SouthGobi Resources Ltd.
Management's Discussion and Analysis of Financial Condition and Results of Operations

September 30, 2019
(Expressed in U.S. dollars)

FORWARD-LOOKING STATEMENTS

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

- the Company continuing as a going concern and its ability to realize its assets and discharge its liabilities in the normal course of operations as they become due; adjustments to the amounts and classifications of assets and liabilities in the Company's consolidated financial statements and the impact thereof;
- the Company's expectations of sufficient liquidity and capital resources to meet its ongoing obligations and future contractual commitments, including the Company's ability to settle its trade payables, to secure additional funding and to meet its obligations under each of the China Investment Corporation ("CIC") convertible debenture (the "CIC Convertible Debenture"), the 2019 Deferral Agreement (as defined below), the Amended and Restated Cooperation Agreement (as defined below), the 2018 Bank Loan (as defined below), and the Settlement Deed (as defined below) with First Concept Industrial Group Limited ("First Concept"), as the same become due;
- the Company's anticipated financing needs, development plans and future production levels;
- the Company entering into discussions with CIC regarding a potential debt restructuring plan;
- the ability of the Company to successfully respond to any enforcement proceeding brought by First Concept in respect of the Arbitration Award (as defined below) and the Settlement Deed;
- the results and impact of the Ontario class action (as described under Section 6 of this MD&A under the heading entitled "*Regulatory Issues and Contingencies – Class Action Lawsuit*");
- the impact of the internal investigation conducted by the Special Committee (as defined below) on the Suspicious Transactions (as defined below) engaged in by Former Management and Employees (as defined below);
- the estimates and assumptions included in the Company's impairment analysis and the possible impact of changes thereof;
- the agreement with Ejin Jinda and the payments thereunder (as described under Section 6 of this MD&A under the heading entitled "*Regulatory Issues and Contingencies – Toll Wash Plant Agreement with Ejin Jinda");*
- the ability of the Company to successfully recover the balance of its doubtful trade and notes receivables;
- the ability of the Company to enhance the operational efficiency and output throughput of the washing facilities at Ovoot Tolgoi;
- the ability to enhance the product value by conducting coal processing and coal washing;
- the impact of the Company's activities on the environment and actions taken for the purpose of mitigation of potential environmental impacts and planned focus on health, safety and environmental performance;
- the impact of the delays in the custom clearance process at the Ceke border on the Company's operations and the restrictions established by Chinese authorities on the import of F-grade coal into China;

- the ability of the Company to successfully appeal MRAM's decision to terminate the Soumber Licenses (as defined below) and the anticipated timing of the Administration Court of the Capital City's (the "Administration Court") ruling on the appeal;
- the ability of the Company to successfully negotiate an extension of the agreement with the third party contractor relating to the operation of the wash plant at the Ovoot Tolgoi mine site;
- the future demand for coal in China;
- future trends in the Chinese coal industry;
- the Company's outlook and objectives for 2019 and beyond (as more particularly described under Section 11 of this MD&A under the heading entitled "*Outlook*"); and
- other statements that are not historical facts.

Forward-looking information is based on certain factors and assumptions described below and elsewhere in this MD&A, including, among other things: the current mine plan for the Ovoot Tolgoi mine; mining, production, construction and exploration activities at the Company's mineral properties; the costs relating to anticipated capital expenditures; the capacity and future toll rate of the paved highway; plans for the progress of mining license application processes; mining methods; the Company's anticipated business activities, planned expenditures and corporate strategies; management's business outlook, including the outlook for 2019 and beyond; currency exchange rates; operating, labour and fuel costs; the ability of the Company to raise additional financing; the anticipated royalties payable under Mongolia's royalty regime; the future coal market conditions in China and the related impact on the Company's margins and liquidity; future coal prices, and the level of worldwide coal production. While the Company considers these assumptions to be reasonable based on the information currently available to it, they may prove to be incorrect. Forward-looking statements are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These risks and uncertainties include, among other things: the uncertain nature of mining activities, actual capital and operating costs exceeding management's estimates; variations in mineral resource and mineral reserve estimates; failure of plant, equipment or processes to operate as anticipated; the possible impacts of changes in mine life, useful life or depreciation rates on depreciation expenses; risks associated with, or changes to regulatory requirements (including environmental regulations) and the ability to obtain all necessary regulatory approvals; the potential expansion of the list of licenses published by the Government of Mongolia covering areas in which exploration and mining are purportedly prohibited on certain of the Company's mining licenses; the Government of Mongolia designating any one or more of the Company's mineral projects in Mongolia as a Mineral Deposit of Strategic Importance; the risk of continued delays in the custom clearance process at the Ceke border; the restrictions established by Chinese authorities on the import of F-grade coal into China; the possible impact of changes to the inputs to the valuation model used to value the embedded derivatives in the CIC Convertible Debenture; the risk of the Company failing to successfully negotiate favorable repayment terms on the TRQ Reimbursable Amount (as described under Section 5 of this MD&A under the heading entitled "*Liquidity and Capital Management – Costs Reimbursable to Turquoise Hill Resources Ltd*") ; the risk of the Company or its subsidiaries defaulting under its existing debt obligations, including the Amended and Restated Cooperation Agreement, the 2018 Bank Loan, and the Settlement Deed; the impact of amendments to, or the application of, the laws of Mongolia, China and other countries in which the Company carries on business; modifications to existing practices so as to comply with any future permit conditions that may be imposed by regulators; delays in obtaining approvals and lease renewals; the risk of fluctuations in coal prices and changes in China and world economic conditions; the risk that First Concept initiates legal proceedings against SouthGobi Sands LLC ("SGS"), a subsidiary of the Company, pursuant to the Settlement Deed (as described under Section 5 of this MD&A under the heading entitled "*Liquidity and Capital Resources – Commercial Arbitration in Hong Kong*"); the outcome of the Class Action (as described under Section 6 of this MD&A under the heading entitled "*Regulatory Issues and Contingencies – Class Action Lawsuit*") and any damages payable by the Company as a result; ; the impact of the internal investigation conducted by the Special Committee; the risk that the Company is unable to successfully negotiate a debt restructuring plan with CIC; the risk that the calculated sales price determined by the Company for the purposes of determining the amount of royalties payable to the Mongolian government is deemed as being "non-market" under Mongolian tax law; customer credit risk; cash flow and liquidity risks; risks relating to the Company's decision to suspend activities relating to the development of the Ceke Logistics Park project, including the risk that its investment partner may initiate legal action against the Company for failing to comply with the underlying agreements governing project development; risks relating to the ability of the Company to enhance the operational efficiency and the output throughput of the washing facilities at Ovoot Tolgoi; risks relating to the Company's ability to successfully appeal MRAM's decision to terminate the Soumber Licenses and delays in receiving the Administration Court's ruling on the appeal; the risk that the Company is unable to successfully negotiate an extension of the agreement with the third party contractor relating to the operation of the wash plant at the Ovoot Tolgoi mine site and risks relating to the Company's ability to raise additional financing and to continue as a going concern. Please see Section 10 of this MD&A under the heading entitled "*Risk Factors*" for a discussion of these and other risks and uncertainties relating to the Company and its operations. This list is not exhaustive of the factors that may affect any of the Company's forward-looking statements.

