SouthGobi Resources Ltd.
Condensed Consolidated Interim Financial Statements

September 30, 2019
(Expressed in U.S. Dollars)
(Unaudited)

TABLE OF CONTENTS

CONDENSED FINANCIAL STATEMENTS

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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)

		Three months ended September 30,		Nine months ended September 30,	
	Notes	2019	2018 (Restated)	2019	2018 (Restated)
Revenue	4	**$ 28,309**	$ 26,277	**$ 97,599**	$ 69,990
Cost of sales	6	**(15,518)**	(17,110)	**(60,954)**	(51,808)
Gross profit		**12,791**	9,167	**36,645**	18,182
Other operating expenses	7	**(1,245)**	(3,417)	**(3,992)**	(20,686)
Administration expenses		**(2,074)**	(2,724)	**(8,061)**	(8,957)
Evaluation and exploration expenses		**(22)**	(40)	**(70)**	(320)
Profit/(loss) from operations		**9,450**	2,986	**24,522**	(11,781)
Finance costs	8	**(7,184)**	(5,758)	**(20,915)**	(17,690)
Finance income	8	**68**	106	**4,381**	182
Share of earnings of a joint venture	14	**277**	247	**1,104**	1,215
Profit/(loss) before tax		**2,611**	(2,419)	**9,092**	(28,074)
Current income tax expense	9	**(468)**	(267)	**(2,708)**	(2,805)
Net profit/(loss) attributable to equity holders of the Company		**2,143**	(2,686)	**6,384**	(30,879)
Other comprehensive income to be reclassified to profit or loss in subsequent periods					
Exchange difference on translation of foreign operation		**(695)**	(7,263)	**(1,474)**	(9,558)
Net comprehensive income/(loss) attributable to equity holders of the Company		**$ 1,448**	$ (9,949)	**$ 4,910**	$ (40,437)
Basic and diluted earnings/(loss) per share		**$ 0.01**	$ (0.01)	**$ 0.02**	$ (0.11)

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

SOUTHGOBI RESOURCES LTD.

Condensed Consolidated Interim Statement of Financial Position

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

	Notes	As at September 30, 2019	As at December 31, 2018
Assets			
Current assets			
Cash and cash equivalents		**$ 5,232**	$ 6,959
Restricted cash		**840**	872
Trade and other receivables	11	**1,918**	5,046
Notes receivables		**-**	2,500
Inventories	12	**48,428**	47,109
Prepaid expenses and deposits		**3,201**	3,295
Total current assets		**59,619**	65,781
Non-current assets			
Property, plant and equipment	13	**$ 137,132**	$ 138,901
Inventories	12	**13,506**	-
Properties for resale		**1,882**	4,093
Investments in joint ventures	14	**18,125**	18,831
Total non-current assets		**170,645**	161,825
Total assets		**$ 230,264**	$ 227,606
Equity and liabilities			
Current liabilities			
Trade and other payables	15	**$ 89,392**	$ 99,576
Deferred revenue		**14,248**	12,658
Provision for commercial arbitration	16	**5,514**	12,508
Interest-bearing borrowings	17	**2,835**	4,138
Lease liabilities	18	**493**	83
Current portion of convertible debenture	19	**63,273**	139,901
Total current liabilities		**175,755**	268,864
Non-current liabilities			
Lease liabilities	18	**215**	30
Convertible debenture	19	**89,776**	-
Decommissioning liability		**7,909**	6,852
Total non-current liabilities		**97,900**	6,882
Total liabilities		**273,655**	275,746
Equity			
Common shares	20	**1,098,634**	1,098,634
Share option reserve		**52,578**	52,542
Capital reserve		**396**	396
Exchange reserve		**(19,573)**	(18,099)
Accumulated deficit	20	**(1,175,426)**	(1,181,613)
Total deficiency in assets		**(43,391)**	(48,140)
Total equity and liabilities		**$ 230,264**	$ 227,606
Net current liabilities		**$ (116,136)**	$ (203,083)
Total assets less current liabilities		**$ 54,509**	$ (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	75	10	-	-	-	-	10
Share-based compensation charged to operations	-	-	48	-	-	-	48
Net loss for the period	-	-	-	-	-	(30,879)	(30,879)
Exchange differences on translation of foreign operations	-	-	-	-	(9,558)	-	(9,558)
Restated balances, September 30, 2018	272,682	$ 1,098,633	$ 52,511	$ -	$ (14,637)	$ (1,170,971)	$ (34,464)
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	**-**	**-**	**36**	**-**	**-**	**-**	**36**
Net profit for the period	**-**	**-**	**-**	**-**	**-**	**6,384**	**6,384**
Exchange differences on translation of foreign operations	**-**	**-**	**-**	**-**	**(1,474)**	**-**	**(1,474)**
Balances, September 30, 2019	**272,703**	**$ 1,098,634**	**$ 52,578**	**$ 396**	**$ (19,573)**	**$ (1,175,426)**	**$ (43,391)**

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

SOUTHGOBI RESOURCES LTD.

