SouthGobi Resources Ltd.

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

September 30, 2018

(Expressed in U.S. dollars)

FORWARD-LOOKING STATEMENTS

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

- the Company continuing as a going concern and its ability to realize its assets and discharge its liabilities in the normal course of operations as they become due; adjustments to the amounts and classifications of assets and liabilities in the Company's consolidated financial statements and the impact thereof;
- the Company's expectations of sufficient liquidity and capital resources to meet its ongoing obligations and future contractual commitments, including the Company's ability to settle its trade payables, to secure additional funding and to meet its obligations under each of the China Investment Corporation ("CIC") convertible debenture (the "CIC Convertible Debenture"), the Turquoise Hill Resources Ltd. ("Turquoise Hill") loan (the "TRQ Loan"), the equipment loan and the bank loan, as the same become due;
- the Company's anticipated financing needs, development plans and future production levels;
- the Company successfully negotiating a deferral of the November 19th and May 19th Payments, the November 2017 PIK Interest, the November 2018 Payment and the November 2018 PIK Interest (as such terms are defined below) under the June 2017 Deferral Agreement and CIC Convertible Debenture;
- the potential of the Company agreeing with First Concept Industrial Group Limited ("First Concept") on payment arrangements in respect of the Arbitration Award (as described under Section 5 of this MD&A under the heading entitled "*Liquidity and Capital Management – Commercial Arbitration in Hong Kong*") that are practical to and in the best interest of the Company;
- the ability of the Company to successfully respond to any enforcement proceeding brought by First Concept in respect of the Arbitration Award;
- the ability of the Company to successfully negotiate a deferral of the amounts outstanding under the equipment loan and the July 2018 Supplementary Agreement (as described under Section 5 of this MD&A under the heading entitled "*Liquidity and Capital Management – Equipment Loan*");
- the results and impact of the Ontario class action (as described under Section 6 of this MD&A under the heading entitled "*Regulatory Issues and Contingencies – Class Action Lawsuit*");
- the results and impact of the legal proceedings commenced by a former customer against IMSGE (as described under Section 6 of this MD&A under the heading entitled "*Regulatory Issues and Contingencies* – Legal Proceedings lawsuit Notice from a Former Supplier");
- the estimates and assumptions included in the Company's impairment analysis and the possible impact of changes thereof;
- the agreement with Ejin Jinda and the payments thereunder (as described under Section 6 of this MD&A under the heading entitled "*Regulatory Issues and Contingencies – Toll Wash Plant Agreement with Ejin Jinda");*
- the ability of the Company to successfully negotiate a new agreement with the third party contractor relating to the operation of the wash plant at the Ovoot Tolgoi mine site;
- the ability of the Company to successfully recover the balance of its doubtful trade and notes receivable;

- the ability to enhance the operational efficiency and the output value of the of the washing facilities at Ovoot Tolgoi and the expected timing of commencement of sales of washed coal to the market;
- 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 Company's outlook and objectives for 2018 and beyond (as more particularly described under Section 11 of this MD&A under the heading entitled "*Outlook*"); and
- other statements that are not historical facts.

Forward-looking information is based on certain factors and assumptions described below and elsewhere in this MD&A, including, among other things: the current mine plan for the Ovoot Tolgoi mine; mining, production, construction and exploration activities at the Company's mineral properties; the costs relating to anticipated capital expenditures; the capacity and future toll rate of the paved highway; plans for the progress of mining license application processes; mining methods; ability to enhance the operational efficiency and the output value of the washing facilities at Ovoot Tolgoi; the Company's anticipated business activities, planned expenditures and corporate strategies; management's business outlook, including the outlook for the remainder of 2018 and beyond; currency exchange rates; operating, labour and fuel costs; the anticipated royalties payable under Mongolia's royalty regime; the future coal market conditions in China and the related impact on the Company's margins and liquidity; future coal prices, and the level of worldwide coal production. While the Company considers these assumptions to be reasonable based on the information currently available to it, they may prove to be incorrect. Forward-looking statements are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These risks and uncertainties include, among other things: the uncertain nature of mining activities, actual capital and operating costs exceeding management's estimates; variations in mineral resource and mineral reserve estimates; failure of plant, equipment or processes to operate as anticipated; the possible impacts of changes in mine life, useful life or depreciation rates on depreciation expenses; risks associated with, or changes to regulatory requirements (including environmental regulations) and the ability to obtain all necessary regulatory approvals; the potential expansion of the list of licenses published by the Government of Mongolia covering areas in which exploration and mining are purportedly prohibited on certain of the Company's mining licenses; the Government of Mongolia designating any one or more of the Company's mineral projects in Mongolia as a Mineral Deposit of Strategic Importance; continued delays in the customs clearance process at the Ceke border and risk of the Company being unable to produce and deliver coal of a quality which meets the standards of Chinese import regulations; the Company being in default under the CIC Convertible Debenture and the equipment loan, including the risk of CIC accelerating all amounts outstanding under the CIC Convertible Debenture and enforcing payment thereof; the risk of the Company failing to successfully negotiate 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 under the June 2017 Deferral Agreement and CIC Convertible Debenture; the possible impact of changes to the inputs to the valuation model used to value the embedded derivatives in the CIC Convertible Debenture; the risk of the Company failing to successfully negotiate a deferral of the amounts outstanding under the equipment loan and the July 2018 Supplementary Agreement (as described under Section 5 of this MD&A under the heading entitled "Liquidity and Capital Management – Equipment Loan"); the risk of the Company defaulting under its existing debt obligations, including the bank loan; the risk of the Company being unsuccessful in recovering the balance of its doubtful trade and notes receivable; 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 of the Company being unable to agree with First

Concept on payment arrangements in respect of the Arbitration Award; the risk that First Concept is successful in enforcing the Arbitration Award against SouthGobi Sands LLC ("SGS"), a subsidiary of the Company, through judicial measures in courts of Mongolia or in other applicable jurisdiction(s) and the ability of the Company to successfully defend itself against such enforcement proceedings; the outcome of the Class Action (as described under Section 6 of this MD&A under the heading entitled "*Regulatory Issues and Contingencies – Class Action Lawsuit*") and any damages payable by the Company as a result; the outcome of the legal proceedings initiated by a former customer against IMSGE (as described under Section 6 of this MD&A under the heading entitled "*Regulatory Issues and Contingencies – Legal Proceedings lawsuit Notice from a Former Customer*") and any damages payable by the Company as a result**;** the result of the internal investigation conducted by the Special Committee and the potential impact of the charges against Mr. Aminbuhe and the connection, if any, between those charges and the Company and his conduct as Chairman and Chief Executive Officer of the Company; the risk that the calculated sales price determined by the Company for the purposes determining of the amount of royalties payable to the Mongolian government is deemed as being "non-market" under Mongolian tax law; customer credit risk; cash flow and liquidity risks;; risk of the Company failing 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 on terms which are favorable to the Company; the risk of SGS failing to make payment to the Mongolian government for any outstanding taxes, royalties and other government levies as such amounts become due, which may result in the relevant Mongolian authority taking enforcement actions against SGS to collect the overdue amounts; and risks relating to the Company's ability to raise additional financing and to continue as a going concern. Please see the Company's most recently filed Annual Information Form for the year ended December 31, 2017, which is available under the Company's profile on SEDAR at www.sedar.com, for a discussion of these and other risks and uncertainties relating to the Company and its operations. This list is not exhaustive of the factors that may affect any of the Company's forward-looking statements.