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

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INTRODUCTION

This MD&A is dated as of November 13, 2019 and should be read in conjunction with the condensed consolidated interim financial statements of the Company and the notes thereto for the three and nine months ended September 30, 2019. The Company's condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 - "Interim Financial Reporting" using accounting policies in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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

The functional currency of the Company's Chinese subsidiaries (SouthGobi Trading (Beijing) Co., Ltd., Inner Mongolia SouthGobi Energy Co., Ltd., and Inner Mongolia SouthGobi Enterprise Co., Ltd.) was Renminbi ("RMB") and the functional currency of the Company's Mongolian operations (SGS, Mazaalai Resources LLC, Dayarbulag LLC, and RDCC LLC), was the Mongolian Tugrik ("MNT").

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

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

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

Disclosure of a scientific or technical nature relating to the Ovoot Tolgoi Mine contained in this MD&A is derived from a technical report (the "Ovoot Tolgoi Technical Report") prepared in accordance with NI 43-101 on the Ovoot Tolgoi Mine dated May 15, 2017, prepared by Dr. Weiliang Wang, Mr. Vincent Li and Mr. Larry Li of Dragon Mining Consulting Limited ("DMCL"). A copy of the Ovoot Tolgoi Technical Report is available under the Company's profile on SEDAR at www.sedar.com.

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

1. OVERVIEW

The Company is an integrated coal mining, development and exploration company with 472 employees as at September 30, 2019. The Company's common shares ("Common Shares") are listed for trading on the Toronto Stock Exchange ("TSX") under the symbol SGQ and on the Hong Kong Stock Exchange ("HKEX") under the stock code symbol 1878.

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

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

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

Significant Events and Highlights

The Company's significant events and highlights for the three months ended September 30, 2019 and the subsequent period to November 13, 2019 are as follows:

- ***Operating Results*** – The Company increased sales volume to 0.8 million tonnes for the third quarter of 2019 from 0.7 million tonnes for the third quarter of 2018. The average realized selling price is $35.0 per tonne for the third quarter of 2019, which is similar to $35.8 per tonne for the third quarter of 2018.

- ***Financial Results*** – The Company recorded a gross profit of $12.8 million in the third quarter of 2019 compared to $9.2 million in the third quarter of 2018 while a $2.1 million net profit was recorded in the third quarter of 2019 compared to $2.7 million net loss in the third quarter of 2018 (restated). The Company recorded a profit from operations of $9.5 million in the third quarter of 2019 compared to $3.0 million in the third quarter of 2018 (restated). The improvement in profit from operations was principally attributable to (i) the lower provision for doubtful trade and other receivables being made during the quarter ($0.3 million and $3.9 million for the third quarter of 2019 and third quarter of 2018, respectively); and (ii) the reversal of impairment of coal stockpile inventories of $5.3 million (nil for the third quarter of 2018).

- ***Notice of Arbitration*** – As of the date hereof, the Company has not paid the November 2018, January 2019, May 2019 and September 2019 monthly payments due under a deed of settlement (the "Settlement Deed") with First Concept. On October 16, 2019, SGS received a notice from First Concept claiming that the Company is in default under the Settlement Deed and demanding payment of the full amount of the outstanding monthly payments due under the Settlement Deed, otherwise First Concept intends to commence legal action against SGS pursuant to the Settlement Deed. Since a default under the Settlement Deed is only triggered when 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 September 30, 2019, the outstanding amount payable to First Concept amounted to $5.5 million (December 31, 2018: $12.5 million), which is due and payable as of the date hereof.

- ***Termination of Soumber Deposit Mining Licenses*** – On August 26, 2019, SGS received a letter (the "Notice Letter") from the Mineral Resources and Petroleum Authority of Mongolia ("MRAM") notifying that the Company's three mining licenses (MV-016869, MV-020436 and MV-020451) (the "Soumber Licenses") for the Soumber Deposit have been terminated by the Head of Cadastre Division of MRAM effective as of August 21, 2019.

  According to the Notice Letter, the Soumber Licenses have been terminated pursuant to Clause 56.1.5 of Article 56 of the Minerals Law, Clauses 4.2.1 and 4.2.5 of Article 4 and Clause 28.1.1 of Article 28 of the General Administrative Law and a decision order of a working group established under an order of the Minister of Environment and Tourism (Mongolia). According to this decision order, the working group determined that SGS had violated its environmental reclamation obligations with respect to the Soumber Deposit. The Soumber Deposit is an undeveloped coal deposit covering approximately 22,263 hectares located approximately 20 kilometers east of the Company's Ovoot Tolgoi coal mine in Mongolia. The Company owned a 100% interest in the Soumber Deposit.

  The Company believes the cancelation of the Soumber Licenses is without merit. The Company is not aware of any failure on its part to fulfill its environmental reclamation duties as they relate to the Soumber Deposit. On October 4, 2019, SGS filed a claim against MRAM and the Ministry of Environment and Tourism of Mongolia in the Administration Court seeking an order to restore the Soumber Licenses. The Company anticipates that the Administration Court will issue its ruling before the end of the 2019 calendar year. The Company will take all such actions, including additional legal actions, as it considers necessary to reinstate the Soumber Licenses. However, there can be no assurance that a favorable outcome will be reached. The termination of the Soumber Licenses does not have any impact on its current mining operations at the Ovoot Tolgoi mine site.

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

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

Based on the key findings of and information obtained from the Formal Investigation, the Company considered the resulting financial impact on its prior financial statements and restated certain items in the Company's financial statements for the years ended December 31, 2016 and December 31, 2017 (the "Prior Restatement"), as disclosed in the Company's audited annual consolidated financial statements and related management's discussion and analysis for the year ended December 31, 2018, copies of which are available under the Company's profile on SEDAR at www.sedar.com. The Prior Restatement reflects the impact of the misappropriation of assets as well as the reclassification of certain balances of assets in the prior years. With respect to the three and nine months period ended September 30, 2018, the net effect of the Prior Restatement was a decrease in the net comprehensive loss of $1.3 million and $3.3 million for the respective periods. A summary of the requisite adjustments on the financial statements for the three and nine month periods ended September 30, 2018 is set forth in the table below:

$ in thousands **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)**

$ in thousands **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)**

- ***Going Concern*** – In 2016, the Company started its program to build a coal washing plant to upgrade the low quality fractions of its run-of-mine coals to higher value and higher margin products. The commissioning of the wash plant at the Ovoot Tolgoi mine was completed during the second quarter of 2019. 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.