Condensed Consolidated Interim Statement of Cash Flows

(Unaudited)

(Expressed in thousands of U.S. Dollars)

	Notes	Nine months ended September 30, 2019	Nine months ended September 30, 2018 (Restated)
Operating activities			
Profit/(loss) before tax		**$ 9,092**	$ (28,074)
Adjustments for:			
Depreciation and depletion		**11,523**	16,771
Share-based compensation	21	**36**	48
Interest expense on convertible debenture	8	**17,485**	16,296
Interest expense on borrowings	8	**636**	1,235
Finance cost on leased assets	8	**105**	-
Loan arrangement fee	8	**-**	21
Accretion of decommissioning liability	8	**188**	138
Unrealized loss/(gain) on embedded derivatives in convertible debenture	8	**(44)**	(148)
Finance income	8	**(4,337)**	(34)
Share of earnings of a joint venture	14	**(1,104)**	(1,215)
Interest paid		**(1,054)**	(1,246)
Income tax paid		**(164)**	(3,364)
Penalty on late settlement of trade payables	5	**-**	427
Loss/(gain) on disposal of fixed assets	5	**(29)**	1,173
Loss on disposal of properties for resale		**37**	-
Provision for doubtful trade and other receivables	11	**441**	19,303
Provision for commercial arbitration		**406**	686
Provision for prepaid expenses and deposits	7	**260**	-
Reversal of impairment of inventories	12	**(1,823)**	-
Impairment of properties for resale	15	**-**	1,372
Gain on settlement of trade payables		**-**	(2,956)
Operating cash flows before changes in non-cash working capital items		**31,654**	20,433
Net change in non-cash working capital items	24	**(8,313)**	6,364
Cash generated from operating activities		**23,341**	26,797
Investing activities			
Expenditures on property, plant and equipment		**(13,309)**	(27,360)
Proceeds from disposal of property, plant and equipment		**70**	320
Disposal of properties for resale		**174**	-
Interest received		**44**	34
Dividend from a joint venture	14	**1,640**	1,651
Cash used in investing activities		**(11,381)**	(25,355)
Financing activities			
Proceeds from issuance of common shares		**-**	10
New loans		**-**	500
Repayment of interest-bearing loans		**(700)**	(1,859)
Principal elements of lease payments		**(598)**	-
Refund of customers' deposits		**(12,382)**	-
Cash used in financing activities		**(13,680)**	(1,349)
Effect of foreign exchange rate changes on cash and cash equivalents		**(7)**	(272)
Decrease in cash and cash equivalents		**(1,727)**	(179)
Cash and cash equivalents, beginning of period		**6,959**	6,471
Cash and cash equivalents, end of period		**$ 5,232**	$ 6,292

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

1. CORPORATE INFORMATION AND GOING CONCERN

SouthGobi Resources Ltd. is a publicly listed company incorporated in Canada with limited liability under the legislation of the Province of British Columbia and its shares are listed on the Toronto Stock Exchange (Symbol: SGQ) and Hong Kong Stock Exchange (Symbol: 1878). The company, together with its subsidiaries (collectively referred to as the "Company"), is an integrated coal mining, development and exploration company. As of September 30, 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 (the "Common Shares"). 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, respectively.

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

The registered and records office of the Company is located at 20th Floor, 250 Howe Street, Vancouver, British Columbia, Canada, V6C 3R8. The principal place of business of the Company is located at Units 1208-10, Tower One, Grand Century Place, 193 Prince Edward Road West, Mongkok, Kowloon, Hong Kong.

<u>Going concern assumption</u>

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

Several adverse conditions and material uncertainties cast significant doubt upon the going concern assumption. The Company had a deficiency in assets of $43,391 as at September 30, 2019 compared to a deficiency in assets of $48,140 as at December 31, 2018 while the working capital deficiency (excess current liabilities over current assets) reached $116,136 as at September 30, 2019 compared to a working capital deficiency of $203,083 as at December 31, 2018.

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 payment in kind interest ("PIK Interest") and associated costs due and payable to CIC on November 19, 2018 (the "Outstanding Interest Payable") under the CIC Convertible Debenture and the deferral agreement dated June 12, 2017 (the "June 2017 Deferral Agreement"); and (ii) $27,934 of cash and PIK Interest payments payable to Land Breeze II S.a.r.l., a wholly-owned subsidiary of CIC, under the CIC Convertible Debenture from April 23, 2019 to and including May 19, 2020 (the "Deferral"). Pursuant to the 2019 Deferral Agreement, the Company agreed to pay a total of $14,317 over eight instalments from November 2019 to June 2020 and the remaining balance of $62,602 on June 20, 2020.

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

1. CORPORATE INFORMATION AND GOING CONCERN (CONTINUED)

The Company also has other current liabilities, which require settlement in the short-term, including the $5,514 balance owing to First Concept Industrial Group Limited ("First Concept") pursuant to a deed of settlement (the "Settlement Deed") dated November 14, 2018 and $27,787 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 remain high due to liquidity constraints. The aging profile of the trade and other payables as at September 30, 2019 as compared to that as at December 31, 2018, is as follows:

	As at	
	September 30, 2019	**December 31, 2018**
Less than 1 month	**$ 29,472**	$ 34,927
1 to 3 months	**10,533**	16,336
3 to 6 months	**12,847**	5,446
Over 6 months	**36,540**	42,867
Total trade and other payables	**$ 89,392**	$ 99,576

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

In 2016, the Company started its program to build a coal washing plant to upgrade the low quality fractions of its run-of-mine coals to higher value and higher margin products. The commissioning of the wash plant at the Ovoot Tolgoi mine was completed during the second quarter of 2019. On July 31, 2019, the Company entered into an agreement with the wash plant operator regarding the operation of the wash plant which expires on December 31, 2019; however, there can be no assurance that the Company will extend this agreement after the expiry date.

