SouthGobi Resources Ltd.
Condensed Consolidated Interim Financial Statements

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

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SOUTHGOBI RESOURCES LTD.

Condensed Consolidated Interim Statement of Comprehensive Income

(Unaudited)

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

	Notes	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Revenue	4	**$ 24,487**	$ 19,356	**$ 65,087**	$ 79,275
Cost of sales	6	**(15,320)**	(25,049)	**(46,905)**	(76,193)
Gross profit/(loss)		**9,167**	(5,693)	**18,182**	3,082
Other operating income/(expenses)	7	**(4,721)**	3,477	**(24,150)**	(3,776)
Administration expenses		**(2,724)**	(2,451)	**(8,957)**	(7,070)
Evaluation and exploration expenses		**(40)**	(48)	**(320)**	(221)
Profit/(loss) from operations		**1,682**	(4,715)	**(15,245)**	(7,985)
Finance costs	8	**(5,758)**	(5,674)	**(17,690)**	(16,708)
Finance income	8	**106**	142	**472**	21
Share of earnings of a joint venture	15	**247**	265	**1,215**	919
Loss before tax		**(3,723)**	(9,982)	**(31,248)**	(23,753)
Current income tax credit/(expense)	9	**(267)**	238	**(2,805)**	(2,521)
Net loss attributable to equity holders of the Company		**(3,990)**	(9,744)	**(34,053)**	(26,274)
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods					
Exchange difference on translation of foreign operation		**(7,247)**	(756)	**(9,677)**	187
Net comprehensive loss attributable to equity holders of the Company		**$ (11,237)**	$ (10,500)	**$ (43,730)**	$ (26,087)
Basic and diluted loss per share		**$ (0.01)**	$ (0.04)	**$ (0.12)**	$ (0.10)

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

SOUTHGOBI RESOURCES LTD.

Condensed Consolidated Interim Statement of Financial Position

(Unaudited)
(Expressed in thousands of U.S. Dollars)

	Notes	As at September 30, 2018	As at December 31, 2017
Assets			
Current assets			
Cash and cash equivalents		**$ 6,292**	$ 6,471
Restricted cash		**582**	-
Trade and other receivables	11	**5,429**	16,486
Notes receivables	12	**1,195**	12,520
Inventories	13	**42,832**	36,389
Prepaid expenses and deposits		**7,659**	6,286
Total current assets		**63,989**	78,152
Non-current assets			
Properties for resale		**7,098**	8,906
Property, plant and equipment	14	**144,041**	152,457
Investment in a joint venture	15	**19,629**	21,052
Total non-current assets		**170,768**	182,415
Total assets		**$ 234,757**	$ 260,567
Equity and liabilities			
Current liabilities			
Trade and other payables	16	**$ 80,342**	$ 79,219
Deferred revenue		**28,839**	27,644
Provision for commercial arbitration	17	**14,569**	13,884
Interest-bearing borrowings	18	**5,990**	7,352
Convertible debenture	19	**133,991**	116,374
Total current liabilities		**263,731**	244,473
Non-current liabilities			
Interest-bearing borrowings	18	**44**	341
Decommissioning liability		**5,446**	5,213
Total non-current liabilities		**5,490**	5,554
Total liabilities		**269,221**	250,027
Equity			
Common shares	20	**1,098,633**	1,098,623
Share option reserve		**52,511**	52,463
Exchange reserve		**(14,414)**	(4,737)
Accumulated deficit	20	**(1,171,194)**	(1,135,809)
Total equity/(deficiency in assets)		**(34,464)**	10,540
Total equity and liabilities		**$ 234,757**	$ 260,567
Net current liabilities		**$ (199,742)**	$ (166,321)
Total assets less current liabilities		**$ (28,974)**	$ 16,094

Corporate information and going concern (Note 1), commitments for expenditure (Note 25) and contingencies (Note 26)

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

APPROVED BY THE BOARD:

"Mao Sun"
Director

"Shougao Wang"
Director

SOUTHGOBI RESOURCES LTD.

Condensed Consolidated Interim Statement of Changes in Equity

(Unaudited)

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

	Number of shares/units	Share capital	Share option reserve	Exchange fluctuation reserve	Accumulated deficit	Total
Balances, January 1, 2017	257,698	$ 1,094,619	$ 52,340	$ (5,158)	$ (1,095,788)	$ 46,013
Shares issued for:						
Interest settlement on convertible debenture	14,892	4,000	-	-	-	4,000
Employee share purchase plan	7	2	-	-	-	2
Share-based compensation credited to operations	-	-	102	-	-	102
Net loss for the period	-	-	-	-	(26,274)	(26,274)
Exchange differences on translation of foreign operations	-	-	-	187	-	187
Balances, September 30, 2017	272,597	$ 1,098,621	$ 52,442	$ (4,971)	$ (1,122,062)	$ 24,030
Balances, January 1, 2018	**272,607**	**$ 1,098,623**	**$ 52,463**	**$ (4,737)**	**$ (1,135,809)**	**$ 10,540**
Change in accounting policy due to IFRS 9	**-**	**-**	**-**	**-**	**(1,332)**	**(1,332)**
Restated balances, January 1, 2018	**272,607**	**$ 1,098,623**	**$ 52,463**	**$ (4,737)**	**$ (1,137,141)**	**$ 9,208**
Shares issued for:						
Employee share purchase plan	**75**	**10**	**-**	**-**	**-**	**10**
Share-based compensation charged to operations	**-**	**-**	**48**	**-**	**-**	**48**
Net loss for the period	**-**	**-**	**-**	**-**	**(34,053)**	**(34,053)**
Exchange differences on translation of foreign operations	**-**	**-**	**-**	**(9,677)**	**-**	**(9,677)**
Balances, September 30, 2018	**272,682**	**$ 1,098,633**	**$ 52,511**	**$ (14,414)**	**$ (1,171,194)**	**$ (34,464)**

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

SOUTHGOBI RESOURCES LTD.

Condensed Consolidated Interim Statement of Cash Flows

(Unaudited)

(Expressed in thousands of U.S. Dollars)

