$	26.69	\$	16.27	\$ 25.20	\$ 17.40
Thermal coal						
Coal sales (<i>millions of tonnes</i>)		0.51		0.30	0.79	0.54
Average realized selling price (<i>per tonne</i>) ⁽ⁱ⁾	\$	15.79	\$	9.17	\$ 14.85	\$ 9.18
Total						
Coal sales (<i>millions of tonnes</i>)		1.48		0.82	2.59	1.70
Average realized selling price (<i>per tonne</i>) ⁽ⁱ⁾	\$	25.24	\$	13.65	\$ 24.93	\$ 14.92
Raw coal production (<i>millions of tonnes</i>)		1.89		0.67	3.40	1.04
Cost of sales of product sold (<i>per tonne</i>)	\$	18.50	\$	28.01	\$ 19.75	\$ 24.71
Direct cash costs of product sold (<i>per tonne</i>) ⁽ⁱⁱ⁾	\$	7.84	\$	12.47	\$ 8.52	\$ 10.17
Mine administration cash costs of product sold (<i>per tonne</i>) ⁽ⁱⁱ⁾	\$	2.22	\$	2.32	\$ 1.70	\$ 1.76
Total cash costs of product sold (<i>per tonne</i>) ⁽ⁱⁱ⁾	\$	10.06	\$	14.79	\$ 10.22	\$ 11.93

Other Operational Data

Production waste material moved (<i>millions of bank cubic meters</i>)		6.36		1.82		9.66		2.54
Strip ratio (<i>bank cubic meters of waste material per tonne of coal produced</i>)		3.37		2.71		2.84		2.43
Lost time injury frequency rate ⁽ⁱⁱⁱ⁾		0.04		0.00		0.03		0.00

- (i) *Average realized selling price is presented before deduction of royalties and selling fees.*
- (ii) *A Non-International Financial Reporting Standards ("IFRS") financial measure, which does not have a standardized meaning according to IFRS. See "Non-IFRS Financial Measures" section. Cash costs of product sold exclude idled mine asset cash costs.*
- (iii) *Per 200,000 man hours and calculated based on a rolling 12 month average.*

Overview of Operational Data

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

For the three months ended June 30, 2017

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

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

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

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

For the six months ended June 30, 2017

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

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

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

Summary of Financial Results

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

(i) Revenue is presented after the deduction of royalties and selling fees.

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

Overview of Financial Results

For the three months ended June 30, 2017

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

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

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

Royalty regime in Mongolia

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

For the six months ended June 30, 2017

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

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

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

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

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

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

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

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

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

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

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

Mining services at the Tavan Tolgoi deposit were provided by the Company to Erdenes Tavan Tolgoi JSC ("Erdenes") in connection with settlement of the Tax Penalty (as defined below) at a net cost of \$2.4 million in the first six months of 2017 (direct mining costs and depreciation totaling \$8.0 million, net of service revenue of \$5.6 million) (see section "Regulatory Issues and Contingencies – Governmental and Regulatory Investigations" for more details).

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

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

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

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

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

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

Summary of Quarterly Operational Data

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

- (i) Average realized selling price is presented before deduction of royalties and selling fees.
- (ii) A non-IFRS financial measure, which does not have a standardized meaning according to IFRS. See section “Non-IFRS Financial Measures”. Cash costs of product sold exclude idled mine asset cash costs.
- (iii) Per 200,000 man hours and calculated based on a rolling 12 month average.

Summary of Quarterly Financial Results

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

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

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 Limited ("Turquoise Hill") Loan Facility ("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 under the Company's profile on SEDAR at www.sedar.com on June 2, 2014. The key commercial terms of the facility were: an original maturity date of August 30, 2014 (subsequently extended as described below); an interest rate of one month US dollar LIBOR Rate in effect plus 11% per annum; a commitment fee of 35% of interest rate payable quarterly in arrears on undrawn principal amount of facility and a front end fee of \$0.1 million.

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

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

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

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

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

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

Bank Loan

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

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

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

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

Costs reimbursable to Turquoise Hill

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

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

Going concern considerations

The Company’s condensed consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue operating until at least June 30, 2018 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. However, in order to continue as a going concern, the Company must generate sufficient operating cash flows, secure additional capital or otherwise pursue a strategic restructuring, refinancing or other transactions to provide it with additional liquidity.

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

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

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

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

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

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

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

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

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

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

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

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

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

CIC Convertible Debenture

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

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

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

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

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

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

Ovoot Tolgoi Mine Impairment Analysis

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

Therefore, the Company conducted an impairment test whereby the carrying value of the Company's Ovoot Tolgoi Mine cash generating unit was compared to its "fair value less costs of disposal" using a discounted future cash flow valuation model. The Company's cash flow valuation model takes into consideration the latest available information to the Company, including but not limited to, sales price, sales volumes and washing assumptions, operating cost and life of mine coal production assumptions as at June 30, 2017. The Company's Ovoot Tolgoi Mine cash generating unit carrying value was \$130.8 million as at June 30, 2017.

