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SOUTHGobi RESOURCES LTD.

南戈壁資源有限公司*

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

(Hong Kong Stock Code: 1878)

(Toronto Stock Code: SGQ)

SouthGobi announces second quarter 2019 financial and operating results

SouthGobi Resources Ltd. (the “**Company**” or “**SouthGobi**”) today announces its financial and operating results for the three and six months ended June 30, 2019.

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

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

Vancouver, August 13, 2019
Hong Kong, August 13, 2019

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

* *For identification purposes only*



August 13, 2019

SouthGobi Resources announces second quarter 2019 financial and operating results

HONG KONG – SouthGobi Resources Ltd. (**Toronto Stock Exchange (“TSX”): SGQ, Hong Kong Stock Exchange (“HKEX”): 1878**) (the “Company” or “SouthGobi”) today announces its financial and operating results for the three and six months ended June 30, 2019. 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, 2019 and the subsequent period up to August 13, 2019 are as follows:

- **Operating Results** – The Company increased sales volume to 0.9 million tonnes for the second quarter of 2019 from 0.6 million tonnes for the second quarter of 2018. Given the improvement of the product mix, the average realized selling price increased from \$32.8 per tonne in the second quarter of 2018 to \$36.8 per tonne in the second quarter of 2019.
- **Financial Results** – The Company recorded a gross profit of \$10.4 million in the second quarter of 2019 compared to \$2.3 million in the second quarter of 2018, while a \$5.2 million profit from operations was recorded in the second quarter of 2019 compared to a \$18.2 million loss from operations in the second quarter of 2018 (restated). The improvement of overall financial results were principally attributable to lower unit cost of sales of products sold during the quarter and the provision for doubtful trade and other receivables of \$14.8 million during the second quarter of 2018.
- **China Investment Corporation (“CIC”) Convertible Debenture (“CIC Convertible Debenture”)** – On April 23, 2019, the Company executed a deferral agreement (the “2019 Deferral Agreement”) with CIC in relation to a deferral and revised repayment schedule in respect of (i) \$41.8 million of outstanding cash and payment in kind interest (“PIK Interest”) and associated costs due and payable to CIC on November 19, 2018 (the “Outstanding Interest Payable”) under the CIC Convertible Debenture and the deferral agreement dated June 12, 2017 (the “June 2017 Deferral Agreement”); and (ii) \$27.9 million of cash and PIK Interest payments payable to CIC under the CIC Convertible Debenture from April 23, 2019 to and including May 19, 2020 (the “Deferral”). Pursuant to Section 501(c) of the TSX Company Manual, the 2019 Deferral Agreement was approved at the Company’s adjourned annual and special meeting of shareholders on June 13, 2019.

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

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

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

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

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

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

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

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

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

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

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

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

- **Changes in Management and Directors**

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

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

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

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

Unless the Company acquires additional sources of financing and/or funding in the short term, the ability of the Company to continue as a going concern is threatened. If the Company is unable to continue as a going concern, it may be forced to seek relief under applicable bankruptcy and insolvency legislation. See section "Liquidity and Capital Resources" of this press release for details. As at August 13, 2019, the Company had \$1.6 million of cash.

OVERVIEW OF OPERATIONAL DATA AND FINANCIAL RESULTS

Summary of Operational Data

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

(i) A Non-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.

(ii) Per 200,000 man hours and calculated based on a rolling 12 month average.

Overview of Operational Data

For the three months ended June 30, 2019

For both the three months ended June 30, 2019 and June 30, 2018, the Company had a lost time injury frequency rate of 0.06 per 200,000 man hours based on a rolling 12 month average.

As a result of the improved product mix, the average realized selling price increased from \$32.8 per tonne in the second quarter of 2018 to \$36.8 per tonne in the second quarter of 2019.

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

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

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

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

For the six months ended June 30, 2019

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

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

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

Summary of Financial Results

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

- (i) Revenue and cost of sales 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. Royalties have been reclassified from revenue to cost of sales.
- (ii) A non-IFRS financial measure, idled mine asset costs represents the depreciation expense relates to the Company's idled plant and equipment.
- (iii) The financial results for the three and six months ended June 30, 2018 were restated. Refer to section "Significant events and highlights" of this press release under the heading entitled "Key Findings of Formal Investigation" for details.