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 September 30, 2020, then the Company is unlikely to have sufficient cash flows from mining operations in order to satisfy its current ongoing obligations and future contractual commitments. This could result in adjustments to the amounts and classifications of assets and liabilities in the Company's consolidated financial statements and such adjustments could be material.

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

1. CORPORATE INFORMATION AND GOING CONCERN (CONTINUED)

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

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

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

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

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

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

2. BASIS OF PREPARATION (CONTINUED)

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

Adjustments recognized on adoption of IFRS 16

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

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

Operating lease commitments disclosed as at December 31, 2018	**$**	**1,393**
Discounted using the lessee's incremental borrowing rate of at the date of initial application	**$**	**1,118**
Add: finance lease liabilities recognized as at December 31, 2018		**113**
Less: short-term leases recognized on a straight-line basis as expense		**(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			
	September 30, 2019		**January 1, 2019**	
Buildings	**$**	**775**	$	1,159
Total right-of-use assets	**$**	**775**	$	1,159

2. BASIS OF PREPARATION (CONTINUED)

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

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

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

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

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

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

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

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

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

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

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

2. BASIS OF PREPARATION (CONTINUED)

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

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

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

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

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

2.4 Restatement of previously issued financial statements

On December 17, 2018, the Company announced that it had learned of certain information relating to past conduct engaged in by former 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.

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

(Expressed in thousands of U.S. Dollars and shares/units 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 December 31, 2016 and December 31, 2017 (the "Prior Restatement"), as disclosed in the Company's audited annual consolidated financial statements and related management's discussion and analysis for the year ended December 31, 2018, copies of which are available under the Company's profile on SEDAR at www.sedar.com. The Prior Restatement reflects the impact of the misappropriation of assets as well as the reclassification of certain balances of assets in the prior years. With respect to the three and nine months period ended September 30, 2018, the net effect of the Prior Restatement was a decrease in the net comprehensive loss of $1,288 and $3,293 for the respective periods. A summary of the requisite adjustments on the financial statements for the three and nine months period ended September 30, 2018 is set forth in the table below:

Statement of comprehensive income extract	**Three months ended September 30, 2018 (As previously reported)**	**Loss decrease/ (increase)**	**Three months ended September 30, 2018 (Restated)**
Other operating expenses	(4,721)	1,304	**(3,417)**
Net loss attributable to equity holders of the Company	$ (3,990)	$ 1,304	**$ (2,686)**
Other comprehensive loss for the period	(7,247)	(16)	**(7,263)**
Net comprehensive loss attributable to equity holders of the Company	$ (11,237)	$ 1,288	**$ (9,949)**

Statement of comprehensive income extract	**Nine months ended September 30, 2018 (As previously reported)**	**Loss decrease/ (increase)**	**Nine months ended September 30, 2018 (Restated)**
Other operating expenses	$ (24,150)	$ 3,464	**$ (20,686)**
Finance income	472	(290)	**182**
Net loss attributable to equity holders of the Company	$ (34,053)	$ 3,174	**$ (30,879)**
Other comprehensive loss for the period	(9,677)	119	**(9,558)**
Net comprehensive loss attributable to equity holders of the Company	$ (43,730)	$ 3,293	**$ (40,437)**

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 September 30, 2020 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. However, in order to continue as a going concern, the Company must generate sufficient operating cash flows, secure additional capital or otherwise pursue a strategic restructuring, refinancing, or other transactions to provide it with additional liquidity. Refer to Note 1 for details.

Review of carrying value of assets and impairment charges

Long lived assets are tested for impairment, if there is an indicator of impairment. 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.

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 $21,048 (December 31, 2018: $20,005) as at September 30, 2019.

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 nine months ended September 30, 2019, the Coal Division had 12 active customers with the largest customer accounting for 45% of revenues, the second largest customer accounting for 35% of revenues, the third largest customer accounting for 8% of revenues and the other customers accounting for the remaining 12% of revenues.

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

3. SEGMENTED INFORMATION (CONTINUED)

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 September 30, 2019	**$ 228,533**	**$ 1,731**	**$ 230,264**
As at December 31, 2018	223,200	4,406	227,606
Segment liabilities			
As at September 30, 2019	**$ 106,762**	**$ 166,893**	**$ 273,655**
As at December 31, 2018	124,229	151,517	275,746
Segment revenues			
For the three months ended September 30, 2019	**$ 28,309**	**$ -**	**$ 28,309**
For the three months ended September 30, 2018	26,277	-	26,277
For the nine months ended September 30, 2019	**$ 97,599**	**$ -**	**$ 97,599**
For the nine months ended September 30, 2018	69,990	-	69,990
Segment profit/(loss)			
For the three months ended September 30, 2019	**$ 2,391**	**$ (248)**	**$ 2,143**
For the three months ended September 30, 2018 (Restated) (iv)	(3,418)	732	(2,686)
For the nine months ended September 30, 2019	**$ 4,676**	**$ 1,708**	**$ 6,384**
For the nine months ended September 30, 2018 (Restated) (iv)	(28,934)	(1,945)	(30,879)
Impairment charge/(reversal of impairment) on assets, net (ii) (iii)			
For the three months ended September 30, 2019	**$ (4,945)**	**$ -**	**$ (4,945)**
For the three months ended September 30, 2018 (Restated) (iv)	5,319	-	5,319
For the nine months ended September 30, 2019	**$ (1,122)**	**$ -**	**$ (1,122)**
For the nine months ended September 30, 2018 (Restated) (iv)	20,675	-	20,675
Depreciation and amortization			
For the three months ended September 30, 2019	**$ 5,288**	**$ 131**	**$ 5,419**
For the three months ended September 30, 2018	9,700	17	9,717
For the nine months ended September 30, 2019	**$ 17,151**	**$ 396**	**$ 17,547**
For the nine months ended September 30, 2018	28,888	58	28,946
Share of earnings of a joint venture			
For the three months ended September 30, 2019	**$ 277**	**$ -**	**$ 277**
For the three months ended September 30, 2018	247	-	247
For the nine months ended September 30, 2019	**$ 1,104**	**$ -**	**$ 1,104**
For the nine months ended September 30, 2018	1,215	-	1,215

