SouthGobi Resources Ltd.

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

December 31, 2014

(Expressed in U.S. Dollars)

FORWARD-LOOKING STATEMENTS

Except for statements of fact relating to 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 are based on the opinions and estimates of management at the times the statements are made, and 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 statements include, but are not limited to, statements regarding: anticipated stock market conditions; future prices of the Common Shares; the future ownership of Common Shares; anticipated business activities; planned expenditures; corporate strategies, the Company's intention to develop markets for its semi-soft coking coal brands and to pursue long-term supply offtake with end users in the People's Republic of China ("China"); potential future agreements with third parties; anticipated capital expenditures; the 2015 exploration program; anticipated financing needs; development plans; future production; expected impacts of the administrative restrictions on certain of the Company's Mongolian assets and the anticipated impact on the Company's activities; the impact of future disclosure of the results of the internal investigations being conducted by the Company's Audit Committee; the results of the Ontario Action (as defined under the heading "REGULATORY ISSUES AND CONTINGENCIES – Contingencies – Class Action Lawsuit" in this Management Discussion and Analysis of Financial Condition and Results of Operations ("MD&A")); the ability of the Company to pay the Tax Penalty (as defined under the heading "REGULATORY ISSUES AND CONTINGENCIES – Regulatory Issues – *Governmental and Regulatory Issues*" in this MD&A): the possible consequences of the Tax Verdict (as defined under the heading "REGULATORY ISSUES AND CONTINGENCIES – Regulatory Issues – *Governmental and Regulatory Issues*" in this MD&A) and the Appeal Verdict (as defined under the heading "REGULATORY ISSUES AND CONTINGENCIES – Regulatory Issues – *Governmental and Regulatory Issues*" in this MD&A) and the effect thereof on the Company; the possibility that the Supreme Court of Mongolia would hear a final appeal of the Tax Penalty and the likelihood of success and consequences of the final appeal of the Tax Penalty and the effect thereof on the Company; the potential effect of the list of licenses published by the Government of Mongolia covering areas in which exploration and mining is purportedly prohibited on the Company's mining licenses; the Company's expectations of sufficient liquidity and capital resources to meets its ongoing obligations and future contractual commitments, including the Company's ability to secure additional funding and to meet its obligations under the China Investment Corporation ("CIC") convertible debenture (the "CIC Convertible Debenture") as the same become due; the estimates and assumptions included in the Company's impairment analysis and the possible impact of changes thereof; possible impact of changes to the inputs to valuation model used to value the embedded derivatives in the CIC Convertible Debenture; the possible impacts of changes to assumptions and determinations used by the Company to determine carrying values and impairment charges; possible impacts of changes in useful life or depreciation rates on depreciation expenses; the potential effects of a difference between future cash flows and profits from estimates; the ability of the Company to increase its market penetration in China; estimates of the Company's mineral reserves and resources; the ability for higher-ash product to be sold as a thermal coal product; the type of coal products being produced; the ability to preserve liquidity and continue on a sustainable basis; the ability of the Company to meet the targeted annual capacity of run-of-mine production; the anticipated increase of production from the Ovoot Tolgoi Mine (as defined under the heading "OVERVIEW" in this MD&A) to anticipated annual capacity of 9 million tonnes run-of-min production; the ability of the Company to successfully review the utilization of the wet washing facility and enhance the quality of its coal products through a beneficiation process based on wet washing; the Company's review of the use of the dry coal handling facility ("DCHF") (as defined under the heading "OVERVIEW OF OPERATIONAL DATE AND FINANCIAL RESULTS – Overview of Quarterly Financial Results" in this MD&A) and plans regarding the use of the DCHF; the agreement with Ejin Jinda and payments thereunder; the future mining operations at the Soumber Deposit (as defined under the heading "PROPERTIES – Development

Projects and Exploration Program – Soumber Deposit" in this MD&A) being allowed to share the existing infrastructure with the Ovoot Tolgoi Mine; plans for the progress of mining license application processes; the possibility of the CIC Convertible Debenture and all accrued and unpaid interest becoming immediately due; future coal market conditions in China and the related impact on the Company's margins and liquidity; the outcome of the issues described under the heading "REGULATORY ISSUES AND CONTINGENCIES" in this MD&A; business outlook, including the outlook for 2015; outlook for Mongolian coal exporters; whether coal prices in China will remain under pressure and whether that will continue to affect the Company; the completion of the share purchase transaction between Turquoise Hill Resources Ltd. ("Turquoise Hill") and National United Resources Holdings Limited ("NUR"); the completion of the sale and purchase agreement between Turquoise Hill and Novel Sunrise Investments Limited ("Novel Sunrise"); the closing of the Subsequent Tranche (as defined under the heading "MATERIAL CONTRACTS – Novel Private Placement" in this MD&A) of the private placement with Novel Sunrise; the implementation and impact of the Proposed Funding Plan (as defined under the heading "LIQUIDITY AND CAPITAL RESOURCES – Going Concern Considerations" in this MD&A) and actions to be taken under the Proposed Funding Plan; the outcome and results of the TSX's (as defined under the heading "OVERVIEW" in this MD&A) remedial delisting review of the Company; the Company continuing as a going concern and its ability to realized 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 financial statements and the impact thereof; the Company's objectives for 2015 and beyond, including plans regarding the 2015 exploration program; expected production at the Ovoot Tolgoi Mine; the possible impact of the review of the geology type at the Ovoot Tolgoi Mine and the as yet uncompleted revisions to Ovoot Tolgoi mine plan on quantities of measured and/or indicated resources and reserves of the Ovoot Tolgoi project; the impact of the completion of the paved highway; the expected date of commercial operation of the paved highway; the capacity of the paved highway being in excess of 20 million tonnes of coal per year; the impact of amendments to, or the application of the laws of Mongolia and other counties in which the Company carries on business; the expected time frame that the Company's workforce will be on furlough; the impact of the Company's activities on the environment and actions taken for the purpose of mitigation of potential environmental impacts; planned focus on health, safety and environmental performance; planned relationships with stakeholders; expansion of the Company's customer base; greenfield options with the Soumber Deposit and Zag Suuj Deposit (as defined under the heading "PROPERTIES – Development Projects and Exploration Program" in this MD&A); and other statements that are not historical facts. This list is not exhaustive of the factors that may affect any of the Company's forward-looking statements. 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 forward-looking statements.