Overview of Financial Results

For the three months ended June 30, 2019

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

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

Royalty regime in Mongolia

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

On February 1, 2016, the Government of Mongolia issued a resolution in connection with the royalty regime. From February 1, 2016 onwards, royalties are to be calculated based on the actual contract price including transportation costs to the Mongolia border. If such transportation costs have not been included in the contract, the relevant transportation costs, customs documentation fees, insurance and loading costs should be estimated for the calculation of royalties. In the event that the calculated sales price as described above differs from the contract sales price of other entities in Mongolia (same quality of coal and same border crossing) by more than 10%, the calculated sales price will be deemed to be "non-market" under Mongolian tax law and the royalty will then be calculated based on a reference price as determined by the Government of Mongolia. See the section entitled "Risk Factors – Company's Projects in Mongolia" in the Company's most recently filed Annual Information Form for the year ended December 31, 2018, a copy of which is available under the Company's profile on SEDAR at www.sedar.com.

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

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

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

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

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

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

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

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

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

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

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

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

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

For the six months ended June 30, 2019

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

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

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

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

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

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

Cost of sales in the first six months of 2019 included coal stockpile impairment of \$3.5 million, to reduce the carrying value of the Company's coal stockpiles to their net realizable value. The coal stockpile impairment recorded primarily related to the Company's higher-ash products.

Cost of sales related to idled mine asset costs primarily consisted of period costs, which were expensed as incurred and primarily included depreciation expense. Cost of sales related to idled mine assets in the first six months of 2019 included \$1.8 million related to depreciation expenses for idled equipment (first six months of 2018: \$7.3 million).

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

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

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

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

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

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

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

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

Summary of Quarterly Operational Data

Quarter Ended	2019			2018			2017		
	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	
Sales Volumes, Prices and Costs									
Premium semi-soft coking coal									
Coal sales (millions of tonnes)	0.12	0.11	0.24	0.25	0.07	0.03	0.37	0.12	
Average realized selling price (per tonne)	\$ 32.72	\$ 47.34	\$ 47.37	\$ 48.15	\$ 59.98	\$ 67.94	\$ 50.47	\$ 46.55	
Standard semi-soft coking coal/premium thermal coal									
Coal sales (millions of tonnes)	0.59	0.85	0.40	0.26	0.19	0.41	0.60	0.41	
Average realized selling price (per tonne)	\$ 35.67	\$ 33.34	\$ 32.60	\$ 34.40	\$ 33.80	\$ 46.34	\$ 37.49	\$ 28.32	
Standard thermal coal									
Coal sales (millions of tonnes)	–	0.09	0.12	0.22	0.32	0.12	0.29	0.27	
Average realized selling price (per tonne)	\$ –	\$ 34.88	\$ 24.26	\$ 23.49	\$ 26.32	\$ 25.40	\$ 16.98	\$ 14.48	
Washed coal									
Coal sales (millions of tonnes)	0.17	0.01	0.15	–	–	–	–	–	
Average realized selling price (per tonne)	\$ 44.20	\$ 45.07	\$ 44.02	\$ –	\$ –	\$ –	\$ –	\$ –	
Total									
Coal sales (millions of tonnes)	0.88	1.06	0.91	0.73	0.58	0.56	1.26	0.80	
Average realized selling price (per tonne)	\$ 36.80	\$ 34.91	\$ 37.32	\$ 35.77	\$ 32.81	\$ 43.02	\$ 36.54	\$ 26.41	
Raw coal production (millions of tonnes)	1.33	1.03	1.87	1.11	0.98	0.38	0.51	2.47	
Cost of sales of product sold (per tonne)	\$ 25.04	\$ 22.08	\$ 30.80	\$ 23.44	\$ 29.27	\$ 31.64	\$ 23.54	\$ 31.31	
Direct cash costs of product sold (per tonne) ⁽ⁱ⁾	\$ 17.18	\$ 10.82	\$ 8.73	\$ 7.41	\$ 10.12	\$ 16.86	\$ 9.91	\$ 10.98	
Mine administration cash costs of product sold (per tonne) ⁽ⁱ⁾	\$ 1.39	\$ 1.41	\$ 2.19	\$ 1.24	\$ 1.00	\$ 1.23	\$ 4.92	\$ 2.98	
Total cash costs of product sold (per tonne) ⁽ⁱ⁾	\$ 18.57	\$ 12.23	\$ 10.92	\$ 8.65	\$ 11.12	\$ 18.09	\$ 14.83	\$ 13.96	