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

3. SEGMENTED INFORMATION (CONTINUED)

	Coal Division	Unallocated (i)	Consolidated Total
Finance cost			
For the three months ended September 30, 2019	$ 1,332	$ 5,852	$ 7,184
For the three months ended September 30, 2018	271	5,487	5,758
For the nine months ended September 30, 2019	$ 3,345	$ 17,570	$ 20,915
For the nine months ended September 30, 2018	1,382	16,308	17,690
Finance income			
For the three months ended September 30, 2019	$ 15	$ 53	$ 68
For the three months ended September 30, 2018	16	90	106
For the nine months ended September 30, 2019	$ 44	$ 4,337	$ 4,381
For the nine months ended September 30, 2018 (Restated) (iv)	34	148	182
Current income tax			
For the three months ended September 30, 2019	$ 468	$ -	$ 468
For the three months ended September 30, 2018	267	-	267
For the nine months ended September 30, 2019	$ 2,708	$ -	$ 2,708
For the nine months ended September 30, 2018	2,805	-	2,805

(i) The unallocated amount contains all amounts associated with the Corporate Division.
(ii) The reversal of impairment charges on assets, net for the three months ended September 30, 2019 relate to trade and other receivables (Note 11). The reversal of impairment charges on assets, net for the nine months ended September 30, 2019 relate to trade and other receivables (Note 11), inventories (Note 12) and prepaid expenses and deposits.
(iii) The impairment charges on assets for the three and nine months ended September 30, 2018 relate to trade and other receivables (Note 11) and properties for resale.
(iv) The segment loss, impairment charge on assets and finance income for the three and nine months ended September 30, 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 September 30, 2019	$ -	$ -	$ 28,309	$ 28,309
For the three months ended September 30, 2018	-	-	26,277	26,277
For the nine months ended September 30, 2019	$ -	$ -	$ 97,599	$ 97,599
For the nine months ended September 30, 2018	-	-	69,990	69,990
Non-current assets				
As at September 30, 2019	$ 169,308	$ 460	$ 877	$ 170,645
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/units in thousands, unless otherwise indicated)

5. EXPENSES BY NATURE

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

	Three months ended September 30, 2019	Three months ended September 30, 2018 (Restated) (i)	Nine months ended September 30, 2019	Nine months ended September 30, 2018 (Restated) (i)
Depreciation	**$ 3,155**	$ 9,044	**$ 11,566**	$ 24,135
Auditors' remuneration	**71**	168	**941**	458
Employee benefit expense (including directors' remuneration)				
Wages and salaries	**$ 2,686**	$ 2,472	**$ 8,042**	$ 7,456
Equity-settled share option expense (Note 21)	**8**	11	**36**	48
Pension scheme contributions	**312**	186	**1,003**	699
	$ 3,006	$ 2,669	**$ 9,081**	$ 8,203
Lease payments under operating leases	**$ 22**	$ 252	**$ 100**	$ 711
Foreign exchange loss/(gain)	**(477)**	(693)	**(478)**	(730)
Reversal of impairment of coal stockpile inventories (Note 12)	**(5,289)**	-	**(1,823)**	-
CIC service fee (Note 22)	**1,175**	358	**3,355**	1,336
Royalties (Note 6)	**2,326**	1,790	**6,903**	4,903
Provision for doubtful trade and and other receivables (Note 11)	**344**	3,947	**441**	19,303
Provision for prepaid expenses and deposits	**-**	-	**260**	-
Loss/(gain) on disposal of property, plant and equipment (Note 13)	**-**	1,145	**(29)**	1,173
Provision for commercial arbitration (Note 16)	**180**	232	**406**	686
Penalty on late settlement with trade payables	**-**	-	**-**	427
Impairment of properties for resale	**-**	1,372	**-**	1,372
Gain on settlement of trade payables	**-**	(2,956)	**-**	(2,956)
Loss on disposal of properties for resale	**23**	-	**37**	-
Mine operating costs and other	**14,323**	5,963	**42,317**	22,750
Total operating expenses	**$ 18,859**	$ 23,291	**$ 73,077**	$ 81,771

(i) The figures for the three and nine months ended September 30, 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 have 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 September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Operating expenses	**$ 15,485**	$ 6,318	**$ 44,794**	$ 22,895
Share-based compensation expense	**2**	1	**7**	1
Depreciation and depletion	**2,121**	4,973	**8,379**	12,667
Royalties	**2,326**	1,790	**6,903**	4,903
Reversal of impairment of coal stockpile inventories	**(5,289)**	-	**(1,823)**	-
Cost of sales from mine operations	**14,645**	13,082	**58,260**	40,466
Cost of sales related to idled mine assets (i)	**873**	4,028	**2,694**	11,342
Cost of sales	**$ 15,518**	$ 17,110	**$ 60,954**	$ 51,808

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

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

6. COST OF SALES (CONTINUED)

Cost of inventories recognized as expense in cost of sales for the three months ended September 30, 2019 totaled $17,667 (2018: $9,847). Cost of inventories recognized as expense in cost of sales for the nine months ended September 30, 2019 totaled $52,033 (2018: $31,651).