	Notes	Nine months ended September 30, 2018	2017
Operating activities			
Loss before tax		**$ (31,248)**	$ (23,753)
Adjustments for:			
Depreciation and depletion		**16,771**	22,487
Share-based compensation	21	**48**	102
Finance costs	8	**17,690**	16,708
Finance income	8	**(472)**	(21)
Share of earnings of a joint venture	15	**(1,215)**	(919)
Interest paid		**(1,246)**	(16,775)
Income tax paid		**(3,364)**	(395)
Unrealized foreign exchange gain	7	**(730)**	(70)
Penalty on late settlement of trade payables	5	**427**	280
Loss on disposal of fixed assets	5	**1,173**	-
Provision/(reversal of provision) for doubtful trade and other receivables	11	**14,530**	(54)
Provision for doubtful notes receivables	12	**7,705**	-
Provision for commercial arbitration	17	**686**	-
Provision for prepaid expenses and deposits	7	**532**	-
Impairment of properties for resale		**1,372**	1,075
Gain on settlement of trade payables	7	**(2,956)**	-
Impairment of inventories	13	**-**	13,134
Operating cash flows before changes in non-cash working capital items		**19,703**	11,799
Net change in non-cash working capital items	24	**6,484**	409
Cash generated from operating activities		**26,187**	12,208
Investing activities			
Expenditures on property, plant and equipment		**(27,360)**	(11,178)
Proceeds from disposal of property, plant and equipment		**320**	-
Interest received		**34**	21
Dividend from a joint venture	15	**1,651**	1,554
Cash used in investing activities		**(25,355)**	(9,603)
Financing activities			
Proceeds from issuance of common shares		**10**	2
New loans		**500**	3,073
Repayment of interest-bearing loans		**(1,859)**	(4,534)
Cash used in financing activities		**(1,349)**	(1,459)
Effect of foreign exchange rate changes on cash and cash equivalents		**338**	50
Increase/(decrease) in cash and cash equivalents		**(179)**	1,196
Cash and cash equivalents, beginning of period		**6,471**	966
Cash and cash equivalents, end of period		**$ 6,292**	$ 2,162

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

1. CORPORATE INFORMATION AND GOING CONCERN

SouthGobi Resources Ltd. is a publicly listed company incorporated in Canada with limited liability under the legislation of the Province of British Columbia and its shares are listed on the Toronto Stock Exchange (Symbol: SGQ) and Hong Kong Stock Exchange (Symbol: 1878). The company, together with its subsidiaries (collectively referred to as the "Company"), is an integrated coal mining, development and exploration company. As of September 30, 2018, Land Breeze II S.a.r.l., a wholly-owned subsidiary of China Investment Corporation ("CIC") owned approximately 23.8% of the outstanding common shares of the Company. Novel Sunrise Investments Limited ("Novel Sunrise"), a wholly-owned subsidiary of China Cinda (HK) Investments Management Company Limited ("Cinda"), and Voyage Wisdom Limited each owned approximately 17.0% and 9.5% of the outstanding common shares of the Company, respectively.

The Company owns the following significant coal projects in Mongolia: the Ovoot Tolgoi open pit producing coal mine ("Ovoot Tolgoi Mine") and the following development projects, the Soumber Deposit, the Zag Suuj Deposit and the Ovoot Tolgoi Underground Deposit. These projects are located in the Umnugobi Aimag (South Gobi Province) of Mongolia, within 150 kilometers of each other and in close proximity to the Mongolia-China border. The Company owns a 100% interest in these coal projects.

The registered and records office of the Company is located at 20th Floor, 250 Howe Street, Vancouver, British Columbia, Canada, V6C 3R8. The head office and principal place of business of the Company is located at 1150 – 355 Burrard Street, Vancouver, British Columbia, Canada, V6C 2G8.

Going concern assumption

The Company's condensed consolidated interim financial statements have been prepared on a going concern basis which assumes that the Company will continue operating until at least September 30, 2019 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. However, in order to continue as a going concern, the Company must generate sufficient operating cash flows, secure additional capital or otherwise pursue a strategic restructuring, refinancing or other transactions to provide it with additional liquidity.

Several adverse conditions and material uncertainties cast significant doubt upon the going concern assumption. The Company had a working capital deficiency (excess current liabilities over current assets) of $199,742 as at September 30, 2018 compared to $166,321 of working capital deficiency as at December 31, 2017. Included in the working capital deficiency as at September 30, 2018 are significant obligations, which include the obligation to pay CIC under the deferral agreement dated June 12, 2017 (the "June 2017 Deferral Agreement") in which the Company was required to pay $9,731 of cash interest and associated costs on November 19, 2017 (the "June 2017 Deferral Agreement Payment"). Pursuant to the terms of CIC Convertible Debenture, the Company was required to pay $8,066 and $7,934 of anniversary cash interest on November 19, 2017 and May 19, 2018, respectively, (the "Anniversary Interest Payments" and together with the June 2017 Deferral Agreement Payment, the "November 19th and May 19th Payments"). Pursuant to the CIC Convertible Debenture, the Company will also be required to pay $8,066 of cash interest to CIC on November 19, 2018 (the "November 2018 Payment").

The Company is in discussion with CIC for a deferral of the November 19th and May 19th Payments, the November 2017 PIK Interest, the November 2018 Payment and the November 2018 PIK Interest; however, there can be no assurance that a favorable outcome will be reached. Accordingly the principal amount outstanding and all accrued and unpaid interest and other amounts owing under the CIC Convertible Debenture and the June 2017 Deferral Agreement would immediately become due and payable in the event that CIC provides notice to the Company.

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

1. CORPORATE INFORMATION AND GOING CONCERN (CONTINUED)

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

The Company also has other current liabilities, which require settlement in the short-term, including: the $1,122 undiscounted balance of the Turquoise Hill Resources Limited ("Turquoise Hill") loan ("TRQ Loan") and the principal amount of equipment loan of $1,325; and $17,721 of unpaid taxes payable by SGS to the Mongolian government.

Further, the trade and other payables of the Company have continued to accumulate due to liquidity constraints. The aging profile of trade and other payables has worsened as compared to December 31, 2017, as follows:

	As at	
	September 30, 2018	**December 31, 2017**
Less than 1 month	**$ 20,607**	$ 20,664
1 to 3 months	**10,983**	16,132
3 to 6 months	**11,400**	8,825
Over 6 months	**37,352**	33,598
Total trade and other payables	**$ 80,342**	$ 79,219

1. CORPORATE INFORMATION AND GOING CONCERN (CONTINUED)

The Company may not be able to settle all trade and other payables on a timely basis while continuing postponement in settling the trade payables may impact the mining operations of the Company and result in potential lawsuits and/or bankruptcy proceedings being filed against the Company. Except as disclosed in this condensed consolidated financial statements, no such lawsuits or proceedings are pending as at November 13, 2018.

In the fourth quarter of 2016, the Company initiated a plan to change the existing product mix to higher value and higher margin outputs by washing certain grades of coal in order to produce more premium semi-soft coking coal and to initiate more processing of the lower grades of coal in order to reduce the ash content and improve the selling price and margins on its thermal coal product. The construction of the wash plant at the Ovoot Tolgoi mine was completed, and operations at the wash plant commenced in October 2018. The Company is in the process making improvements to the wash plant in order to enhance the operational efficiency, as well as the output value. The Company expects to be in a position to sell washed coal to the market in the fourth quarter of 2018.

The current mine plan incorporates the coal washing and processing systems and contemplates significantly higher volumes of production in order to complement the Company's new product mix and sales volume targets. Such plans required a significant level of stripping activities over the current year and the next two years and certain capital expenditures to achieve the designed production outputs. Such expenditures and other working capital requirements will require the Company to seek additional financing in the form of finance leases, debt or equity.