Other Operational Data

Production waste material moved (millions of bank cubic meters)	5.34	4.91	5.54	4.56	5.18	2.88	4.36	6.77
Strip ratio (bank cubic meters of waste material per tonne of coal produced)	4.01	4.76	2.97	4.11	5.26	7.55	8.59	2.74
Lost time injury frequency rate ⁽ⁱⁱ⁾	0.06	0.00	0.00	0.00	0.06	0.13	0.20	0.23

(i) A Non-IFRS financial measure. See “Non-IFRS Financial Measures” section. Cash costs of products sold exclude idled mine asset cash costs.

(ii) Per 200,000 man hours and calculated based on a rolling 12 month average.

Summary of Quarterly Financial Results

The Company's annual financial statements are reported under IFRS issued by the International Accounting Standards Board (the "IASB"). The following table provides highlights, extracted from the Company's annual and interim financial statements, of quarterly results for the past eight quarters:

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

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

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

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

Bank Loan

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

- Principal amount of \$2.8 million;
- Maturity date set at 24 months from drawdown;
- Interest rate of 15% per annum and interest is payable monthly; and
- Certain items of property, plant and equipment were pledged as security for the 2018 Bank Loan. As at June 30, 2019, the net book value of the pledged items of property, plant and equipment was \$1.0 million (December 31, 2018: \$2.6 million).

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

Costs reimbursable to Turquoise Hill

Prior to the completion of 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, 2019, the amount of reimbursable costs and fees claimed by Turquoise Hill (the “TRQ Reimbursable Amount”) amounted to \$8.1 million (such amount is included in the aging profile of trade and other payables set out below). On October 12, 2016, the Company received a letter from Turquoise Hill, which proposed an arrangement for regular payments of the outstanding TRQ Reimbursable Amount. As of the date of this press release, the Company has received no indication from Turquoise Hill of any intention to demand payment of the TRQ Reimbursable Amount.

Going concern considerations

The Company’s condensed consolidated interim financial statements have been prepared on a going concern basis which assumes that the Company will continue operating until at least June 30, 2020 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. However, in order to continue as a going concern, the Company must generate sufficient operating cash flows, secure additional capital or otherwise pursue a strategic restructuring, refinancing or other transactions to provide it with additional liquidity.

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

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

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

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

<i>\$ in thousands</i>	As at	
	June 30, 2019	December 31, 2018
Less than 1 month	\$ 28,295	\$ 34,927
1 to 3 months	13,261	16,336
3 to 6 months	11,757	5,446
Over 6 months	<u>35,851</u>	<u>42,867</u>
Total trade and other payables	<u>\$ 89,164</u>	<u>\$ 99,576</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. Except as disclosed elsewhere in this press release, no such lawsuits or proceedings are pending as at August 13, 2019.

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

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

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

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

As at June 30, 2019 and December 31, 2018, the Company was not subject to any externally imposed capital requirements.

As at August 13, 2019, the Company had \$1.6 million of cash.

CIC Convertible Debenture

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

On March 29, 2010, the Company exercised its right to call for the conversion of up to \$250.0 million of the CIC Convertible Debenture into approximately 21.5 million shares at a conversion price of \$11.64 (CAD\$11.88). As at June 30, 2019, CIC owned, through its indirect wholly-owned subsidiary, approximately 23.8% of the issued and outstanding Common Shares.

On June 12, 2017, the Company executed the June 2017 Deferral Agreement with CIC for a revised repayment schedule on the \$22.3 million of cash interest and associated costs originally due under the CIC Convertible Debenture on May 19, 2017. The key repayment terms of the June 2017 Deferral Agreement are: (i) the Company 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.