Unless the Company acquires additional sources of financing and/or funding in the short term, the ability of the Company to continue as a going concern is threatened. If the Company is unable to continue as a going concern, it may be forced to seek relief under applicable bankruptcy and insolvency legislation. See Section 5 of this MD&A under the heading entitled "Liquidity and Capital Resources" and Section 10 of this MD&A under the heading entitled "Risk Factors" for details. As at November 13, 2019, the Company had $2.6 million of cash.

2. OVERVIEW OF OPERATIONAL DATA AND FINANCIAL RESULTS

Summary of Annual Operational Data

	Three months ended September 30,				Nine months ended September 30,			
	2019		2018		2019		2018	
Sales Volumes, Prices and Costs								
Premium semi-soft coking coal								
Coal sales *(millions of tonnes)*		**0.05**		0.25		**0.28**		0.35
Average realized selling price *(per tonne)*	**$**	**31.49**	$	48.15	**$**	**38.27**	$	52.36
Standard semi-soft coking coal/ premium thermal coal								
Coal sales *(millions of tonnes)*		**0.51**		0.26		**1.95**		0.86
Average realized selling price *(per tonne)*	**$**	**31.67**	$	34.40	**$**	**33.87**	$	39.93
Standard thermal coal								
Coal sales *(millions of tonnes)*		**-**		0.22		**0.09**		0.66
Average realized selling price *(per tonne)*	**$**	**-**	$	23.49	**$**	**29.43**	$	25.21
Washed coal								
Coal sales *(millions of tonnes)*		**0.25**		-		**0.43**		-
Average realized selling price *(per tonne)*	**$**	**42.37**	$	-	**$**	**43.10**	$	-
Total								
Coal sales *(millions of tonnes)*		**0.81**		0.73		**2.75**		1.87
Average realized selling price *(per tonne)*	**$**	**34.98**	$	35.77	**$**	**35.54**	$	37.03
Raw coal production *(millions of tonnes)*		**1.21**		1.11		**3.57**		2.47
Cost of sales of product sold *(per tonne)*	**$**	**19.16**	$	23.44	**$**	**22.17**	$	27.70
Direct cash costs of product sold *(per tonne)* (i)	**$**	**18.03**	$	7.41	**$**	**15.03**	$	11.08
Mine administration cash costs of product sold *(per tonne)* (i)	**$**	**1.09**	$	1.24	**$**	**1.26**	$	1.16
Total cash costs of product sold *(per tonne)* (i)	**$**	**19.12**	$	8.65	**$**	**16.29**	$	12.24
Other Operational Data								
Production waste material moved *(millions of bank cubic meters)*		**4.36**		4.56		**14.61**		12.62
Strip ratio *(bank cubic meters of waste material per tonne of coal produced)*		**3.61**		4.11		**4.09**		5.08
Lost time injury frequency rate (ii)		**0.08**		0.00		**0.05**		0.06

(i) A non-IFRS financial measure, see section 3. Cash costs of product sold exclude idled mine asset cash costs.
(ii) Per 200,000 man hours and calculated based on a rolling 12-month average.

Overview of Operational Data

For the three months ended September 30, 2019

For the three months ended September 30, 2019, the Company had a lost time injury frequency rate of 0.08 per 200,000 man hours based on a rolling 12 month average.

The average realized selling price is $35.0 per tonne for the third quarter of 2019, which is similar to $35.8 per tonne for the third quarter of 2018.

The product mix for the third quarter of 2019 consisted of approximately 6% of premium semi-soft coking coal, 63% of standard semi-soft coking coal/premium thermal coal and 31% of washed coal compared to approximately 34% of premium semi-soft coking coal, 36% of standard semi-soft coking coal/premium thermal coal and 30% of standard thermal coal in the third quarter of 2018.

The Company sold 0.8 million tonnes for the third quarter of 2019 as compared to 0.7 million tonnes for the third quarter of 2018.

The Company's production in the third quarter of 2019 was higher than the third quarter of 2018 as a result of pacing production to meet the expected sales as well as a lower strip ratio achieved for the quarter, yielding 1.2 million tonnes for the third quarter of 2019 as compared to 1.1 million tonnes for the third quarter of 2018.

The Company's unit cost of sales of product sold decreased to $19.2 per tonne in the third quarter of 2019 from $23.4 per tonne in the third quarter of 2018. The decrease was mainly driven by (i) increased sales and the related economies of scale; and (ii) the reversal of impairment of coal stockpile inventories of $5.3 million during the quarter (nil for the third quarter of 2018).

For the nine months ended September 30, 2019

The Company sold 2.8 million tonnes for the first nine months of 2019 as compared to 1.9 million tonnes for the first nine months of 2018. The average selling price decreased from $37.0 per tonne for the first nine months of 2018 to $35.5 per tonne for the first nine months of 2019.

The Company's production in the first nine months of 2019 was higher than the first nine months of 2018 as a result of pacing the production to meet the expected sales, yielding 3.6 million tonnes for the first nine months of 2019 as compared to 2.5 million tonnes for the first nine months of 2018.

The Company's unit cost of sales of product sold decreased to $22.2 per tonne in the first nine months of 2019 from $27.7 per tonne in the first nine months of 2018. The decrease was mainly driven by increased sales and the related economies of scale.

Summary of Financial Results

$ in thousands, except per share information	**Three months ended September 30, 2019**	**Three months ended September 30, 2018 (iii) (Restated)**	**Nine months ended September 30, 2019**	**Nine months ended September 30, 2018 (iii) (Restated)**
Revenue *(i)*	**$ 28,309**	$ 26,277	**$ 97,599**	$ 69,990
Cost of sales *(i)*	**(15,518)**	(17,110)	**(60,954)**	(51,808)
Gross profit excluding idled mine asset costs *(ii)*	**13,664**	13,195	**39,339**	29,524
Gross profit	**12,791**	9,167	**36,645**	18,182
Other operating expenses	**(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	**(7,184)**	(5,758)	**(20,915)**	(17,690)
Finance income	**68**	106	**4,381**	182
Share of earnings of a joint venture	**277**	247	**1,104**	1,215
Income tax expense	**(468)**	(267)	**(2,708)**	(2,805)
Net profit/(loss)	**2,143**	(2,686)	**6,384**	(30,879)
Basic and diluted earnings/(loss) per share	**$ 0.01**	$ (0.01)	**$ 0.02**	$ (0.11)

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

(ii) A non-IFRS financial measure, idled mine asset costs represents the depreciation expense relates to the Company's idled plant and equipment.

(iii) The financial results for the three and nine months ended September 30, 2018 were restated. Refer to Section 1 of this MD&A under the heading entitled "Key Findings of Formal Investigation" for details.

Overview of Financial Results

For the three months ended September 30, 2019

The Company recorded a $9.5 million profit from operations in the third quarter of 2019 compared to $3.0 million in the third quarter of 2018 (restated). The improvement in profit from operations was principally attributable to (i) the lower provision for doubtful trade and other receivables being made during the quarter ($0.3 million and $3.9 million for the third quarter of 2019 and third quarter of 2018, respectively); and (ii) the reversal of impairment of coal stockpile inventories of $5.3 million (nil for the third quarter of 2018).