TABLE OF CONTENTS

	Page
1. Overview	6
Significant Events and Highlights	7
2. Selected Annual Information	10
3. Overview of Operational Data and Financial Results	11
4. Non-IFRS Financial Measures	20
5. Properties	21
Operating Mines	21
Development Projects and Exploration Program	24
6. Liquidity and Capital Resources	27
7. Regulatory Issues and Contingencies	37
8. Environment	39
9. Related Party Transactions	40
10. Outstanding Share Data	42
11. Internal Controls Over Financial Reporting	42
12. Critical Accounting Estimates and Judgments	44
13. Recent Accounting Pronouncements	47
14. Risk Factors	48
15. Outlook	66

INTRODUCTION

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") of SouthGobi Resources Ltd. (which, together with its subsidiaries, is collectively referred to as the "Company") should be read in conjunction with the consolidated financial statements of the Company and the notes thereto for the year ended December 31, 2014. The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board and Interpretations of the IFRS Interpretations Committee.

The functional currency of all of the Company's operations is the U.S. Dollar. 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, as derived from the technical report on the Ovoot Tolgoi Deposit dated March 19, 2012 (the "Ovoot Tolgoi Technical Report"), the technical report on the Soumber Deposit dated March 25, 2013 (the "Soumber Technical Report") and the technical report on the Zag Suuj Deposit dated March 25, 2013 (the "Zag Suuj Technical Report"), in respect of the Company's applicable material mineral projects was prepared by or under the supervision of the QPs listed below. Copies of the Ovoot Tolgoi Technical Report, the Soumber Technical Report and the Zag Suuj Technical Report are available on SEDAR at www.sedar.com.

Property	Qualified Persons	Field of Expertise	Relationship to Company
Ovoot Tolgoi	Merryl Peterson	Resources	Independent Consultant
Ovoot Tolgoi	Robert Mackenzie	Reserves	Independent Consultant
Ovoot Tolgoi	Ross Seedsman	Geotechnical	Independent Consultant
Ovoot Tolgoi	David Morris	Dry Coal Processing	Independent Consultant
Ovoot Tolgoi	Michael Evans	Wet Coal Processing	Independent Consultant
Soumber	Merryl Peterson	Resources	Independent Consultant
Zag Suuj	Merryl Peterson	Resources	Independent Consultant

Other disclosures of a scientific or technical nature in this MD&A in respect of the Ovoot Tolgoi Mine and the Soumber and Zag Suuj projects were prepared by employees of the Company and reviewed by Robert Mackenzie, an employee of RungePincockMinarco, a registered member and Chartered Professional (Mining) of the Australasian Institute of Mining and Metallurgy (Member No. 103878) and a Qualified Person, as that term is defined in NI 43-101. Robert Mackenzie was the Qualified Person responsible for overall preparation of and the coal reserve estimates in the Ovoot Tolgoi Technical Report.

1. OVERVIEW

The Company is an integrated coal mining, development and exploration company with 357 employees as at December 31, 2014. The Company's common shares trade on the Toronto Stock Exchange ("TSX") under the symbol SGQ and on the Hong Kong Stock Exchange ("HKEX") under the stock code symbol 1878. At December 31, 2014 Turquoise Hill Resources Ltd. ("Turquoise Hill") owned approximately 48% of the outstanding common shares of the Company. Turquoise Hill is controlled by Rio Tinto plc ("Rio Tinto").

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

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 and the Company sells coal at the mine-gate to Chinese customers. Ceke, at the Chinese side of the Shivee Khuren Border Crossing, is a major Chinese coal distribution terminal with rail connections to key coal markets in China.

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

COAL RESERVES *(millions of tonnes)* [(i)]

Property	Proven	Probable	Total
Ovoot Tolgoi Mine (ii)	**119**	**57**	**176**

COAL RESOURCES *(millions of tonnes)* [(i)]

Property	Measured	Indicated	Measured & Indicated	Inferred
Ovoot Tolgoi Mine (ii)	133	60	193	24
Ovoot Tolgoi Underground	66	43	109	62
Soumber Deposit	63	110	173	123
Zag Suuj Deposit	-	22	22	84
Total coal resources	**262**	**235**	**497**	**293**

(i) As at December 31, 2014. Reserves and resources estimates have been prepared in compliance with NI 43-101. The measured and indicated coal resources are inclusive of those coal resources modified to produce the coal reserves. Details of the assumptions and parameters used to estimate the reserves and resources and information on data verification are set out in the Annual Information Form dated March 30, 2014, and available on SEDAR at www.sedar.com.

(ii) Mine plan and geology for the Ovoot Tolgoi project are currently under review as discussed under the heading "Overview" of this MD&A below.

The Company is currently reviewing the geology and mine plan for Ovoot Tolgoi and changes thereto may impact the quantities of measured and/or indicated resources and reserves of Ovoot Tolgoi. The classification of the geology type of the coal deposits at the Ovoot Tolgoi Complex is currently under review. The results of this review are not yet known and may have a material impact on production levels from the Ovoot Tolgoi Complex. For more information on the risks associated with classification of geology type of coal deposits, refer to the Risk Factor entitled "The Company's coal reserves and resources are estimates based on a number of assumptions and the Company may produce less coal than its current estimates. See "Risk Factors – Reserves and Resources".

Significant Events and Highlights

The Company's significant events and highlights for the year ended December 31, 2014 and subsequent period to March 30, 2015 are as follows:

- The Company continues to operate under difficult market conditions resulting from strong seaborne and domestic supply coupled with soft demand in China. Chinese coking coal imports fell by 17.2% in 2014 and 12.6% in the fourth quarter of 2014 compared to the same periods last year. Coal prices in China stabilized in the fourth quarter of 2014, mainly due to winter restocking from end users, after hitting seven year lows in the third quarter. However, the gains made in the fourth quarter of 2014 have been erased since the beginning of 2015 due to sluggish demand, which has continued beyond the Chinese New Year holiday. The Company's sales volumes and revenues are expected to remain under pressure through 2015 as Chinese coal import volume and prices continue to decline.

- Production of raw coal by the Company remained low at 0.21 million tonnes in the fourth quarter of 2014 compared to 1.73 million tonnes in the fourth quarter of 2013. This lower production level is due to the Company's decision in June, in response to market conditions, to reduce its production and place approximately half of its workforce on furlough. This furlough is anticipated to remain in place until market conditions improve.