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

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

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

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

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

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

Under certain conditions, including the non-payment of interest amounts as the same become due or the Common Shares being suspended or halted from trading on any stock exchange for a period of longer than five trading days, amounts outstanding under the CIC Convertible Debenture may be accelerated. Bankruptcy and insolvency events with respect to the Company or its material subsidiaries will result in an automatic acceleration of the indebtedness under the CIC Convertible Debenture. Subject to notice and cure periods, certain events of default under the CIC Convertible Debenture will result in acceleration of the indebtedness under such debenture at the option of CIC. Such other events of default include, but are not limited to, non-payment, breach of warranty, non-performance of obligations under the CIC Convertible Debenture, default on other indebtedness and certain adverse judgments.

Commercial Arbitration in Hong Kong

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

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

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

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

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

REGULATORY ISSUES AND CONTINGENCIES

Class Action Lawsuit

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

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

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

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

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

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

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

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

The Company firmly believes that it has a strong defense on the merits and will continue to vigorously defend itself against the Class Action through independent Canadian litigation counsel retained by the Company for this purpose. Due to the inherent uncertainties of litigation, it is not possible to predict the final outcome of the Class Action or determine the amount of potential losses, if any. However, the Company has judged a provision for this matter as at June 30, 2019 was not required.

Toll Wash Plant Agreement with Ejin Jinda

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

Under the original agreement with Ejin Jinda, which required the commercial operation of the wet washing facility to commence on October 1, 2011, the additional fees payable by the Company under the wet washing contract would have been \$18.5 million. At each reporting date, the Company assesses the agreement with Ejin Jinda and has determined it is not probable that this \$18.5 million will be required to be paid. Accordingly, the Company has determined a provision for this matter at June 30, 2019 is not required.

Special Needs Territory in Umnugobi

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

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

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

Mongolian royalties

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

Restrictions on Importing F-Grade Coal into China

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

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”) with an exclusive right of ownership of the Paved Highway for 30 years. The Company has an indirect 40% interest in RDCC LLC through its Mongolian subsidiary SGS. The toll rate is MNT 1,500 per tonne.

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

For the three and six months ended June 30, 2019, RDCC LLC recognized toll fee revenue of \$1.8 million (2018: \$2.5 million) and \$3.7 million (2018: \$4.1 million), respectively.

PLEDGE OF ASSETS

As at June 30, 2019, certain of the Company’s property, plant and equipment of \$1.0 million (December 31, 2018: \$2.6 million) were pledged as security for a bank loan granted to the Company.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Company did not redeem its listed securities, nor did the Company or any of its subsidiaries purchase or sell such securities during the six months ended June 30, 2019.

COMPLIANCE WITH CORPORATE GOVERNANCE

The Company has, throughout the six months ended June 30, 2019, applied the principles and complied with the requirements of its corporate governance practices as defined by the Board 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 Hong Kong Stock Exchange (the “Hong Kong Listing Rules”), except for the following:

Pursuant to code provision A.2.7 of the Corporate Governance Code, the chairman of the board should at least annually hold meetings with the non-executive directors (including independent non-executive directors) without the executive directors present. The Company does not have a Chairman since the conclusion of the AGM held on June 30, 2017. During the period of January 1, 2019 to June 30, 2019 there were no meetings between the Independent Lead Director, who is fulfilling the duties of the Chairman, and the non-executive directors without the presence of other executive directors. The opportunity for such communication channel is offered at the end of each Board meeting.

SECURITIES TRANSACTIONS BY DIRECTORS

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

In response to a specific enquiry made by the Company on each of the directors, all directors confirmed that they had complied with the required standards as set out in the Model Code and the Company's Corporate Disclosure, Confidentiality and Securities Trading Policy throughout the six months ended June 30, 2019.