Revenue was $28.3 million in the third quarter of 2019 compared to $26.3 million in the third quarter of 2018. The Company's effective royalty rate for the third quarter of 2019, based on the Company's average realized selling price of $35.0 per tonne, was 8.2% or $2.9 per tonne, compared to 6.8% or $2.4 per tonne in the third quarter of 2018 (based on the average realized selling price of $35.8 per tonne in the third quarter of 2018).

Royalty regime in Mongolia

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

On February 1, 2016, the Government of Mongolia issued a resolution in connection with the royalty regime. From February 1, 2016 onwards, royalties are to be calculated based on the actual contract price including transportation costs to the Mongolia border. If such transportation costs have not been included in the contract, the relevant transportation costs, customs documentation fees, insurance and loading costs should be estimated for the calculation of royalties. In the event that the calculated sales price as described above differs from the contract sales price of other entities in Mongolia (same quality of coal and same border crossing) by more than 10%, the calculated sales price will be deemed to be "non-market" under Mongolian tax law and the royalty will then be calculated based on a reference price as determined by the Government of Mongolia.

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.

See the section entitled "*Risk Factors - Company's Projects in Mongolia*" in the Company's most recently filed Annual Information Form for the year ended December 31, 2018, a copy of which is available under the Company's profile on SEDAR at www.sedar.com.

Cost of sales was $15.5 million in the third quarter of 2019 compared to $17.1 million in the third quarter of 2018. The decrease in cost of sales was mainly due to the reversal of impairment of coal stockpile inventories of $5.3 million during the quarter. Cost of sales consists of operating expenses and royalties, share-based compensation expense, equipment depreciation, depletion of mineral properties and idled mine asset costs. Operating expenses in cost of sales reflect the total cash costs of product sold (a Non-IFRS financial measure, see Section 3 of this MD&A for further analysis) during the quarter.

$ in thousands	Three months ended September 30, 2019	2018
Operating expenses	**$ 15,485**	$ 6,318
Share-based compensation expense	**2**	1
Depreciation and depletion	**2,121**	4,973
Royalties	**2,326**	1,790
Reversal of impairment of coal stockpile inventories	**(5,289)**	-
Cost of sales from mine operations	**14,645**	13,082
Cost of sales related to idled mine assets	**873**	4,028
Cost of sales	**$ 15,518**	$ 17,110

Operating expenses in cost of sales were $15.5 million in the third quarter of 2019 compared to $6.3 million in the third quarter of 2018. The overall increase in operating expenses was primarily due to the effect of: (i) increased sales volume from 0.7 million tonnes in the third quarter of 2018 to 0.8 million tonnes in the third quarter of 2019; (ii) higher inventory carrying costs given less deferred stripping cost was capitalized for the third quarter of 2019; and (iii) improved product mix with higher inventory carrying cost for the third quarter of 2019.

Cost of sales in the third quarter of 2019 included a reversal of impairment of coal stockpile inventories of $5.3 million, to increase the carrying value of the Company's coal stockpiles to the lower of the cost and the net realizable value. The reversal of impairment of coal stockpile inventories recorded in the third quarter of 2019 reflected the enhancement in the wash plant capacity and its continuous operation at the expected level.

Cost of sales related to idled mine assets in the third quarter of 2019 included $0.9 million related to depreciation expenses for idled equipment (third quarter of 2018: $4.0 million).

Other operating expenses was $1.2 million in the third quarter of 2019 (third quarter of 2018 (restated): $3.4 million).

$ in thousands	Three months ended September 30, 2019	2018 (Restated)
CIC service fee	**$ (1,175)**	$ (358)
Provision for doubtful trade and other receivables	**(344)**	(3,947)
Provision for commercial arbitration	**(180)**	(232)
Loss on disposal of properties for resale	**(23)**	-
Foreign exchange gain	**477**	693
Gain on settlement of trade payables	**-**	2,956
Loss on disposal of property, plant and equipment	**-**	(1,145)
Impairment of properties for resale	**-**	(1,372)
Other	**-**	(12)
Other operating expenses	**$ (1,245)**	$ (3,417)

During the third quarter of 2019, the Company made a provision for doubtful trade and other receivables of $0.3 million (third quarter of 2018: $3.9 million) for certain long aged receivables based on expected credit loss model.

Administration expenses were $2.1 million in the third quarter of 2019 as compared to $2.7 million in the third quarter of 2018, as follows:

$ in thousands	Three months ended September 30, 2019	2018
Corporate administration	**$ 457**	$ 616
Professional fees	**365**	713
Salaries and benefits	**1,084**	1,342
Share-based compensation expense	**7**	10
Depreciation	**161**	43
Administration expenses	**$ 2,074**	$ 2,724

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

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

Finance costs were $7.2 million and $5.8 million in the third quarter of 2019 and 2018 respectively, which primarily consisted of interest expense on the $250.0 million CIC Convertible Debenture.

For the nine months ended September 30, 2019

The Company recorded a $24.5 million profit from operations in the first nine months of 2019 compared to an $11.8 million loss from operations in the first nine months of 2018 (restated). The improvement of overall financial results was principally attributable to lower unit cost of sales of products sold during the first nine months of 2019 and the provision for doubtful trade and other receivables of $19.3 million recorded during the first nine months of 2018.

Revenue was $97.6 million in the first nine months of 2019 compared to $70.0 million in the first nine months of 2018. The Company sold 2.8 million tonnes of coal at an average realized selling price of $35.5 per tonne in the first nine months of 2019 compared to sales of 1.9 million tonnes at an average realized selling price of $37.0 per tonne in the first nine months of 2018.

The Company's effective royalty rate for the first nine months of 2019, based on the Company's average realized selling price of $35.5 per tonne, was 7.1% or $2.5 per tonne compared to 7.0% or $2.6 per tonne based on the average realized selling price of $37.0 per tonne in the first nine months of 2018.

Cost of sales was $61.0 million in the first nine months of 2019 compared to $51.8 million in the first nine months of 2018 as follows:

$ in thousands	Nine months ended September 30, 2019	2018
Operating expenses	**$ 44,794**	$ 22,895
Share-based compensation expense	**7**	1
Depreciation and depletion	**8,379**	12,667
Royalties	**6,903**	4,903
Reversal of impairment of coal stockpile inventories	**(1,823)**	-
Cost of sales from mine operations	**58,260**	40,466
Cost of sales related to idled mine assets	**2,694**	11,342
Cost of sales	**$ 60,954**	$ 51,808

Operating expenses in cost of sales were $44.8 million in the first nine months of 2019 compared to $22.9 million in the first nine months of 2018. The increase in operating expenses was primarily due to the effect of: (i) increase in sales volume from 1.9 million tonnes in the first nine months of 2018 to 2.8 million tonnes in the first nine months of 2019; (ii) higher inventory carrying costs given less deferred stripping cost was capitalized for the first nine months of 2019; and (iii) improved product mix with higher inventory carrying cost for the first nine months of 2019.

