SouthGobi Resources Ltd.
Condensed Consolidated Interim Financial Statements

March 31, 2019
(Expressed in U.S. Dollars)
(Unaudited)

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SOUTHGOBI RESOURCES LTD.

Condensed Consolidated Interim Statement of Comprehensive Income

(Unaudited)

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

	Notes	Three months ended March 31, 2019	Three months ended March 31, 2018 (Restated)
Revenue	4	**$ 36,811**	$ 24,435
Cost of sales	6	**(23,405)**	(17,719)
Gross profit		**13,406**	6,716
Other operating expenses	7	**(414)**	(757)
Administration expenses		**(3,109)**	(2,377)
Evaluation and exploration expenses		**(25)**	(124)
Profit from operations		**9,858**	3,458
Finance costs	8	**(6,739)**	(6,006)
Finance income	8	**17**	100
Share of earnings of a joint venture	14	**452**	340
Profit/(loss) before tax		**3,588**	(2,108)
Current income tax expense	9	**(1,439)**	(929)
Net profit/(loss) attributable to equity holders of the Company		**2,149**	(3,037)
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Exchange differences on translation of foreign operation		**73**	(3,328)
Net comprehensive income/(loss) attributable to equity holders of the Company		**$ 2,222**	$ (6,365)
Basic and diluted earnings/(loss) per share		**$ 0.01**	$ (0.01)

SOUTHGOBI RESOURCES LTD.

Condensed Consolidated Interim Statement of Financial Position

(Unaudited)

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

	Notes	As at March 31, 2019	As at December 31, 2018
Assets			
Current assets			
Cash and cash equivalents		**$ 8,854**	$ 6,959
Restricted cash		**894**	872
Trade and other receivables	11	**4,848**	5,046
Notes receivables		**998**	2,500
Inventories	12	**48,028**	47,109
Prepaid expenses and deposits		**3,106**	3,295
Total current assets		**66,728**	65,781
Non-current assets			
Property, plant and equipment	13	**$ 141,192**	$ 138,901
Properties for resale		**4,110**	4,093
Investments in joint ventures	14	**18,833**	18,831
Total non-current assets		**164,135**	161,825
Total assets		**$ 230,863**	$ 227,606
Equity and liabilities			
Current liabilities			
Trade and other payables	15	**$ 96,810**	$ 99,576
Deferred revenue		**13,015**	12,658
Provision for commercial arbitration	16	**10,642**	12,508
Interest-bearing borrowings	17	**2,921**	4,138
Lease liabilities	18	**645**	83
Convertible debenture	19	**145,599**	139,901
Total current liabilities		**269,632**	268,864
Non-current liabilities			
Lease liabilities	18	**420**	30
Decommissioning liability		**6,912**	6,852
Total non-current liabilities		**7,332**	6,882
Total liabilities		**276,964**	275,746
Equity			
Common shares	20	**1,098,634**	1,098,634
Share option reserve		**52,556**	52,542
Capital reserve		**396**	396
Exchange reserve		**(18,026)**	(18,099)
Accumulated deficit	20	**(1,179,661)**	(1,181,613)
Total deficiency in assets		**(46,101)**	(48,140)
Total equity and liabilities		**$ 230,863**	$ 227,606
Net current liabilities		**$ (202,904)**	$ (203,083)
Total assets less current liabilities		**$ (38,769)**	$ (41,258)

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

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

APPROVED BY THE BOARD:

"Mao Sun"
Director

"Shougao Wang"
Director

SOUTHGOBI RESOURCES LTD.

Condensed Consolidated Interim Statement of Changes in Equity

(Unaudited)

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

	Number of shares/units	Share capital	Share option reserve	Capital reserve	Exchange fluctuation reserve	Accumulated deficit	Total
Restated balances, January 1, 2018	272,607	$ 1,098,623	$ 52,463	$ -	$ (5,079)	$ (1,138,179)	$ 7,828
Change in accounting policy due to IFRS 9	-	-	-	-	-	(1,913)	(1,913)
Restated balances, January 1, 2018	272,607	$ 1,098,623	$ 52,463	$ -	$ (5,079)	$ (1,140,092)	$ 5,915
Shares issued for:							
Employee share purchase plan	17	2	-	-	-	-	2
Share-based compensation charged to operations	-	-	16	-	-	-	16
Net loss for the period	-	-	-	-	-	(3,037)	(3,037)
Exchange differences on translation of foreign operations	-	-	-	-	(3,328)	-	(3,328)
Restated balances, March 31, 2018	272,624	$ 1,098,625	$ 52,479	$ -	$ (8,407)	$ (1,143,129)	$ (432)
Balances, January 1, 2019	**272,703**	**$ 1,098,634**	**$ 52,542**	**$ 396**	**$ (18,099)**	**$ (1,181,613)**	**$ (48,140)**
Change in accounting policy due to IFRS 16	**-**	**-**	**-**	**-**	**-**	**(197)**	**(197)**
Restated balances, January 1, 2019	**272,703**	**$ 1,098,634**	**$ 52,542**	**$ 396**	**$ (18,099)**	**$ (1,181,810)**	**$ (48,337)**
Share-based compensation charged to operations	**-**	**-**	**14**	**-**	**-**	**-**	**14**
Net profit for the period	**-**	**-**	**-**	**-**	**-**	**2,149**	**2,149**
Exchange differences on translation of foreign operations	**-**	**-**	**-**	**-**	**73**	**-**	**73**
Balances, March 31, 2019	**272,703**	**$ 1,098,634**	**$ 52,556**	**$ 396**	**$ (18,026)**	**$ (1,179,661)**	**$ (46,101)**

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

SOUTHGOBI RESOURCES LTD.

Condensed Consolidated Interim Statement of Cash Flows

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

	Notes	Three months ended March 31, 2019	Three months ended March 31, 2018 (Restated)
Operating activities			
Profit/(loss) before tax		**$ 3,588**	$ (2,108)
Adjustments for:			
Depreciation and depletion		**4,854**	4,645
Share-based compensation	21	**14**	16
Interest expense on convertible debenture	8	**5,697**	5,294
Interest expense on borrowings	8	**178**	637
Finance cost on leased assets	8	**43**	16
Loan arrangement fee	8	**-**	13
Accretion of decommissioning liability	8	**22**	46
Unrealized loss/(gain) on embedded derivatives in convertible debenture	8	**1**	(90)
Finance income	8	**(17)**	(10)
Share of earnings of a joint venture	14	**(452)**	(340)
Interest paid		**(655)**	(591)
Income tax paid		**(53)**	(131)
Unrealized foreign exchange loss		**(529)**	-
Loss on disposal of property, plant and equipment	7	**-**	67
Penalty on late settlement of trade payables	7	**-**	104
Provision for commercial arbitration	16	**134**	224
Provision for doubtful trade and other receivables	11	**51**	522
Impairment of coal stockpile inventories	12	**3,466**	-
Operating cash flows before changes in non-cash working capital items		**16,342**	8,314
Net change in non-cash working capital items	24	**(1,760)**	4,108
Cash generated from operating activities		**14,582**	12,422
Investing activities			
Expenditures on property, plant and equipment		**(5,991)**	(7,898)
Proceeds from disposal of property, plant and equipment		**-**	320
Interest received		**17**	10
Dividend from a joint venture	14	**530**	488
Cash used in investing activities		**(5,444)**	(7,080)
Financing activities			
Proceeds from issuance of common shares, net of issue costs		**-**	2
Repayment of interest-bearing loans		**(700)**	(200)
Principal elements of lease payments		**(154)**	(323)
Refund of customers' deposits		**(6,160)**	-
Cash used in financing activities		**(7,014)**	(521)
Effect of foreign exchange rate changes on cash		**(229)**	(27)
Increase in cash		**1,895**	4,794
Cash and cash equivalents, beginning of period		**6,959**	6,471
Cash and cash equivalents, end of period		**$ 8,854**	$ 11,265