OUTLOOK

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

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

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

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

- **Enhance product mix** – The Company will focus on improving the product mix and increase production of higher quality coal by: (i) washing lower quality coal in the Company's coal wash plant; and (ii) improving mining operations and employing better mining technique and equipment.
- **Expand customer base** – The Company will endeavor to increase sales volume, expand its sales network, strengthen its sales and logistics capabilities and diversify its customer base.
- **Increase production and optimize cost structure** – The Company will aim to increase coal production volume to take advantage of economies of scale. The Company will also focus on reducing its production cost and optimizing its cost structure through innovation, training and productivity enhancement.
- **Progress growth options** – Subject to available financial resources, the Company plans to further the development of the Soumber Deposit in the medium term, while complying with all government requirements in relation to its licenses and agreements.
- **Operate in a socially responsible manner** – The Company will continue to maintain the highest standards in health, safety and environmental performance in a corporate socially responsible manner.

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

- **Strategic location** – The Ovoot Tolgoi Mine is located approximately 40km from China, which represents the Company's main coal market. The Company has an infrastructure advantage, being approximately 50km from a major Chinese coal distribution terminal with rail connections to key coal markets in China.
- **A large resources and reserves base** – The Ovoot Tolgoi Deposit has mineral reserves of 114.1 million tonnes, while the aggregate coal resources include measured and indicated mineral resources of 194.6 million tonnes and inferred resources of 32.1 million tonnes.
- **Several growth options** – The Company has several growth options including the Soumber Deposit and Zag Suuj Deposit, located approximately 20km east and approximately 150km east of the Ovoot Tolgoi Mine, respectively.

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

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

Summarized Financial Position Information

(Expressed in thousands of USD)

	As at	
	June 30, 2019	December 31, 2018
Assets		
Current assets		
Cash and cash equivalents	\$ 4,135	\$ 6,959
Restricted cash	874	872
Trade and other receivables	2,435	5,046
Notes receivables	146	2,500
Inventories	42,358	47,109
Prepaid expenses and deposits	3,581	3,295
Total current assets	53,529	65,781
Non-current assets		
Property, plant and equipment	\$ 138,507	\$ 138,901
Inventories	10,241	—
Properties for resale	3,654	4,093
Investments in joint ventures	18,260	18,831
Total non-current assets	170,662	161,825
Total assets	\$ 224,191	\$ 227,606
Equity and liabilities		
Current liabilities		
Trade and other payables	\$ 89,164	\$ 99,576
Deferred revenue	14,025	12,658
Provision for commercial arbitration	7,735	12,508
Interest-bearing borrowings	2,835	4,138
Lease liabilities	573	83
Current portion of convertible debenture	57,418	139,901
Total current liabilities	171,750	268,864

	As at	
	June 30, 2019	December 31, 2018
Non-current liabilities		
Lease liabilities	\$ 326	\$ 30
Convertible debenture	89,720	—
Decommissioning liability	<u>7,242</u>	<u>6,852</u>
Total non-current liabilities	<u>97,288</u>	<u>6,882</u>
Total liabilities	<u>269,038</u>	<u>275,746</u>
Equity		
Common shares	\$ 1,098,634	\$ 1,098,634
Share option reserve	52,570	52,542
Capital reserve	396	396
Exchange reserve	(18,878)	(18,099)
Accumulated deficit	<u>(1,177,569)</u>	<u>(1,181,613)</u>
Total deficiency in assets	<u>(44,847)</u>	<u>(48,140)</u>
Total equity and liabilities	<u>\$ 224,191</u>	<u>\$ 227,606</u>
Net current liabilities	\$ (118,221)	\$ (203,083)
Total assets less current liabilities	\$ 52,441	\$ (41,258)

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 press release 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 going concern

The Company's condensed consolidated interim financial statements have been prepared on a going concern basis which assumes that the Company will continue operating until at least June 30, 2020 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. However, in order to continue as a going concern, the Company must generate sufficient operating cash flows, secure additional capital or otherwise pursue a strategic restructuring, refinancing or other transactions to provide it with additional liquidity.

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

On April 23, 2019, the Company has executed the 2019 Deferral Agreement with CIC in relation to a deferral and revised repayment schedule in respect of \$41,797 of the Outstanding Interest Payable under the CIC Convertible Debenture and the June 2017 Deferral Agreement; and \$27,934 of the cash and PIK Interest payments payable to CIC under the CIC Convertible Debenture from April 23, 2019 to and including May 19, 2020. Pursuant to the 2019 Deferral Agreement, the Company agreed to pay a total of \$14,317 over eight instalments from November 2019 to June 2020 and the remaining balance of \$62,602 on June 20, 2020.