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

TABLE OF CONTENTS

INTRODUCTION

This MD&A of the Company is dated as of November 13, 2018 and should be read in conjunction with the condensed consolidated interim financial statements of the Company and the notes thereto for the three and nine months ended September 30, 2018. The Company's condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 - "Interim Financial Reporting" using accounting policies in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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

Prior to January 1, 2018, the functional currency of the Company's Mongolian operations (SGS, Mazaalai Resources LLC, Mazaatt Holdings LLC and Dayarbulag LLC), was the United States Dollar. The functional currency of the Company's Chinese subsidiaries (SouthGobi Trading (Beijing) Co., Ltd., Inner Mongolia SouthGobi Energy Co., Ltd., and Inner Mongolia SouthGobi Enterprise Co., Ltd.) was Renminbi ("RMB") and the functional currency for the Company's joint venture (RDCC LLC) was the Mongolian Tugrik ("MNT"). Per IAS 21 - The Effects of Changes in Foreign Exchange Rates, an entity's functional currency should be determined based on the underlying transactions, events and conditions relevant to the entity.

Determination of functional currency involves certain judgments to determine the primary economic environment and this is re-evaluated if events or conditions change. Based on management's re-evaluation, taking into consideration the primary economic environment in which the Mongolian operations carries on its business, management determined that the functional currency of the Mongolian operations changed from US dollars to MNT as at January 1, 2018 given increased mining costs and administrative costs that are denominated in MNT.

The change in functional currency of the Mongolian operations was applied prospectively from January 1, 2018 onwards in accordance with IAS 21. On January 1, 2018 (being the date on which the change in functional currency took effect), all items on the statement of financial position of the Mongolian operations were translated into MNT at the exchange rate on that date.

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

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

Property	Qualified Persons	Field of Expertise	Relationship to Company
Ovoot Tolgoi	Dr. Weiliang Wang	Resources	Independent Consultant
Ovoot Tolgoi	Vincent Li	Reserves	Independent Consultant
Soumber	Merryl Peterson	Resources	Independent Consultant
Zag Suuj	Merryl Peterson	Resources	Independent Consultant

Disclosure of a scientific or technical nature relating to the Ovoot Tolgoi Mine contained in this MD&A is derived from a technical report (the "Ovoot Tolgoi Technical Report") prepared in accordance with NI 43-101 on the Ovoot Tolgoi Mine dated May 15, 2017, prepared by Dr. Weiliang Wang, Mr. Vincent Li and Mr.

Larry Li of Dragon Mining Consulting Limited ("DMCL"). A copy of the Ovoot Tolgoi Technical Report is available under the Company's profile on SEDAR at www.sedar.com.

Disclosure of a scientific or technical nature relating to the Soumber Deposit contained in this MD&A is derived from a technical report (the "Soumber Technical Report") prepared in accordance with NI 43-101 on the Soumber Deposit dated March 25, 2013, prepared by Minarco-MineConsult and scientific and technical disclosure relating to the Zag Suuj Deposit is derived from a technical report (the "Zag Suuj Technical Report") prepared in accordance with NI 43-101 on the Zag Suuj Deposit dated March 25, 2013, prepared by Minarco-MineConsult. Copies of the Soumber Technical Report and the Zag Suuj Technical Report are available under the Company's profile on SEDAR at www.sedar.com. These reports are effective as at these dates. Minarco-MineConsult has not reviewed or updated these reports since the date of publishing.

1. OVERVIEW

The Company is an integrated coal mining, development and exploration company with 494 employees as at September 30, 2018. The Company's common shares ("Common Shares") trade on the Toronto Stock Exchange ("TSX") under the symbol SGQ and on the Hong Kong Stock Exchange ("HKEX") under the stock code symbol 1878.

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

The Ovoot Tolgoi Mine, strategically located approximately 40km from the Shivee Khuren-Ceke crossing at the Mongolia-China border ("Shivee Khuren Border Crossing"), is the Company's flagship asset. The Company commenced mining at the Ovoot Tolgoi Mine in 2008. The Company sells a portion of its coal at the mine-gate to Chinese customers, while the remaining coal inventory is transported to China and sold via its Chinese subsidiaries at the stockyards in Ceke (Ceke, on the Chinese side of the Shivee Khuren Border Crossing, which is a major Chinese coal distribution terminal with rail connections to key coal markets in China) or certain designated locations in China as requested by customers.

Saleable products from the Ovoot Tolgoi Mine primarily include the SouthGobi standard ("Standard") and SouthGobi premium ("Premium") semi-soft coking coal products. Some higher ash content product is sold as a thermal coal product as and when the market allows.

Significant Events and Highlights

The Company's significant events and highlights for the three months ended September 30, 2018 and the subsequent period up to November 13, 2018 are as follows:

- ***Operating Results*** – As a result of improved market conditions and prices for coal in China as well as a higher portion of sales made through our Inner Mongolia subsidiary, the Company experienced an increase in the average selling price of coal from $26.5 per tonne in the third quarter of 2017 to $35.8 per tonne in the third quarter of 2018. The Company sold 0.7 million tonnes for the third quarter of 2018 as compared to 0.8 million tonnes for the third quarter of 2017.

- ***Financial Results*** – The Company recorded a $1.7 million profit from operations in the third quarter of 2018 compared to a $4.7 million loss from operations in the third quarter of 2017. The overall financial results have improved when compared to the third quarter of 2017, which was principally attributable to the improved coal prices in China and the Company recording an impairment of coal stockpile inventories in the third quarter of 2017 (third quarter of 2018: nil; third quarter of 2017: $7.9 million). The improved financial performance in the third quarter was partially offset by the Company recognizing a provision for doubtful trade and other receivables during the quarter (third quarter of 2018: $5.3 million; third quarter of 2017: reversal of provision of $1.4 million).

- ***Wash plant*** – 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 of 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 position to sell washed coal to the market in the fourth quarter of 2018. The expected annual wet washing capacity of the wash plant for 2019 is approximately 1.8 million tonnes of input coal. The Company is currently discussing an agreement regarding the operation of the wash plant with the wash plant operator; however, there can be no assurance that a favorable outcome will be reached.

- ***CIC Convertible Debenture*** – Pursuant to the terms of the deferral agreement dated June 12, 2017 (the "June 2017 Deferral Agreement") with CIC in relation to a revised payment schedule on the $22.3 million of cash interest and associated costs originally due under the CIC Convertible Debenture on May 19, 2017 (the "May 2017 Interest Payable"), the Company was required to pay $9.7 million of cash interest and associated costs to CIC on November 19, 2017 (the "June 2017 Deferral Agreement Payment"). Pursuant to the terms of the CIC Convertible Debenture, the Company was required to pay $8.1 million and $7.9 million of anniversary cash interest to CIC 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 was also obliged to issue $4.0 million worth of PIK interest shares (the "November 2017 PIK Interest") to CIC on November 19, 2017. The Company will also be required to pay $8.1 million of cash interest to CIC (the "November 2018 Payment") and issue $4.0 million worth of PIK interest shares (the "November 2018 PIK Interest") on November 19, 2018. As of the date of this MD&A, the Company expects that it will be unable to pay the November 2018 Payment to CIC on the due date.

  As of the date of this MD&A, 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 under the CIC Convertible Debenture; and (ii) has not agreed upon a repayment plan for such amounts with CIC. Consequently, the Company is in default under the CIC Convertible Debenture and the June 2017 Deferral Agreement. Pursuant to the terms of the CIC Convertible Debenture and the June 2017 Deferral Agreement, CIC may, at its discretion, provide notice to the Company and declare all principal, interest and other amounts owing under the CIC Convertible Debenture and the June 2017 Deferral Agreement immediately due and payable, and take steps to enforce payment thereof, which would have a material adverse effect on the business and operations of the Company and may negatively affect the price and volatility of the Common Shares and any investment in such shares could suffer a significant decline or total loss in value. As of the date of this MD&A, 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.

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

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

  According to the Summons, Xiyuan has applied to the Ejinaqi Court claiming that IMSGE should repay a sum of RMB 19.4 million (approximately $2.8 million) to Xiyuan, comprised of RMB 19.1 million of coal prepayments and RMB 0.3 million of interest. Xiyuan also claimed 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.