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

1. CORPORATE INFORMATION AND GOING CONCERN

SouthGobi Resources Ltd. is a publicly listed company incorporated in Canada with limited liability under the legislation of the Province of British Columbia and its shares are listed on the Toronto Stock Exchange (Symbol: SGQ) and Hong Kong Stock Exchange (Symbol: 1878). The company, together with its subsidiaries (collectively referred to as the "Company"), is an integrated coal mining, development and exploration company. At March 31, 2019, to the Company's best knowledge, Land Breeze II S.a.r.l., a wholly-owned subsidiary of China Investment Corporation ("CIC") owned approximately 23.8% of the outstanding common shares of the Company. Novel Sunrise Investments Limited ("Novel Sunrise"), a wholly-owned subsidiary of China Cinda (HK) Investments Management Company Limited ("Cinda") and Voyage Wisdom Limited each owned approximately 17.0% and 9.5% of the outstanding common shares of the Company, respectively.

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

The registered and records office of the Company is located at 20th Floor, 250 Howe Street, Vancouver, British Columbia, Canada, V6C 2G8. The principal place of business of the Company is located at Unit 1208-10, Tower One, 193 Prince Edward Road West, Grand Century Place, Mongkok, Kowloon, Hong Kong.

Going concern assumption

The Company's condensed consolidated interim financial statements have been prepared on a going concern basis which assumes that the Company will continue operating until at least March 31, 2020 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. However, in order to continue as a going concern, the Company must generate sufficient operating cash flows, secure additional capital or otherwise pursue a strategic restructuring, refinancing or other transactions to provide it with additional liquidity.

Several adverse conditions and material uncertainties cast significant doubt upon the going concern assumption. The Company had a deficiency in assets of $46,101 as at March 31, 2019 compared to a deficiency in assets of $48,140 as at December 31, 2018 while the working capital deficiency (excess current liabilities over current assets) reached $202,924 as at March 31, 2019 compared to a working capital deficiency of $203,083 as at December 31, 2018. Included in the working capital deficiency as at March 31, 2019 are significant obligations, which include the obligation to pay CIC under the deferral agreement dated June 12, 2017 (the "June 2017 Deferral Agreement") in which the Company was required to pay $9,731 of cash interest and associated costs on November 19, 2017. Pursuant to the terms of CIC Convertible Debenture, the Company was required to: (i) pay $8,066, $7,934 and $8,066 of anniversary cash interest on November 19, 2017, May 19, 2018 and November 19, 2018, respectively; and (ii) issue to CIC $4,000 worth of payment in kind interest shares on November 19, 2017 and $4,000 worth of payment in kind interest shares ("PIK Interest") on November 19, 2018, respectively.

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

1. CORPORATE INFORMATION AND GOING CONCERN (CONTINUED)

On April 23, 2019, the Company executed a deferral agreement (the "2019 Deferral Agreement") with CIC in relation to a deferral and revised repayment schedule in respect of (i) $41,797 of outstanding cash and PIK Interest and associated costs due and payable to CIC on November 19, 2018 (the "Outstanding Interest Payable") under the CIC Convertible Debenture and the June 2017 Deferral Agreement; and (ii) the cash and PIK Interest payments payable to CIC under the CIC Convertible Debenture from April 23, 2019 to and including May 19, 2020 (the "Deferral"). The effectiveness of the 2019 Deferral Agreement and the respective covenants, agreements and obligations of each party under the 2019 Deferral Agreement are subject to the Company obtaining the requisite approval from shareholders of the Company at the Company's upcoming annual and special meeting of shareholders (the "Meeting") to be held on May 30, 2019. Until such time as the 2019 Deferral Agreement becomes effective, the principal amount outstanding and all accrued and unpaid interest and other amounts owing under the CIC Convertible Debenture and the June 2017 Deferral Agreement would immediately become due and payable in the event that CIC provides notice to the Company.

The Company also has other current liabilities, which require settlement in the short-term, including the $10,642 balance owing to First Concept Industrial Group Limited ("First Concept") pursuant to a deed of settlement (the "Settlement Deed") dated November 14, 2018 and $26,091 of unpaid taxes payable by SouthGobi Sands LLC ("SGS"), a subsidiary of the Company, 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 as at March 31, 2019 as compared to that as at December 31, 2018, is as follows:

	As at	
	March 31, 2019	**December 31, 2018**
Less than 1 month	**$ 28,773**	$ 34,927
1 to 3 months	**13,345**	16,336
3 to 6 months	**20,409**	5,446
Over 6 months	**34,283**	42,867
Total trade and other payables	**$ 96,810**	$ 99,576

The Company may not be able to settle all trade and other payables on a timely basis, and as a result continuing postponement in settling the trade and other payables may impact the mining operations of the Company and may result in potential lawsuits and/or bankruptcy proceedings being filed against the Company. Except as disclosed elsewhere in this consolidated financial statement, no such lawsuits or proceedings are pending as at May 14, 2019.

In 2016, the Company started its program to build a coal washing plant to upgrade the low quality fractions of its run-of-mine coals to higher value and higher margin products. The construction of the wash plant at the Ovoot Tolgoi mine was completed, and commissioning was started in October 2018. As of the date hereof, the wash plant commissioning process remains in progress. The Company is currently in discussions with the wash plant operator concerning an agreement regarding the operation of the wash plant; however, there can be no assurance that a favorable outcome will be reached.

1. CORPORATE INFORMATION AND GOING CONCERN (CONTINUED)

The current operation plan contemplates significantly higher volumes of production in order to achieve the Company's revenue and cash flow targets. Such plans will require a significant level of capital expenditure in waste rock stripping in 2019 and 2020. Such expenditures and other working capital requirements may require the Company to seek additional financing. There is no guarantee that the Company will be able to successfully execute the programs mentioned above and to secure other sources of financing. In addition, the current import restrictions on F-grade coal by Chinese authorities will further affect the short term cash inflow and may in turn undermine the execution of the operation plan. If the import restrictions on F-grade coal continue for an indefinite period, or if the Company fails to execute the aforementioned programs, or is unable to secure additional capital financing, or otherwise restructure or refinance its business in order to address its cash requirements through March 31, 2020, then the Company is unlikely to have sufficient cash flows from mining operations in order to satisfy its current ongoing obligations and future contractual commitments. This could result in adjustments to the amounts and classifications of assets and liabilities in the Company's consolidated financial statements and such adjustments could be material.