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

- Coal resources and reserves as estimated by an independent third party engineering firm;
- Sales price estimates from an independent market consulting firm;
- Forecasted sales volumes in line with production levels as per the updated mine plan;
- Updated life-of-mine coal production, strip ratio, capital costs and operating costs;
- Coal washing to increase the volume of premium semi-soft coking coal sold;
- Coal processing to increase the grade and qualities of the thermal coal produced and sold; and
- A post-tax discount rate of 14.1% based on an analysis of the market, country and asset specific factors.

The impairment analysis did not result in the identification of an impairment loss or an impairment reversal and no charge or reversal was required as at June 30, 2017. The Company believes that the estimates and assumptions incorporated in the impairment analysis are reasonable; however, the estimates and assumptions are subject to significant uncertainties and judgments.

REGULATORY ISSUES AND CONTINGENCIES

Governmental and Regulatory Investigations

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

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

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

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

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

In compliance with the Resolution 258, in November 2016, the Company entered into an agreement with Erdenes under which the Company agreed to perform certain mining operations equivalent to MNT 20.3 billion (approximately \$8.1 million) in the West Tsankhi section of the Tavan Tolgoi deposit during the period from November 2016 to February 2017. In March 2017, the Company has completed the mining operations at the Tavan Tolgoi deposit equivalent to MNT 20.3 billion (approximately \$8.1 million) as set out in the agreement with Erdenes.

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

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

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

Mongolian IAAC Investigation

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

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

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

Class Action Lawsuit

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

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

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

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

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

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

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

Toll Wash Plant Agreement with Ejin Jinda

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

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

Mining Prohibition in Specified Areas Law

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

In order to address the issues facing its implementation, in February 2015 the Parliament of Mongolia adopted an amendment to the Law on Implementation of the Mining Prohibition in Specified Areas Law (the "Amended Law on Implementation"). The Amended Law on Implementation provided an opportunity for license holders covered within the scope of application of the Mining Prohibition in Specified Areas Law to continue their mining operations subject to advance placement of funds to cover 100% of the future environmental rehabilitation

costs. A model contract and a specific Government regulation on this requirement will be adopted by the Government. The license holders were required to apply within 3 months after the amendment to the Law on Implementation came into effect for permission to the Mineral Resources Authority of Mongolia to resume activities. The Company considered the development projects may be affected, but not the operating mines. The Company submitted its application with respect to its mining licenses before the deadline set on June 16, 2015.

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

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

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

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

Special Needs Territory in Umnugobi

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

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

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

Commercial Arbitration in Hong Kong

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

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

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

Settlement of Lawsuit Notice from a Former Fuel Supplier

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

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

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

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

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

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

TRANSPORTATION INFRASTRUCTURE

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

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

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

On September 17, 2015, the Invest Mongolia Agency signed an amendment to the concession agreement with RDCC LLC to extend the exclusive right of ownership to 30 years.

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

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

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

PLEDGE OF ASSETS

As at June 30, 2017, certain of the Company's property, plant and equipment of \$3.1 million (December 31, 2016: \$3.7 million) were pledged as security for a bank loan granted to the Company. As at June 30, 2017, certain of the Company's mobile equipment of \$0.8 million (December 31, 2016: \$0.7 million) were held under finance leases.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

The Company did not redeem, purchase or sell any of its own listed securities during the six months ended June 30, 2017, nor did any of its subsidiaries purchase, or sell any of the Company's listed securities during the six months ended June 30, 2017.

COMPLIANCE WITH CORPORATE GOVERNANCE

The Company has, throughout the six months ended June 30, 2017, applied the principles and complied with the requirements of its corporate governance practices as defined by the Board 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange" and the "Hong Kong Listing Rules", respectively), except for the followings:

Pursuant to code provision A.6.7 of the Corporate Governance Code, the independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Due to other engagements, certain independent non-executive Directors and the non-executive Director were unable to attend the AGM.