The Company also has other current liabilities, which require settlement in the short-term, including the \$7,735 balance owing to First Concept pursuant to the Settlement Deed and \$30,319 of unpaid taxes payable by SGS to the Mongolian government.

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

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

The Company may not be able to settle all trade and other payables on a timely basis, while continuing postponement in settling the trade payables may impact the mining operations of the Company and result in potential lawsuits and/or bankruptcy proceedings being filed against the Company. Except as disclosed elsewhere in this press release, no such lawsuits or proceedings are pending as at August 13, 2019.

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

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

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

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

As at June 30, 2019 and December 31, 2018, the Company was not subject to any externally imposed capital requirements.

1.2 Statement of compliance

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

The condensed consolidated interim financial statements of the Company for the six months ended June 30, 2019 were approved and authorized for issue by the Board of Directors of the Company on August 13, 2019.

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, 2018 consolidated annual financial statements, except as disclosed below. These condensed consolidated interim financial statements do not include all the information and note disclosures required by IFRS for annual financial statements and therefore should be read in conjunction with the Company’s annual consolidated financial statements for the year ended December 31, 2018.

1.4 Adoption of new and revised standards and interpretations

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

IFRS 16	Leases ⁽ⁱ⁾
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(i) *Effective for annual periods beginning on or after January 1, 2019*

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

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

Adjustments recognized on adoption of IFRS 16

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

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

Operating lease commitments disclosed as at December 31, 2018	\$	1,393
Discounted using the lessee's incremental borrowing rate of at the date of initial application	\$	1,118
Add: finance lease liabilities recognized as at December 31, 2018		113
Less: short-term leases recognized on a straight-line basis as expense		<u>(20)</u>

Lease liability recognized as at January 1, 2019	\$	<u>1,211</u>
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Of which are:

Current lease liabilities	\$	631
Non-current lease liabilities		<u>580</u>

	\$	<u>1,211</u>
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The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet as at December 31, 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

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

	As at June 30, 2019	January 1, 2019
Buildings	<u>\$ 926</u>	<u>\$ 1,159</u>
Total right-of-use assets	<u>\$ 926</u>	<u>\$ 1,159</u>

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

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

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

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

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

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

The Company's leasing activities and how these are accounted for

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

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

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

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

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

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

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

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

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

1.5 Restatement of previously issued financial statements

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

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

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

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

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

2. SEGMENTED INFORMATION

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

During the six months ended June 30, 2019, the Coal Division had 9 active customers with the largest customer accounting for 51% of revenues, the second largest customer accounting for 33% of revenues, the third largest customer accounting for 7% of revenues and the other customers accounting for the remaining 9% of revenues.

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

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

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

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

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

	Mongolia	Hong Kong	China	Consolidated Total
Revenue ⁽ⁱ⁾				
For the three months ended June 30, 2019	\$ —	\$ —	\$ 32,479	\$ 32,479
For the three months ended June 30, 2018	—	—	19,278	19,278
For the six months ended June 30, 2019	\$ —	\$ —	\$ 69,290	\$ 69,290
For the six months ended June 30, 2018	—	—	43,713	43,713
Non-current assets				
As at June 30, 2019	\$ 169,142	\$ 535	\$ 985	\$ 170,662
As at December 31, 2018	161,002	140	683	161,825

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

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 operating expenses by nature are summarized as follows:

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

(i) The figures for the three and six months ended June 30, 2018 have been restated to reflect the impact of the key findings of and information obtained from the Formal Investigation. Refer to Note 1.5 for details. Royalties have been reclassified from revenue to cost of sales.

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

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

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

6. OTHER OPERATING EXPENSES

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

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

(i) The figures for the three and six months ended June 30, 2018 have been restated to reflect the impact of the key findings of and information obtained from the Formal Investigation. Refer to Note 1.5 for details.