- On January 7, 2014, the Company reported the public announcement regarding the Ontario Action against certain of the Company's current and former senior officers and directors, and its former auditors, in relation to the Company's restatement of financial statements, as disclosed on November 8, 2013, November 11, 2013, November 14, 2013 and December 12, 2013.

- Messrs. Lindsay Dove and Sean Hinton did not stand for re-election at the Annual General Meeting held on May 6, 2014 and ceased to be directors at that date.

- On May 25, 2014, the Company announced that Turquoise Hill had agreed to provide a $10 million shareholder loan facility (the "Turquoise Hill Loan Facility").

- On June 20, 2014, the Company announced that the exemption granted to the Company in relation to its secondary listing status on the HKEX in 2010 by the Hong Kong Securities and Futures Commission pertaining to Takeovers, Mergers and Share Repurchases (the "Takeovers Code") had been withdrawn and that the Company would be considered a public company in Hong Kong for matters relating to the Takeovers Code.

- On July 30, 2014, the Company reported that Turquoise Hill had entered into a share purchase agreement ("SPA") with National Resources Holdings Limited ("NUR") to sell Common Shares representing 29.95% of the Company's total issued and outstanding Common Shares.

- On August 26, 2014, the Court of Justice in Mongolia returned the tax investigation case against the Company's subsidiary SouthGobi Sands LLC ("SGS") and three of its former employees to the Prosecutor General for further investigations.

- On August 31, 2014, the Company announced that Turquoise Hill had agreed to a limited deferral of repayment of all funds owing and due by the Company under the Turquoise Hill Loan Facility.

- On September 28, 2014, the Company announced the completion of the construction of a paved coal highway to the Shivee Khuren Border Crossing.

- On November 12, 2014, the Company announced the December 1, 2014, retirement of Ms. Kay Priestly as Chair, the appointment of current independent director Mr. Gordon Lancaster to the position of interim Chair and the appointment of Mr. Jeffery Tygesen as a non-executive director.

- On November 20, 2014, the Company announced that it was delaying the payment of the November 2014 installment of cash interest due to the China Investment Corporation ("CIC") under the terms of the Convertible Debenture (the "November CIC Payment").

- On December 1, 2014, the Company announced that it had entered into private placement and CIC had agreed to extend the cure period agreed for the November CIC Payment to December 4, 2014.

- On December 2, 2014, NUR signed an amendment agreement ("Amendment Agreement") to the previously announced and signed Sale and Purchase agreement dated July 29, 2014 with Turquoise Hill in respect of the sale of 56,102,000 Common Shares of the Company held by Turquoise Hill. In respect of the transaction contemplate, the Amendment Agreement provides, among other matters, for an extension to the closing date from November 30, 2014 to April 30, 2015.

- On December 3, 2014, the Company successfully completed private placements for the issue of 24,360,773 Common Shares for gross proceeds of US$9.0 million (US$8.9 million net after fees) at CAD $0.42 per share.

- On December 4, 2014 Turquoise Hill agreed on a limited deferral of repayment on the $3.8 million principal owing under the Turquoise Hill Loan Facility. The Turquoise Hill Loan Facility matured on August 30, 2014 and is no longer available for further drawdowns by the Company. This limited deferral is subject to certain conditions and limitations, including the completion by April 30, 2015 of the transaction contemplated by the Sale and Purchase Agreement and the Amendment Agreement between Turquoise Hill and NUR.

- On December 12, 2014 the Company announced the stepping down of the President and Chief Executive Officer Ross Tromans, and appointment of Enkh-Amgalan Sengee as President and Chief Executive Officer. Mr. Tromans remained with the Company and on the Board of Directors (the "Board") until December 31, 2014.

- On December 30, 2014 the Company was notified that the Capital City Prosecutor (head of the Capital Prosecutor's Office, Ulaanbaatar, Mongolia) had decided to dismiss the allegations for money laundering against the Company's three former employees. This was consistent with the report issued by the experts appointed by the State Investigations Agency ("SIA") on June 30, 2013 and again in January 2014.

- In respect of the ongoing tax investigation case in Mongolia, on January 30, 2015 the panel of appointed judges from the Second District Criminal Court of Justice found the Company's three former employees guilty of tax evasion and gave sentences ranging from 5 years and 6 months to 5 years and 10 months of imprisonment in the correctional facilities of strict regimen in Mongolia. Although SGS was not a party to the criminal proceedings, the court declared it to be financial liable as a "civil defendant" for a penalty of MNT 35.3 billion (approximately US$18.2 million on February 1, 2015). The Company strongly believes it has not committed tax evasion, firmly rejects the Court's verdict and what have been gross violations of Mongolian law through the investigations and the Court process. Therefore the Company filed an appeal of the Second District Criminal Court of Justice's verdict on February 18, 2015. On February 26, 2015 the President of Mongolia issued a decree of pardon to the three former employees and following the pardon they were released from imprisonment and departed Mongolia. On March 25, 2015, the hearing of the appeal of the Tax Verdict took place. The Tax Verdict was upheld and the appeal by the Company was dismissed. It is the view of the Company that there is a lack of evidence to support both the Tax Verdict and the Appeal Verdict and, accordingly, the Company will continue to defend itself through all available legal means including a final appeal. The Tax Penalty would only be payable after a final appeal.

For more information on the risks associated with the Tax Verdict, refer to the Risk Factor entitled "*If the Company is unsuccessful in appealing the Tax Verdict it will likely not have sufficient cash resources to satisfy the penalty imposed thereunder*." in this MD&A.

- On February 24, 2015 the Company announced it had entered into a private placement for proceeds of up to US$7.5 million with Novel Sunrise Investments Limited ("Novel Sunrise") as a proposed new significant investor and strategic partner. The completion of the private placement and related transactions was subject to acceptance of notice of the placement by the TSX pursuant to the financial hardship provisions of the TSX Company Manual. As a result of relying on the financial hardship provisions, the Company was placed on remedial delisting review as of February 25, 2015. A meeting of the TSX Continued Listing Committee to consider this matter has been scheduled for May 19, 2015.

- On February 24, 2015 the Company was advised by Turquoise Hill that they had entered into a Sale and Purchase Agreement ("Novel SPA") with Novel Sunrise for the purchase of 48,705,155 Common Shares currently held by Turquoise Hill. The closing of the Novel SPA is subject to certain terms and closing conditions.