There is no guarantee that the Company will be able to successfully execute the measures mentioned above and secure other sources of financing. If it fails to do so, or is unable to secure additional capital or otherwise restructure or refinance its business in order to address its cash requirements through September 30, 2019, then the Company is unlikely to have sufficient capital resources or cash flows from mining operations in order to satisfy its current ongoing obligations and future contractual commitments. This could result in adjustments to the amounts and classifications of assets and liabilities in the Company's consolidated financial statements and such adjustments could be material.

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

As of the date hereof, the Company is in default under the CIC Convertible Debenture and the Equipment Loan (as described below). Pursuant to the terms of the CIC Convertible Debenture, CIC may, in its discretion, provide notice to the Company and declare all principal, interest and other amounts owing under the CIC Convertible Debenture immediately due and payable, and take steps to enforce payment thereof. As of the date hereof, the Company has received no indication from CIC of any intention to deliver a notice of default under the CIC Convertible Debenture or to accelerate the amounts outstanding under the CIC Convertible Debenture.

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.

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

1. CORPORATE INFORMATION AND GOING CONCERN (CONTINUED)

As at September 30, 2018 and December 31, 2017, the Company was not subject to any externally imposed capital requirements.

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

The condensed consolidated interim financial statements of the Company for the nine months ended September 30, 2018 were approved and authorized for issue by the Board of Directors of the Company on November 13, 2018.

2.2 Basis of presentation

These condensed consolidated interim financial statements have been prepared using accounting policies and methods of computation consistent with those applied in the Company's March 31, 2018 condensed consolidated interim financial statements. These condensed consolidated interim financial statements do not include all the information and note disclosures required by IFRS for annual financial statements and therefore should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2017.

2.3 Adoption of new and revised standards and interpretations

The following new IASB standards were adopted by the Company on January 1, 2018.

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers

There have been no other new IFRSs or IFRIC interpretations that is not yet effective that would be expected to have a material impact on the Company, except those disclosed in the Company's annual consolidated financial statements for the year ended December 31, 2017.

2. BASIS OF PREPARATION (CONTINUED)

2.4 Significant accounting judgments and estimates

Information about judgments and estimates in applying accounting policies that have the most significant effect on the amounts recognized in the Company's consolidated financial statements are included in Note 3.23 to the Company's December 31, 2017 consolidated annual financial statements. The significant accounting judgments and estimates remain substantially unchanged from December 31, 2017.

Liquidity and the going concern assumption

In the determination of the Company's ability to meet its ongoing obligations and future contractual commitments, management relies on the Company's planning, budgeting and forecasting process to help determine the funds required to support the Company's normal operations on an ongoing basis and its expansionary plans. The key inputs used by the Company in this process include forecasted capital deployment, results from operations, results from the exploration and development of its properties and general industry conditions as well as the expected timing of payments of suppliers and the repayment of debt and other financial liabilities. Refer to Note 1 for details.

Review of carrying value of assets and impairment charges

As of the date hereof, the Company is in default under the CIC Convertible Debenture and the Equipment Loan. Pursuant to the terms of the CIC Convertible Debenture, CIC may, in its discretion, provide notice to the Company and declare all principal, interest and other amounts owing under the CIC Convertible Debenture immediately due and payable, and take steps to enforce payment thereof. As of the date hereof, the Company has received no indication from CIC of any intention to deliver a notice of default under the CIC Convertible Debenture or to accelerate the amounts outstanding under the CIC Convertible Debenture.

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

2. BASIS OF PREPARATION (CONTINUED)

Ovoot Tolgoi Mine cash generating unit

The Company determined that indicators of impairment existed for its Ovoot Tolgoi Mine cash generating unit as at September 30, 2018. The impairment indicators were the uncertainty of future coal prices in China and the lower than budgeted production data.

Therefore, the Company conducted an impairment test whereby the carrying value of the Company's Ovoot Tolgoi Mine cash generating unit was compared to its "fair value less costs of disposal" ("FVLCTD") using a discounted future cash flow valuation model. The Company's cash flow valuation model takes into consideration the latest available information to the Company, including but not limited to, sales price, sales volumes, operating cost and life of mine coal production assumptions as at September 30, 2018. The Company's Ovoot Tolgoi Mine cash generating unit carrying value was $66,430 as at September 30, 2018.

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

- Coal resources and reserves as estimated by an independent third party engineering firm;
- Sales price estimates from an independent market consulting firm;
- Forecasted sales volumes in line with production levels as per the updated mine plan;
- Life-of-mine coal production, strip ratio, capital costs and operating costs;
- Coal processing to increase the grade and qualities of the thermal coal produced and sold; and
- A post-tax discount rate of 12.9% based on an analysis of the market, country and asset specific factors.

The impairment analysis did not result in the identification of an impairment loss or an impairment reversal and no charge or reversal was required as at September 30, 2018. The Company believes that the estimates and assumptions incorporated in the impairment analysis are reasonable; however, the estimates and assumptions are subject to significant uncertainties and judgments.

3. SEGMENTED INFORMATION

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

During the nine months ended September 30, 2018, the Coal Division had 21 customers with the largest customer accounting for 31% of revenues, the second largest customer accounting for 18% of revenues, the third largest customer accounting for 8% of revenues and the other customers accounting for the remaining 43% of revenues.

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

3. SEGMENTED INFORMATION (CONTINUED)

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

	Coal Division	Unallocated [i]	Consolidated Total
Segment assets			
As at September 30, 2018	**$ 237,934**	**$ 2,821**	**$ 240,755**
As at December 31, 2017	253,256	7,311	260,567
Segment liabilities			
As at September 30, 2018	**$ 125,161**	**$ 150,058**	**$ 275,219**
As at December 31, 2017	119,095	130,932	250,027
Segment revenues			
For the three months ended September 30, 2018	**$ 24,487**	**$ -**	**$ 24,487**
For the three months ended September 30, 2017	19,356	-	19,356
For the nine months ended September 30, 2018	**$ 65,087**	**$ -**	**$ 65,087**
For the nine months ended September 30, 2017	79,275	-	79,275
Segment profit/(loss)			
For the three months ended September 30, 2018	**$ (4,722)**	**$ 732**	**$ (3,990)**
For the three months ended September 30, 2017	(2,215)	(7,529)	(9,744)
For the nine months ended September 30, 2018	**$ (32,398)**	**$ (1,655)**	**$ (34,053)**
For the nine months ended September 30, 2017	(3,669)	(22,605)	(26,274)
Impairment charge on assets, net [ii] [iii]			
For the three months ended September 30, 2018	**$ 6,622**	**$ -**	**$ 6,622**
For the three months ended September 30, 2017	6,544	-	6,544
For the nine months ended September 30, 2018	**$ 24,139**	**$ -**	**$ 24,139**
For the nine months ended September 30, 2017	14,155	-	14,155
Depreciation and amortization			
For the three months ended September 30, 2018	**$ 9,700**	**$ 17**	**$ 9,717**
For the three months ended September 30, 2017	12,003	77	12,080
For the nine months ended September 30, 2018	**$ 28,888**	**$ 58**	**$ 28,946**
For the nine months ended September 30, 2017	35,732	220	35,952
Share of earnings of a joint venture			
For the three months ended September 30, 2018	**$ 247**	**$ -**	**$ 247**
For the three months ended September 30, 2017	265	-	265
For the nine months ended September 30, 2018	**$ 1,215**	**$ -**	**$ 1,215**
For the nine months ended September 30, 2017	919	-	919