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

As of the date hereof, the Company is in default under the CIC Convertible Debenture, the June 2017 Deferral Agreement and the Turquoise Hill Resources Limited ("Turquoise Hill") loan ("TRQ Loan"). Pursuant to the terms of the CIC Convertible Debenture and the June 2017 Deferral Agreement, CIC may, at its discretion, provide notice to the Company and declare all principal, interest and other amounts owing under the CIC Convertible Debenture and the June 2017 Deferral Agreement immediately due and payable, and take steps to enforce payment thereof. Pursuant to the terms of the TRQ Loan and the August 2018 Deferral Agreement, all of the outstanding obligations under the TRQ Loan are immediately due and payable to Turquoise Hill as of the date hereof. If the 2019 Deferral Agreement is not approved by shareholders at the Meeting and CIC takes steps to enforce payment under the CIC Convertible Debenture and the June 2017 Deferral Agreement, this would have a material adverse effect on the business and operations of the Company and may negatively affect the price and volatility of the Common Shares and any investment in such shares could suffer a significant decline or total loss in value. As of the date hereof, the Company has: (i) received no indication from CIC of any intention to deliver a notice of default under the CIC Convertible Debenture and the June 2017 Deferral Agreement or to accelerate the payment of amounts outstanding under the CIC Convertible Debenture and the June 2017 Deferral Agreement; and (ii) has received no indication from Turquoise Hill of any intention to deliver a notice of default under the TRQ Loan.

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

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

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

The condensed consolidated interim financial statements of the Company for the three months ended March 31, 2019 were approved and authorized for issue by the Board of Directors of the Company on May 14, 2019.

2.2 Basis of presentation

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

2.3 Adoption of new and revised standards and interpretations

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

IFRS 16	Leases(i)

(i) Effective for annual periods beginning on or after January 1, 2019

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

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

<u>Adjustments recognized on adoption of IFRS 16</u>

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

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

2. BASIS OF PREPARATION (CONTINUED)

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

Operating lease commitments disclosed as at December 31, 2018	$	1,393
Discounted using the lessee's incremental borrowing rate of at the date of initial application	$	1,118
Add: finance lease liabilities recognized as at December 31, 2018		113
Less: short-term leases recognized on a straight-line basis as expense		(20)
Lease liability recognized as at January 1, 2019	**$**	**1,211**
Of which are:		
Current lease liabilities	$	631
Non-current lease liabilities		580
	$	1,211

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

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

	As at			
	March 31, 2019		**January 1, 2019**	
Buildings	**$**	**1,020**	$	1,159
Total right-of-use assets	**$**	**1,020**	$	1,159

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

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

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

2. BASIS OF PREPARATION (CONTINUED)

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

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

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

<u>The Company's leasing activities and how these are accounted for</u>

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

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

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

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

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

2. BASIS OF PREPARATION (CONTINUED)

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

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

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

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

2.4 Restatement of previously issued financial statements

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

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

On December 17, 2018, the Company announced that it had learned of certain information relating to past conduct engaged in by former senior executive officers and employees of the Company ("Former Management and Employees") which raised suspicions of serious fraud, misappropriation of Company assets and other criminal acts by the Former Management and Employees relating to prior transactions ("Suspicious Transactions") between 2016 and the first half of 2018 involving the Company, Inner Mongolia SouthGobi Energy Limited, a subsidiary of the Company, and certain coal trading and transportation companies, some of which are allegedly related to or controlled by the Former Management and Employees or their related persons. The Company filed a report with local police authorities in China in respect of certain of the Suspicious Transactions and, on December 17, 2018, the Board expanded the mandate of the Special Committee to include a formal investigation (the "Formal Investigation") of the Suspicious Transactions, the implicated Former Management and Employees, and their impact, if any, on the business and affairs of the Company. The Special Committee engaged Blake, Cassels & Graydon LLP as independent Canadian legal counsel, Zhong Lun Law Firm, as independent Chinese legal counsel, and Ernst & Young (China) Advisory Limited, as forensic accountants, to assist in the formal investigation.

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

2. BASIS OF PREPARATION (CONTINUED)

Based on the key findings of and information obtained from the Formal Investigation, the Company considered the resulting financial impact on its prior financial statements and restated certain items in the Company's financial statements for the years ended 2016 and 2017 (the "Prior Restatement"), as disclosed in the Company's audited annual consolidated financial statements and related management's discussion and analysis for the year ended December 31, 2018, copies of which are available under the Company's profile on SEDAR at www.sedar.com. The Prior Restatement reflects the impact of the misappropriation of assets as well as the reclassification of certain balances of assets in the prior years. With respect to the three month period ended March 31, 2018, the net effect of the Prior Restatement was a decrease in the net comprehensive loss of $423 for the period. A summary of the requisite adjustments on the financial statements for the three month period ended March 31, 2018 is set forth in the table below:

Statement of comprehensive income extract	**March 31, 2018**	**Loss decrease/ (increase)**	**March 31, 2018 (Restated)**
Other operating expenses	$ (1,338)	$ 581	**$ (757)**
Finance income	258	(158)	**100**
Net loss attributable to equity holders of the Company	$ (3,460)	$ 423	**$ (3,037)**
Other comprehensive income for the year	(3,328)	-	**(3,328)**
Net comprehensive loss attributable to equity holders of the Company	$ (6,788)	$ 423	**$ (6,365)**

2. BASIS OF PREPARATION (CONTINUED)

2.5 Significant accounting judgments and estimates

Information about judgments and estimates in applying accounting policies that have the most significant effect on the amounts recognized in the Company's consolidated financial statements are included in Note 3.22 to the Company's December 31, 2018 consolidated annual financial statements. The significant accounting judgments and estimates remain substantially unchanged from December 31, 2018.

Liquidity and the going concern assumption

Management made a critical judgement that the Company will be able to continue operating until at least March 31, 2020 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. However, in order to continue as a going concern, the Company must generate sufficient operating cash flows, secure additional capital or otherwise pursue a strategic restructuring, refinancing, or other transactions to provide it with additional liquidity. Refer to Note 1 for details.

As of the date hereof, the Company is in default under the CIC Convertible Debenture, the June 2017 Deferral Agreement and the TRQ Loan. Pursuant to the terms of the CIC Convertible Debenture and June 2017 Deferral Agreement, CIC may, at its discretion, provide notice to the Company and declare all principal, interest and other amounts owing under the CIC Convertible Debenture and the June 2017 Deferral Agreement immediately due and payable, and take steps to enforce payment thereof. Pursuant to the terms of the TRQ Loan and the August 2018 Deferral Agreement, all of the outstanding obligations under the TRQ Loan are immediately due and payable to Turquoise Hill as of the date hereof.

There are no assurances that additional capital can be obtained on favourable terms, if at all. There are also no assurances that the requisite shareholder approval of the 2019 Deferral Agreement will be obtained at the Meeting. In view of these conditions, the ability of the Company to continue as a going concern is dependent upon its ability to generate sufficient operating cash flows, secure additional capital or otherwise pursue a strategic restructuring, refinancing or other transactions to provide it with additional liquidity.