- On March 3, 2015 following the successful closing of the first tranche of the Novel Sunrise private placement, including the receipt of US$3.5 million, the Company issued 10,131,113 Mandatory Convertible Units to Novel Sunrise and in accordance with the terms of the agreement Mr. Ted Chan was appointed as the Executive Director of the Company.

- On March 13, 2015, Mr. Enkh-Amgalan Sengee, tendered his resignation as President and Chief Executive Officer. Mr. Ted Chan, assumed the duties formerly handled by Mr. Sengee until further notice.

- On March 18, 2015, the Company announced that Mr. Jeffery Tygesen resigned as a non-executive director.

- As at the date hereof, the Company, together with the new strategic partner, Novel Sunrise, has developed a funding plan in order to pay the interest due under the CIC Convertible Debenture, meet the Company's obligations as they fall due and achieve its business objectives in 2015 and beyond. However, there is no guarantee that the Company will be able to implement this funding plan or secure other sources of financing. See section 5 "Liquidity and Capital Resources" and section 11 "Risk Factors" for details. As at March 30, 2015, the Company had cash of $4.2 million.

2. SELECTED ANNUAL INFORMATION

$ in thousands, except per share and per tonne information	Year ended December 31, 2014	2013	2012
Revenue [(i)]	**$ 24,494**	$ 58,636	$ 78,061
Loss from operations	**(82,734)**	(196,829)	(124,226)
Net loss	**(103,683)**	(237,464)	(97,502)
Basic loss per share	**$ (0.55)**	$ (1.30)	$ (0.54)
Diluted loss per share	**$ (0.55)**	$ (1.30)	$ (0.60)
Cash from/(used in) operating activities	**(29,673)**	7,559	(26,283)
Cash used in investing activities	**(625)**	(4,892)	(77,737)
Cash from/(used in) financing activities	**12,378**	129	(51)
Coal sales volumes *(millions of tonnes)* [(ii)]	**2.04**	3.26	1.98
Average realized selling price *(per tonne)* [(iii)]	**$ 14.76**	$ 24.25	$ 47.49

$ in thousands	As at December 31, 2014	2013	2012
Cash and cash equivalents	**$ 3,789**	$ 21,837	$ 19,674
Short term money market investments	**-**	-	15,000
Total cash and cash equivalents and money market investments	**3,789**	21,837	34,674
Total working capital	**3,430**	41,670	120,435
Total assets	**416,139**	506,206	732,452
Total non-current liabilities	**95,590**	96,610	103,771

(i) Revenue is presented after deduction of royalties and selling fees.
(ii) Coal sales volumes are from the Ovoot Tolgoi Mine.
(iii) Average realized selling price is presented before deduction of royalties and selling fees.

In 2012, the Company's operations were impacted by transportation infrastructure constraints in Mongolia, the significant uncertainty resulting from certain regulatory issues facing the Company and the softening of Chinese coal markets. Mining activities at the Ovoot Tolgoi Mine were curtailed to varying degrees in the second quarter of 2012, with mining activities being fully curtailed at the end of the second quarter of 2012, to manage coal inventories and to maintain efficient working capital levels. Mining activities remained fully curtailed for the remainder of 2012. From 2012 to date, the Company has focused on minimizing uncommitted capital expenditures and exploration expenditures in order to preserve the Company's financial resources.

The Company resumed operations at the Ovoot Tolgoi Mine on March 22, 2013. The coal markets in China continued to be challenging in 2013 with certain coal price indices in China reaching four year lows during the year. In 2013, the Company generated $7.6 million of cash from operating activities following the resumption of mining activities at the Ovoot Tolgoi Mine.

Coal markets continued to deteriorate in 2014. Chinese coal markets, the main market of Mongolian producers, suffered from overcapacity coupled with decreasing demand. In the last quarter of 2014, the Company successfully completed a private placement for gross proceeds of $9.0 million.

3. OVERVIEW OF OPERATIONAL DATA AND FINANCIAL RESULTS

Summary of Annual Operational Data

	Year ended December 31, 2014	Year ended December 31, 2013
Sales Volumes, Prices and Costs		
Premium semi-soft coking coal		
Coal sales *(millions of tonnes)*	**0.02**	0.54
Average realized selling price *(per tonne)* (i)	**$ 26.77**	$ 36.61
Standard semi-soft coking coal		
Coal sales *(millions of tonnes)*	**0.86**	2.27
Average realized selling price *(per tonne)* (i)	**$ 19.52**	$ 23.41
Thermal coal		
Coal sales *(millions of tonnes)*	**1.16**	0.45
Average realized selling price *(per tonne)* (i)	**$ 10.99**	$ 13.43
Total		
Coal sales *(millions of tonnes)*	**2.04**	3.26
Average realized selling price *(per tonne)* (i)	**$ 14.76**	$ 24.25
Raw coal production *(millions of tonnes)*	**1.57**	3.06
Direct cash costs of product sold *(per tonne)* (ii)	**$ 8.33**	$ 10.58
Mine administration cash costs of product sold *(per tonne)* (ii)	**$ 2.69**	$ 2.23
Total cash costs of product sold *(per tonne)* (ii)	**$ 11.02**	$ 12.81
Other Operational Data		
Production waste material moved *(millions of bank cubic meters)*	**5.47**	8.45
Strip ratio *(bank cubic meters of waste material per tonne of coal produced)*	**3.51**	2.76
Lost time injury frequency rate (iii)	**0.21**	0.00

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

Overview of Annual Operational Data

The Company has operated under difficult market conditions throughout 2014 which have affected the Company's results in respect of sales prices, mix and volumes. In 2014, the Company sold 2.04 million tonnes of coal compared to 3.26 million in 2013.

The Company's production in 2014 was lower than 2013, at 1.57 million tonnes compared to 3.06 million tonnes. During 2014, the Company paced its production to market demand and focused on reducing its stockpiles. As a result the Company operated significantly below its operating capacity through-out 2014. Following a review of operations the Company placed approximately half of its workforce on furlough in mid June 2014 which is currently ongoing and is expected to last until market conditions improve. The results for 2013 were impacted by reduced operating levels as the operations at the Ovoot Tolgoi Mine recommenced on March 22, 2013 after a period of full curtailment since the end of the second quarter of 2012.