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

3. SEGMENTED INFORMATION (CONTINUED)

	Coal Division	Unallocated (i)	Consolidated Total
Finance cost			
For the three months ended September 30, 2018	**$ 271**	**$ 5,487**	**$ 5,758**
For the three months ended September 30, 2017	263	5,411	5,674
For the nine months ended September 30, 2018	**$ 1,382**	**$ 16,308**	**$ 17,690**
For the nine months ended September 30, 2017	600	16,108	16,708
Finance income			
For the three months ended September 30, 2018	**$ 16**	**$ 90**	**$ 106**
For the three months ended September 30, 2017	142	-	142
For the nine months ended September 30, 2018	**$ 324**	**$ 148**	**$ 472**
For the nine months ended September 30, 2017	21	-	21
Current income tax charge/(credit)			
For the three months ended September 30, 2018	**$ 267**	**$ -**	**$ 267**
For the three months ended September 30, 2017	(238)	-	(238)
For the nine months ended September 30, 2018	**$ 2,805**	**$ -**	**$ 2,805**
For the nine months ended September 30, 2017	2,521	-	2,521

(i) The unallocated amount contains all amounts associated with the Corporate Division.
(ii) The impairment charges on assets, net for the three months ended September 30, 2018 relate to trade and other receivables (Note 11) and properties for resale. The impairment charges on assets, net for the nine months ended September 30, 2018, relate to trade and other receivables (Note 11), notes receivables (Note 12), prepaid expenses and deposits and properties for resale.
(iii) The impairment charges on assets, net for the three and nine months ended September 30, 2017 relate to trade and other receivables (Note 11), properties for resale and inventories (Note 14).

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

	Mongolia	Hong Kong	China	Consolidated Total
Revenue (i)				
For the three months ended September 30, 2018	**$ -**	**$ -**	**$ 24,487**	**$ 24,487**
For the three months ended September 30, 2017	-	-	19,356	19,356
For the nine months ended September 30, 2018	**$ -**	**$ -**	**$ 65,087**	**$ 65,087**
For the nine months ended September 30, 2017	-	-	79,275	79,275
Non-current assets				
As at September 30, 2018	**$ 170,186**	**$ 180**	**$ 402**	**$ 170,768**
As at December 31, 2017	181,603	467	345	182,415

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

4. REVENUE

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

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

5. EXPENSES BY NATURE

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	**2017**	**2018**	**2017**
Depreciation	**$ 9,044**	$ 5,989	**$ 24,135**	$ 26,527
Auditors' remuneration	**168**	89	**458**	363
Employee benefit expense (including directors' remuneration)				
Wages and salaries	**$ 2,472**	$ 2,070	**$ 7,456**	$ 6,120
Equity-settled share option expense (Note 21)	**11**	35	**48**	102
Pension scheme contributions	**186**	193	**699**	592
	$ 2,669	$ 2,298	**$ 8,203**	$ 6,814
Minimum lease payments under operating leases	**$ 252**	$ 202	**$ 711**	$ 608
Foreign exchange gain	**(693)**	(2,128)	**(730)**	(23)
Impairment of coal stockpile inventories (Note 13)	**-**	7,933	**-**	13,134
Provision/(reversal of provision) for doubtful trade and and other receivables (Note 11)	**5,251**	(1,389)	**14,530**	(54)
Provision for doubtful notes receivables (Note 12)	**-**	-	**7,705**	-
Provision for prepaid expenses and deposits	**-**	-	**532**	-
Loss on disposal of property, plant and equipment	**1,145**	-	**1,173**	-
Provision for commercial arbitration (Note 17)	**232**	-	**686**	-
Penalty on late settlement with trade payables	**-**	-	**427**	280
Impairment of properties for resale	**1,372**	-	**1,372**	1,075
Gain on settlement of trade payables	**(2,956)**	-	**(2,956)**	-
Mining services, net	**-**	-	**-**	2,395
Mine operating costs and other	**6,321**	11,077	**24,086**	36,141
Total expenses	**$ 22,805**	$ 24,071	**$ 80,332**	$ 87,260

6. COST OF SALES

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	**2017**	**2018**	**2017**
Operating expenses	**$ 6,318**	$ 11,165	**$ 22,895**	$ 36,756
Share-based compensation expense (Note 21)	**1**	2	**1**	30
Depreciation and depletion	**4,973**	2,350	**12,667**	17,290
Impairment of coal stockpile inventories (Note 13)	**-**	7,933	**-**	13,134
Cost of sales from mine operations	**11,292**	21,450	**35,563**	67,210
Cost of sales related to idled mine assets (i)	**4,028**	3,599	**11,342**	8,983
Cost of sales	**$ 15,320**	$ 25,049	**$ 46,905**	$ 76,193

(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 September 30, 2018 totaled $9,847 (2017: $13,520). Cost of inventories recognized as expense in cost of sales for the nine months ended September 30, 2018 totaled $31,651 (2017: $58,054).

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

7. OTHER OPERATING INCOME/(EXPENSES)

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	**2017**	**2018**	**2017**
Provision for doubtful notes receivables (Note 12)	**$ -**	$ -	**$ (7,705)**	$ -
Reversal of provision/(provision) for doubtful trade and other receivables (Note 11)	**(5,251)**	1,389	**(14,530)**	54
Foreign exchange gain	**693**	2,128	**730**	23
Provision for prepaid expenses and deposits	**-**	-	**(532)**	-
Impairment of properties for resale	**(1,372)**	-	**(1,372)**	(1,075)
CIC management fee	**(358)**	-	**(1,336)**	-
Provision for commercial arbitration	**(232)**	-	**(686)**	-
Penalty on late settlement of trade payables	**-**	-	**(427)**	(280)
Loss on disposal of property, plant and equipment (Note 14)	**(1,145)**	-	**(1,173)**	-
Mining services, net	**-**	-	**-**	(2,395)
Gain on settlement of trade payables	**2,956**	-	**2,956**	-
Other	**(12)**	(40)	**(75)**	(103)
Other operating income/(expenses)	**$ (4,721)**	$ 3,477	**$ (24,150)**	$ (3,776)

8. FINANCE COSTS AND INCOME

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

	Three months ended, September 30,		Nine months ended, September 30,	
	2018	**2017**	**2018**	**2017**
Unrealized loss on embedded derivatives in convertible debenture (Note 19)	**$ -**	$ -	**$ -**	$ 2
Interest expense on convertible debenture (Note 19)	**5,486**	5,366	**16,296**	15,973
Interest expense on borrowings (Note 18)	**224**	263	**1,235**	531
Loan arrangement fee (Note 18)	**2**	4	**21**	85
Accretion of decommissioning liability	**46**	41	**138**	117
Finance costs	**$ 5,758**	$ 5,674	**$ 17,690**	$ 16,708

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

	Three months ended, September 30,		Nine months ended, September 30,	
	2018	**2017**	**2018**	**2017**
Unrealized gain on embedded derivatives in convertible debenture (Note 19)	**$ 90**	$ 135	**$ 148**	$ -
Interest income	**16**	7	**34**	21
Fair value gain on notes receivable upon redemption (Note 12)	**-**	-	**290**	-
Finance income	**$ 106**	$ 142	**$ 472**	$ 21

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

9. TAXES

The Canadian statutory tax rate was 26% (2017: 26%) on the estimated assessable profits arising in Canada during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Company operates.