Cost of sales in the first nine months of 2019 included a reversal of impairment of coal stockpile inventories of $1.8 million. The reversal of impairment of coal stockpile inventories reflected the enhancement in the wash plant capacity and its continuous operation at the expected level.

Cost of sales related to idled mine asset costs primarily consisted of period costs, which were expensed as incurred and primarily included depreciation expense. Cost of sales related to idled mine assets in the first nine months of 2019 included $2.7 million related to depreciation expenses for idled equipment (first nine months of 2018: $11.3 million).

Other operating expenses were $4.0 million in the first nine months of 2019 compared to $20.7 million in the first nine months of 2018 (restated) as follows:

	Nine months ended September 30,	
$ in thousands	**2019**	**2018 (Restated)**
CIC service fee	**$ (3,355)**	$ (1,336)
Provision for doubtful trade and other receivables	**(441)**	(19,303)
Provision for commercial arbitration	**(406)**	(686)
Provision for prepaid expenses and deposits	**478**	-
Loss on disposal of properties for resale	**(260)**	-
Foreign exchange gain	**(37)**	730
Gain/(loss) on disposal of property, plant and equipment	**29**	(1,173)
Impairment of properties for resale	**-**	(1,372)
Penalty on late settlement of trade payables	**-**	(427)
Gain on settlement of trade payables	**-**	2,956
Other	**-**	(75)
Other operating expenses	**$ (3,992)**	$ (20,686)

During the first nine months of 2019, the Company made a provision for doubtful trade and other receivables of $0.4 million (first nine months of 2018: $19.3 million) for certain long aged receivables based on expected credit loss model.

Administration expenses were $8.1 million in the first nine months of 2019 compared to $9.0 million in the first nine months of 2018 as follows:

	Nine months ended September 30,	
$ in thousands	**2019**	**2018**
Corporate administration	**$ 1,555**	$ 1,988
Professional fees	**2,668**	2,976
Salaries and benefits	**3,315**	3,820
Share-based compensation expense	**30**	47
Depreciation	**493**	126
Administration expenses	**$ 8,061**	$ 8,957

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

Finance costs were $20.9 million and $17.7 million in the first nine months of 2019 and 2018 respectively. This primarily consisted of interest expense on the CIC Convertible Debenture.

Finance income was $4.4 million for the first nine months of 2019 (first nine months of 2018 (restated): $0.2 million), which primarily related to the modification of the terms of the CIC Convertible Debenture as a result of signing the deferral agreement with CIC dated April 23, 2019 ("2019 Deferral Agreement").

Summary of Quarterly Operational Data

	2019			2018				2017
Quarter Ended	**30-Sep**	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec
Sales Volumes, Prices and Costs								
Premium semi-soft coking coal								
Coal sales *(millions of tonnes)*	**0.05**	0.12	0.11	0.24	0.25	0.07	0.03	0.37
Average realized selling price *(per tonne)*	**$ 31.49**	$ 32.72	$ 47.34	$ 47.37	$ 48.15	$ 59.98	$ 67.94	$ 50.47
Standard semi-soft coking coal/ premium thermal coal								
Coal sales *(millions of tonnes)*	**0.51**	0.59	0.85	0.40	0.26	0.19	0.41	0.60
Average realized selling price *(per tonne)*	**$ 31.67**	$ 35.67	$ 33.34	$ 32.60	$ 34.40	$ 33.80	$ 46.34	$ 37.49
Standard thermal coal								
Coal sales *(millions of tonnes)*	**-**	-	0.09	0.12	0.22	0.32	0.12	0.29
Average realized selling price *(per tonne)*	**$ -**	$ -	$ 34.88	$ 24.26	$ 23.49	$ 26.32	$ 25.40	$ 16.98
Washed coal								
Coal sales *(millions of tonnes)*	**0.25**	0.17	0.01	0.15	-	-	-	-
Average realized selling price *(per tonne)*	**$ 42.37**	$ 44.20	$ 45.07	$ 44.02	$ -	$ -	$ -	$ -
Total								
Coal sales *(millions of tonnes)*	**0.81**	0.88	1.06	0.91	0.73	0.58	0.56	1.26
Average realized selling price *(per tonne)*	**$ 34.98**	$ 36.80	$ 34.91	$ 37.32	$ 35.77	$ 32.81	$ 43.02	$ 36.54
Raw coal production *(millions of tonnes)*	**1.21**	1.33	1.03	1.87	1.11	0.98	0.38	0.51
Cost of sales of product sold *(per tonne)*	**$ 19.16**	$ 25.04	$ 22.08	$ 30.80	$ 23.44	$ 29.27	$ 31.64	$ 23.54
Direct cash costs of product sold *(per tonne)* [i]	**$ 18.03**	$ 17.18	$ 10.82	$ 8.73	$ 7.41	$ 10.12	$ 16.86	$ 9.91
Mine administration cash costs of product sold *(per tonne)* [i]	**$ 1.09**	$ 1.39	$ 1.41	$ 2.19	$ 1.24	$ 1.00	$ 1.23	$ 4.92
Total cash costs of product sold *(per tonne)* [i]	**$ 19.12**	$ 18.57	$ 12.23	$ 10.92	$ 8.65	$ 11.12	$ 18.09	$ 14.83
Other Operational Data								
Production waste material moved *(millions of bank cubic meters)*	**4.36**	5.34	4.91	5.54	4.56	5.18	2.88	4.36
Strip ratio *(bank cubic meters of waste material per tonne of coal produced)*	**3.61**	4.01	4.76	2.97	4.11	5.26	7.55	8.59
Lost time injury frequency rate [ii]	**0.08**	0.06	0.00	0.00	0.00	0.06	0.13	0.20

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

Summary of Quarterly Financial Results

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

$ in thousands, except per share information	2019			2018				2017
Quarter Ended	**30-Sep**	30-Jun	31-Mar	31-Dec	30-Sep (Restated)	30-Jun (Restated)	31-Mar (Restated)	31-Dec (Restated)
Financial Results								
Revenue [i]	**$ 28,309**	$ 32,479	$ 36,811	$ 33,814	$ 26,277	$ 19,278	$ 24,435	$ 41,698
Cost of sales [i]	**(15,518)**	(22,031)	(23,405)	(28,027)	(17,110)	(16,979)	(17,719)	(29,665)
Gross profit excluding idled mine asset costs	**13,664**	11,318	14,357	7,305	13,195	6,079	10,250	15,682
Gross profit including idled mine asset costs	**12,791**	10,448	13,406	5,787	9,167	2,299	6,716	12,033
Other operating expenses	**(1,245)**	(2,333)	(414)	(2,921)	(3,417)	(16,512)	(757)	(4,971)
Administration expenses	**(2,074)**	(2,878)	(3,109)	(1,583)	(2,724)	(3,856)	(2,377)	(2,111)
Evaluation and exploration expenses	**(22)**	(23)	(25)	(36)	(40)	(156)	(124)	(52)
Impairment of property, plant and equipment	**-**	-	-	-	-	-	-	(11,171)
Profit/(loss) from operations	**9,450**	5,214	9,858	1,247	2,986	(18,225)	3,458	(6,272)
Finance costs	**(7,184)**	(7,001)	(6,739)	(10,899)	(5,758)	(5,958)	(6,006)	(5,960)
Finance income	**68**	4,305	17	13	106	8	100	143
Share of earnings of a joint venture	**277**	375	452	416	247	628	340	368
Income tax credit/(expense)	**(468)**	(801)	(1,439)	(1,023)	(267)	(1,609)	(929)	781
Net profit/(loss)	**2,143**	2,092	2,149	(10,246)	(2,686)	(25,156)	(3,037)	(10,940)
Basic and diluted earnings/(loss) per share	**$ 0.01**	$ 0.01	$ 0.01	$ (0.04)	$ (0.01)	$ (0.09)	$ (0.01)	$ (0.04)