Due to the complexity and monetary amount involved, the court hearing regarding this matter previously scheduled on October 10, 2018 was delayed and will be rescheduled for a future date.

The Company firmly believes that it has a strong defense on the merits and has retained independent Chinese litigation counsel to vigorously defend itself against these claims. However, due to the inherent uncertainties of litigation, it is not possible to predict whether IMSGE will be successful in defending itself in these proceedings.

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

  Mr. Shougao Wang*:* Mr. Wang was appointed as an executive director on July 3, 2018.

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

- ***Going Concern*** – 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 will require a significant level of stripping activities over 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 condensed consolidated interim financial statements and such adjustments could be material.

  Unless the Company acquires additional sources of financing and/or funding in the short term, the ability of the Company to continue as a going concern is threatened. If the Company is unable to continue as a going concern, it may be forced to seek relief under applicable bankruptcy and insolvency legislation. See Section 5 of this MD&A under the heading entitled "Liquidity and Capital Resources" and Section 10 of this MD&A under the heading entitled "Risk Factors" for details. As at November 13, 2018, the Company had $5.4 million of cash.

2. OVERVIEW OF OPERATIONAL DATA AND FINANCIAL RESULTS

Summary of Operational Data

	Three months ended September 30,		Nine months ended September 30,	
	2018	**2017**	**2018**	**2017**
Sales Volumes, Prices and Costs				
Premium semi-soft coking coal				
Coal sales *(millions of tonnes)*	**0.25**	0.12	**0.35**	0.49
Average realized selling price *(per tonne)* (i)	**$ 48.15**	$ 46.81	**$ 52.36**	$ 45.93
Standard semi-soft coking coal/ premium thermal coal				
Coal sales *(millions of tonnes)*	**0.26**	0.41	**0.86**	1.84
Average realized selling price *(per tonne)* (i)	**$ 34.40**	$ 28.32	**$ 39.93**	$ 25.89
Standard thermal coal				
Coal sales *(millions of tonnes)*	**0.22**	0.27	**0.66**	1.06
Average realized selling price *(per tonne)* (i)	**$ 23.49**	$ 14.54	**$ 25.21**	$ 14.77
Total				
Coal sales *(millions of tonnes)*	**0.73**	0.80	**1.87**	3.39
Average realized selling price *(per tonne)* (i)	**$ 35.77**	$ 26.47	**$ 37.03**	$ 25.29
Raw coal production *(millions of tonnes)*	**1.11**	2.47	**2.47**	5.87
Cost of sales of product sold *(per tonne)*	**$ 20.99**	$ 31.31	**$ 25.08**	$ 22.48
Direct cash costs of product sold *(per tonne)* (ii)	**$ 7.41**	$ 10.98	**$ 11.08**	$ 9.10
Mine administration cash costs of product sold *(per tonne)* (ii)	**$ 1.24**	$ 2.98	**$ 1.16**	$ 2.00
Total cash costs of product sold *(per tonne)* (ii)	**$ 8.65**	$ 13.96	**$ 12.24**	$ 11.10
Other Operational Data				
Production waste material moved *(millions of bank cubic meters)*	**4.56**	6.77	**12.62**	16.43
Strip ratio *(bank cubic meters of waste material per tonne of coal produced)*	**4.11**	2.74	**5.08**	2.80
Lost time injury frequency rate (iii)	**0.00**	0.23	**0.06**	0.18

(i) Average realized selling price is presented before deduction of royalties.
(ii) A non-IFRS financial measure, see section 3. Cash costs of product sold exclude idled mine asset cash costs.
(iii) Per 200,000 man hours and calculated based on a rolling 12 month average.

Overview of Operational Data

The Company ended the third quarter of 2018 without a lost time injury. For the three months ended September 30, 2018, the Company had a lost time injury frequency rate of nil per 200,000 man hours based on a rolling 12 month average as compared to 0.23 for the three months ended September 30, 2017.

For the three months ended September 30, 2018

As a result of improved market conditions and prices for coal in China as well as a higher portion of sales made through our Inner Mongolia subsidiary, the Company experienced an increase in the average selling price of coal from $26.5 per tonne in the third quarter of 2017 to $35.8 per tonne in the third quarter of 2018. The improvement in the product mix also contributed to the increase in the average price for the quarter. The product mix for the third quarter of 2018 consisted of approximately 34% of premium semi-soft coking coal, 36% of standard semi-soft coking coal/premium thermal coal and 30% of standard thermal coal compared to approximately 15% of premium semi-soft coking coal, 51% of standard semi-soft coking coal/premium thermal coal and 34% of standard thermal coal in the third quarter of 2017.

The Company sold 0.7 million tonnes for the third quarter of 2018 as compared to 0.8 million tonnes for the third quarter of 2017.

The Company's production in the third quarter of 2018 was lower than the third quarter of 2017 as a result of management's decision to pace production to meet expected sales as well as a higher strip ratio achieved for the quarter, yielding 1.1 million tonnes for the third quarter of 2018 as compared to 2.5 million tonnes for the third quarter of 2017.

The Company's unit cost of sales of product sold decreased to $21.0 per tonne in the third quarter of 2018 from $31.3 per tonne in the third quarter of 2017. The decrease was mainly driven by the Company recognizing coal stockpile impairments of $7.9 million for the third quarter of 2017 as compared to nil during this quarter.

For the nine months ended September 30, 2018

Due to the delays experienced in the custom clearance process at the Ceke border which the Company has been experiencing since July 2017, the Company sold 1.9 million tonnes for the first nine months of 2018 as compared to 3.4 million tonnes for the first nine months of 2017.

The average selling price increased from $25.3 per tonne for the first nine months of 2017 to $37.0 per tonne for the first nine months of 2018, which was mainly due to the improved market conditions and prices for coal in China as well as a higher portion of sales made through our Inner Mongolia subsidiary.

The Company's production in the first nine months of 2018 was lower than the first nine months of 2017 as a result of management's decision to pace production to meet expected sales as well as a higher strip ratio achieved for the period, yielding 2.5 million tonnes for the nine months of 2018 as compared to 5.9 million tonnes for the first nine months of 2017.

The Company's unit cost of sales of product sold increased to $25.1 per tonne in the first nine months of 2018 from $22.5 per tonne in the first nine months of 2017. The increase was principally attributable to the diseconomies of scale driven by decreased sales volume.

Summary of Financial Results

$ in thousands, except per share information	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 [(i),(ii)]	**$ 24,487**	$ 19,356	**$ 65,087**	$ 79,275
Cost of sales [(ii)]	**(15,320)**	(25,049)	**(46,905)**	(76,193)
Gross profit/(loss) excluding idled mine asset costs	**13,195**	(2,094)	**29,524**	12,065
Gross profit/(loss) including idled mine asset costs	**9,167**	(5,693)	**18,182**	3,082
Other operating income/(expenses)	**(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	**(5,758)**	(5,674)	**(17,690)**	(16,708)
Finance income	**106**	142	**472**	21
Share of earnings of a joint venture	**247**	265	**1,215**	919
Income tax credit/(expense)	**(267)**	238	**(2,805)**	(2,521)
Net loss	**(3,990)**	(9,744)	**(34,053)**	(26,274)
Basic and diluted loss per share	**$ (0.01)**	$ (0.04)	**$ (0.12)**	$ (0.10)

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

Overview of Financial Results

For the three months ended September 30, 2018

The Company recorded a $1.7 million profit from operations in the third quarter of 2018 compared to a $4.7 million loss from operations in the third quarter of 2017. The overall financial results have improved when compared to the third quarter of 2017, which was principally attributable to the improved coal prices in China and the Company recording an impairment of coal stockpile inventories in the third quarter of 2017 (third quarter of 2018: nil; third quarter of 2017: $7.9 million). The improved financial performance in the third quarter was partially offset by the Company recognizing a provision for doubtful trade and other receivables during the period (third quarter of 2018: $5.3 million; third quarter of 2017: reversal of provision of $1.4 million).