	Three months ended, September 30,		Nine months ended, September 30,	
	2018	**2017**	**2018**	**2017**
Current - Canada				
Charge for the period	**$ -**	$ -	**$ -**	$ -
Current - elsewhere				
Charge for the period	**267**	51	**2,544**	2,521
Under/(over) provision in prior periods	**-**	(289)	**261**	-
Total tax charge/(credit) for the period	**$ 267**	$ (238)	**$ 2,805**	$ 2,521

10. LOSS PER SHARE

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	**2017**	**2018**	**2017**
Net loss	**$ (3,990)**	$ (9,744)	**$ (34,053)**	$ (26,274)
Weighted average number of shares	**272,675**	272,595	**272,682**	272,185
Basic and diluted loss per share	**$ (0.01)**	$ (0.04)	**$ (0.12)**	$ (0.10)

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

11. TRADE AND OTHER RECEIVABLES

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

	As at	
	September 30, 2018	**December 31, 2017**
Trade receivables	**$ 1,577**	$ 12,901
Other receivables	**3,852**	3,585
Total trade and other receivables	**$ 5,429**	$ 16,486

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

11. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

	As at	
	September 30, 2018	December 31, 2017
Less than 1 month	**$ 3,856**	$ 15,962
1 to 3 months	**1,431**	296
3 to 6 months	**142**	19
Over 6 months	**-**	209
Total trade and other receivables	**$ 5,429**	$ 16,486

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

The new impairment model requires the recognition of impairment provisions based on expected credit losses ("ECL") rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortized cost. The ECL model requires judgment as to how changes in economic factors affect ECLs, which are determined on a probability-weighted basis. The Company applies the IFRS 9 simplified approach to measuring expected credit losses on its trade receivables and estimates expected credit loss based on the possible default events on its trade and other receivables within the next twelve months. The Company has determined that, due to the challenges in collecting the trade and other receivables and notes receivables, the loss allowance on its trade and other receivables increased by $14,508 during the nine months ended September 30, 2018, relating to 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 Company made a provision of $14,530 on its trade and other receivables for the nine months ended September 30, 2018 (2017: reversal of provision of $54). As at September 30, 2018, the provision for doubtful trade and other receivables amounted to $15,168 (December 31, 2017: $697).

12. NOTES RECEIVABLES

Notes receivables are financial instruments in the Chinese banking system. As at September 30, 2018, bank notes receivables of $1,195 (December 31, 2017: $1,898) are readily convertible into cash or can be utilized as settlement of outstanding payables. As at December 31, 2017, commercial notes receivables of $10,622 with maturity within 6 months were recorded. A provision for commercial notes receivables of $7,705 was made during the nine months ended September 30, 2018 (2017: nil) as the counterparty did not honor its obligations, whereby the notes reverted back to an accounts receivable since the notes were without recourse. Finance income of $290 was recorded for the commercial notes receivables during the nine months ended September 30, 2018, respectively (2017: nil).

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

13. INVENTORIES

The Company's inventories consist of the following amounts:

	As at	
	September 30, 2018	**December 31, 2017**
Coal stockpiles	**$ 26,836**	$ 18,223
Materials and supplies	**15,996**	18,166
Total inventories	**$ 42,832**	$ 36,389

Cost of sales for the three months and nine months ended September 30, 2017 includes an impairment loss of $7,933 and $13,134, respectively, related to the Company's coal stockpile inventories. Nil impairment was noted during three months and nine months ended September 30, 2018.

14. PROPERTY, PLANT AND EQUIPMENT

The Company's property, plant and equipment consist of the following amounts:

	Mobile equipment	Other operating equipment	Buildings and roads	Mineral properties	Non-depreciable assets	Total
Cost						
As at January 1, 2018	$ 350,540	$ 28,874	$ 72,194	$ 173,401	$ 28,967	$ 653,976
Additions	**3,050**	**448**	**-**	**33,605**	**296**	**37,399**
Disposals	**(38,915)**	**(78)**	**-**	**-**	**(2,184)**	**(41,177)**
Exchange realignment	**(18,593)**	**(753)**	**(2,785)**	**(6,377)**	**(45)**	**(28,553)**
As at September 30, 2018	**$ 296,082**	**$ 28,491**	**$ 69,409**	**$ 200,629**	**$ 27,034**	**$ 621,645**
Accumulated depreciation and impairment charges						
As at January 1, 2018	$ (297,264)	$ (28,326)	$ (51,443)	$ (100,297)	$ (24,189)	$ (501,519)
Depreciation for the period	**(22,685)**	**(220)**	**(3,495)**	**(2,546)**	**-**	**(28,946)**
Eliminated on disposals	**34,376**	**78**	**-**	**-**	**-**	**34,454**
Exchange realignment	**14,229**	**872**	**1,926**	**1,294**	**86**	**18,407**
As at September 30, 2018	**$ (271,344)**	**$ (27,596)**	**$ (53,012)**	**$ (101,549)**	**$ (24,103)**	**$ (477,604)**
Carrying amount						
As at December 31, 2017	$ 53,276	$ 548	$ 20,751	$ 73,104	$ 4,778	$ 152,457
As at September 30, 2018	**$ 24,738**	**$ 895**	**$ 16,397**	**$ 99,080**	**$ 2,931**	**$ 144,041**

14.1 Non-depreciable assets

The non-depreciable assets include the construction in progress and deposits on purchasing items of property, plant and equipment of $1,668 (December 31, 2017: $4,169), which primarily relate to ordered but not yet delivered mobile equipment or mobile equipment delivered to the location of its intended use but not yet commissioned.

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

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

14.2 Pledge on items of property, plant and equipment

As at September 30, 2018, certain of the Company's property, plant and equipment of $3,999 (December 31, 2017: $4,539) were pledged as security for a bank loan granted to the Company (Note 18).

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

As at September 30, 2018, certain of the Company's mobile equipment of $202 (December 31, 2017: $672) were held under finance leases.

15. INVESTMENT IN A JOINT VENTURE

The Company's investment consists of the following amounts:

	As at	
	September 30, 2018	**December 31, 2017**
Non-current investment in joint venture		
Investment in RDCC LLC	**$ 19,629**	$ 21,052
Total investments	**$ 19,629**	$ 21,052

The Company has a 40% interest in RDCC LLC, a joint venture. RDCC LLC has a concession agreement with the State Property Committee of Mongolia to construct a paved highway from the Company's Ovoot Tolgoi Mine to the Mongolia-China border for the exclusive use of third party coal transport companies. In October 2011, the concession agreement was structured as a 17-year build, operate and transfer agreement. The construction was completed in 2014 and operations commenced in the second quarter of 2015. On September 17, 2015, the Invest Mongolia Agency signed an amendment to the concession agreement with RDCC LLC to extend the exclusive right of ownership to 30 years.