7. OTHER OPERATING EXPENSES

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018 (Restated) (i)	2019	2018 (Restated) (i)
CIC service fee	**$ (1,175)**	$ (358)	**$ (3,355)**	$ (1,336)
Provision for doubtful trade and other receivables (Note 11)	**(344)**	(3,947)	**(441)**	(19,303)
Provision for commercial arbitration (Note 16)	**(180)**	(232)	**(406)**	(686)
Provision for prepaid expenses and deposits	**-**	-	**(260)**	-
Loss on disposal of properties for resale	**(23)**	-	**(37)**	-
Foreign exchange gain/(loss)	**477**	693	**478**	730
Gain/(loss) on disposal of property, plant and equipment (Note 13)	**-**	(1,145)	**29**	(1,173)
Penalty on late settlement of trade payables	**-**	-	**-**	(427)
Impairment of properties for resale	**-**	(1,372)	**-**	(1,372)
Gain on settlement of trade payables	**-**	2,956	**-**	2,956
Others	**-**	(12)	**-**	(75)
Other operating expenses	**$ (1,245)**	$ (3,417)	**$ (3,992)**	$ (20,686)

(i) The figures for the three and nine months ended September 30, 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, September 30,		Nine months ended, September 30,	
	2019	2018	2019	2018
Interest expense on convertible debenture (Note 19)	**$ 5,964**	$ 5,486	**$ 17,485**	$ 16,296
Value added tax on interest from intercompany loan and borrowings	**905**	-	**2,501**	-
Interest expense on borrowings (Note 17)	**211**	224	**636**	1,235
Finance costs on leased assets (Note 18)	**30**	-	**105**	-
Loan arrangement fee	**-**	2	**-**	21
Accretion of decommissioning liability	**74**	46	**188**	138
Finance costs	**$ 7,184**	$ 5,758	**$ 20,915**	$ 17,690

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

8. FINANCE COSTS AND INCOME (CONTINUED)

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

	Three months ended, September 30,				Nine months ended, September 30,			
	2019		2018		2019		2018 (Restated) (i)	
Unrealized gain on embedded derivatives in convertible debenture (Note 19)	$	53	$	90	$	44	$	148
Interest income		15		16		44		34
IFRS 9 adjustment on convertible debenture (Note 19)		-		-		4,293		-
Finance income	$	68	$	106	$	4,381	$	182

(i) The figures for the nine months ended September 30, 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.

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, September 30,				Nine months ended, September 30,			
	2019		2018		2019		2018	
Current - Canada								
Charge for the period	$	-	$	-	$	-	$	-
Current - elsewhere								
Charge for the period		858		267		2,966		2,544
Underprovision/(overprovision) in prior periods		(390)		-		(258)		261
Total tax charge for the period	$	468	$	267	$	2,708	$	2,805

10. EARNINGS/(LOSS) PER SHARE

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

	Three months ended September 30,				Nine months ended September 30,			
	2019		2018 (Restated) (i)		2019		2018 (Restated) (i)	
Net profit/(loss)	$	2,143	$	(2,686)	$	6,384	$	(30,879)
Weighted average number of shares		272,703		272,644		272,703		272,641
Basic and diluted earnings/(loss) per share	$	0.01	$	(0.01)	$	0.02	$	(0.11)

(i) The figures for the three and nine months ended September 30, 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.

Potentially dilutive items not included in the calculation of diluted earnings per share for the three and nine months ended September 30, 2019 include the CIC Convertible Debenture (Note 19) and stock options (Note 21) that were anti-dilutive.

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

11. TRADE AND OTHER RECEIVABLES

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

	As at	
	September 30, 2019	**December 31, 2018**
Trade receivables	**$ 1,126**	$ 2,710
Other receivables	**792**	2,336
Total trade and other receivables	**$ 1,918**	$ 5,046

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

	As at	
	September 30, 2019	**December 31, 2018**
Less than 1 month	**$ 1,625**	$ 4,952
1 to 3 months	**237**	49
3 to 6 months	**56**	45
Over 6 months	**-**	-
Total trade and other receivables	**$ 1,918**	$ 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 $21,048 as at September 30, 2019 (December 31, 2018: $20,005), based upon an expected loss rate of 10% for trade and other receivables 60 days past due and 100% for trade and other receivables 180 days past due. The closing allowances for trade and other receivables as at September 30, 2019 reconcile to the opening loss allowances as follows:

Loss allowance for trade and other receivables	
Opening loss allowance as at January 1, 2019	**$ 20,005**
Increase in loss allowance recognised in profit or loss during the period	**155**
Loss allowance included in specific provision made during the year ended December 31, 2018	**1,745**
Exchange realignment	**(857)**
Loss allowance as at September 30, 2019	**$ 21,048**

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

12. INVENTORIES

The Company's inventories consist of the following amounts:

	As at September 30, 2019	As at December 31, 2018
Current inventories		
Coal stockpiles	**$ 34,157**	$ 31,783
Materials and supplies	**14,271**	15,326
	48,428	47,109
Non-current inventories		
Coal stockpiles	**13,506**	-
Total inventories	**$ 61,934**	$ 47,109

Cost of sales for the three and nine months ended September 30, 2019 includes a reversal of impairment of $5,289 and $1,823, respectively related to the Company's coal stockpile inventories. Nil impairment nor reversal of impairment was recorded during three months and nine months ended September 30, 2018.