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

3. NON-IFRS FINANCIAL MEASURES

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

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

Cash Costs

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

The following table provides a reconciliation of the cash costs of product sold disclosed for the three and nine months ended September 30, 2019 and September 30, 2018. The cash costs of product sold presented below may differ from cash costs of product produced depending on the timing of coal stockpile inventory turnover and impairments of coal stockpile inventories from prior periods.

	Three months ended September 30,		Nine months ended September 30,	
$ in thousands, except per tonne information	**2019**	**2018**	**2019**	**2018**
Cash costs				
Cost of sales determined in accordance with IFRS	**$ 15,518**	$ 17,110	**$ 60,954**	$ 51,808
Less royalties	**(2,326)**	(1,790)	**(6,903)**	(4,903)
Less non-cash expenses	**3,166**	(4,974)	**(6,563)**	(12,668)
Less non-cash idled mine asset costs	**(873)**	(4,028)	**(2,694)**	(11,342)
Total cash costs	**15,485**	6,318	**44,794**	22,895
Less idled mine asset cash costs	**-**	-	**-**	-
Total cash costs excluding idled mine asset cash costs	**15,485**	6,318	**44,794**	22,895
Coal sales *(millions of tonnes)*	**0.81**	0.73	**2.75**	1.87
Total cash costs of product sold *(per tonne)*	**$ 19.12**	$ 8.65	**$ 16.29**	$ 12.24

	Three months ended September 30,		Nine months ended September 30,	
$ in thousands, except per tonne information	**2019**	**2018**	**2019**	**2018**
Cash costs				
Direct cash costs of product sold *(per tonne)*	**$ 18.03**	$ 7.41	**$ 15.03**	$ 11.08
Mine administration cash costs of product sold *(per tonne)*	**1.09**	1.24	**1.26**	1.16
Total cash costs of product sold *(per tonne)*	**$ 19.12**	$ 8.65	**$ 16.29**	$ 12.24

The cash cost of product sold per tonne was $19.1 for the third quarter of 2019, which has increased from $8.7 per tonne for the third quarter 2018. The reason for the increase is primarily related to the lower strip ratio achieved in the third quarter of 2019 in which less cost were being capitalized to mineral properties as well as no impairment of coal stockpile inventories was recorded for 2018 which resulted in higher inventory carrying costs.

4. PROPERTIES

The Company currently holds three mining licenses in Mongolia. The mining licenses pertain to the Ovoot Tolgoi Mine (MV-012726) and the Zag Suuj deposit (MV-020676 and MV-020675).

On August 26, 2019, SGS received the Notice Letter from MRAM notifying that the Company's three mining licenses (MV-016869, MV-020436 and MV-020451) for the Soumber Deposit have been terminated by the Head of Cadastre Division of MRAM effective as of August 21, 2019. See Section 6 of this MD&A under the heading entitled "*Regulatory Issues and Contingencies – Termination of Soumber Deposit Mining Licenses"* for more information.

The Company believes the cancelation of the Soumber Licenses is without merit. The Company is not aware of any failure on its part to fulfill its environmental reclamation duties as they relate to the Soumber Deposit. On October 4, 2019, SGS filed a claim against MRAM and the Ministry of Environment and Tourism of Mongolia in the Administration Court seeking an order to restore the Soumber Licenses. The Company anticipates that the Administration Court will issue its ruling before the end of the 2019 calendar year. The Company will take all such actions, including additional legal actions, as it considers necessary to reinstate the Soumber Licenses. However, there can be no assurance that a favorable outcome will be reached. The termination of the Soumber Licenses does not have any impact on its current mining operations at the Ovoot Tolgoi mine site.

Operating Mines

Ovoot Tolgoi Mine

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

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

Resources

A resource estimate for the Ovoot Tolgoi deposit is set out in the Ovoot Tolgoi Technical Report, which was prepared by DMCL on behalf of the Company. A copy of the Ovoot Tolgoi Technical Report was filed under the Company's profile on SEDAR at www.sedar.com on May 15, 2017.

Reserves

A reserve estimate for the Ovoot Tolgoi deposit is set out in the Ovoot Tolgoi Technical Report, which was prepared by DMCL on behalf of the Company. A copy of the Ovoot Tolgoi Technical Report was filed under the Company's profile on SEDAR at www.sedar.com on May 15, 2017.

Mining Operations

Mining Method

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

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

Transportation Infrastructure

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

For the three and nine months ended September 30, 2019, RDCC LLC recognized toll fee revenue of $1.7 million (2018: $1.3 million) and $5.4 million (2018: $5.4 million), respectively.

Mining Equipment

The key elements of the currently commissioned mining fleet includes: two Liebherr 996 ($33m^3$ & $36m^3$) hydraulic excavators, three Liebherr R9250 ($15m^3$) hydraulic excavators and 19 MT4400AC (218 tonne capacity) haul trucks, together with various pieces of ancillary equipment.

Workforce

As at September 30, 2019, SGS employed 425 employees in Mongolia. Of the 425 employees, 39 are employed in the Ulaanbaatar office, 2 in an outlying office and 384 at the Ovoot Tolgoi Mine site. Of the 425 employees based in Mongolia, 418 (98%) are Mongolian nationals and of those, 225 (53%) are residents of the local Gurvantes, Dalanzadgad, Sevrei and Noyon Soums.

5. LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Capital Management

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

Bank Loan

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

- Principal amount of $2.8 million;
- Maturity date set at 24 months from drawdown;
- Interest rate of 15% per annum and interest is payable monthly; and
- Certain items of property, plant and equipment were pledged as security for the 2018 Bank Loan. As at September 30, 2019, the net carrying amount of the pledged items of property, plant and equipment was $0.7 million (December 31, 2018: $2.6 million).