The provision for certain long aged doubtful notes receivables and trade and other receivables is recognized based on the expected credit loss model that the Company has been applying. The Company will continue to explore different options to recover the balance of these doubtful trade and notes receivables.

Revenue was $24.5 million in the third quarter of 2018 compared to $19.4 million in the third quarter of 2017. The Company's revenue is presented after deduction of royalties. Royalty for the quarter was $1.8 million, compared to $1.3 million for the third quarter of 2017. The increase was mainly due to increase in the average price for the coal exported to China during the quarter.

Cost of sales was $15.3 million in the third quarter of 2018 compared to $25.0 million in the third quarter of 2017. The decrease in cost of sales was mainly due to the Company recognizing coal stockpile impairments of $7.9 million for the third quarter of 2017 as compared to nil during the quarter. Cost of sales comprises operating expenses, share-based compensation expense, equipment depreciation, depletion of mineral properties, coal stockpile inventory impairments and idled mine asset costs. Operating expenses in cost of sales reflect the total cash costs of product sold (a Non-IFRS financial measure, see Section 3 of this MD&A for further analysis) during the quarter.

Royalty regime in Mongolia

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

On February 1, 2016, the Government of Mongolia issued a resolution in connection with the royalty regime. From February 1, 2016 onwards, royalties are to be calculated based on the actual contract price in which transportation cost to the Mongolia border should have been included. If such transportation cost was not included in the contract, the relevant transportation costs, 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, 2017, a copy of which is available under the Company's profile on SEDAR at www.sedar.com.

	Three months ended September 30,	
$ in thousands	**2018**	**2017**
Operating expenses	**$ 6,318**	$ 11,165
Share-based compensation expense	**1**	2
Depreciation and depletion	**4,973**	2,350
Impairment of coal stockpile inventories	**-**	7,933
Cost of sales from mine operations	**11,292**	21,450
Cost of sales related to idled mine assets	**4,028**	3,599
Cost of sales	**$ 15,320**	$ 25,049

Operating expenses in cost of sales were $6.3 million in the third quarter of 2018 compared to $11.2 million in the third quarter of 2017. The overall decrease in operating expenses was primarily due to the effect of: (i) lower unit costs achieved through improvement of operational efficiency and (ii) decreased sales volume from 0.8 million tonnes in the third quarter of 2017 to 0.7 million tonnes in the third quarter of 2018.

There was no impairment of coal stockpiles for the third quarter of 2018 (third quarter of 2017: $7.9 million). The coal stockpile impairments recorded in the third quarter of 2017 primarily related to the Company's higher-ash content products.

Cost of sales related to idled mine asset costs primarily consisted of periodic costs, which were expensed as incurred and included mainly depreciation expense. Cost of sales related to idled mine assets in the third quarter of 2018 included $4.0 million related to depreciation expenses for idled equipment (third quarter of 2017: $3.6 million).

Other operating expenses was $4.7 million in the third quarter of 2018 (third quarter of 2017: other operating income of $3.5 million).

$ in thousands	Three months ended September 30, 2018	2017
Reversal of provision/(provision) for doubtful trade and other receivables	**$ (5,251)**	$ 1,389
Impairment of properties for resale	**(1,372)**	-
Loss on disposal of property, plant and equipment	**(1,145)**	-
CIC management fee	**(358)**	-
Provision for commerial arbitration	**(232)**	-
Gain on settlement of trade payables	**2,956**	-
Foreign exchange gain	**693**	2,128
Other	**(12)**	(40)
Other operating income/(expenses)	**$ (4,721)**	$ 3,477

The Company made a provision for doubtful trade and other receivables of $5.3 million in the third quarter of 2018 (third quarter of 2017: reversal of provision of $1.4 million) for certain long aged receivables based on expected credit loss model. An impairment of $1.4 million was recorded for certain properties for resale by the Company that were obtained by the Company pursuant to a settlement agreement with one of its major customers in connection with outstanding trade receivables, which reflects the drop in market value.

Administration expenses were $2.7 million in the third quarter of 2018 (third quarter of 2017: $2.5 million).

$ in thousands	Three months ended September 30, 2018	2017
Corporate administration	**$ 616**	$ 919
Professional fees	**713**	508
Salaries and benefits	**1,342**	952
Share-based compensation expense	**10**	32
Depreciation	**43**	40
Administration expenses	**$ 2,724**	$ 2,451

Administration expenses were higher for the third quarter of 2018 compared to the third quarter of 2017 primarily due to higher legal and professional fees and salaries incurred in the quarter.

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

Finance costs were $5.8 million and $5.7 million in the third quarter of 2018 and 2017 respectively, which primarily consisted of interest expense on the $250.0 million CIC Convertible Debenture.

Finance income was $0.1 million for both the third quarter of 2018 and 2017, which primarily related to unrealized gain on the change in fair value of the embedded derivatives in the CIC Convertible Debenture.

For the nine months ended September 30, 2018

The Company recorded a $15.2 million loss from operations in the first nine months of 2018 compared to an $8.0 million loss from operations in the first nine months of 2017. The operations for the nine months ended September 30, 2018 were impacted by the following factors: (i) improved coal prices in China; (ii) diseconomies of scale driven by decreased sales; (iii) provision for doubtful trade and other receivables of $14.5 million; and (iv) provision for doubtful notes receivables of $7.7 million. The recognition of a provision for doubtful notes receivables and trade and other receivables follows after a credit reassessment exercise carried out during the second quarter of 2018 which concluded with the Company only continuing coal deliveries to customers with above-standard credit ratings in order to preserve the capital of the Company and discontinuing coal deliveries to certain other customers. The provision recognized relates to receivables from those customers that the Company has ceased coal shipments to. The Company will continue to explore different options to recover the balance of these doubtful trade and notes receivables.

Revenue was $65.1 million in the first nine months of 2018 compared to $79.3 million in the first nine months of 2017. The Company sold 1.9 million tonnes of coal at an average realized selling price of $37.0 per tonne in the first nine months of 2018 compared to sales of 3.4 million tonnes at an average realized selling price of $25.3 per tonne in the first nine months of 2017.

The Company's revenue is presented net of royalties. Royalty for the first nine months of 2018 was $4.9 million, compared to $5.0 million for the first nine months of 2017, the decrease was mainly due to less coal being exported to China during the period.

Cost of sales was $46.9 million in the first nine months of 2018 compared to $76.2 million in the first nine months of 2017 as follows:

	Nine months ended September 30,	
$ in thousands	**2018**	**2017**
Operating expenses	**$ 22,895**	$ 36,756
Share-based compensation expense	**1**	30
Depreciation and depletion	**12,667**	17,290
Impairment of coal stockpile inventories	**-**	13,134
Cost of sales from mine operations	**35,563**	67,210
Cost of sales related to idled mine assets	**11,342**	8,983
Cost of sales	**$ 46,905**	$ 76,193

Operating expenses in cost of sales were $22.9 million in the first nine months of 2018 compared to $36.8 million in the first nine months of 2017. The decrease in operating expenses was primarily related to the decrease in sales volume from 3.4 million tonnes in the first nine months of 2017 to 1.9 million tonnes in the first nine months of 2018.

Cost of sales in the first nine months of 2017 included coal stockpile impairments of $13.1 million, to reduce the carrying value of the Company's coal stockpiles to their net realizable value. The coal stockpile impairments recorded in 2017 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 nine months of 2018 included $11.3 million related to depreciation expenses for idled equipment (2017: $9.0 million).