Coal stockpile inventories of $13,506 are not expected to be utilized or sold within 12 months and are therefore classified as non-current inventories.

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	**2,802**	**531**	**-**	**13,152**	**-**	**16,485**
Disposals	**(3,936)**	**(17)**	**-**	**-**	**(538)**	**(4,491)**
Transfers	**-**	**101**	**-**	**-**	**(101)**	**-**
Exchange realignment	**(2,401)**	**(114)**	**(557)**	**(1,242)**	**(61)**	**(4,375)**
As at September 30, 2019	**$ 281,112**	**$ 26,328**	**$ 73,336**	**$ 209,636**	**$ 26,009**	**$ 616,421**
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	**(9,282)**	**(481)**	**(3,843)**	**(3,941)**	**-**	**(17,547)**
Eliminated on disposals	**3,895**	**17**	**-**	**-**	**-**	**3,912**
Exchange realignment	**2,305**	**127**	**384**	**272**	**-**	**3,088**
As at September 30, 2019	**$ (269,211)**	**$ (24,263)**	**$ (56,374)**	**$ (105,682)**	**$ (23,759)**	**$ (479,289)**
Carrying amount						
As at January 1, 2019, restated	$ 18,518	$ 1,901	$ 20,978	$ 95,713	$ 2,950	$ 140,060
As at September 30, 2019	**$ 11,901**	**$ 2,065**	**$ 16,962**	**$ 103,954**	**$ 2,250**	**$ 137,132**

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

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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 $668 (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 September 30, 2019, certain of the Company's property, plant and equipment of $731 (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 leases

Carrying value of leased assets as at September 30, 2019 was $909 (January 1, 2019 (Restated): $1,344).

14. INVESTMENTS IN JOINT VENTURES

The Company's investment consists of the following amounts:

	As at	
	September 30, 2019	December 31, 2018
Non-current investments in joint ventures		
Investment in RDCC LLC	**$ 18,116**	$ 18,822
Investment in Nariin Sukhait Erchim LLC ("NSE")	**9**	9
Total investments	**$ 18,125**	$ 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 September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Balance, beginning of period	**$ 18,251**	$ 20,589	**$ 18,822**	$ 21,052
Dividend received	**(346)**	(503)	**(1,640)**	(1,651)
Share of earnings of a joint venture	**277**	247	**1,104**	1,215
Share of other comprehensive loss of a joint venture	**(66)**	(704)	**(170)**	(987)
Balance, end of period	**$ 18,116**	$ 19,629	**$ 18,116**	$ 19,629

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

14. INVESTMENTS IN JOINT VENTURES (CONTINUED)

For the three and nine months ended September 30, 2019, RDCC LLC recognized toll fee revenue of $1,689 and $5,365, respectively (For the three and nine months ended September 30, 2018: $1,302 and $5,362, respectively). For the three and nine months ended September 30, 2019, RDCC LLC had a net income of $685 and $2,741, respectively (For the three and nine months ended September 30, 2018: $535 and $2,954, respectively).

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 the invoice date, is as follows:

	As at	
	September 30, 2019	**December 31, 2018**
Less than 1 month	**$ 29,472**	$ 34,927
1 to 3 months	**10,533**	16,336
3 to 6 months	**12,847**	5,446
Over 6 months	**36,540**	42,867
Total trade and other payables	**$ 89,392**	$ 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 (the "Arbitration Award"). 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/units in thousands, unless otherwise indicated)

16. PROVISION FOR COMMERCIAL ARBITRATION (CONTINUED)

As of the date hereof, the Company has not paid the November 2018, January 2019, May 2019 and September 2019 monthly payments due under the Settlement Deed. On October 16, 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, otherwise First Concept intends to commence legal action against SGS pursuant to the Settlement Deed. The Company is of the view that SGS is not in default under the Settlement Deed 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. 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 September 30, 2019, the outstanding amount payable to First Concept amounted to $5,514 (December 31, 2018: $12,508), which is due and payable as of the date hereof.

17. INTEREST-BEARING BORROWINGS

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

	As at	
	September 30, 2019	**December 31, 2018**
Turquoise Hill Loan Facility (i)	**$ -**	$ 595
Bank loan (ii)	**2,835**	3,543
Total interest-bearing borrowings	**$ 2,835**	$ 4,138

(i) Bank Loan

On May 15, 2018, SGS obtained a bank loan (the "2018 Bank Loan") in the principal amount of $2,800 from a Mongolian bank (the "Bank") 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 the 2018 Bank Loan. As at September 30, 2019, the net book value of the pledged items of property, plant and equipment was $731 (December 31, 2018: $2,643).

As at September 30, 2019, the outstanding principal balance for the 2018 Bank Loan was $2,800 (December 31, 2018: $2,800) and the Company owed accrued interest of $35 (December 31, 2018: $43). $700 outstanding principal balance of another bank loan from the Bank, which was settled during the first quarter of 2019, was included in the balance as at December 31, 2018.