Pursuant to code provision E.1.2 of the Corporate Governance Code, the chairman of the board of directors should attend the annual general meeting. However, Mr. Ningqiao Li, the Executive Chairman, was unable to attend the AGM due to other significant business commitments. In the absence of the Executive Chairman, Mr. Mao Sun, an independent non-executive Director and the Interim Lead Director, acted as chairman of the AGM to ensure an effective communication with the shareholders of the Company. Mr. Li had a follow-up with Mr. Sun in respect of the opinions expressed or concerns raised, if any, by the shareholders of the Company at the AGM.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED COMPANIES

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

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

OUTLOOK

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

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

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

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

- **Bridge between Mongolia and China** – The Company is well positioned to capture the resulting business opportunities between the two countries given: i) strong strategic support from its largest shareholders (CIC and Cinda (Novel Sunrise's parent company)), which are both state-owned-enterprises in China; and ii) the Company has a strong operational record for ten years in Mongolia, being one of the largest enterprises in the country.
- **Strategic location** – The Ovoot Tolgoi Mine is located approximately 40km from China, which represents the Company's main coal market. The Company has an infrastructure advantage, being approximately 50km from a major Chinese coal distribution terminal with rail connections to key coal markets in China.
- **Expanded resources and declared reserves** – As a result of work performed by Dragon Mining Consulting Limited, the Company increased its estimate of total measured resources, indicated resources and inferred resources at the Ovoot Tolgoi deposit as of December 31, 2016 to 201.9 million tonnes ("Mt"), 100.3 Mt and 89.0 Mt. Further, the Company has declared proven reserves and probable reserves for the Ovoot Tolgoi deposit of 99.5 Mt and 14.6 Mt, respectively.
- **Several growth options** – The Company has several growth options including the Soumber Deposit and Zag Suuj Deposit, located approximately 20km east and approximately 150km east of the Ovoot Tolgoi Mine, respectively.

Objectives

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

- **Enhance product mix** – The Company is committed to enhancing the product quality by completing the construction and commissioning of the new wash plant, and completing a study of refurbishing, completing and implementing certain components of the former dry coal handling facility, which would enable the processing of lower grade coal into higher margin products on a larger scale.
- **Expand customer base** – The Company aims to strengthen its sales and logistics capabilities to expand the customer base further inland in China.
- **Optimize cost structure** – The Company is focused on further cost reduction by improving productivity and operational efficiency with the engagement of third party contract mining companies while maintaining product quality and the sustainability of production.

- **Progress growth options** – Subject to available financial resources, the Company plans to further the development of the Soumber Deposit, while staying compliant with all government requirements in relation to its licenses and agreements.
- **Diversify the risk profile of the Company** – The Company is evaluating various business opportunities besides coal mining, coal trading and real estate in Mongolia including, but not limited to, power generation and contract mining.
- **Operate in a socially responsible manner** – The Company is focused on maintaining the highest standards in health, safety and environmental performance.

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.

Summarized Comprehensive Income Information

(Expressed in thousands of USD, except for share and per share amounts)

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

Summarized Financial Position Information

(Expressed in thousands of USD)

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

SELECTED INFORMATION FROM THE NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Additional information required by the Hong Kong Stock Exchange and not disclosed elsewhere in this announcement is as follows. All amounts are expressed in thousands of USD and shares in thousands, unless otherwise indicated.

1. BASIS OF PREPARATION

1.1 Corporate information and liquidity

The Company's condensed consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue operating until at least June 30, 2018 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. However, in order to continue as a going concern, the Company must generate sufficient operating cash flows, secure additional capital or otherwise pursue a strategic restructuring, refinancing or other transactions to provide it with additional liquidity.

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

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

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

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

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

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

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

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

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

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

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

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

1.2 Statement of compliance

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

The condensed consolidated interim financial statements of the Company for the three months ended June 30, 2017 were approved and authorized for issue by the Board of Directors of the Company on August 14, 2017.

1.3 Basis of presentation

These condensed consolidated interim financial statements have been prepared using accounting policies and methods of computation consistent with those applied in the Company's December 31, 2016 consolidated annual financial statements. These condensed consolidated interim financial statements do not include all the information and note disclosures required by IFRS for annual financial statements and therefore should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2016.

2. SEGMENTED INFORMATION

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

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

The carrying amounts of the Company's assets, liabilities, reported income or loss and revenues analyzed by operating segment are as follows:

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

		Coal Division	Unallocated ⁽ⁱ⁾	Consolidated Total
Finance cost				
For the three months ended June 30, 2017	\$	115	\$ 5,379	\$ 5,494
For the three months ended June 30, 2016		75	5,302	5,377
For the six months ended June 30, 2017	\$	413	\$ 10,756	\$ 11,169
For the six months ended June 30, 2016		104	10,741	10,845

Finance income				
For the three months ended June 30, 2017	\$	10	\$ 40	\$ 50
For the three months ended June 30, 2016		324	–	324
For the six months ended June 30, 2017	\$	14	\$ –	\$ 14
For the six months ended June 30, 2016		293	3	296