Review of carrying value of assets and impairment charges

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

2. BASIS OF PREPARATION (CONTINUED)

Ovoot Tolgoi Mine cash generating unit

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

Therefore, the Company conducted an impairment test whereby the carrying value of the Company's Ovoot Tolgoi Mine cash generating unit was compared to its "fair value less costs of disposal" ("FVLCTD") using a discounted future cash flow valuation model. The Company's cash flow valuation model takes into consideration the latest available information to the Company, including but not limited to, sales price, sales volumes, washing production, operating cost and life of mine coal production assumptions as at March 31, 2019. The resulting FVLCTD was $155,903 as at March 31, 2019 while the cash generating unit carrying value of the Company's Ovoot Tolgoi Mine was $139,548, resulting in a headroom of $16,355.

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

- Coal resources and reserves as estimated by an independent third party engineering firm;
- Sales price estimates from an independent market consulting firm;
- Forecasted sales volumes in line with production levels as per the updated mine plan;
- Life-of-mine coal production, strip ratio, capital costs and operating costs; and
- A post-tax discount rate of 11% based on an analysis of the market, country and asset specific factors.

Key sensitivities in the valuation model are as follows:

- For each 1% increase/(decrease) in the long term price estimates, the calculated fair value of the cash generating unit increases/(decreases) by approximately $16,891/(16,891);
- For each 1% increase/(decrease) in the post-tax discount rate, the calculated fair value of the cash generating unit (decreases)/increases by approximately $(9,841)/10,864;
- For each 1% increase/(decrease) in the cash mining cost estimates, the calculated fair value of the cash generating unit (decreases)/increases by approximately $(13,289)/13,289; and
- For each 1% increase/(decrease) in Mongolian inflation rate, the calculated fair value of the cash generating unit (decreases)/increases by approximately $(76,830)/66,203.

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 March 31, 2019. A decline of 1% in the long term price estimates, an increase of more than 2% in the post-tax discount rate, an increase of 1% in the cash mining cost estimates or an increase of 1% in Mongolian inflation rate may trigger an impairment charge on the cash generating unit. The Company believes that the estimates and assumptions incorporated in the impairment analysis are reasonable; however, the estimates and assumptions are subject to significant uncertainties and judgments.

Expected credit losses for trade and other receivables

The Company applies the IFRS 9 simplified approach to measuring expected credit losses on its trade receivables and estimates expected credit loss based on the possible default events on its trade and other receivables. The Company has determined that the loss allowance on its trade and other receivables was $21,990 (December 31, 2018: $20,005) as at March 31, 2019.

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

3. SEGMENTED INFORMATION

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

During the three months ended March 31, 2019, the Coal Division had eight active customers with the largest customer accounting for 57% of revenues, the second largest customer accounting for 26% of revenues, the third largest customer accounting for 9% of revenues and the other customers accounting for the remaining 8% of revenues.

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

	Coal Division	Unallocated (i)	Consolidated Total
Segment assets			
As at March 31, 2019	**$ 226,957**	**$ 3,906**	**$ 230,863**
As at December 31, 2018	223,200	4,406	227,606
Segment liabilities			
As at March 31, 2019	**$ 120,324**	**$ 156,640**	**$ 276,964**
As at December 31, 2018	124,229	151,517	275,746
Segment revenues			
For the three months ended March 31, 2019	**$ 36,811**	**$ -**	**$ 36,811**
For the three months ended March 31, 2018	24,435	-	24,435
Segment profit/(loss)			
For the three months ended March 31, 2019	**$ 3,174**	**$ (1,025)**	**$ 2,149**
For the three months ended March 31, 2018 (Restated) (iv)	(1,954)	(1,083)	(3,037)

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

3. SEGMENTED INFORMATION (CONTINUED)

	Coal Division	Unallocated (i)	Consolidated Total
Impairment charge on assets (ii), (iii)			
For the three months ended March 31, 2019	$ 3,517	$ -	$ 3,517
For the three months ended March 31, 2018 (Restated) (iv)	522	-	522
Depreciation and amortization			
For the three months ended March 31, 2019	$ 6,121	$ 126	$ 6,247
For the three months ended March 31, 2018	9,641	25	9,666
Share of earnings of a joint venture			
For the three months ended March 31, 2019	$ 452	$ -	$ 452
For the three months ended March 31, 2018	340	-	340
Finance cost			
For the three months ended March 31, 2019	$ 1,010	$ 5,729	$ 6,739
For the three months ended March 31, 2018	707	5,299	6,006
Finance income			
For the three months ended March 31, 2019	$ 17	$ -	$ 17
For the three months ended March 31, 2018 (Restated) (iv)	10	90	100
Current income tax			
For the three months ended March 31, 2019	$ 1,439	$ -	$ 1,439
For the three months ended March 31, 2018	929	-	929

(i) The unallocated amount contains all amounts associated with the Corporate Division.
(ii) The impairment charges on assets for the three months ended March 31, 2019 relate to trade and other receivables (Note 11) and inventories (note 12).
(iii) The impairment charge on assets for the three months ended March 31, 2018 related to trade and other receivables (Note 11).
(iv) The segment loss, impairment charge on assets and finance income for the three months ended March 31, 2018 have been restated to reflect the impact of the key findings of and information obtained from the Formal Investigation. Refer to Note 2.4 for details.

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

	Mongolia	Hong Kong	China	Consolidated Total
Revenue (i)				
For the three months ended March 31, 2019	$ -	$ -	$ 36,811	$ 36,811
For the three months ended March 31, 2018	-	-	24,435	24,435
Non-current assets				
As at March 31, 2019	$ 162,492	$ 604	$ 1,039	$ 164,135
As at December 31, 2018	161,002	140	683	161,825

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

4. REVENUE

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

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

5. EXPENSES BY NATURE

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

	Three months ended March 31, 2019	Three months ended March 31, 2018 (Restated) (i)
Depreciation	**$ 4,890**	$ 6,419
Auditors' remuneration	**273**	111
Employee benefit expense (including directors' remuneration)		
Wages and salaries	**$ 2,594**	$ 2,489
Equity-settled share option expense (Note 21)	**14**	16
Pension scheme contributions	**307**	275
	$ 2,915	$ 2,780
Lease payments under operating leases	**$ 59**	$ 156
Foreign exchange gain	**(529)**	(779)
Impairment of coal stockpile inventories (Note 12)	**3,466**	-
CIC management fee (Note 23)	**758**	583
Royalties (Note 6)	**2,239**	1,212
Provision for doubtful trade and other receivables (Note 11)	**51**	522
Loss on disposal of property, plant and equipment (Note 13)	**-**	67
Provision for commercial arbitration (Note 16)	**134**	224
Penalty on late settlement with trade payables (Note 7)	**-**	104
Mine operating costs and other	**12,697**	9,578
Total operating expenses	**$ 26,953**	$ 20,977

(i) The figures for the three months ended March 31, 2018 have been restated to reflect the impact of the key findings of and information obtained from the Formal Investigation. Refer to Note 2.4 for details. Royalties has been reclassified from revenue to cost of sales.

6. COST OF SALES

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

	Three months ended March 31, 2019	Three months ended March 31, 2018
Operating expenses	**$ 12,968**	$ 10,132
Share-based compensation expense (Note 21)	**2**	-
Depreciation and depletion	**3,779**	2,841
Royalties	**2,239**	1,212
Impairment of coal stockpile inventories (Note 12)	**3,466**	-
Cost of sales from mine operations	**22,454**	14,185
Cost of sales related to idled mine assets (i)	**951**	3,534
Cost of sales	**$ 23,405**	$ 17,719

Cost of inventories recognized as expense in cost of sales for the three months ended March 31, 2019 totaled $16,166 (2018: $11,848).