Other operating expenses were $24.2 million in the first nine months of 2018 compared to $3.8 million in the first nine months of 2017 as follows:

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

For the nine months ended September 30, 2018, the Company made a provision for doubtful trade and other receivables of $14.5 million (2017: negligible) for certain long aged receivables based on expected credit loss model. Further, a provision for doubtful notes receivables of $7.7 million (2017: nil) for certain notes receivables was made.

Administration expenses were $9.0 million in the first nine months of 2018 compared to $7.1 million in the first nine months of 2017 as follows:

	Nine months ended September 30,	
$ in thousands	**2018**	**2017**
Corporate administration	**$ 1,988**	$ 1,955
Professional fees	**2,976**	1,959
Salaries and benefits	**3,820**	2,835
Share-based compensation expense	**47**	67
Depreciation	**126**	254
Administration expenses	**$ 8,957**	$ 7,070

Administration expenses were higher for the first nine months of 2018 compared to the first nine months of 2017 primarily due to higher legal and professional fees and salaries incurred during the period.

Evaluation and exploration expenses were $0.3 million in the first nine months of 2018 (2017: $0.2 million). The Company continued to minimize evaluation and exploration expenditures in 2018 in order to preserve the Company's financial resources. Evaluation and exploration activities and expenditures in the first nine months of 2018 were limited to ensuring that the Company met the Mongolian Minerals Law requirements in respect of its mining and exploration licenses.

Finance costs were $17.7 million and $16.7 million in the first nine months of 2018 and 2017 respectively. This primarily consisted of interest expense on the CIC Convertible Debenture ($16.3 million for the first nine months of 2018 and $16.0 million for the first nine months of 2017).

Summary of Quarterly Operational Data

	2018			2017				2016
Quarter Ended	**30-Sep**	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec
Sales Volumes, Prices and Costs								
Premium semi-soft coking coal								
Coal sales *(millions of tonnes)*	**0.25**	0.07	0.03	0.37	0.12	0.18	0.19	0.15
Average realized selling price *(per tonne)* [(i)]	**$ 48.15**	$ 59.98	$ 67.94	$ 50.47	$ 46.55	$ 45.67	$ 45.61	$ 40.49
Standard semi-soft coking coal/ premium thermal coal								
Coal sales *(millions of tonnes)*	**0.26**	0.19	0.41	0.60	0.41	0.79	0.64	0.65
Average realized selling price *(per tonne)* [(i)]	**$ 34.40**	$ 33.80	$ 46.34	$ 37.49	$ 28.32	$ 26.69	$ 23.36	$ 16.79
Standard thermal coal								
Coal sales *(millions of tonnes)*	**0.22**	0.32	0.12	0.29	0.27	0.51	0.28	0.28
Average realized selling price *(per tonne)* [(i)]	**$ 23.49**	$ 26.32	$ 25.40	$ 16.98	$ 14.48	$ 15.79	$ 13.17	$ 15.26
Total								
Coal sales *(millions of tonnes)*	**0.73**	0.58	0.56	1.26	0.80	1.48	1.11	1.08
Average realized selling price *(per tonne)* [(i)]	**$ 35.77**	$ 32.81	$ 43.02	$ 36.54	$ 26.41	$ 25.24	$ 24.52	$ 19.55
Raw coal production *(millions of tonnes)*	**1.11**	0.98	0.38	0.51	2.47	1.89	1.51	1.21
Cost of sales of product sold *(per tonne)*	**$ 20.99**	$ 26.00	$ 29.48	$ 23.54	$ 31.31	$ 18.50	$ 21.40	$ 21.15
Direct cash costs of product sold *(per tonne)* [(ii)]	**$ 7.41**	$ 10.12	$ 16.86	$ 9.91	$ 10.98	$ 7.84	$ 9.42	$ 7.97
Mine administration cash costs of product sold *(per tonne)* [(ii)]	**$ 1.24**	$ 1.00	$ 1.23	$ 4.92	$ 2.98	$ 2.22	$ 1.01	$ 3.23
Total cash costs of product sold (*per tonne*) [(ii)]	**$ 8.65**	$ 11.12	$ 18.09	$ 14.83	$ 13.96	$ 10.06	$ 10.43	$ 11.20
Other Operational Data								
Production waste material moved *(millions of bank cubic meters)*	**4.56**	5.18	2.88	4.36	6.77	6.36	3.30	2.62
Strip ratio *(bank cubic meters of waste material per tonne of coal produced)*	**4.11**	5.26	7.55	8.59	2.74	3.37	2.18	2.16
Lost time injury frequency rate [(iii)]	**0.00**	0.06	0.13	0.20	0.23	0.18	0.11	0.00

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

Summary of Quarterly Financial Results

The Company's annual financial statements are reported under IFRS issued by the IASB. The Company's interim financial statements are reported under IFRS issued by the IASB as applicable to interim financial reporting. The following table provides highlights, extracted from the Company's annual and interim financial statements, of quarterly results for the past eight quarters:

$ in thousands, except per share information	2018			2017				2016
Quarter Ended	**30-Sep**	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec
Financial Results								
Revenue [(i), (ii)]	**$ 24,487**	$ 17,377	$ 23,223	$ 41,698	$ 19,356	$ 34,665	$ 25,254	$ 18,983
Cost of sales [(ii)]	**(15,320)**	(15,078)	(16,507)	(29,665)	(25,049)	(27,385)	(23,759)	(22,842)
Gross profit/(loss) excluding idled mine asset costs	**13,195**	6,079	10,250	15,682	(2,094)	9,445	4,714	(2,353)
Gross profit/(loss) including idled mine asset costs	**9,167**	2,299	6,716	12,033	(5,693)	7,280	1,495	(3,859)
Other operating income/(expenses)	**(4,721)**	(18,091)	(1,338)	(7,488)	3,477	(4,045)	(3,208)	(3,782)
Administration expenses	**(2,724)**	(3,856)	(2,377)	(2,111)	(2,451)	(2,234)	(2,385)	(2,378)
Evaluation and exploration expenses	**(40)**	(156)	(124)	(52)	(48)	(144)	(29)	(222)
Impairment of property, plant and equipment	**-**	-	-	(11,171)	-	-	-	(1,152)
Profit/(loss) from operations	**1,682**	(19,804)	2,877	(8,789)	(4,715)	857	(4,127)	(11,393)
Finance costs	**(5,758)**	(5,958)	(6,006)	(6,250)	(5,674)	(5,494)	(5,715)	(5,645)
Finance income	**106**	140	258	143	142	50	4	472
Share of earnings of a joint venture	**247**	628	340	368	265	388	266	378
Income tax credit/(expense)	**(267)**	(1,609)	(929)	781	238	(2,714)	(45)	(1,294)
Net loss	**(3,990)**	(26,603)	(3,460)	(13,747)	(9,744)	(6,913)	(9,617)	(17,482)
Basic and diluted loss per share	**$ (0.01)**	$ (0.10)	$ (0.01)	$ (0.05)	$ (0.04)	$ (0.03)	$ (0.04)	$ (0.07)

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

3. NON-IFRS FINANCIAL MEASURES

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

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

Cash Costs
The Company uses cash costs to describe its cash production and associated cash costs incurred in bringing the inventories to their present locations and conditions. Cash costs incorporate all production costs, which include direct and indirect costs of production, with the exception of idled mine asset costs and non-cash expenses which are excluded. Non-cash expenses include share-based compensation expense, impairments of coal stockpile inventories, depreciation and depletion of property, plant and equipment and mineral properties. The Company uses this performance measure to monitor its operating cash costs internally and believes this measure provides investors and analysts with useful information about the Company's underlying cash costs of operations. The Company believes that conventional measures of performance prepared in accordance with IFRS do not fully illustrate the ability of its mining operations to generate cash flows. The Company reports cash costs on a sales basis. This performance measure is commonly utilized in the mining industry.