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

Costs reimbursable to Turquoise Hill Resources Ltd ("Turquoise Hill")

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

As at September 30, 2019, the amount of reimbursable costs and fees claimed by Turquoise Hill (the "TRQ Reimbursable Amount") amounted to $8.1 million (such amount is included in the aging profile of trade and other payables set out below). On October 12, 2016, the Company received a letter from Turquoise Hill, which proposed an arrangement for regular payments of the outstanding TRQ Reimbursable Amount. On September 26, 2019, the Company received communication from Turquoise Hill advising that Turquoise Hill wishes to re-engage in discussions with the Company regarding a repayment plan for the outstanding TRQ Reimbursable Amount. No agreement on repayment has been reached between the Company and Turquoise Hill as of the date of this MD&A.

Going concern considerations

The Company's condensed consolidated interim financial statements have been prepared on a going concern basis which assumes that the Company will continue operating until at least September 30, 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 $43.4 million as at September 30, 2019 compared to a deficiency in assets of $48.1 million as at December 31, 2018 while the working capital deficiency (excess current liabilities over current assets) reached $116.1 million as at September 30, 2019 compared to a working capital deficiency of $203.1 million as at December 31, 2018.

The Company has executed the 2019 Deferral Agreement with CIC in relation to a deferral and revised repayment schedule in respect of (i) $41.8 million of outstanding cash and payment in kind interest ("PIK Interest") and associated costs due and payable to CIC on November 19, 2018 (the "Outstanding Interest Payable") under the CIC Convertible Debenture and the deferral agreement dated June 12, 2017 (the "June 2017 Deferral Agreement"); and (ii) $27.9 million of cash and PIK Interest payments payable to 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 which the Company agreed to pay a total of $14.3 million over eight instalments from November 2019 to June 2020 and the remaining balance of $62.6 million on June 20, 2020.

The Company also has other current liabilities, which require settlement in the short-term, including: the $5.5 million owing to First Concept under the Settlement Deed and $27.8 million of unpaid taxes payable by SGS to the Mongolian government.

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

	As at	
$ in thousands	**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 this MD&A, 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.

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.

As at November 13, 2019, the Company had $2.6 million of cash.

CIC Convertible Debenture

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

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

On June 12, 2017, the Company executed the June 2017 Deferral Agreement with CIC for a revised repayment schedule on the $22.3 million of cash interest and associated costs originally due under the CIC Convertible Debenture on May 19, 2017. The key repayment terms of the June 2017 Deferral Agreement are: (i) the Company was required to repay on average $2.2 million of the cash interest and associated costs monthly during the period from May 2017 to October 2017; and (ii) the Company was required to repay $9.7 million of cash interest and associated costs on November 19, 2017.

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

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

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

As a condition to agreeing to the Deferral, CIC required that the Cooperation Agreement between SGS and Fullbloom 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 $4.2 million over six instalments from June 2019 to November 2019. The Company executed the Amended and Restated Cooperation Agreement with Fullbloom on April 23, 2019.

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

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

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

Commercial Arbitration in Hong Kong

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

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

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

As of the date hereof, the Company has not paid the November 2018, 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 under the Settlement Deed is only triggered when 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 payables to First Concept amounted to $5.5 million (December 31, 2018: $12.5 million), which is due and payable as of the date hereof.

Cash Flow Highlights

	Nine months ended September 30,	
$ in thousands	**2019**	**2018**
Cash generated from operating activities	**$ 23,341**	$ 26,797
Cash used in investing activities	**(11,381)**	(25,355)
Cash used in financing activities	**(13,680)**	(1,349)
Effect of foreign exchange rate changes on cash	**(7)**	(272)
Decrease in cash for the period	**(1,727)**	(179)
Cash balance, beginning of period	**6,959**	6,471
Cash balance, end of period	**$ 5,232**	$ 6,292

Cash generated from Operating Activities

The Company generated $23.3 million of cash from operating activities in the first nine months of 2019 compared to $26.8 million in the first nine months of 2018. This is primarily due to the Company receiving an increased amount of coal sale deposits from customers.

Cash used in Investing Activities

The Company used $11.4 million of cash during the first nine months of 2019 in investing activities compared to $25.4 million during the first nine months of 2018. In the first nine months of 2019, expenditures on property, plant and equipment totaled $13.3 million (first nine months of 2018: $27.4 million) and $1.6 million of dividend income was collected from RDCC LLC (first nine months of 2018: $1.7 million).

Cash used in Financing Activities

Cash used in financing activities was $13.7 million in the first nine months of 2019 (first nine months of 2018: $1.3 million), which was principally attributable to the refund of certain customer deposits.

Contractual Obligations and Guarantees

Day-to-day mining, expansionary and sustaining capital expenditures as well as administrative operations give rise to commitments for future minimum payments. As at September 30, 2019, the Company's operating and capital commitments were:

	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**

Financial Instruments

The fair value of financial assets and financial liabilities at amortized cost is determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions. The fair value of all the financial instruments of the Company approximates their carrying value because of the demand nature or short-term maturity of these instruments.

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

	As at	
$ in thousands	**September 30, 2019**	**December 31, 2018**
Financial assets		
At amortised cost		
Notes receivables	**$ -**	$ 2,500
Cash and cash equivalents	**5,232**	6,959
Restricted cash	**840**	872
Trade and other receivables	**1,918**	5,046
Total financial assets	**$ 7,990**	$ 15,377

	As at	
$ in thousands	**September 30, 2019**	**December 31, 2018**
Financial liabilities		
Fair value through profit or loss		
Convertible debenture - embedded derivatives	**$ 221**	$ 265
At amortised cost		
Trade and other payables	**89,392**	99,576
Provision for commercial arbitration	**5,514**	12,508
Interest-bearing borrowings	**2,835**	4,138
Lease payables	**708**	113
Convertible debenture - debt host and interest payable	**152,828**	139,636
Total financial liabilities	**$ 251,498**	$ 256,236

6. REGULATORY ISSUES AND CONTINGENCIES

Class Action Lawsuit

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

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

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

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

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

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

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

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

Toll Wash Plant Agreement with Ejin Jinda

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

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

Special Needs Territory in Umnugobi

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

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

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

Termination of Soumber Deposit Mining Licenses

On August 26, 2019, SGS received the Notice Letter from MRAM notifying that the Company's three mining licenses (MV-016869, MV-020436 and MV-020451) for the Soumber Deposit have been terminated by the Head of Cadastre Division of MRAM effective as of August 21, 2019.

According to the Notice Letter, the Soumber Licenses have been terminated pursuant to Clause 56.1.5 of Article 56 of the Minerals Law, Clauses 4.2.1 and 4.2.5 of Article 4 and Clause 28.1.1 of Article 28 of the General Administrative Law and a decision order of a working group established under an order of the Minister of Environment and Tourism (Mongolia). According to this decision order, the working group determined that SGS had violated its environmental reclamation obligations with respect to the Soumber Deposit. The Soumber Deposit is an undeveloped coal deposit covering approximately 22,263 hectares located approximately 20 kilometers east of the Company's Ovoot Tolgoi coal mine in Mongolia. The Company owned a 100% interest in the Soumber Deposit.