7. FINANCE COSTS AND INCOME

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

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

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

	Three months ended, June 30, 2019		2018 ⁽ⁱ⁾ (Restated)	Six months ended, June 30, 2019		2018 ⁽ⁱ⁾ (Restated)
Unrealized gain on embedded derivatives in convertible debenture	\$	–	\$	–	\$	58
Interest income		12	8		29	18
IFRS 9 adjustment on convertible debenture		<u>4,293</u>	<u>–</u>		<u>4,293</u>	<u>–</u>
Finance income	\$	<u>4,305</u>	<u>\$</u>	<u>8</u>	\$	<u>4,322</u>
					\$	<u>76</u>

(i) The figures for the three and six months ended June 30, 2018 have been restated to reflect the impact of the key findings of and information obtained from the Formal Investigation. Refer to Note 1.5 for details.

8. TAXES

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

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

9. EARNINGS/(LOSS) PER SHARE

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

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

(i) The figures for the three and six months ended June 30, 2018 have been restated to reflect the impact of the key findings of and information obtained from the Formal Investigation. Refer to Note 1.5 for details.

Potentially dilutive items not included in the calculation of diluted earnings per share for the three and six months ended June 30, 2019 include the convertible debenture and stock options that were anti-dilutive.

10. TRADE AND OTHER RECEIVABLES

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

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

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

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

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

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

Loss allowance for trade and other receivables

Opening loss allowance as at January 1, 2019	\$ 20,005
Increase in loan allowance recognised in profit or loss during the period	97
Loss allowance included in specific provision made during the year ended December 31, 2018	1,379
Exchange realignment	<u>(69)</u>
Loss allowance as at June 30, 2019	<u>\$ 21,412</u>

11. TRADE AND OTHER PAYABLES

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

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

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

12. ACCUMULATED DEFICIT AND DIVIDENDS

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

REVIEW OF INTERIM RESULTS

The condensed consolidated interim financial statements of the Company for the three and six months ended June 30, 2019, which are unaudited but have been reviewed by the Company's independent auditor and the Audit Committee of the Company and they have been prepared in compliance with the IFRS, the Hong Kong Listing Rules, TSX Company Manual and other applicable legal requirements.

The Company's results for the three and six months ended June 30, 2019 are contained in the unaudited condensed consolidated interim financial statements and 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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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 time the statements are made. Forward-looking statements in this press release include, but are not limited to, statements regarding:

- the Company continuing as a going concern and its ability to realize its assets and discharge its liabilities in the normal course of operations as they become due; adjustments to the amounts and classifications of assets and liabilities in the Company's consolidated financial statements and the impact thereof;

- the Company's expectations of sufficient liquidity and capital resources to meet its ongoing obligations and future contractual commitments, including the Company's ability to settle its trade payables, to secure additional funding and to meet its obligations under each of the CIC Convertible Debenture, the 2019 Deferral Agreement, the Amended and Restated Cooperation Agreement, the 2018 Bank Loan, and the Settlement Deed with First Concept, as the same become due;
- the Company's anticipated financing needs, development plans and future production levels;
- the Company entering into discussions with CIC regarding a potential debt restructuring plan;
- the ability of the Company to successfully respond to any enforcement proceeding brought by First Concept in respect of the Arbitration Award and the Settlement Deed;
- the results and impact of the Ontario class action (as described under section Regulatory Issues and Contingencies of this press release under the heading entitled "Class Action Lawsuit");
- the impact of the Suspicious Transactions engaged in by Former Management and Employees and the results of the investigation conducted by the Special Committee;
- the estimates and assumptions included in the Company's impairment analysis and the possible impact of changes thereof;
- the agreement with Ejin Jinda and the payments thereunder (as described under section Regulatory Issues and Contingencies of this press release under the heading entitled "Toll Wash Plant Agreement with Ejin Jinda");
- the ability of the Company to successfully negotiate a new agreement with the third party contractor relating to the operation of the wash plant at the Ovoot Tolgoi mine site;
- the ability of the Company to successfully recover the balance of its doubtful trade and notes receivables;
- the ability to enhance the operational efficiency and the output throughput of the washing facilities at Ovoot Tolgoi;
- the estimated annual wet washing capacity of the washing facilities at Ovoot Tolgoi;
- the ability to enhance the product value by conducting coal processing and coal washing;

- the impact of the Company's activities on the environment and actions taken for the purpose of mitigation of potential environmental impacts and planned focus on health, safety and environmental performance;
- the impact of the delays in the custom clearance process at the Ceke border on the Company's operations and the restrictions established by Chinese authorities on the import of F-grade coal into China;
- the future demand for coal in China;
- future trends in the Chinese coal industry;
- the Company's outlook and objectives for 2019 and beyond (as more particularly described under section Outlook of this press release); and
- other statements that are not historical facts.