The following table provides a reconciliation of the cash costs of product sold disclosed for the three and nine months ended September 30, 2018 and September 30, 2017. The cash costs of product sold presented below may differ from cash costs of product produced depending on the timing of coal stockpile inventory turnover and impairments of coal stockpile inventories from prior periods.

	Three months ended September 30,		Nine months ended September 30,	
$ in thousands, except per tonne information	**2018**	**2017**	**2018**	**2017**
Cash costs				
Cost of sales determined in accordance with IFRS	**$ 15,320**	$ 25,049	**$ 46,905**	$ 76,193
Less non-cash expenses	**(4,974)**	(10,285)	**(12,668)**	(29,579)
Less non-cash idled mine asset costs	**(4,028)**	(3,599)	**(11,342)**	(8,983)
Total cash costs	**6,318**	11,165	**22,895**	37,631
Less idled mine asset cash costs	**-**	-	**-**	-
Total cash costs excluding idled mine asset cash costs	**6,318**	11,165	**22,895**	37,631
Coal sales *(millions of tonnes)*	**0.73**	0.80	**1.87**	3.39
Total cash costs of product sold *(per tonne)*	**$ 8.65**	$ 13.96	**$ 12.24**	$ 11.10

	Three months ended September 30,		Nine months ended September 30,	
$ in thousands, except per tonne information	**2018**	**2017**	**2018**	**2017**
Cash costs				
Direct cash costs of product sold *(per tonne)*	**$ 7.41**	$ 10.98	**$ 11.08**	$ 9.10
Mine administration cash costs of product sold *(per tonne)*	**1.24**	2.98	**1.16**	2.00
Total cash costs of product sold *(per tonne)*	**$ 8.65**	$ 13.96	**$ 12.24**	$ 11.10

The direct cash cost of product sold per tonne was $7.4 for the third quarter of 2018, which has decreased from $11.0 per tonne for the third quarter 2017. The reason for the decrease is primarily related to the savings through improvement of operational efficiency.

4. PROPERTIES

The Company currently holds six mining licenses in Mongolia. The mining licenses pertain to the Ovoot Tolgoi Mine (MV-012726), the Soumber Deposit (MV-016869, MV-020436 and MV-020451) and the Zag Suuj deposit (MV-020676 and MV-020675).

Operating Mines

Ovoot Tolgoi Mine

The Ovoot Tolgoi Mine is located in the southwest corner of the Umnugobi Aimag (South Gobi Province) of Mongolia. The deposit is within the administrative unit of Gurvantes Soum, 320km southwest of the provincial capital of Dalanzadgad and 950km southwest of the nation's capital of Ulaanbaatar. Mining operations at the Ovoot Tolgoi Mine have been carried out in two distinct areas, the Sunset pit to the west and the Sunrise pit to the east.

Saleable products from the Ovoot Tolgoi Mine primarily include the Standard and Premium semi-soft coking coal products. The Company's raw semi-soft products together with raw higher-ash content coals are suitable for washing and blending in order to be sold as a 1/3 coking coal in the Chinese market. Some higher-ash content product is sold as a thermal coal product as and when the market allows. The Company intends to continue to develop markets for both its Premium and Standard semi-soft coking coal brands and to pursue long-term supply offtake with end users in China to complement its existing customer base and to gain best value for the Company's coal in the Chinese market. The Company is committed to further enhancing the quality of its coal products through wet washing and increasing its market penetration in China.

Mining Operations

Mining Method

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

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

Transportation Infrastructure

On April 26, 2018, the Board of RDCC LLC increased the toll rate from MNT 1,200 per tonne of coal to MNT 1,500, effective from June 1, 2018.

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

For the three and nine months ended September 30, 2018, RDCC LLC recognized toll fee revenue of $1.3 million (2017: $1.2 million) and $5.4 million (2017: $4.3 million), respectively.

Mining Equipment

The key elements of the currently commissioned mining fleet includes: two Liebherr 996 ($33m^3$ & $36m^3$) hydraulic excavators, three Liebherr R9250 ($15m^3$) hydraulic excavators and 23 MT4400AC (218 tonne capacity) haul trucks, together with various pieces of ancillary equipment.

Workforce

As at September 30, 2018, SGS employed 432 employees in Mongolia. Of the 432 employees, 34 are employed in the Ulaanbaatar office, 2 in an outlying office and 396 at the Ovoot Tolgoi Mine site. Of the 432 employees based in Mongolia, 402 (93%) are Mongolian nationals and of those, 212 (49%) are residents of the local Gurvantes, Dalanzadgad, Sevrei and Noyon Soums.

5. LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Capital Management

The Company has in place a planning, budgeting and forecasting process to help determine the funds required to support the Company's normal operations on an ongoing basis and its expansionary plans.

Turquoise Hill Loan Facility

On May 25, 2014, the Company announced it obtained the TRQ Loan in the form of a $10 million revolving credit facility to meet its short term working capital requirements. The terms and conditions of this facility were filed on SEDAR (www.sedar.com) on June 2, 2014. The key commercial terms of the facility were: an original maturity date of August 30, 2014 (subsequently extended as described below); an interest rate of one month US dollar LIBOR Rate in effect plus 11% per annum; a commitment fee of 35% of interest rate payable quarterly in arrears on undrawn principal amount of facility and a front end fee of $0.1 million.

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

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

- The Company agreed to effect monthly repayments on the last business day of each month in an amount of (i) $0.1 million per month from August 2018 to September 2018; (ii) $0.2 million per month from October 2018 to January 2019; and (iii) the remaining balance on February 28, 2019 (the payments in (i), (ii) and (iii), the "Repayments"); and
- Interest shall continue to accrue on all outstanding obligations at the 12-month US dollar LIBOR rate.

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

As at September 30, 2018, the outstanding principal and accrued interest under this facility amounted to $0.4 million and $0.7 million, respectively (December 31, 2017: the outstanding principal and accrued interest under this facility amounted to $1.0 million and $0.7 million, respectively). A fair value gain of $0.1 million was credited to accumulated deficit upon the adoption of IFRS 9 starting from January 1, 2018.

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

Equipment Loan

IMSGE executed a $10.4 million 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 $10.4 million;
- Maturity date set at 12 months from each drawdown (subsequently amended);
- Interest rate of 12% per annum and payable upon maturity; and
- The Company was to have provided a corporate guarantee to cover the principal and interest owed and certain items of property, plant and equipment were to have been pledged as security upon the completion of equipment purchase.

On July 9, 2018, the Company and JRTC entered into a supplementary agreement (the "July 2018 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) $0.5 million on July 9, 2018; (ii) $0.7 million on August 3, 2018 and (iii) $1.4 million 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 three and nine months ended September 30, 2018, $0.1 million and $0.1 million of loan arrangement fee was amortized, respectively (2017: nil). 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 of the MD&A.

As at September 30, 2018, the outstanding principal for the Equipment Loan amounted to $1.3 million (December 31, 2017: $ 2.3 million) and the Company owed accrued interest of $0.1 million (December 31, 2017: $0.1 million).

As of the date of this MD&A, the Company has not made the payment due on November 3, 2018 under the July 2018 Supplementary Agreement. Pursuant to the terms of the Equipment Loan and the July 2018 Supplementary Agreement, the Company is, as of the date of this MD&A, 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.

Bank Loan

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

On July 6, 2017, 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 $3.0 million;
- $2.3 million of the principal amount matured on May 6, 2018 while the remaining balance of the principal amount of $0.7 million will mature on January 4, 2019;
- Interest rate of 15.8% per annum applies to the $2.3 million portion of the principal amount, while an interest rate of 15.0% per annum applies to the remaining $0.7 million portion of the principal amount; in each case, interest is payable monthly; and
- Certain items of property, plant and equipment were pledged as security (subsequently released upon repayment of loan principal of $2.3 million).