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

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 September 30, 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	
	September 30, 2019	December 31, 2018	September 30, 2019	December 31, 2018
Amounts payable:				
Within one year	$ 557	$ 90	$ 493	$ 83
In the second year	215	25	215	24
In the third to fifth years, inclusive	-	6	-	6
Total minimum lease payments	$ 772	$ 121	$ 708	$ 113
Future finance charges	(64)	(8)		
Total net lease payables	$ 708	$ 113		
Portion classified as current liabilities	(493)	(83)		
Non-current portion	$ 215	$ 30		

19. CONVERTIBLE DEBENTURE

19.1 Key commercial terms

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

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

19. CONVERTIBLE DEBENTURE (CONTINUED)

19.3 Valuation assumptions

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

	As at	
	September 30, 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$0.11**	CAD$0.14
Historical volatility	**80%**	82%
Risk free rate of return	**1.45%**	2.11%
Foreign exchange spot rate (CAD$ to U.S. Dollar)	**0.76**	0.73
Forward foreign exchange rate curve (CAD$ to U.S. Dollar)	**0.751 - 0.757**	0.731 - 0.746

19.4 Presentation

Based on the Company's valuation as at September 30, 2019, the fair value of the embedded derivatives decreased by $44 compared to that at December 31, 2018 and decreased by $53 compared to that at June 30, 2019. The changes in fair value were recorded as finance income for the three and nine months ended September 30, 2019.

For the three months ended September 30, 2019, the Company recorded interest expense of $5,964 related to the convertible debenture as a finance cost (2018: $5,486). For the nine months ended September 30, 2019, the Company recorded interest expense of $17,485 related to the convertible debenture as a finance cost (2018: $16,296). The interest expense consists of the interest at the contract rate and the accretion of the debt host component of the convertible debenture. To calculate the accretion expense, the Company uses the contract life of 30 years and an effective interest rate of 22.2%.

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Balance, beginning of period	**$ 147,138**	$ 128,595	**$ 139,901**	$ 116,374
Interest expense on convertible debenture	**5,964**	5,486	**17,485**	16,296
Increase/(decrease) in fair value of embedded derivatives	**(53)**	(90)	**(44)**	(148)
IFRS 9 fair value adjustment	**-**	-	**(4,293)**	1,469
Balance, end of period	**$ 153,049**	$ 133,991	**$ 153,049**	$ 133,991

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

19. CONVERTIBLE DEBENTURE (CONTINUED)

The convertible debenture balance consists of the following amounts:

	As at	
	September 30, 2019	**December 31, 2018**
Current convertible debenture		
Interest payable	**$ 63,273**	$ 46,096
Debt host	**-**	93,540
Fair value of embedded derivatives	**-**	265
	63,273	139,901
Non-current convertible debenture		
Debt host	**89,555**	-
Fair value of embedded derivatives	**221**	-
	89,776	-
Total convertible debenture	**$ 153,049**	$ 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 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.

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 the Outstanding Interest Payable under the CIC Convertible Debenture and the June 2017 Deferral Agreement; and (ii) $27,934 of cash and PIK Interest payments payable to Land Breeze II S.a.r.l. under the CIC Convertible Debenture from April 23, 2019 to and including May 19, 2020. Pursuant to Section 501(c) of the TSX Company Manual, the 2019 Deferral Agreement was approved at the Company's adjourned annual and special meeting of shareholders on June 13, 2019.

The key repayment terms of the 2019 Deferral Agreement are: (i) the Company agreed to pay a total of $14,317 over eight instalments from November 2019 to June 2020; (ii) the Company agreed to pay the PIK Interest covered by the Deferral by way of cash payments, rather than the issuance of Common Shares; and (iii) the Company agreed to pay the remaining balance of $62,602 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.

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

19. CONVERTIBLE DEBENTURE (CONTINUED)

As a condition to agreeing to the Deferral, CIC required that the Cooperation Agreement 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 fee payable to Fullbloom as a result of the Amended and Restated Cooperation Agreement, the Company agreed to pay to Fullbloom a deferral fee at the rate of 2.5% on the outstanding service fee. Pursuant to the Amended and Restated Cooperation Agreement, the Company agreed to pay Fullbloom the total outstanding service fee and related accrued deferral fee of $4,183 over six instalments from June 2019 to November 2019. The Company executed the Amended and Restated Cooperation Agreement with Fullbloom on April 23, 2019.

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

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.

20. EQUITY

20.1 Share Capital

The Company has authorized an unlimited number of common and preferred shares with no par value. At September 30, 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 September 30, 2019, the Company has accumulated a deficit of $1,175,426 (December 31, 2018: $1,181,613). No dividends have been paid or declared by the Company since inception.

21. SHARE-BASED PAYMENTS

21.1 Stock option plan

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

For the nine months ended September 30, 2019, the Company granted an aggregate of 500 stock options to directors at an exercise price of CAD$0.11 and an expiry date of September 11, 2024. The weighted average fair value of the options granted in the nine months ended September 30, 2019 was estimated at $0.02 (CAD$0.03) per option at the grant date using the Black-Scholes option pricing model. For the nine months ended September 30, 2018, the Company granted an aggregate of 500 stock options to directors at an exercise price of CAD$0.13 and an expiry date of July 3, 2023 and granted 2,330 stock options to a director and employees at an exercise price of CAD$0.13 and an expiry date of August 16, 2023. The weighted average fair value of the options granted in the nine months ended September 30, 2018 was estimated at $0.04 (CAD$0.05) per option at the grant date using the Black-Scholes option pricing model.