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

7. OTHER OPERATING EXPENSES

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

	Three months ended March 31, 2019	Three months ended March 31, 2018 (Restated) (i)
Foreign exchange gain	**$ 529**	$ 779
Penalty on late settlement of trade payables	**-**	(104)
CIC management fee	**(758)**	(583)
Provision for doubtful trade and other receivables (Note 11)	**(51)**	(522)
Loss on disposal of property, plant and equipment (Note 13)	**-**	(67)
Provision for commercial arbitration (Note 16)	**(134)**	(224)
Other	**-**	(36)
Other operating expenses	**$ (414)**	$ (757)

(i) The figures for the three months ended March 31, 2018 have been restated to reflect the impact of the key findings of and information obtained from the Formal Investigation. Refer to Note 2.4 for details.

8. FINANCE COSTS AND INCOME

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

	Three months ended, March 31, 2019	Three months ended, March 31, 2018
Interest expense on convertible debenture (Note 19)	**$ 5,697**	$ 5,294
Unrealized loss on embedded derivatives in convertible debenture (Note 19)	**1**	-
Value added tax on interest from intercompany loan	**798**	-
Interest expense on borrowings (Note 17)	**178**	637
Finance costs on leased assets (Note 18)	**43**	16
Loan arrangement fee	**-**	13
Accretion of decommissioning liability	**22**	46
Finance costs	**$ 6,739**	$ 6,006

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

	Three months ended, March 31, 2019	Three months ended, March 31, 2018 (Restated) (i)
Unrealized gain on embedded derivatives in convertible debenture (Note 19)	**$ -**	$ 90
Interest income	**17**	10
Finance income	**$ 17**	$ 100

(i) The figures for the three months ended March 31, 2018 have been restated to reflect the impact of the key findings of and information obtained from the Formal Investigation. Refer to Note 2.4 for details.

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

9. TAXES

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

	Three months ended, March 31,	
	2019	**2018**
Current - Canada		
Charge for the period	**$ -**	$ -
Current - elsewhere		
Charge for the period	**1,439**	929
Total tax charge for the period	**$ 1,439**	$ 929

10. EARNINGS/(LOSS) PER SHARE

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

	Three months ended March 31,	
	2019	**2018 (Restated) (i)**
Net profit/(loss)	**$ 2,149**	$ (3,037)
Weighted average number of shares	**272,703**	272,624
Basic and diluted earnings/(loss) per share	**$ 0.01**	$ (0.01)

(i) The figures for the three months ended March 31, 2018 have been restated to reflect the impact of the key findings of and information obtained from the Formal Investigation. Refer to Note 2.4 for details.

11. TRADE AND OTHER RECEIVABLES

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

	As at	
	March 31, 2019	**December 31, 2018**
Trade receivables	**$ 3,301**	$ 2,710
Other receivables	**1,547**	2,336
Total trade and other receivables	**$ 4,848**	$ 5,046

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

11. TRADE AND OTHER RECEIVABLES (CONTINUED)

The aging of the Company's trade and other receivables is as follows:

	As at	
	March 31, 2019	December 31, 2018
Less than 1 month	$ 4,439	$ 4,952
1 to 3 months	361	49
3 to 6 months	48	45
Over 6 months	-	-
Total trade and other receivables	**$ 4,848**	$ 5,046

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

The Company has determined that the loss allowance on its trade and other receivables was $21,990 as at March 31, 2019 (December 31, 2018: $20,005), based upon an expected loss rate of 10% for trade and other receivables 60 days past due and 100% for trade and other receivables 180 days past due. The closing allowances for trade and other receivables as at March 31, 2019 reconcile to the opening loss allowances as follows:

Loss allowance for trade and other receivables	
Opening loss allowance as at January 1, 2019	**$ 20,005**
Increase in loan allowance recognised in profit or loss during the period	**51**
Loss allowance included in specific provision made during the year ended December 31, 2018	**1,411**
Exchange realignment	**523**
Loss allowance as at March 31, 2019	**$ 21,990**

12. INVENTORIES

The Company's inventories consist of the following amounts:

	As at	
	March 31, 2019	December 31, 2018
Coal stockpiles	**$ 33,022**	$ 31,783
Materials and supplies	**15,006**	15,326
Total inventories	**$ 48,028**	$ 47,109

Cost of sales for the three months ended March 31, 2019 includes an impairment loss of $3,466 related to the Company's coal stockpile inventories (2018: $nil). The impairment made for the period is as a result of import restrictions established by Chinese authorities at the Ceke border.

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

13. PROPERTY, PLANT AND EQUIPMENT

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

	Mobile equipment	Other operating equipment	Buildings and roads	Mineral properties	Non-depreciable assets	Total
Cost						
As at January 1, 2019	$ 284,647	$ 25,827	$ 72,734	$ 197,726	$ 26,709	$ 607,643
Change in accounting policy due to IFRS 16	**-**	**-**	**1,159**	**-**	**-**	**1,159**
Restated balance, January 1, 2019	**$ 284,647**	**$ 25,827**	**$ 73,893**	**$ 197,726**	**$ 26,709**	**$ 608,802**
Additions	**484**	**499**	**-**	**6,252**	**-**	**7,235**
Disposals	**-**	**-**	**-**	**-**	**(479)**	**(479)**
Exchange realignment	**1,162**	**55**	**262**	**523**	**-**	**2,002**
As at March 31, 2019	**$ 286,293**	**$ 26,381**	**$ 74,155**	**$ 204,501**	**$ 26,230**	**$ 617,560**
Accumulated depreciation and impairment charges						
As at January 1, 2019	$ (266,129)	$ (23,926)	$ (52,915)	$ (102,013)	$ (23,759)	$ (468,742)
Depreciation for the period	**(3,652)**	**(144)**	**(1,310)**	**(1,141)**	**-**	**(6,247)**
Eliminated on disposals	**-**	**-**	**-**	**-**	**-**	**-**
Exchange realignment	**(1,049)**	**(55)**	**(167)**	**(108)**	**-**	**(1,379)**
As at March 31, 2019	**$ (270,830)**	**$ (24,125)**	**$ (54,392)**	**$ (103,262)**	**$ (23,759)**	**$ (476,368)**
Carrying amount						
As at January 1, 2019, restated	$ 18,518	$ 1,901	$ 20,978	$ 95,713	$ 2,950	$ 140,060
As at March 31, 2019	**$ 15,463**	**$ 2,256**	**$ 19,763**	**$ 101,239**	**$ 2,471**	**$ 141,192**

13.1 Non-depreciable assets

The non-depreciable assets include the construction in progress and deposits on purchasing items of property, plant and equipment of $737 (December 31, 2018: $1,210), which primarily relate to ordered but not yet delivered mobile equipment or mobile equipment delivered to the location of its intended use but not yet commissioned.

13.2 Pledge on items of property, plant and equipment

As at March 31, 2019, certain of the Company's property, plant and equipment of $1,596 (December 31, 2018: $2,643) were pledged as security for a bank loan granted to the Company (Note 17).