$2.3 million 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 $2.8 million;
- Maturity date set at 24 months from drawdown;
- Interest rate of 15% per annum and interest is payable monthly; and
- Certain items of property, plant and equipment were pledged as security for both the Bank Loan and the 2018 Bank Loan. As at September 30, 2018, the net book value of the pledged items of property, plant and equipment was $4.0 million (December 31, 2017: $4.5 million).

As at September 30, 2018, the outstanding balance for the Bank Loan together with the 2018 Bank Loan was $3.5 million (December 31, 2017: $3.0 million) and the Company owed accrued interest of $0.1 million (December 31, 2017: $0.1 million).

Costs reimbursable to Turquoise Hill

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

As at September 30, 2018, the amount of reimbursable costs and fees claimed by Turquoise Hill (the "TRQ Reimbursable Amount") amounted to $8.0 million (such amount is included in the aging profile of trade and other payables set out below). On October 12, 2016, the Company received a letter from Turquoise Hill, which proposed an arrangement for regular payments of the outstanding TRQ Reimbursable Amount. As of the date of this MD&A, the Company has received no indication from Turquoise Hill of any intention to demand payment of the TRQ Reimbursable Amount.

Going concern considerations

The Company's condensed consolidated interim financial statements have been prepared on a going concern basis which assumes that the Company will continue operating until at least 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 $199.7 million as at September 30, 2018 compared to $166.3 million of working capital deficiency as at December 31, 2017. Included in the working capital deficiency at September 30, 2018 are significant obligations, which include the obligation to pay CIC under the June 2017 Deferral Agreement in which the Company was required to pay $9.7 million of cash interest and associated costs on November 19, 2017. Pursuant to the terms of CIC Convertible Debenture, the Company was required to pay $8.1 million and $7.9 million of anniversary cash interest on November 19, 2017 and May 19, 2018, respectively. Pursuant to the CIC Convertible Debenture, the Company will also be required to pay $8.1 million of cash interest to CIC on November 19, 2018. As of the date of this MD&A, the Company expects that it will be unable to pay the November 2018 Payment to CIC on the due date.

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.

Pursuant to the Arbitration Award, SGS has been ordered to repay the sum of $11.5 million 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 $11.5 million and the associated interest. In such case, this will represent an 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 $11.5 million 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 $1.1 million undiscounted balance of the TRQ Loan; and the principal amount of Equipment Loan of $1.3 million; and $17.7 million of unpaid taxes payable by SGS to the Mongolian government.

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

	As at	
$ in thousands	**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

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

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

As at November 13, 2018, the Company had $5.4 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 September 30, 2018, CIC owned, through its indirect wholly owned subsidiary, approximately 23.8% of the issued and outstanding Common Shares of the Company.

On June 12, 2017, the Company executed the June 2017 Deferral Agreement with CIC for a revised repayment schedule on the May 2017 Interest Payable. The key repayment terms of the June 2017 Deferral Agreement are: (i) the Company was required to repay on average $2.2 million of the cash interest and associated costs monthly during the period from May 2017 to October 2017; and (ii) the Company was required to repay $9.7 million of cash interest and associated costs on November 19, 2017. 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 payment under the terms of the June 2017 Deferral Agreement is fully repaid, the Company is required to consult with and obtain written consent from CIC prior to effecting a replacement or termination of either or both of its Chief Executive Officer and its Chief Financial Officer, otherwise this will constitute an event of default under the CIC Convertible Debenture, but CIC shall not withhold its consent if the Board proposes to replace either or both such officers with nominees selected by the Board, provided that the Board acted honestly and in good faith with a view to the best interests of the Company in the selection of the applicable replacements.

In addition, pursuant to the terms of the CIC Convertible Debenture, the Company was required to pay $8.1 million and $7.9 million 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 $4.0 million worth of November 2017 PIK Interest shares to CIC on November 19, 2017. The Company will also be required to pay $8.1 million of cash interest to CIC and issue $4.0 million worth of PIK interest shares on November 19, 2018. As of the date of this MD&A, the Company expects that it will be unable to pay the November 2018 Payment to CIC on the due date.

As of the date of this MD&A, 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 under the CIC Convertible Debenture; and (ii) has not agreed upon a repayment plan for such amounts with CIC. Consequently, the Company is in default under the CIC Convertible Debenture and the June 2017 Deferral Agreement. Pursuant to the terms of the CIC Convertible Debenture and the June 2017 Deferral Agreement, CIC may, at its discretion, provide notice to the Company and declare all principal, interest and other amounts owing under the CIC Convertible Debenture and the June 2017 Deferral Agreement immediately due and payable, and take steps to enforce payment thereof, which would have a material adverse effect on the business and operations of the Company and may negatively affect the price and volatility of the Common Shares and any investment in such shares could suffer a significant decline or total loss in value. As of the date of this MD&A, 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.

CIC has notified the Company that, as a condition for agreeing to any deferral, 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.

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.

Commercial Arbitration in Hong Kong

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

On January 10, 2018, the Company received a confidential partial award ("Arbitration Award") with respect to the commercial arbitration. Pursuant to the Arbitration Award, SGS has been 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 which have been reserved for a future award. As at September 30, 2018, the Company has recorded a provision of $14.6 million for the commercial arbitration (December 31, 2017: $13.9 million).

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.

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. 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 $11.5 million and the associated interest. In such case, this will represent an 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 $11.5 million and associated interest to First Concept could result in voluntary or involuntary proceedings involving the Company (including bankruptcy).

Cash Flow Highlights

	Nine months ended September 30,	
$ in thousands	**2018**	**2017**
Cash generated from operating activities	**$ 26,187**	$ 12,208
Cash used in investing activities	**(25,355)**	(9,603)
Cash used in financing activities	**(1,349)**	(1,459)
Effect of foreign exchange rate changes on cash	**338**	50
Increase/(decrease) in cash for the period	**(179)**	1,196
Cash balance, beginning of period	**6,471**	966
Cash balance, end of period	**$ 6,292**	$ 2,162

Cash generated from Operating Activities

The Company generated $26.2 million of cash in operating activities in the first nine months of 2018 compared to $12.2 million in the first nine months of 2017. This is primarily due to the increase in revenues during the period.

Cash used in Investing Activities

The Company used $25.4 million of cash during the first nine months of 2018 in investing activities compared to $9.6 million during the first nine months of 2017. In the first nine months of 2018, expenditures on property, plant and equipment totaled $27.4 million (2017: $11.2 million) and $1.7 million of dividend income was collected from RDCC LLC (2017: $1.6 million).

Cash used in Financing Activities

Cash used in financing activities was $1.3 million in the first nine months of 2018, which was principally attributable to the net repayment of interest bearing loans (2017: $1.5 million).

Contractual Obligations and Guarantees

Day-to-day mining, expansionary and sustaining capital expenditures as well as administrative operations give rise to commitments for future minimum payments. As at September 30, 2018, the Company's operating and capital commitments were:

	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**

Pursuant to an Investment and Collaboration Agreement dated April 2, 2016, the Company contracted with a third party contractor to construct and operate a wash plant at the Ovoot Tolgoi mine site. Under the terms of this Investment and Collaboration Agreement, the third party contractor was responsible for all capital costs related to the construction of the wash plant facility and operating the wash plant facility during the initial term of the agreement in return for the Company paying the third party contractor a fixed tolling fee for each ton of coal that was washed through the wash plant. The parties agreed to terminate the Investment and Collaboration Agreement on October 8, 2017, and are currently in discussions regarding terms for a new agreement. There can be no assurance, however, that a favorable outcome will be reached.

Ovoot Tolgoi Mine Impairment Analysis

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 and washing assumptions, 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 $66.4 million 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 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.