The Company maintained a strong safety record throughout 2014. As at December 31, 2014, the Company has a lost injury time frequency rate of 0.21 per 200,000 man hours based on a rolling 12 month average.

Summary of Annual Financial Results

$ in thousands, except per share information	**Year ended December 31, 2014**	**2013**
Revenue [(i),(ii)]	**$ 24,494**	$ 58,636
Cost of sales [(ii)]	**(82,132)**	(112,627)
Gross loss excluding idled mine asset costs	**(21,698)**	(23,552)
Gross loss including idled mine asset costs	**(57,638)**	(53,991)
Other operating expenses	**(14,840)**	(126,040)
Administration expenses	**(8,944)**	(15,629)
Evaluation and exploration expenses	**(1,312)**	(1,169)
Loss from operations	**(82,734)**	(196,829)
Finance costs	**(21,848)**	(21,162)
Finance income	**1,586**	5,566
Share of losses of joint venture	**(101)**	(53)
Income tax expense	**(586)**	(24,983)
Net loss	**(103,683)**	(237,464)
Basic loss per share	**$ (0.55)**	$ (1.30)
Diluted loss per share	**$ (0.55)**	$ (1.30)

(i) Revenue is presented after deduction of royalties and selling fees.
(ii) Revenue and cost of sales relate to the Company's Ovoot Tolgoi Mine within the Mongolian Coal Division operating segment. Refer to note 4 of the consolidated financial statements for further analysis regarding the Company's reportable operating segments.

Royalty regime in Mongolia

The royalty regime in Mongolia is evolving and has been subject to change since 2012. The Government of Mongolia implemented a trial period from October 1, 2012 to March 31, 2013, during which the royalty imposed on coal sales was determined using the actual contracted sales price per tonne. Subsequently, from April 1, 2013 to March 31, 2014, the royalty on all coal sales exported out of Mongolia was based on a set reference price per tonne published monthly by the Government of Mongolia.

The Government of Mongolia implemented a new royalty regime effective April 1, 2014, referred to as the "flexible tariff" royalty regime. From April 1, 2014, the royalty per tonne for export coal sales has been calculated based on the actual contracted sales price per tonne, whereby the contracted sales price includes the costs of transporting the coal to the Mongolia-China border. If transportation costs are not included in the contracted sales price between a buyer and seller, the following costs are required to be included in the contracted sales price for purposes of calculating the royalty per tonne: transportation costs and costs associated with transportation such as customs documentation fees, insurance, loading and unloading costs. In the event the actual contracted sales price calculated as described above differs by more than 10% from the contracted sales price of coal products with the same classification and quality being exported by other legal entities in Mongolia through the same border crossing, the calculated contracted sales price is deemed non-market under Mongolian tax law and the royalty per tonne is calculated based on a reference price that will be determined by the Government of Mongolia.

The Company currently sells coal from the Ovoot Tolgoi Mine ex mine gate and the coal is exported through the Shivee Khuren Border Crossing. The Company's average realized selling price excludes transportation costs.

On July 4, 2014, the Government of Mongolia made further amendments to the royalty regime. From July 4, 2014 onwards, the royalty is to be initially calculated and paid monthly based on the Government reference price. On a quarterly basis the royalty amount is to be adjusted to reflect the contracted sales price and additional documentation needs to be submitted to the Mongolian Tax Authority. Once the quarterly statement has been approved by the Mongolian Tax Authority, any adjustments between the monthly payments for the quarter and the quarterly submission are adjusted in the next months' royalty calculation.

On January 1 2015, this "flexible tariff" royalty regime ended and royalty payments have reverted to the previous regime which is based on a set reference price per tonne published monthly by the Government of Mongolia. The Company and other Mongolian coal producers are actively engaging the Mongolian authorities to seek the continuation of the "flexible tariff" regime. See "Risk Factors - Company's Projects in Mongolia".

Overview of Annual Financial Results

The Company recorded an $82.7 million loss from operations in 2014 compared to a $196.8 million loss from operations in 2013. The 2014 operations were impacted by continuing difficult market conditions which resulted in lower sales volumes and prices compared to 2013. This reduction in prices was offset by lower royalty expenses, lower administration expenses and lower impairment losses in 2014.

Revenue was $24.5 million in 2014 compared to $58.6 million in 2013. The Company sold 2.04 million tonnes of coal at an average realized selling price of $14.76 per tonne in 2014 compared to sales of 3.26 million tonnes at an average realized selling price of $24.25 per tonne in 2013. The reduction in the average realized selling price resulted from continuous difficult market conditions as well as differences in product mix in 2014 compared to 2013. The product mix in 2014 consisted of approximately 43% of Standard semi-soft coking coal with minimal sales of Premium semi-soft coking coal compared to approximately 86% of sales consisting of either Premium or Standard semi-soft coking coal in 2013.

The Company's revenue is presented after deduction of royalties and selling fees. Following the change in the royalty regime in Mongolia on April 1, 2014, the Company's effective royalty rate for 2014, based on the Company's average realized selling price of $14.76 per tonne, was 12.5% or $1.85 per tonne compared to 19.1% or $4.53 per tonne based on the average realized selling price of $24.25 per tonne in 2013.

Cost of sales was $82.1 million in 2014 compared to $112.6 million in 2013. Cost of sales comprises operating expenses, share-based compensation expense, equipment depreciation, depletion of mineral properties, coal stockpile inventory impairments and idled mine asset costs. Operating expenses in cost of sales reflect the total cash costs of product sold (a non-IFRS financial measure, see section 4 for further analysis) during the period.

$ in thousands	Year ended December 31, 2014	2013
Operating expenses	**$ 22,472**	$ 41,746
Share-based compensation expense	**230**	(293)
Depreciation and depletion	**7,235**	20,000
Impairment of coal stockpile inventories	**16,256**	20,735
Cost of sales from mine operations	**46,193**	82,188
Cost of sales related to idled mine assets	**35,939**	30,439
Cost of sales	**$ 82,132**	$ 112,627

Operating expenses in cost of sales were $22.5 million in 2014 compared to $41.7 million in 2013. The overall decrease in operating expenses is the result of both (i) the lower variable costs which are linked to production levels which are down to 1.57 million tonnes in 2014 compared to 3.06 million tonnes in 2013; and (ii) the continued focus on cost saving initiatives, including the furlough which commenced in mid-June 2014. The total cash cost of product sold decreased from $12.81 per tonne in 2013 to $11.02 per tonne in 2014.