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

As at March 31, 2019, certain of the Company's mobile equipment of $169 (December 31, 2018: $185) were held under finance leases.

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

14. INVESTMENTS IN JOINT VENTURES

The Company's investment consists of the following amounts:

	As at	
	March 31, 2019	**December 31, 2018**
Non-current investment in joint venture		
Investment in RDCC LLC	**$ 18,823**	$ 18,822
Investment in Nariin Sukhait Erchim LLC ("NSE")	**10**	9
Total investment	**$ 18,833**	$ 18,831

The Company has a 40% interest in RDCC LLC, a joint venture. RDCC LLC has a concession agreement with the State Property Committee of Mongolia to construct a paved highway from the Company's Ovoot Tolgoi Mine to the Mongolia-China border for the exclusive use of third party coal transport companies. In October 2012, the concession agreement was structured as a 17-year build, operate and transfer agreement. The construction was completed in 2014 and operations commenced in the second quarter of 2015. On September 17, 2015, the Invest Mongolia Agency signed an amendment to the concession agreement with RDCC LLC to extend the exclusive right of ownership to 30 years.

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

	Three months ended March 31,	
	2019	**2018**
Balance, beginning of period	**$ 18,822**	$ 21,052
Dividend received	**(530)**	(488)
Share of earnings of a joint venture	**452**	340
Share of other comprehensive income of a joint venture	**79**	238
Balance, end of period	**$ 18,823**	$ 21,142

For the three months ended March 31, 2019, RDCC LLC recognized toll fee revenue of $1,837 (2018: $1,557). For the three months ended March 31, 2019, RDCC LLC had a net income of $1,131 (2018: $849).

In October 2018, the Company entered into a shareholder agreement with 2 other coal mining companies in respect of NSE, a joint venture entity established for the purpose of constructing power transmission cables and electricity facilities. The Company has a 33% interest in NSE.

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

15. TRADE AND OTHER PAYABLES

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

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

	As at	
	March 31, 2019	**December 31, 2018**
Less than 1 month	**$ 28,773**	$ 34,927
1 to 3 months	**13,345**	16,336
3 to 6 months	**20,409**	5,446
Over 6 months	**34,283**	42,867
Total trade and other payables	**$ 96,810**	$ 99,576

16. PROVISION FOR COMMERCIAL ARBITRATION

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

On January 10, 2018, the Company received a confidential partial ruling (final except as to costs) with respect to the commercial arbitration. Pursuant to the Arbitration Award, SGS was ordered to repay the sum of $11,500 (which SGS had received as a prepayment for the purchase of coal) to First Concept, together with accrued interest at a simple interest rate of 6% per annum from the date which the prepayment was made until the date of the Arbitration Award, and then at a simple interest rate of 8% per annum until full payment. The Arbitration Award is final, except as to costs which were reserved for a future award.

On November 14, 2018, the Company executed the Settlement Deed with First Concept in respect of the Arbitration Award. The Settlement Deed provides for the full and final satisfaction of the Arbitration Award as well as the settlement of the issue of costs relating to the Arbitration and any other disputes arising out of the Coal Supply Agreement. Pursuant to the Settlement Deed, which provides for the full and final satisfaction of the Arbitration Award as well as the settlement of the issue of costs relating to the Arbitration and any other disputes arising out of the Coal Supply Agreement, SGS agreed to pay to First Concept the sum of $13,891, together with simple interest thereon at the rate of 6% per annum from November 1, 2018 until full payment, in 12 monthly installments commencing in November 2018. Provided that SGS complies with the terms of the Settlement Deed, First Concept agreed to waive its costs in connection with the Arbitration and interest for the period from January 4, 2018 to October 31, 2018.

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

16. PROVISION FOR COMMERCIAL ARBITRATION (CONTINUED)

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

As at March 31, 2019, the outstanding amount payable to First Concept amounted to $10,642 (December 31, 2018: $12,508).

17. INTEREST-BEARING BORROWINGS

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

	As at	
	March 31, 2019	December 31, 2018
Turquoise Hill Loan Facility (i)	**$ 86**	$ 595
Bank loan (ii)	**2,835**	3,543
Total interest-bearing borrowings	**$ 2,921**	$ 4,138

(i) Turquoise Hill Loan Facility

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

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

17. INTEREST-BEARING BORROWINGS (CONTINUED)

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

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

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

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

As at March 31, 2019, the outstanding principal and accrued interest under this facility amounted to $nil and $223, respectively (at December 31, 2018, the outstanding principal and accrued interest under this facility amounted to $nil and $732, respectively). A fair value gain of $137 was credited to accumulated deficit upon the adoption of IFRS 9 starting from January 1, 2018.

(ii) Bank Loan

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

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

- Principal amount increased to $3,000;
- $2,300 of the principal amount matured on May 6, 2018 while the remaining balance of the principal amount of $700 matured on January 4, 2019;

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

17. INTEREST-BEARING BORROWINGS (CONTINUED)

- Interest rate of 15.8% per annum applies to the $2,300 portion of the principal amount, while an interest rate of 15.0% per annum applies to the remaining $700 portion of the principal amount; in each case, interest is payable monthly; and
- Certain items of property, plant and equipment were pledged as security (subsequently released upon repayment of loan principal of $2,300).

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

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

- Principal amount of the loan (the "2018 Bank Loan") of $2,800;
- Maturity date set at 24 months from drawdown;
- Interest rate of 15% per annum and interest is payable monthly; and
- Certain items of property, plant and equipment were pledged as security for both the Bank Loan and the 2018 Bank Loan. As at March 31, 2019, the net book value of the pledged items of property, plant and equipment was $1,596 (December 31, 2018: $2,643).

As at March 31, 2019, the outstanding principal balance of the Bank Loan, together with the 2018 Bank Loan was $2,800 (December 31, 2018: $3,500) and the Company owed accrued interest of $35 (December 31, 2018: $43).

18. LEASE LIABILITIES

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

At March 31, 2019, the total future minimum lease payments and their present values were as follows:

	Minimum lease payments As at		Present value of minimum lease payments As at	
	March 31, 2019	**December 31, 2018**	**March 31, 2019**	**December 31, 2018**
Amounts payable:				
Within one year	**$ 758**	$ 90	**$ 645**	$ 83
In the second year	**425**	25	**394**	24
In the third to fifth years, inclusive	**16**	6	**26**	6
Total minimum lease payments	**$ 1,199**	$ 121	**$ 1,065**	$ 113
Future finance charges	**(134)**	(8)		
Total net lease payables	**$ 1,065**	$ 113		
Portion classified as current liabilities	**(645)**	(83)		
Non-current portion	**$ 420**	$ 30		

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

19. CONVERTIBLE DEBENTURE

19.1 Key commercial terms

On November 19, 2009, the Company issued a convertible debenture to a wholly owned subsidiary of CIC for $500,000. The convertible debenture bears interest at 8.0% per annum (6.4% payable semi-annually in cash and 1.6% payable annually in the Company's shares) and has a maximum term of 30 years. During 2010, the Company exercised a right within the debenture to call and convert $250,000 of the debenture for 21,471 Common Shares. Following the conversion, the outstanding principal balance was $250,000 and has remained unchanged at that balance to March 31, 2019.