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	**2017**	**2018**	**2017**
Balance, beginning of period	**$ 20,589**	$ 21,861	**$ 21,052**	$ 21,335
Dividend received	**(503)**	(483)	**(1,651)**	(1,554)
Share of earnings of a joint venture	**247**	265	**1,215**	919
Share of other comprehensive income of a joint venture	**(704)**	(756)	**(987)**	187
Balance, end of period	**$ 19,629**	$ 20,887	**$ 19,629**	$ 20,887

For the three and nine months ended September 30, 2018, RDCC LLC recognized toll fee revenue of $1,302 and $5,362, respectively (For the three and nine months ended September 30, 2017: $1,171 and $4,305, respectively). For the three and nine months ended September 30, 2018, RDCC LLC had a net income of $535 and $2,954, respectively (For the three and nine months ended September 30, 2017: $662 and $2,297, respectively).

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

16. TRADE AND OTHER PAYABLES

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

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

	As at	
	September 30, 2018	**December 31, 2017**
Less than 1 month	**$ 20,607**	$ 20,664
1 to 3 months	**10,983**	16,132
3 to 6 months	**11,400**	8,825
Over 6 months	**37,352**	33,598
Total trade and other payables	**$ 80,342**	$ 79,219

17. PROVISION FOR COMMERCIAL ARBITRATION

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

On January 10, 2018, the Company received a confidential partial award with respect to the commercial arbitration. Pursuant to the Arbitration Award, SGS has been ordered to repay the sum of $11,500 (which SGS had received as a prepayment for the purchase of coal) to First Concept, together with accrued interest at a simple interest rate of 6% per annum from the date which the prepayment was made until the date of the Arbitration Award, and then at a simple interest rate of 8% per annum until full payment. The Arbitration Award is final which have been reserved for a future award. As at September 30, 2018, the Company has recorded a provision of $14,569 for the commercial arbitration. (December 31, 2017: $13,884).

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

The Company is currently considering and reviewing its options with respect to the Arbitration Award, and is in discussions with First Concept regarding a payment schedule for the repayment of the Arbitration Award; however, there can be no assurance that a favorable outcome will be reached.

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

17. PROVISION FOR COMMERCIAL ARBITRATION (CONTINUED)

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

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

18. INTEREST-BEARING BORROWINGS

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

	As at	
	September 30, 2018	**December 31, 2017**
Turquoise Hill Loan Facility (i)	**$ 985**	$ 1,708
Equipment loan (ii)	**1,369**	2,441
Bank loan (iii)	**3,543**	3,041
Finance leases payable (iv)	**137**	503
Total interest-bearing borrowings	**$ 6,034**	$ 7,693

(i) Turquoise Hill Loan Facility

On August 29, 2018, the Company and Turquoise Hill entered into a deferral agreement (the "August 2018 Deferral Agreement"), whereby Turquoise Hill agreed to a limited deferral of repayment of all remaining amounts and obligations owing under the loan from Turquoise Hill in the form of a $10,000 revolving credit facility to meet its short term working capital requirements (the "TRQ Loan") to February 28, 2019 in accordance with the schedule of repayments set out below:

- The Company agreed to effect monthly repayments on the last business day of each month in an amount of (i) $100 per month from August 2018 to September 2018; (ii) $200 per month from October 2018 to January 2019; and (iii) the remaining balance on February 28, 2019 (the payments in (i), (ii) and (iii), the "Repayments"); and
- Interest shall continue to accrue on all outstanding obligations at the 12-month US dollar LIBOR rate.

At September 30, 2018, the outstanding principal and accrued interest under this facility amounted to $400 and $722, respectively (at December 31, 2017, the outstanding principal and accrued interest under this facility amounted to $1,000 and $708, respectively). A fair value gain of $137 was credited to accumulated deficit upon the adoption of IFRS 9 starting from January 1, 2018.

To date, the Company has made all payments due under the August 2018 Deferral Letter Agreement.

18. INTEREST-BEARING BORROWINGS (CONTINUED)

(ii) Equipment Loan

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

The key terms of the Equipment Loan are as follows:

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

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

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

A loan arrangement fee of 1% of the loan principal drawn was charged and will be amortized throughout the loan term. For the nine months ended September 30, 2018, $21 of loan arrangement fee was amortized (2017: $4). The Company believes the principal amount is capped at the amount drawn down to date and the related mining equipment has not been purchased as of the date hereof.

As at September 30, 2018, the outstanding principal and accrued interest for the Equipment Loan amounted to $1,325 and $44, respectively (at December 31, 2017, the outstanding principal and accrued interest for the Equipment Loan amounted to $2,309 and $132, respectively).

As of the date hereof, the Company has not made the payment due on November 3, 2018 under the supplementary agreement with JRTC. Pursuant to the terms of the Equipment Loan and the July 2018 Supplementary Agreement, the Company is, as of the date hereof, in default of its obligations under the Equipment Loan and July 2018 Supplementary Agreement as a result of the Company failing to make the repayments in its entirety on or before the dates set out above.

18. INTEREST-BEARING BORROWINGS (CONTINUED)

(iii) Bank Loan

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

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

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

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

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

- Principal amount of the loan (the "2018 Bank Loan") of $2,800;
- Maturity date set at 24 months from drawdown;
- Interest rate of 15% per annum and interest is payable monthly; and
- Certain items of property, plant and equipment were pledged as security for both the Bank Loan and the 2018 Bank Loan. As at September 30, 2018, the net book value of the pledged items of property, plant and equipment was $3,999 (December 31, 2017: $4,539).

As at September 30, 2018, the outstanding balance for the Bank Loan together with the 2018 Bank Loan was $3,500 (December 31, 2017: $3,000) and the Company owed accrued interest of $43 (December 31, 2017: $41).

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

18. INTEREST-BEARING BORROWINGS (CONTINUED)

(iv) Finance Leases Payable

The Company leases certain of its mobile equipment for daily operations. These leases are classified as finance leases and have remaining lease terms ranging from 2 to 5 years.

At September 30, 2018, the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments As at		Present value of minimum lease payments As at	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Amounts payable:				
Within one year	**$ 103**	$ 192	**$ 93**	$ 162
In the second year	**36**	174	**34**	160
In the third to fifth years, inclusive	**10**	188	**10**	181
Total minimum finance lease payments	**$ 149**	$ 554	**$ 137**	$ 503
Future finance charges	**(12)**	(51)		
Total net lease finance payables	**$ 137**	$ 503		
Portion classified as current liabilities	**(93)**	(162)		
Non-current portion	**$ 44**	$ 341		

19. CONVERTIBLE DEBENTURE

19.1 Key commercial terms

On November 19, 2009, the Company issued a convertible debenture to a wholly owned subsidiary of CIC for $500,000. The convertible debenture bears interest at 8.0% per annum (6.4% payable semi-annually in cash and 1.6% payable annually in the Company's shares) and has a maximum term of 30 years. During 2010, the Company exercised a right within the debenture to call and convert $250,000 of the debenture for 21,471 Common Shares. Following the conversion the outstanding principal balance was $250,000 and has remained unchanged at that balance to September 30, 2018.