Current income tax				
For the three months ended June 30, 2017	\$	2,714	\$ –	\$ 2,714
For the three months ended June 30, 2016		23	–	23
For the six months ended June 30, 2017	\$	2,759	\$ –	\$ 2,759
For the six months ended June 30, 2016		258	–	258

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

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

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

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

3. REVENUE

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

4. EXPENSES BY NATURE

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

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

5. COST OF SALES

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

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

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

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

6. OTHER OPERATING INCOME/(EXPENSES)

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

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

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

7. ADMINISTRATION EXPENSES

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

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

8. FINANCE COSTS AND INCOME

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

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

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

	Three months ended, June 30, 2017		2016	Six months ended, June 30, 2017		2016		
Unrealized gain on embedded derivatives in convertible debenture	\$	40	\$	322	\$	—	\$	293
Interest income		10		2		14		3
Finance income	\$	50	\$	324	\$	14	\$	296

9. TAXES

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

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

10. LOSS PER SHARE

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

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

Potentially dilutive items not included in the calculation of diluted loss per share for the three and six months ended June 30, 2017 include the convertible debenture 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 June 30, 2017		December 31, 2016	
Trade receivables	\$	12,910	\$	17,774
Other receivables		<u>2,636</u>		<u>1,660</u>
Total trade and other receivables	\$	<u>15,546</u>	\$	<u>19,434</u>

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

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

Trade receivables are normally paid within 6 months from the date of billing. Overdue balances are reviewed regularly by senior management. The Company does not hold any collateral or other credit enhancements over its trade and other receivable balances.

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

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

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

12. TRADE AND OTHER PAYABLES

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

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

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

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

12.1 Settlement of Lawsuit Notice from a Former Fuel Supplier

On January 20, 2017, SGS received a notice from the Khan-Uul District Civil Court of First Instance in Mongolia (the “DC Court”) in relation to a claim for damages from MTLLC, a former fuel supplier of SGS, in the aggregate amount of MNT22.2 billion (approximately \$8,900) consisting of MNT14.6 billion (approximately \$5,800) of outstanding fuel supply payments and MNT7.6 billion (approximately \$3,100) of late payment penalties and associated interest costs.

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

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

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

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

13. ACCUMULATED DEFICIT AND DIVIDENDS

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

REVIEW OF INTERIM RESULTS

The condensed consolidated interim financial statements of the Company for the three and six months ended June 30, 2017, which are unaudited but have been reviewed by the Company's independent auditor and the Audit Committee of the Company.

The Company's results for the three and six months ended June 30, 2017, are contained in the unaudited Condensed Consolidated Interim Financial Statements and Management Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), available on the SEDAR website at www.sedar.com and the Company's website at www.southgobi.com.

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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Forward-Looking Statements: 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 announcement 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 TRQ Loan and the bank loan, as the same become due;
- the Company's anticipated financing needs, development plans and future production levels;
- the ability of the Company to satisfy the balance of the outstanding Tax Penalty;
- the ability of the Company to negotiate favorable repayment terms on the TRQ Reimbursable Amount;
- the ability of the Company to meet the repayment terms as per the Triparty Settlement Agreement with ICIC;
- the potential consequence to the Company if the judicial order in relation to the settlement agreement with MTLLC is taken to a bailiff service by ICIC;
- the outcome of arbitration proceedings involving the Company and First Concept with respect to a coal supply agreement and payments thereunder;
- the results and impact of the Ontario class action;
- the estimates and assumptions included in the Company's impairment analysis and the possible impact of changes thereof;
- the agreement with Ejin Jinda and the payments thereunder;
- the commencement of the washing facilities at Ovoot Tolgoi and the timing thereof;
- the ability to enhance the product value by conducting coal processing and coal washing;
- the Company's intention to develop markets for its semi-soft coking coal brands and to pursue long-term supply offtake agreements with end users in China;
- the evaluation, and potential pursuit of, business opportunities other than coal mining, coal trading and real estate in Mongolia, including but not limited to power generation and contract mining;

- the impact of the Company's activities on the environment and actions taken for the purpose of mitigation of potential environmental impacts and planned focus on health, safety and environmental performance;
- the Company's objectives for 2017 and beyond; and
- other statements that are not historical facts.

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

and any payments payable by the Company resulting therefrom; cash flow and liquidity risks; risks relating to the Company's ability to raise additional financing and to continue as a going concern. Please see the Company's most recently filed Annual Information Form for the year ended December 31, 2016, which is available under the Company's profile on SEDAR at www.sedar.com, for a discussion of these and other risks and uncertainties relating to the Company and its operations.

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

Due to assumptions, risks and uncertainties, including the assumptions, risks and uncertainties identified above and elsewhere in this announcement, 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 announcement; they should not rely upon this information as of any other date.

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