Cost of sales in 2014 and 2013 included coal stockpile impairments of $16.3 million and $20.7 million, respectively, to reduce the carrying value of the Company's coal stockpiles to their net realizable value. The coal stockpile impairments recorded in both 2014 and 2013 reflect the challenging coal market conditions and primarily related to the Company's higher-ash products.

Cost of sales related to idled mine asset costs primarily consisted of period costs, which were expensed as incurred and included mainly depreciation expense. Cost of sales related to idled mine assets in 2014 included $30.3 million related to depreciation expenses for idled equipment (2013: $25.1 million).

Other operating expenses were $14.8 million in 2014 compared to $126.0 million in 2013.

$ in thousands	Year ended December 31, 2014	2013
Public infrastructure	**$ -**	$ 7
Sustainability and community relations	**253**	235
Foreign exchange loss/(gain)	**(1,151)**	1,659
Provision for doubtful trade and other receivables	**567**	200
Impairment loss on available-for-sale financial asset	**1,766**	3,067
Loss on disposal of property, plant and equipment	**-**	895
Impairment of property, plant and equipment	**8,879**	72,669
Impairment of prepaid expenses and deposits	**3,780**	30,152
Impairment of materials and supplies inventories	**2,981**	14,962
Gain on disposal of mining licenses	**(2,235)**	-
Other	**-**	2,194
Other operating expenses	**$ 14,840**	$ 126,040

Compared to 2013, the decrease in other operating expenses is primarily related to lower impairment charges in 2014.

The Company recognized an impairment loss of $1.8 million in 2014 related to its investment in Aspire compared to an impairment loss of $3.1 million in 2013. The Company's investment in Aspire is accounted for as an available-for-sale financial asset and carried at its fair value. The Company disposed all its investment in Aspire during 2014 and did not hold any Aspire shares as at December 31, 2014.

In 2014, the Company recognized an impairment loss of $3.4 million related to prepaid toll washing fees under the Ejin Jinda contract. The impairment charge, which was recorded in the second quarter of 2014, was a result of the continued delay in starting the commercial operations at the wet washing facility and the continued soft coal market in China. The Company also recognized in 2014 an impairment charge of $3.0 million in respect of surplus materials and supplies inventories as the Company continued to operate below capacity in 2014. In comparison, in 2013, the Company recognized a total of $15.0 million in impairment in respect of material and supplies inventory.

Given the difficult market conditions and the associated delays in projects and the commissioning of equipment, the Company recorded $8.9 million of impairment charges to reduce various items of property, plant and equipment to their recoverable amounts for the year ended December 31, 2014 (2013: $72.7 million).

A gain of $2.2 million was recorded from the disposal of mining licenses in 2014. In the second quarter of 2014, $1.8 million was recorded after the Company completed the sale of the Tsagaan Tolgoi mining license. A further $0.4 million was recorded in the fourth quarter of 2014 after the partial sale of exploration license 9449X.

Administration expenses were $8.9 million in 2014 compared to $15.6 million in 2013.

	Year ended December 31,	
$ in thousands	**2014**	**2013**
Corporate administration	**$ 2,591**	$ 3,269
Legal and professional fees	**2,680**	8,252
Salaries and benefits	**2,955**	3,748
Share-based compensation expense	**590**	167
Depreciation	**128**	193
Administration expenses	**$ 8,944**	$ 15,629

Administration expenses were lower in 2014 compared to 2013 primarily due to lower professional fees during the year. Professional fees in 2013 included $4.3 million of fees related to the internal investigations led by a tripartite committee referred to in section 6 “Regulatory Issues and Contingencies”. The tripartite committee substantially completed the investigative phase of its activities during 2013; therefore no substantial additional professional fees incurred in 2014.

Corporate administration costs were also lower in 2014 compared to 2013 reflecting the Company's cost reduction initiatives.

Evaluation and exploration expenses $1.3 million in 2014 compared to $1.2 million in 2013. The Company continued to minimize evaluation and exploration expenditures in 2014 in order to preserve the Company's financial resources. Evaluation and exploration activities and expenditures in 2014 were limited to ensuring that the Company met the Mongolian Minerals Law requirements in respect of its mining and exploration licenses.

Finance costs were $21.8 million and $21.2 million in 2014 and 2013 respectively which primarily consisted of interest expense on the $250.0 million CIC Convertible Debenture.

Finance income was $1.6 million in 2014 compared to $5.6 million in 2013 primarily relating to unrealized gains on the change in fair value of the embedded derivatives in the CIC Convertible Debenture ($1.6 million and $5.5 million respectively for 2014 and 2013). The fair value of the embedded derivatives in the

CIC Convertible Debenture is driven by many factors including: the Company's common share price, U.S. Dollar and Canadian Dollar exchange rates and share price volatility.

Income tax expense was $0.6 million in 2014 compared to an expense of $25.0 million in 2013. In 2014 $0.5 million relates to taxes paid in respect of the sale of the Tsagaan Tolgoi mining license. The $25.0 million expense for 2013 related to deductible temporary differences and adjustments to the amount of loss carry-forwards recognized. No corresponding amounts in respect of deferred tax balances were recorded in 2014.