The total share-based compensation expenses for the three months ended September 30, 2019 was $8 (2018: $11). Share-based compensation expenses of $6 (2018: $10) has been allocated to administration expenses and $2 share-based compensation expenses has been allocated to cost of sales (2018: $1).

The total share-based compensation expenses for the nine months ended September 30, 2019 was $36 (2018: $48). Share-based compensation expenses of $29 (2018: $47) has been allocated to administration expenses and $7 share-based compensation expenses has been allocated to cost of sales (2018: $1).

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

21. SHARE-BASED PAYMENTS (CONTINUED)

21.2 Outstanding stock options

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

	Nine months ended September 30, 2019			Nine months ended September 30, 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	$	0.38
Options granted	**500**		**0.11**	2,830		0.13
Options forfeited	**(103)**		**0.13**	(75)		0.13
Options expired	**(637)**		**0.33**	(350)		0.30
Balance, end of period	**4,455**	**$**	**0.21**	4,695	$	0.23

The stock options outstanding and exercisable as at September 30, 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 - $0.29	**3,351**	**$**	**0.14**	**3.83**	**1,427**	**$**	**0.15**	**3.39**
$0.33 - $0.39	**950**		**0.34**	**2.52**	**950**		**0.34**	**2.52**
$0.92	**154**		**0.92**	**0.50**	**154**		**0.92**	**0.50**
	4,455	**$**	**0.21**	**3.44**	**2,531**	**$**	**0.40**	**2.89**

22. RELATED PARTY TRANSACTIONS

In additional to the transactions detailed elsewhere in profit or loss, the Company had related party transactions with the following company related by way of directors or shareholders in common during the three and nine months ended September 30, 2019:

- CIC – CIC is a major shareholder of the Company, CIC holds approximately 23.75% of the issued and outstanding Common Shares as at September 30, 2019. The Amended and Restated Cooperation Agreement with Fullbloom states that an amount of service fee calculated based on 2.5% of the revenue shall be paid to CIC on a quarterly basis. During the three and nine months ended September 30, 2019, $1,175 and $3,355 was recorded, respectively (three and nine months ended September 30, 2018: $358 and $1,336, respectively).

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

22. RELATED PARTY TRANSACTIONS (CONTINUED)

22.1 Related party expenses

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	**2018**	**2019**	**2018**
Finance costs	**$ 5,964**	$ 5,486	**$ 17,485**	$ 16,296
Service fee	**1,175**	358	**3,355**	1,336
Related party expenses	**$ 7,139**	$ 5,844	**$ 20,840**	$ 17,632

23. 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 September 30, 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.

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

23. FAIR VALUE MEASUREMENTS (CONTINUED)

	As at September 30, 2019			
Recurring measurements	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial liabilities measured at fair value				
Convertible debenture - embedded derivatives	$ -	$ -	$ 221	$ 221
Total financial liabilities measured at fair value	$ -	$ -	$ 221	$ 221

	As at September 30, 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

	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 and nine months ended September 30, 2019.

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:

	Nine months ended September 30,	
	2019	**2018 (Restated)**
Addition to decommissioning liability	$ 933	$ 96
Amortization of deferred stripping being capitalized	2,288	8,650
Trade payables offset by fixed assets	538	7,258
Trade payables offset by properties for resale	2,086	-
Trade receivables offset by deferred revenue	-	5,363

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

24. SUPPLEMENTAL CASH FLOW INFORMATION (CONTINUED)

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:

	Nine months ended September 30, 2019	Nine months ended September 30, 2018 (Restated)
Increase in inventories	**$ (9,765)**	$ (5,928)
Decrease/(increase) in trade and other receivables and notes receivables	**4,886**	(11,056)
Increase in prepaid expenses and deposits	**(439)**	(1,394)
Increase/(decrease) in trade and other payables	**(9,590)**	13,297
Increase in deferred revenue	**1,613**	12,027
Increase in restricted cash	**-**	(582)
Decrease in provision for commercial arbitration	**(7,400)**	-
Reclass of refund customers' deposits as financing activities	**12,382**	-
Net change in non-cash working capital items	**$ (8,313)**	$ 6,364

25. COMMITMENTS FOR EXPENDITURE

As at September 30, 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 September 30, 2019				
Capital expenditure commitments	**$ 5,470**	**$ -**	**$ -**	**$ 5,470**
Operating expenditure commitments	**14,897**	**163**	**1,396**	**16,456**
Commitments	**$ 20,367**	**$ 163**	**$ 1,396**	**$ 21,926**
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").

26. CONTINGENCIES (CONTINUED)

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.

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

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

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

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.

26. CONTINGENCIES (CONTINUED)

Under the original agreement with Ejin Jinda, which required the commercial operation of the wet washing facility to commence on October 1, 2011, the additional fees payable by the Company under the wet washing contract would have been $18,500. At each reporting date, the Company assesses the agreement with Ejin Jinda and has determined it is not probable that these $18,500 will be required to be paid. Accordingly, the Company has determined a provision for this matter as at September 30, 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 September 30, 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.

On September 4, 2019, the Government of Mongolia issued a resolution in connection with the royalty regime. From September 1, 2019 onwards, in the event that the contract sales price is less than the reference price as determined by the Government of Mongolia by more than 30%, then the royalty payable will be calculated based on the Mongolian government's reference price instead of the contract sales price.