The Company believes the cancelation of the Soumber Licenses is without merit. The Company is not aware of any failure on its part to fulfill its environmental reclamation duties as they relate to the Soumber Deposit. On October 4, 2019, SGS filed a claim against MRAM and the Ministry of Environment and Tourism of Mongolia in the Administration Court seeking an order to restore the Soumber Licenses. The Company anticipates that the Administration Court will issue its ruling before the end of the 2019 calendar year. The Company will take all such actions, including additional legal actions, as it considers necessary to reinstate the Soumber Licenses. However, there can be no assurance that a favorable outcome will be reached. The termination of the Soumber Licenses does not have any impact on its current mining operations at the Ovoot Tolgoi mine site.

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.

Restrictions on Importing F-Grade Coal into China

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

7. OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of Common Shares without par value and an unlimited number of preferred shares without par value. As at November 13, 2019, approximately 272.7 million Common Shares were issued and outstanding. There are also incentive share options outstanding to acquire approximately 4.5 million unissued Common Shares with exercise prices ranging from CAD$0.11 to CAD$0.92. There are no preferred shares outstanding.

As at November 13, 2019, to the best of the Company's knowledge:

- CIC holds a total of approximately 64.8 million Common Shares representing approximately 23.8% of the issued and outstanding Common Shares;
- Novel Sunrise holds a total of approximately 46.4 million Common Shares representing approximately 17.0% of the issued and outstanding Common Shares; and
- Voyage Wisdom Limited holds a total of approximately 25.8 million Common Shares representing approximately 9.5% of the issued and outstanding Common Shares.

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

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management is responsible for the design of the Company's internal control over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The Company's internal controls over financial reporting include policies and procedures that pertain to the maintenance of records that, in reasonable detail accurately and fairly reflect the transactions and disposition of assets, and which are designed with the objective of providing reasonable assurance that: (i) transactions are recorded as necessary to permit preparation of the financial statements in accordance with IFRS and that receipts and expenditures are being made only in accordance with authorization of management and directors of the Company; and (ii) unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements is prevented or detected in a timely manner.

As discussed and summarized in Section 8 of the Company's management's discussion and analysis for the three month period ended March 31, 2019 (the "Q1 2019 MD&A") (a copy of which is available under the Company's profile on SEDAR at www.sedar.com), management identified certain material weaknesses in relation to the design and effectiveness of the internal controls over financial reporting as at December 31, 2018. In response, the Board adopted and approved certain remedial actions and preventative measures (the "Remedial Actions and Preventative Measures") to address and remediate these material weaknesses. A summary of the Remedial Actions and Preventative Measures is contained in Section 1 of the Q1 2019 MD&A. Based on the Remedial Actions and Preventative Measures that have been implemented, the Company now has in place internal controls and procedures which are adequate to address the aforementioned material weaknesses referred to above.

Following the implementation of the Remedial Actions and Preventative Measures, management, including the Chief Executive Officer and Chief Financial Officer of the Company, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. Management assessed the effectiveness of internal controls over financial reporting using the Internal Control – Updated Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. As of September 30, 2019, the Chief Executive Officer and Chief Financial Officer of the Company have each concluded that the Company's disclosure controls and procedures, as defined in NI 52-109 – *Certification of Disclosure in Issuer's Annual and Interim Filings* ("NI 52-109"), are effective to achieve the purpose for which they have been designed.

Because of their inherent limitations, internal controls over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements due to error or fraud. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by individual acts, by collusion of two or more individuals or by unauthorized override of controls. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Other than the Remedial Actions and Preventative Measures that have been implemented, there has been no significant change in the Company's internal controls over financial reporting that occurred during the most recently completed quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

9. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with IFRS requires the Company to establish accounting policies and to make estimates and judgments that affect both the amount and timing of the recording of assets, liabilities, revenues and expenses. A detailed summary of all of the Company's significant accounting policies is included in Note 3 to the Company's consolidated financial statements for the year ended December 31, 2018.

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. A detailed summary of the adjustments recognized under IFRS 16 is included in Note 2.3 to the Company's condensed consolidated interim financial statements for the nine months ended September 30, 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.

10. RISK FACTORS

There are certain risks involved in and related to the Company's operations, some of which are beyond its control. Material risks and uncertainties affecting the Company, their potential impact on the Company's operations and the Company's principal risk management strategies are, except as updated by this MD&A below, substantially unchanged from those disclosed in the Company's most recently filed Annual Information Form for the year ended December 31, 2018, which is available under the Company's profile on SEDAR at www.sedar.com.

Climate Change

Climate change continues to attract considerable public and scientific attention. There is widespread concern about the contributions of human activity to such changes, especially through the emission of greenhouse gasses. There are three primary sources of greenhouse gas associated with the coal industry. First, the end use of coal by our customers in electricity generation, coke plants, and steel making is a source of greenhouse gasses. Second, combustion of fuel by equipment used in coal production and to transport coal to our customers is a source of greenhouse gasses. Third, coal mining itself can release methane, which is considered to be a more potent greenhouse gasses than CO_2, directly into the atmosphere. These emissions from coal consumption, transportation and production are subject to pending and proposed regulation as part of global and national initiatives to address climate change.

There are many legal and regulatory approaches currently in effect or being considered to address greenhouse gases, including international treaty commitments and new foreign and local legislation that may impose a carbon emissions tax. As a result, numerous proposals have been made and are likely to continue to be made at the international, national, regional and local levels of government to monitor and limit emissions of greenhouse gases. Collectively, these initiatives could result lower the demand for coal used in electric generation, which could have a material adverse impact on the Company's business, operations, results of operations, financial condition and future prospects.

11. OUTLOOK

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

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

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

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

- **Enhance product mix** – The Company will focus on improving the product mix and increase production of higher quality coal by: (i) washing lower quality coal in the Company's coal wash plant; and (ii) improving mining operations and employing better mining technique and equipment.

- **Expand customer base** – The Company will endeavor to increase sales volume, expand its sales network, strengthen its sales and logistics capabilities and diversify its customer base.

- **Increase production and optimize cost structure** – The Company will aim to increase coal production volume to take advantage of economies of scale. The Company will also focus on reducing its production cost and optimizing its cost structure through innovation, training and productivity enhancement.

- **Operate in a socially responsible manner** – The Company will continue to maintain the highest standards in health, safety and environmental performance in a corporate socially responsible manner.

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

- **Strategic location** – The Ovoot Tolgoi Mine is located approximately 40km from China, which represents the Company's main coal market. The Company has an infrastructure advantage, being approximately 50km from a major Chinese coal distribution terminal with rail connections to key coal markets in China.

- **A large resources and reserves base** – The Ovoot Tolgoi Deposit has mineral reserves of 114.1 million tonnes, while the aggregate coal resources include measured and indicated mineral resources of 194.6 million tonnes and inferred resources of 32.1 million tonnes.

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

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