Summary of Quarterly Operational Data

	2014				2013			
Quarter Ended	**31-Dec**	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
Sales Volumes, Prices and Costs								
Premium semi-soft coking coal								
Coal sales *(millions of tonnes)*	**0.02**	-	-	-	0.21	0.04	0.21	0.08
Average realized selling price *(per tonne)* (i)	**$ 26.77**	$ -	$ -	$ -	$ 37.54	$ 37.50	$ 32.46	$ 45.81
Standard semi-soft coking coal								
Coal sales *(millions of tonnes)*	**0.14**	0.31	0.12	0.29	1.40	0.87	-	-
Average realized selling price *(per tonne)* (i)	**$ 18.32**	$ 17.41	$ 20.33	$ 22.00	$ 24.49	$ 21.67	$ -	$ -
Thermal coal								
Coal sales *(millions of tonnes)*	**0.21**	0.34	0.51	0.10	0.11	0.03	0.11	0.20
Average realized selling price *(per tonne)* (i)	**$ 11.69**	$ 10.66	$ 10.72	$ 12.07	$ 12.60	$ 13.07	$ 13.98	$ 13.67
Total								
Coal sales *(millions of tonnes)*	**0.37**	0.65	0.63	0.39	1.72	0.94	0.32	0.28
Average realized selling price *(per tonne)* (i)	**$ 15.04**	$ 13.87	$ 12.52	$ 19.54	$ 25.30	$ 22.05	$ 26.26	$ 22.75
Raw coal production *(millions of tonnes)*	**0.21**	0.17	0.55	0.64	1.73	1.13	0.17	0.02
Direct cash costs of product sold *(per tonne)* (ii)	**$ 8.09**	$ 7.38	$ 8.23	$ 10.43	$ 11.13	$ 9.41	$ 11.49	$ 10.22
Mine administration cash costs of product sold *(per tonne)* (ii)	**$ 2.44**	$ 2.30	$ 2.49	$ 3.80	$ 1.39	$ 2.20	$ 7.14	$ 1.46
Total cash costs of product sold (*per tonne*) (ii)	**$ 10.53**	$ 9.68	$ 10.72	$ 14.23	$ 12.52	$ 11.61	$ 18.63	$ 11.68
Other Operational Data								
Production waste material moved *(millions of bank cubic meters)*	**0.55**	0.20	2.17	2.55	3.77	1.57	2.71	0.40
Strip ratio *(bank cubic meters of waste material per tonne of coal produced)*	**2.61**	1.20	3.97	4.02	2.18	1.39	15.55	26.21
Lost time injury frequency rate (iii)	**0.21**	0.17	0.15	0.00	0.00	0.00	0.00	0.00

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

Overview of Quarterly Operational Data

Due to difficult market conditions, the Company has paced production with demand for its coal products. Although a seasonally strong period, the fourth quarter of 2014 remained anemic with only a modest increase in coal prices. As a result, the Company operated significantly below capacity during the quarter and its production increased only slightly from 0.17 million tonnes in the third quarter of 2014 to 0.21 million tonnes in the fourth quarter of 2014. Since mid-June 2014 following a review of operations, the Company further reduced its production and placed approximately half of its workforce on furlough. This furlough is expected to continue until market conditions improve for the Company.

The Company maintained a strong safety record and completed the fourth quarter of 2014 without a lost time injury. As at December 31, 2014, the Company has a lost injury time frequency rate of 0.21 per 200,000 man hours based on a rolling 12 month average while the Company ended 2013 without a lost time injury.

Summary of Quarterly Financial Results

$ in thousands, except per share information	**2014**				2013			
Quarter Ended	**31-Dec**	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
Financial Results								
Revenue [(i), (ii)]	**5,054**	7,611	6,691	$ 5,137	$ 32,457	$ 15,652	$ 6,129	$ 4,398
Cost of sales [(ii)]	**(19,757)**	(23,922)	(20,086)	(18,366)	(40,359)	(33,486)	(17,477)	(21,305)
Gross loss excluding idled mine asset costs	**(821)**	(2,178)	(8,497)	(10,202)	(4,141)	(13,323)	(5,593)	(494)
Gross loss including idled mine asset costs	**(14,703)**	(16,311)	(13,395)	(13,229)	(7,900)	(17,834)	(11,348)	(16,907)
Other operating expenses	**(11,989)**	(2)	(1,776)	(1,073)	(109,682)	(1,003)	(14,925)	(431)
Administration expenses	**(1,924)**	(2,530)	(2,253)	(2,237)	(3,668)	(4,204)	(4,024)	(3,733)
Evaluation and exploration expenses	**(911)**	(122)	(107)	(172)	(489)	(186)	(221)	(273)
Loss from operations	**(29,527)**	(18,965)	(17,531)	(16,711)	(121,740)	(23,227)	(30,518)	(21,344)
Finance costs	**(6,351)**	(5,257)	(5,215)	(5,025)	(5,167)	(5,382)	(5,617)	(4,996)
Finance income	**317**	135	127	1,007	1,301	124	3,366	775
Share of earnings/(losses) of joint venture	**(40)**	(32)	(3)	(26)	(15)	(66)	44	(17)
Income tax recovery/(expense)	**(40)**	-	(546)	-	(13,109)	(13,377)	(416)	1,916
Net loss	**(35,641)**	(24,119)	(23,168)	(20,755)	(138,730)	(41,928)	(33,141)	(23,666)
Basic loss per share	**$ (0.19)**	$ (0.13)	$ (0.12)	$ (0.11)	$ (0.75)	$ (0.23)	$ (0.18)	$ (0.13)
Diluted loss per share	**$ (0.19)**	$ (0.13)	$ (0.12)	$ (0.11)	$ (0.75)	$ (0.23)	$ (0.18)	$ (0.13)

(i) Revenue is presented after deduction of royalties and selling fees.

(ii) Revenue and cost of sales relate to the Company’s Ovoot Tolgoi Mine within the Mongolian Coal Division operating segment. Refer to note 4 of the consolidated financial statements for further analysis regarding the Company’s reportable operating segments.

Overview of Quarterly Financial Results

The Company recorded a $29.5 million loss from operations in the fourth quarter of 2014 compared to a $121.7 million loss from operations in the fourth quarter of 2013. Continuing difficult market conditions resulted in lower sales prices and volumes in the fourth quarter of 2014 compared to the fourth quarter of 2013. This reduction in prices and volumes was offset by a lower royalty rate, lower administration expenses and lower impairment charges in the fourth quarter of 2014 compared to the fourth quarter of 2013.

Revenue was $5.1 million in the fourth quarter of 2014 compared to $32.5 million in the fourth quarter of 2013. The Company sold 0.37 million tonnes of coal at an average realized selling price of $15.04 per tonne in the fourth quarter of 2014 compared to sales of 1.72 million tonnes at an average realized selling price of $25.30 per tonne in the fourth quarter of 2013. Revenue decreased in the fourth quarter of 2014 compared to the fourth quarter of 2013 as a result of the combination of lower sales volumes and lower sales prices. The average realized selling price in the fourth quarter of 2014 compared to the fourth quarter of 2013 was also impacted by differences in product mix. The majority of the Company’s sales in the fourth quarter of 2014 were of Thermal coal product while Standard semi-soft coking coal comprised the majority of sales in the fourth quarter of 2013.