Forward-looking information is based on certain factors and assumptions described below and elsewhere in this press release, including, among other things: the current mine plan for the Ovoot Tolgoi mine; mining, production, construction and exploration activities at the Company's mineral properties; the costs relating to anticipated capital expenditures; the capacity and future toll rate of the paved highway; plans for the progress of mining license application processes; mining methods; the Company's anticipated business activities, planned expenditures and corporate strategies; management's business outlook, including the outlook for 2019 and beyond; currency exchange rates; operating, labour and fuel costs; the ability of the Company to raise additional financing; the anticipated royalties payable under Mongolia's royalty regime; the future coal market conditions in China and the related impact on the Company's margins and liquidity; future coal prices, and the level of worldwide coal production. While the Company considers these assumptions to be reasonable based on the information currently available to it, they may prove to be incorrect. Forward-looking statements are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These risks and uncertainties include, among other things: the uncertain nature of mining activities, actual capital and operating costs exceeding management's estimates; variations in mineral resource and mineral reserve estimates; failure of plant, equipment or processes to operate as anticipated; the possible impacts of changes in mine life, useful life or depreciation rates on depreciation expenses; risks associated with, or changes to regulatory requirements (including environmental regulations) and the ability to obtain all necessary regulatory approvals; the potential expansion of the list of licenses published by the Government of Mongolia covering areas in which exploration and mining are purportedly prohibited on certain of the Company's mining licenses; the Government of Mongolia designating any one or more of the Company's mineral projects in Mongolia as a Mineral Deposit of Strategic Importance; the risk of continued delays in the custom clearance process at the Ceke border; the restrictions established by Chinese authorities on the import of F-grade coal into China; the possible impact of changes to the inputs to the valuation model used to value the embedded derivatives in the CIC Convertible Debenture; the risk of the Company failing to successfully negotiate favorable repayment terms on the TRQ Reimbursable Amount (as described under section Liquidity and Capital Management of this press release under the heading entitled "Costs Reimbursable to Turquoise Hill"); the risk of the Company or its subsidiaries defaulting under its existing debt obligations, including the Amended and Restated Cooperation Agreement, the 2018 Bank Loan, and the Settlement Deed; the impact of amendments to, or the application of, the laws of Mongolia, China and other countries in which the Company carries on business; modifications to existing practices so as to comply with any future permit conditions that may be imposed by regulators; delays in obtaining approvals and lease renewals; the risk of fluctuations in coal prices and changes in China and world economic conditions; the risk that First Concept initiates legal proceedings against SGS pursuant to the Settlement Deed (as described under section Liquidity and Capital Resources of this press release under the heading entitled "Commercial Arbitration in Hong Kong"); the outcome of the Class Action (as described under section Regulatory Issues and Contingencies of this press release under the heading entitled "Class Action Lawsuit") and any damages payable by the Company as a result; the result of the internal investigation conducted by the Special Committee and the impact thereon on the Company; the risk that

the Company is unable to successfully negotiate a debt restructuring plan with CIC; the risk that the calculated sales price determined by the Company for the purposes of determining the amount of royalties payable to the Mongolian government is deemed as being “non-market” under Mongolian tax law; customer credit risk; cash flow and liquidity risks; risks relating to the Company’s decision to suspend activities relating to the development of the Ceke Logistics Park project, including the risk that its investment partner may initiate legal action against the Company for failing to comply with the underlying agreements governing project development; risks relating to the ability of the Company to enhance the operational efficiency and the output throughput of the washing facilities at Ovoot Tolgoi; the risk that the Company is unable to successfully negotiate a new agreement with the third party contractor relating to the operation of the wash plant; risks relating to the Company’s ability to raise additional financing and to continue as a going concern. This list is not exhaustive of the factors that may affect any of the Company’s forward-looking statements.

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

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