Financial Instruments

The fair value of financial assets and financial liabilities at amortized cost is determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions. The fair value of all the financial instruments of the Company approximates their carrying value because of the demand nature or short-term maturity of these instruments, except for the fair values of trade and other payables, interest bearing borrowings, and provision for commercial arbitration and convertible debenture below their respective carrying amounts given the current financial condition of the Company as described under Section 5 of this MD&A under the heading entitled "*Liquidity and Capital Management".*

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

The fair value of the notes receivables is determined based on the corporate bond yield of the bonds issued by the group companies of the notes issuing company.

$ in thousands **Financial assets**	**As at September 30, 2018**	**As at December 31, 2017**
Fair value through profit or loss		
Notes receivables	**$ 1,195**	$ 12,520
Loans and receivables		
Cash	**6,292**	6,471
Trade and other receivables	**5,429**	16,486
Total financial assets	**$ 12,916**	$ 35,477

$ in thousands **Financial liabilities**		As at September 30, 2018		As at December 31, 2017
Fair value through profit or loss				
Convertible debenture - embedded derivatives	**$**	**254**	$	402
Other financial liabilities				
Trade and other payables		**80,342**		79,219
Interest-bearing borrowings		**6,034**		7,693
Convertible debenture - debt host		**133,737**		115,972
Total financial liabilities	**$**	**220,367**	$	203,286

The net loss in the first three and nine months of 2018 and 2017 included the following amounts of unrealized gain/loss from the fair value adjustments to the embedded derivatives of the CIC Convertible Debenture which is classified as FVTPL:

$ in thousands	Three months ended September 30, 2018		Three months ended September 30, 2017		Nine months ended September 30, 2018		Nine months ended September 30, 2017	
Unrealized gain/(loss) on embedded derivatives in CIC Convertible Debenture	**$**	**90**	$	135	**$**	**148**	$	(2)

6. REGULATORY ISSUES AND CONTINGENCIES

Class Action Lawsuit

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

To commence and proceed with the Class Action, the plaintiff was required to bring a preliminary leave motion and to certify the Class Action as a class proceeding (the "Leave Motion"). The Ontario Court rendered its decision on the Leave Motion on November 5, 2015 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.

Toll Wash Plant Agreement with Ejin Jinda

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

Under the original agreement with Ejin Jinda, which required the commercial operation of the wet washing facility to commence on October 1, 2011, the additional fees payable by the Company under the wet washing contract would have been $18.5 million. At each reporting date, the Company assesses the agreement with Ejin Jinda and has determined it is not probable that these $18.5 million will be required to be paid. Accordingly, the Company has determined a provision for this matter at September 30, 2018 is not required.

Special Needs Territory in Umnugobi

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

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

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

Notice of Legal Proceedings from a Former Customer

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

According to the Summons, Xiyuan has applied to the Ejinaqi Court claiming that IMSGE should repay a sum of RMB 19.4 million (approximately $2.8 million) to Xiyuan, comprised of RMB 19.1 million of coal prepayments and RMB 0.3 million of interest. Xiyuan also claimed 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.

Due to the complexity and monetary amount involved, the court hearing regarding this matter previously scheduled on October 10, 2018 was delayed and will be rescheduled for a future date.

The Company firmly believes that it has a strong defense on the merits and has retained independent Chinese litigation counsel to vigorously defend itself against these claims. However, due to the inherent uncertainties of litigation, it is not possible to predict whether IMSGE will be successful in defending itself in these proceedings. Accordingly, the Company has determined a provision for this matter at September 30, 2018 is not required.

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 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.

7. OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of Common Shares without par value and an unlimited number of preferred shares without par value. As at November 13, 2018, approximately 272.7 million Common Shares were issued and outstanding. There are also incentive share options outstanding to acquire approximately 4.7 million unissued Common Shares with exercise prices ranging from CAD$0.13 to CAD$0.92. There are no preferred shares outstanding.

As at November 13, 2018, CIC holds a total of approximately 64.8 million Common Shares representing approximately 23.8% of the issued and outstanding Common Shares.

As at November 13, 2018, Novel Sunrise holds a total of approximately 46.4 million Common Shares representing approximately 17.0% of the issued and outstanding Common Shares.

As at November 13, 2018, Voyage Wisdom Limited holds a total of approximately 25.8 million Common Shares representing approximately 9.5% of the issued and outstanding Common Shares.

8. DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING ("ICFR")

There has been no significant change in the Company's internal controls over financial reporting that occurred during the most recently completed quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

9. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with IFRS requires the Company to establish accounting policies and to make estimates and judgments that affect both the amount and timing of the recording of assets, liabilities, revenues and expenses.

A detailed summary of all of the Company's significant accounting policies is included in Note 3 to the Company's consolidated financial statements for the year ended December 31, 2017.

The following new IASB standards were adopted by the Company on January 1, 2018, refer to Section 9 of the MD&A for the quarter ended March 31, 2018 for details, which is available under the Company's profile on SEDAR at www.sedar.com.

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers

Refer to Note 2.4 of the Company's condensed consolidated interim financial statements of the quarter ended September 30, 2018 for information regarding the accounting judgments and estimates.

10. RISK FACTORS

There are certain risks involved in and related to the Company's operations, some of which are beyond its control. Material risks and uncertainties affecting the Company, their potential impact on the Company's operations and the Company's principal risk management strategies are, except as updated by this MD&A, substantially unchanged from those disclosed in the Company's most recently filed Annual Information Form for the year ended December 31, 2017, which is available under the Company's profile on SEDAR at www.sedar.com.

11. OUTLOOK

With the implementation of the "One Belt, One Road" program in China, the Company is well positioned to capture the resulting business opportunities between the two countries given the potential strategic support from its largest shareholders (CIC and Cinda), which are both state-owned-enterprises in China, and its strong operational record for the past ten years in Mongolia, being one of the largest enterprises in the country.

After commencing operations of the Company's wash plant facilities in October 2018, the Company is in the process of making improvements to the wash plant in order to enhance the operation efficiency as well as the output value. The Company expects to produce and sell higher volumes of higher-quality coal products to the Chinese market at improved margins going forward, beginning in the fourth quarter of 2018. The Company will continue to strive for revenue growth by expanding its customer base further inland into China.

Looking forward, the Company remains cautiously optimistic regarding the Chinese coal market.

The Company continues to make efforts to strengthen cost management to ensure operating efficiency.

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

- **Bridge between Mongolia and China** – The Company is well positioned to capture the resulting business opportunities between the two countries given the potential strategic support from its largest shareholders (CIC and Cinda), which are both state-owned-enterprises in China, and its strong operational record for the past ten years in Mongolia, being one of the largest enterprises in the country.

- **Strategic location** – The Ovoot Tolgoi Mine is located approximately 40km from China, which represents the Company's main coal market. The Company has an infrastructure advantage, being approximately 50km from a major Chinese coal distribution terminal with rail connections to key coal markets in China.
- **A large resources and reserves base** – As a result of work performed by DMCL for the Ovoot Tolgoi Deposit, the Company's aggregate coal resources include measured and indicated mineral resources of 194.6 million tonnes and inferred resources of 32.1 million tonnes while 114.1 million tonnes were declared as mineral reserves.

- **Several growth options** – The Company has several growth options including the Soumber Deposit and Zag Suuj Deposit, located approximately 20km east and approximately 150km east of the Ovoot Tolgoi Mine, respectively.

Objectives

The Company's objectives for 2018 and the medium term are as follows:

- **Enhance product mix** – The Company is committed to enhancing the product quality by enhancing the operation efficiency as well as the output value of the new wash plant which would enable the processing of lower grade coal into higher margin products on a larger scale.

- **Expand customer base** – The Company aims to strengthen its sales and logistics capabilities to expand the customer base further inland in China.

- **Optimize cost structure** – The Company is focused on further cost reduction by improving productivity and operational efficiency with the engagement of third party contract mining companies while maintaining product quality and the sustainability of production.

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

- **Operate in a socially responsible manner** – The Company is focused on maintaining the highest standards in health, safety and environmental performance.

November 13, 2018