19.2 Debt host and embedded derivatives

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

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

19.3 Valuation assumptions

The assumptions used in the Company's valuation models are as follows:

	As at	
	March 31, 2019	**December 31, 2018**
Floor conversion price	**CAD$8.88**	CAD$8.88
Ceiling conversion price	**CAD$11.88**	CAD$11.88
Common share price	**CAD$0.14**	CAD$0.14
Historical volatility	**81%**	82%
Risk free rate of return	**1.83%**	2.11%
Foreign exchange spot rate (CAD$ to U.S. Dollar)	**0.75**	0.73
Forward foreign exchange rate curve (CAD$ to U.S. Dollar)	**0.752 - 0.771**	0.731 - 0.746

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

19. CONVERTIBLE DEBENTURE (CONTINUED)

19.4 Presentation

Based on the Company's valuation as at March 31, 2019, the fair value of the embedded derivatives increased by $1 compared to that as at December 31, 2018.

For the three months ended March 31, 2019, the Company recorded interest expense of $5,697 related to the convertible debenture as a finance cost (2018: $5,294). The interest expense consists of the interest at the contract rate and the accretion of the debt host component of the convertible debenture. To calculate the accretion expense, the Company uses the contract life of 30 years and an effective interest rate of 22.2%.

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

	Three months ended March 31, 2019	Three months ended March 31, 2018
Balance, beginning of period	**$ 139,901**	$ 116,374
Interest expense on convertible debenture	**5,697**	5,294
Increase/(decrease) in fair value of embedded derivatives	**1**	(90)
Fair value adjustment upon adoption of IFRS 9	**-**	1,469
Balance, end of period	**$ 145,599**	$ 123,047

The convertible debenture balance consists of the following amounts:

	As at March 31, 2019	As at December 31, 2018
Current convertible debenture		
Interest payable	**$ 51,696**	$ 46,096
Debt host	**93,637**	93,540
Fair value of embedded derivatives	**266**	265
Total convertible debenture	**$ 145,599**	$ 139,901

19.5 Interest deferral and settlement

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

19. CONVERTIBLE DEBENTURE (CONTINUED)

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

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

On April 23, 2019, the Company executed the 2019 Deferral Agreement with CIC in relation to a deferral and revised repayment schedule in respect of (i) $41,797 of Outstanding Interest Payable under the Convertible Debenture and the June 2017 Deferral Agreement; and (ii) the cash and PIK Interest payments payable to Land Breeze II S.a.r.l. under the Convertible Debenture from April 23, 2019 to and including May 19, 2020. The effectiveness of the 2019 Deferral Agreement and the respective covenants, agreements and obligations of each party under the 2019 Deferral Agreement are subject to the Company obtaining the requisite approval from shareholders of the Company at the Meeting.

The key repayment terms of the 2019 Deferral Agreement are: (i) the Company agreed to pay $14,317 by eight instalments during November 2019 to June 2020; (ii) the Company agreed to pay the PIK Interest covered by the Deferral by way of cash payments, rather than the issuance of Common Shares; and (iii) the Company agreed to pay $62,602 on June 20, 2020. The Company agreed to pay a deferral fee at a rate of 6.4% per annum in consideration of the Deferral.

As a condition to agreeing to the Deferral, CIC required that the mutual co-operation agreement (the “Cooperation Agreement”) dated November 19, 2009 between SGS and Fullbloom Investment Corporation (“Fullbloom”), an affiliate of CIC, be amended and restated (the “Amended and Restated Cooperation Agreement”) to clarify the manner in which the service fee payable to Fullbloom under the Cooperation Agreement is calculated, with effect as of January 1, 2017. Specifically, the service fee under the Amended and Restated Cooperation Agreement will be determined based on the net revenues realized by the Company and all of its subsidiaries derived from sales into China (rather than the net revenues realized by the Company and its Mongolian subsidiaries as currently contemplated under the Cooperation Agreement). As consideration for deferring payment of the additional service fees payable to Fullbloom as a result of the Amended and Restated Cooperation Agreement (“Deferred Compensation”), the Company agreed to pay to Fullbloom a deferral fee at a rate of 2.5% on the outstanding amount of the Deferred Compensation. Pursuant to the Amended and Restated Cooperation Agreement, the Company agreed to pay Fullbloom the Deferred Compensation and related accrued deferral fee of $4,183 in six instalments between June 2019 and November 2019. The effectiveness of the Amended and Restated Cooperation Agreement is subject to the Company obtaining the requisite approval of the 2019 Deferral Agreement from shareholders at the Meeting.

19. CONVERTIBLE DEBENTURE (CONTINUED)

The Company also announced that it intends to discuss a potential debt restructuring plan with respect to amounts owing to Land Breeze II S.a.r.l. which is mutually beneficial to the Company and CIC within the next 6 months, and to form a special committee comprised of independent directors to ensure that the interests of its minority shareholders are fairly considered in the negotiation and review of any such restructuring; however, there can be no assurance that a favorable outcome will be reached.

As of the date hereof, the Company has neither: (i) paid the Outstanding Interest Payable within the cure period provided for under the CIC Convertible Debenture; nor (ii) obtained shareholders approval of the 2019 Deferral Agreement. Consequently, the Company is in default under the CIC Convertible Debenture and the June 2017 Deferral Agreement. Furthermore, the Common Shares have now been suspended from trading on the Hong Kong Stock Exchange and the Toronto Stock Exchange for a period of more than five trading days since December 17, 2018 (the “Trading Suspension”), which represents another event of default under the CIC Convertible Debenture. Pursuant to the terms of the CIC Convertible Debenture and the June 2017 Deferral Agreement, CIC may, at its discretion, provide notice to the Company and declare all principal, interest and other amounts owing under the CIC Convertible Debenture and the June 2017 Deferral Agreement immediately due and payable, and take steps to enforce payment thereof, which would have a material adverse effect on the business and operations of the Company and may negatively affect the price and volatility of the Common Shares and any investment in such shares could suffer a significant decline or total loss in value.

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

Because a deferral of the Outstanding Interest Payable was not in effect as at March 31, 2019, IAS 1 requires the Company to classify the entire balance of the CIC Convertible Debenture as a current liability as at March 31, 2019, notwithstanding the fact that CIC has not indicated any intention to deliver notice of default or accelerate the maturity of the CIC Convertible Debenture.

20. EQUITY

20.1 Share Capital

The Company has authorized an unlimited number of common and preferred shares with no par value. At March 31, 2019, the Company had 272,703 common shares outstanding (December 31, 2018: 272,703) and no preferred shares outstanding (December 31, 2018: nil).

20.2 Accumulated deficit and dividends

At March 31, 2019, the Company has accumulated a deficit of $1,179,661 (December 31, 2018: $1,181,613). No dividends have been paid or declared by the Company since inception.

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

21. SHARE-BASED PAYMENTS

21.1 Stock option plan

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

For the three months ended March 31, 2019 and March 31, 2018, the Company did not grant any stock options to officers, employees, directors and other eligible persons.

The total share-based compensation expense for the three months ended March 31, 2019 was $14 (2018: $16). Share-based compensation expense of $12 (2018: $16) has been allocated to administration expenses and $2 has been allocated to cost of sales (2018: $nil).