19.2 Debt host and embedded derivatives

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

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

19. CONVERTIBLE DEBENTURE (CONTINUED)

19.3 Presentation

Based on the Company's valuation as at September 30, 2018, the fair value of the embedded derivatives decreased by $90 and $148 compared to that as at June 30, 2018 and December 31, 2017, respectively. The changes in fair value were recorded as finance income for the three and nine months ended September 30, 2018.

For the three months ended September 30, 2018, the Company recorded interest expense of $5,486 related to the convertible debenture as a finance cost (2017: $5,366). For the nine months ended September 30, 2018, the Company recorded interest expense of $16,296 related to the convertible debenture as a finance cost (2017: $15,973). The interest expense consists of the interest at the contract rate and the accretion of the debt host component of the convertible debenture. To calculate the accretion expense, the Company uses the contract life of 30 years and an effective interest rate of 22.2%.

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

	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Balance, beginning of period	**$ 128,595**	$ 115,069	**$ 116,374**	$ 117,590
Interest expense on convertible debenture	**5,486**	5,366	**16,296**	15,973
Increase/(decrease) in fair value of embedded derivatives	**(90)**	(135)	**(148)**	2
Fair value adjustment upon adoption of IFRS 9	**-**	-	**1,469**	-
Interest paid	**-**	(6,866)	**-**	(20,131)
Balance, end of period	**$ 133,991**	$ 113,434	**$ 133,991**	$ 113,434

The convertible debenture balance consists of the following amounts:

	As at September 30, 2018	As at December 31, 2017
Current convertible debenture		
Interest payable	**$ 40,290**	$ 24,242
Debt host	**93,447**	91,730
Fair value of embedded derivatives	**254**	402
Total convertible debenture	**$ 133,991**	$ 116,374

19. CONVERTIBLE DEBENTURE (CONTINUED)

19.5 Interest deferral and settlement

On June 12, 2017, the Company executed the June 2017 Deferral Agreement with CIC for a revised repayment schedule on the $22,254 of cash interest and associated costs originally due on May 19, 2017 (the "May 2017 Interest Payable"). The key repayment terms of the June 2017 Deferral Agreement are: (i) the Company was required to repay on average $2,170 of the cash interest and associated costs monthly during the period from May 2017 to October 2017; and (ii) the Company was required to repay $9,731 of cash interest and associated costs on November 19, 2017. The Company will pay a deferral fee at a rate of 6.4% per annum in consideration for the deferral.

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

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

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

The Company is in discussion with CIC for a deferral of the November 19th and May 19th Payments, the November 2017 PIK Interest, the November 2018 Payment and the November 2018 PIK Interest; however, there can be no assurance that a favorable outcome will be reached.

19. CONVERTIBLE DEBENTURE (CONTINUED)

CIC has notified the Company that it requires that the mutual co-operating agreement (the "Co-Operation Agreement") dated November 19, 2009 between the Company and CIC be amended to revise the manner in which the amount of the service fee payable to CIC under the Co-Operation Agreement is calculated with retroactive effect; however, the Company has not entered into any formal agreement in respect of the Co-Operation Agreement as of the date hereof. Please refer to Note 22 for the details of the Co-Operation Agreement.

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

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

20. EQUITY

20.1 Share Capital

The Company has authorized an unlimited number of common and preferred shares with no par value. At September 30, 2018, the Company had 272,682 common shares outstanding (December 31, 2017: 272,607) and no preferred shares outstanding (December 31, 2017: nil).

20.2 Accumulated deficit and dividends

At September 30, 2018, the Company has accumulated a deficit of $1,171,194 (December 31, 2017: $1,135,809). No dividend has been paid or declared by the Company since inception.

21. SHARE-BASED PAYMENTS

21.1 Stock option plan

The Company has a stock option plan which permits the Board of Directors of the Company to grant options to acquire Common Shares of the Company at the volume weighted average closing price for the five days preceding the date of grant. The Company is authorized to issue stock options for a maximum of 10% of the issued and outstanding Common Shares pursuant to the stock option plan. The stock option plan permits the Board of Directors of the Company to set the terms for each stock option grant; however, the general terms of stock options granted under the plan include a maximum exercise period of 5 years and a vesting period of 3 years with 33% of the grant vesting on the first anniversary of the grant, 33% vesting on the second anniversary of the grant and 34% vesting on the third anniversary of the grant.

For the nine months ended September 30, 2018, the Company granted 500 stock options to directors at an exercise price of CAD$0.13 and an expiry date of July 3, 2023 and granted 2,330 stock options to a director and employees at an exercise price of CAD$0.13 and an expiry date of August 16, 2023. The weighted average fair value of the options granted in the nine months ended September 30, 2018 was estimated at $0.04 (CAD$0.05) per option at the grant date using the Black-Scholes option pricing model. For the nine months ended September 30, 2017, the Company granted 100 stock options to a director at an exercise price of CAD$0.39 and an expiry date of June 5, 2022 and granted 650 stock options to directors at an exercise price of CAD$0.33 and an expiry date of June 30, 2022. The weighted average fair value of the options granted in the nine months ended September 30, 2017 was estimated at $0.08 (CAD$0.11) per option at the grant date using the Black-Scholes option pricing model.

A share-based compensation expense of $85 for the options granted in the nine months ended September 30, 2018 will be amortized over the vesting period (2017: $55), of which $10 was recognized in the nine months ended September 30, 2018 (2017: $15).

The total share-based compensation expenses for the three months ended September 30, 2018 was $11 (2017: $35). Share-based compensation expense of $10 (2017: $32) has been allocated to administration expenses, share-based compensation expense of $1 (2017: $2) has been allocated to cost of sales and nil share based compensation expense (2017: $1) has been allocated to evaluation and exploration expenses.

The total share-based compensation expenses for the nine months ended September 30, 2018 was $48 (2017: $102). Share-based compensation expense of $47 (2017: $67) has been allocated to administration expenses, share-based compensation expense $1 (2017: $30) has been allocated to cost of sales and nil share-based compensation expense (2017: $5) has been allocated to evaluation and exploration expenses.