21.2 Outstanding stock options

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

	Three months ended March 31, 2019		Three months ended March 31, 2018	
	Number of options	Weighted average exercise price (CAD$)	Number of options	Weighted average exercise price (CAD$)
Balance, beginning of period	**4,695**	**$ 0.23**	2,290	$ 0.36
Options forfeited	**-**	**-**	-	-
Options expired	**(8)**	**0.65**	-	-
Balance, end of period	**4,687**	**$ 0.23**	2,290	$ 0.36

The stock options outstanding and exercisable as at March 31, 2019 are as follows:

	Options Outstanding			Options Exercisable		
Exercise price (CAD$)	Options outstanding	Weighted average exercise price (CAD$)	Weighted average remaining contractual life (years)	Options outstanding and exercisable	Weighted average exercise price (CAD$)	Weighted average remaining contractual life (years)
$0.13 - $0.29	**3,255**	**$ 0.15**	**3.95**	**500**	**$ 0.29**	**0.83**
$0.33 - $0.39	**1,250**	**0.33**	**3.00**	**1,250**	**0.33**	**2.35**
$0.58 - $0.92	**182**	**0.87**	**0.92**	**182**	**0.87**	**0.92**
	4,687	**$ 0.23**	**3.58**	**1,932**	**$ 0.37**	**1.82**

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

22. FAIR VALUE MEASUREMENTS

The fair value of financial assets and financial liabilities measured 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 Company considers that the carrying amount of all its financial assets and financial liabilities measured at amortized cost approximates their fair value, except as disclosed below.

The fair values of the Company's financial instruments classified as FVTPL are determined as follows:

- The fair value of financial instruments that are not traded in an active market are determined using generally accepted valuation models using inputs that are directly (i.e. prices) or indirectly (i.e. derived from prices) observable. The fair value of the embedded derivatives within the convertible debenture (Note 19) is determined using a Monte Carlo simulation. None of the fair value change in the embedded derivatives for the three months ended March 31, 2019 is related to a change in the credit risk of the convertible debenture. All of the change in fair value is associated with changes in market conditions.

The fair value of all the other financial instruments of the Company, except for the convertible debenture, approximates their carrying value because of the demand nature or short-term maturity of these instruments.

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

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

	As at March 31, 2019			
Recurring measurements	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial liabilities measured at fair value				
Convertible debenture - embedded derivatives	$ -	$ -	$ 266	$ 266
Total financial liabilities measured at fair value	**$ -**	**$ -**	**$ 266**	**$ 266**

	As at March 31, 2019			
Financial liabilities disclosed at fair value	**Level 1**	**Level 2**	**Level 3**	**Total**
Convertible debenture - debt host	-	-	250,000	250,000
Total financial liabilities disclosed at fair value	**$ -**	**$ -**	**$ 250,000**	**$ 250,000**

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

22. FAIR VALUE MEASUREMENTS (CONTINUED)

	As at December 31, 2018			
Recurring measurements	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial liabilities measured at fair value				
Convertible debenture - embedded derivatives	$ -	$ -	$ 265	$ 265
Total financial liabilities measured at fair value	**$ -**	**$ -**	**$ 265**	**$ 265**

	As at December 31, 2018			
Financial liabilities disclosed at fair value	**Level 1**	**Level 2**	**Level 3**	**Total**
Convertible debenture - debt host	-	-	250,000	250,000
Total financial liabilities disclosed at fair value	**$ -**	**$ -**	**$ 250,000**	**$ 250,000**

There were no transfers between Level 1, 2 and 3 for the three months ended March 31, 2019.

23. RELATED PARTY TRANSACTIONS

In additional to the transactions detailed elsewhere in profit or loss, the Company had related party transactions with the following company related by way of directors or shareholders in common during the three months ended March 31, 2019:

- CIC – CIC is a major shareholder of the Company, CIC holds approximately 23.8% of the issued and outstanding common shares of the Company as at March 31, 20109. The Co-Operation Agreement states that an amount of service fee calculated based on 2.5% of the revenue of SGS shall be paid to CIC on a quarterly basis. During the three months ended March 31, 2019, $758 was recorded in profit or loss (three months ended March 31, 2018: $583).

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

23.1 Related party expenses

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

	Three months ended March 31,	
	2019	**2018**
Finance costs	**$ 5,697**	$ 5,294
Management fee	**758**	583
Related party expenses	**$ 6,455**	$ 5,877

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

24. SUPPLEMENTAL CASH FLOW INFORMATION

24.1 Non-cash financing and investing activities

The Company's non-cash investing and financing transactions are as follows:

	Three months ended March 31, 2019	2018
Decrease/(increase) in inventories	$ (3,890)	$ 1,445
Decrease/(increase) in trade and other receivables and notes receivables	2,028	(2,816)
Increase in prepaid expenses and deposits	95	(1,160)
Increase/(decrease) in trade and other payables	(4,273)	1,406
Increase in deferred revenue	120	5,233
Decrease in provision for commercial arbitration	(2,000)	-
Reclass of refund customers' deposits as financing activities	6,160	-
Net change in non-cash working capital items	**$ (1,760)**	**$ 4,108**

24.2 Net change in non-cash working capital items

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

	Three months ended March 31, 2019	2018
Addition to decommissioning liability	$ 7	$ 24
Amortization of deferred stripping being capitalized	1,240	4,113
Trade payables settled by fixed assets	479	-

25. COMMITMENTS FOR EXPENDITURE

As at March 31, 2019, the Company's commitments for expenditure that have not been disclosed elsewhere in the condensed consolidated financial statements are as follows:

	Within 1 year	2-3 years	Over 3 years	Total
As at March 31, 2019				
Capital expenditure commitments	$ 684	$ -	$ -	$ 684
Operating expenditure commitments	15,957	179	1,605	17,741
Commitments	**$ 16,641**	**$ 179**	**$ 1,605**	**$ 18,425**
As at December 31, 2018				
Capital expenditure commitments	$ 1,254	$ -	$ -	$ 1,254
Operating expenditure commitments	9,783	970	1,798	12,551
Commitments	$ 11,037	$ 970	$ 1,798	$ 13,805

26. CONTINGENCIES

26.1 Class action lawsuit

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

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

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

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

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

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

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

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 March 31, 2019 was not required.

26. CONTINGENCIES (CONTINUED)

26.2 Toll wash plant agreement with Ejin Jinda

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

Under the original agreement with Ejin Jinda, which required the commercial operation of the wet washing facility to commence on October 1, 2011, the additional fees payable by the Company under the wet washing contract would have been $18,500. At each reporting date, the Company assesses the agreement with Ejin Jinda and has determined it is not probable that these $18,500 will be required to be paid. Accordingly, the Company has determined a provision for this matter as at March 31, 2019 is not required.

26.3 Tax legislation

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

Management believes that its interpretation of the relevant legislation is appropriate and the Company's positions related to tax and other legislation will be sustained. Management believes that tax and legal risks are remote at present. The management performs regular re-assessment of tax risk and its position may change in the future as a result of the change in conditions that cannot be anticipated with sufficient certainty at present. As of March 31, 2019, management has assessed that recognition of a provision for uncertain tax position is not necessary.

26.4 Mongolian royalties

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