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

21. SHARE-BASED PAYMENTS (CONTINUED)

21.2 Outstanding stock options

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

	Nine months ended September 30, 2018			Nine months ended September 30, 2017		
	Number of options		Weighted average exercise price (CAD$)	Number of options		Weighted average exercise price (CAD$)
Balance, beginning of period	2,290	$	0.38	1,910	$	0.61
Options granted	2,830		0.13	750		0.34
Options forfeited	(75)		0.13	(3)		0.92
Options expired	(350)		0.30	(332)		1.53
Balance, end of period	4,695	$	0.23	2,325	$	0.39

The stock options outstanding and exercisable as at September 30, 2018 are as follows:

	Options Outstanding				Options Exercisable			
Exercise price (CAD$)	Options outstanding		Weighted average exercise price (CAD$)	Weighted average remaining contractual life (years)	Options outstanding and exercisable		Weighted average exercise price (CAD$)	Weighted average remaining contractual life (years)
0.13 to 0.29	3,255	$	0.15	4.45	500	$	0.29	1.33
0.33 to 0.39	1,250		0.33	3.50	1,075		0.34	2.80
0.58 to 0.92	190		0.86	1.38	190		0.86	1.38
	4,695	$	0.23	4.07	1,765	$	0.38	2.23

22. RELATED PARTY TRANSACTIONS

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

- CIC – CIC is a major shareholder of the Company, CIC holds approximately 23.8% of the issued and outstanding common shares of the Company as at September 30, 2018. The Co-Operation Agreement states that an amount of service fee calculated based on 2.5% of the revenue of SGS shall be paid to CIC on a quarterly basis. During the three and nine months ended September 30, 2018, $358 and $1,336 was recorded in profit or loss, respectively (three and nine months ended September 30, 2017: $415 and $1,627, respectively).

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

22. RELATED PARTY TRANSACTIONS (CONTINUED)

Furthermore, the Company is in discussions with CIC for a further deferral of the November 19th and May 19th Payments, the November 2017 PIK Interest, the November 2018 Payment and the November 2018 PIK Interest; however, there can be no assurance that a favorable outcome will be reached. As part of these discussions, CIC has notified the Company that, as a condition to agreeing to any deferral, it requires that the Co-Operation Agreement between the Company and CIC be amended to revise the manner in which the amount of the service fee payable to CIC under the Co-Operation Agreement is calculated with retroactive effect; however, the Company has not entered into any formal agreement in respect of the Co-Operation Agreement as of the date hereof.

22.1 Related party expenses

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	**2017**	**2018**	**2017**
Finance costs	**$ 5,486**	$ 5,366	**$ 16,296**	$ 15,973
Management fee	**358**	415	**1,336**	1,627
Related party expenses	**$ 5,844**	$ 5,781	**$ 17,632**	$ 17,600

23. FAIR VALUE MEASUREMENTS

The following table provides an analysis of the Company's financial instruments that are measured subsequent to initial recognition at fair value, grouped into Level 1 to 3 based on the degree to which the inputs used to determine the fair value are observable.

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1, that are observable either directly or indirectly;
- Level 3 fair value measurements are those derived from valuation techniques that include inputs that are not based on observable market data.

	As at September 30, 2018			
Recurring measurements	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial liabilities measured at fair value				
Convertible debenture - embedded derivatives	**$ -**	**$ 254**	**$ -**	**$ 254**
Total financial liabilities measured at fair value	**$ -**	**$ 254**	**$ -**	**$ 254**

	As at September 30, 2018			
Financial liabilities disclosed at fair value	**Level 1**	**Level 2**	**Level 3**	**Total**
Convertible debenture - debt host	**-**	**206,652**	**-**	**206,652**
Total financial liabilities disclosed at fair value	**$ -**	**$ 206,652**	**$ -**	**$ 206,652**

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

23. FAIR VALUE MEASUREMENTS (CONTINUED)

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

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

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

24. SUPPLEMENTAL CASH FLOW INFORMATION

24.1 Net change in non-cash working capital items

The net change in the Company's non-cash working capital items is as follows:

	Nine months ended September 30,	
	2018	**2017**
Increase in inventories	**$ (5,928)**	$ (18,563)
Increase in trade and other receivables and notes receivables	**(7,141)**	(7,265)
Increase in prepaid expenses and deposits	**(769)**	(2,580)
Increase in trade and other payables	**13,297**	27,269
Increase in deferred revenue	**7,607**	1,548
Increase in restricted cash	**(582)**	-
Net change in non-cash working capital items	**$ 6,484**	$ 409

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

24. SUPPLEMENTAL CASH FLOW INFORMATION (CONTINUED)

24.2 Non-cash financing and investing activities

The net change in the Company's non-cash financing and investing activities is as follows:

	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Addition to decommissioning liability	**$ 96**	$ 534
Amortization of deferred stripping being capitalized	**8,650**	3,349
Trade payables offset by fixed assets	**7,258**	-
Trade receivables offset by deferred revenue	**2,459**	-
Notes receivables offset by deferred revenue	**2,904**	-
Convertible debenture interest settlement in shares (Note 19)	**-**	4,000
Trade receivables settled by properties for sale	**-**	10,752
Settlement of court case penalty via provision of mining services	**-**	6,184
Purchase of vehicles financed by loans	**-**	222

25. COMMITMENTS FOR EXPENDITURE

As at September 30, 2018, the Company's commitments for expenditure that have not been disclosed elsewhere in the consolidated financial statements are as follows:

	Within 1 year	2-3 years	Over 3 years	Total
As at September 30, 2018				
Capital expenditure commitments	**$ 4,285**	**$ -**	**$ -**	**$ 4,285**
Operating expenditure commitments	**8,188**	**1,320**	**1,886**	**11,394**
Commitments	**$ 12,473**	**$ 1,320**	**$ 1,886**	**$ 15,679**
As at December 31, 2017				
Capital expenditure commitments	$ 4,363	$ -	$ -	$ 4,363
Operating expenditure commitments	3,422	622	2,350	6,394
Commitments	$ 7,785	$ 622	$ 2,350	$ 10,757

26. CONTINGENCIES

26.1 Class action lawsuit

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

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

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

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

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

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

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

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

26. CONTINGENCIES (CONTINUED)

26.2 Toll wash plant agreement with Ejin Jinda

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

Under the original agreement with Ejin Jinda, which required the commercial operation of the wet washing facility to commence on October 1, 2011, the additional fees payable by the Company under the wet washing contract would have been $18,500. At each reporting date, the Company assesses the agreement with Ejin Jinda and has determined it is not probable that these $18,500 will be required to be paid.

Accordingly, the Company has determined a provision for this matter as at September 30, 2018 is not required.

26.3 Tax legislation

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

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

26.4 Notice of Legal Proceedings from a Former Customer

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

26. CONTINGENCIES (CONTINUED)

According to the Summons, Xiyuan has applied to the Ejinaqi Court claiming that IMSGE should repay a sum of Renminbi (“RMB”) 19.4 million (approximately $2,830) to Xiyuan, comprised of RMB 19.1 million of coal prepayments and RMB 0.3 million of interest. Xiyuan also claimed Ejinaqi Fulemeng Energy Industry Co., Ltd. for joint liability of the above sums as it was alleged as an agent for IMSGE to receive coal prepayment and deliver coal on behalf of IMSGE. Accordingly, the Company has determined a provision for this matter at September 30, 2018 is not required.

26.5 Mongolian royalties

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