The Company’s revenue is presented after deduction of royalties and selling fees. Following the change in the Mongolia’s royalty regime starting April 1, 2014, the Company’s effective royalty rate for the fourth quarter of 2014, based on the Company’s average realized selling price of $15.04 per tonne, was 8.1% or $1.22 per tonne. In the fourth quarter of 2013, the Company was subject to an average 7% royalty based on a weighted average reference price of $69.17 per tonne. As a result, the Company’s effective royalty rate was 19.1% or $4.84 per tonne based on the average realized selling price of $25.30 per tonne in the fourth quarter of 2013.

Cost of sales was $19.8 million in the fourth quarter of 2014 compared to $40.4 million in the fourth quarter of 2013. Cost of sales comprises operating expenses, share-based compensation expense, equipment depreciation, depletion of mineral properties, coal stockpile inventory impairments and idled mine asset costs. Operating expenses in cost of sales reflect the total cash costs of product sold (a non-IFRS financial measure, see section 4 for further analysis) during the period.

$ in thousands	Three months ended December 31, 2014	2013
Operating expenses	**$ 3,895**	$ 21,537
Share-based compensation expense	**(3)**	28
Depreciation and depletion	**953**	10,096
Impairment of coal stockpile inventories	**1,030**	4,938
Cost of sales from mine operations	**5,875**	36,599
Cost of sales related to idled mine assets	**13,882**	3,760
Cost of sales	**$ 19,757**	$ 40,359

Operating expenses included in cost of sales were $3.9 million in the fourth quarter of 2014 compared to $21.5 million in the fourth quarter of 2013. The overall decrease in operating expenses is the result of the lower variable costs which are linked to production levels which are down to 0.21 million tonnes in the fourth quarter of 2014 compared to 1.73 million tonnes in the fourth quarter of 2013 and the continued focus on cost saving initiatives, including the furlough which commenced in mid-June 2014. The total cash cost of product sold decreased from $12.52 per tonne in the fourth quarter of 2013 to $10.53 per tonne in the fourth quarter of 2014.

Cost of sales in the fourth quarter of 2014 and the fourth quarter of 2013 included coal stockpile impairments of $1.0 million and $4.9 million, respectively, to reduce the carrying value of the Company's coal stockpiles to their net realizable value. The coal stockpile impairments recorded in both 2014 and 2013 reflect the challenging coal market conditions and primarily related to the Company's higher-ash products.

Idled mine asset costs included in cost of sales increased in the fourth quarter of 2014 compared to the fourth quarter of 2013 as a result of the mining operations' slowdown which commenced in June 2014. Idled mine asset costs in the fourth quarter of 2014 included $11.6 million related to depreciation expense for idled mine equipment (2013: $3.7 million).

Other operating expenses were $12.0 million in the fourth quarter of 2014 (2013: $109.7 million).

$ in thousands	Three months ended December 31, 2014	2013
Public infrastructure	**$ -**	$ 1
Sustainability and community relations	**42**	117
Foreign exchange loss/(gain)	**(163)**	631
Provision for doubtful trade and other receivables	**567**	200
Impairment of property, plant and equipment	**8,603**	68,370
Impairment of prepaid expenses and deposits	**375**	30,152
Impairment of materials and supplies inventories	**2,981**	8,032
Gain on disposal of mining license	**(416)**	-
Other	**-**	2,179
Other operating expenses	**$ 11,989**	$ 109,682

The Company's other operating expenses were significantly lower in the fourth quarter of 2014 compared to the fourth quarter of 2013 primarily due to reduced impairment charges totaling $12.0 million in the fourth quarter of 2014 compared to $106.6 million in the fourth quarter of 2013.

Given the difficult market condition and delay in commissioning of the equipment, the Company recorded $8.6 million of impairment charges to reduce various items of property, plant and equipment to their recoverable amounts in the fourth quarter of 2014.

The Company recorded $68.4 million of impairment charges in the fourth quarter of 2013 to reduce various items of PP&E to their recoverable amounts. The impairment charges in 2013 included $66.4 million related to the dry coal handling facility ("DCHF") (refer to section 5 "Processing Infrastructure – Dry Coal Processing" for further analysis).

An impairment of prepaid expenses and deposit of $30.2 million was included in other operating expenses in the fourth quarter of 2013 related to prepaid toll washing fees under the Ejin Jinda contract (refer to section 5 "Processing Infrastructure – Wet Washing Facility" for further analysis of the impairment charge).

Furthermore, following the results of a review of the Company's mining fleet in the fourth quarter of 2013, $7.5 million of additional surplus materials and supplies inventories were identified. A corresponding review performed in the fourth quarter of 2014 with an impairment charge of $3.0 million identified as the Company continued to operate below capacity. The impairment charge in the fourth quarter of 2013 also included $0.5 million of materials and supplies related to the DCHF for which there was no corresponding impairment in the fourth quarter of 2014.

Administration expenses were $1.9 million in the fourth quarter of 2014 compared to $3.7 million in the fourth quarter of 2013.

	Three months ended December 31,	
$ in thousands	**2014**	**2013**
Corporate administration	**$ 865**	$ 1,052
Legal and professional fees	**243**	2,075
Salaries and benefits	**774**	780
Share-based compensation expense	**10**	(275)
Depreciation	**32**	36
Administration expenses	**$ 1,924**	$ 3,668

Administration expenses decreased in the fourth quarter of 2014 compared to the fourth quarter of 2013 due to lower professional fees and overhead cost reduction initiatives. Legal and professional fees in the fourth quarter of 2013 included $1.8 million of fees related to the internal investigations led by a tripartite committee referred to in section 6 "Regulatory Issues and Contingencies". The tripartite committee substantially completed the investigative phase of its activities during 2013. Therefore, additional professional fees were not incurred in the fourth quarter of 2014.

Evaluation and exploration expenses were $0.9 million in the fourth quarter of 2014 compared to $0.5 million in the fourth quarter of 2013. The Company continued to minimize evaluation and exploration expenditures in the fourth quarter of 2014 in order to preserve the Company's financial resources. Evaluation and exploration activities and expenditures in the fourth quarter of 2014 were limited to ensuring that the Company met the Mongolian Minerals Law requirements in respect of its mining and exploration licenses.

Finance costs were $6.4 million and $5.2 million in the fourth quarters of 2014 and 2013 which primarily consisted of interest expense on the $250.0 million CIC Convertible Debenture. Further, $1.1 million of realized loss was recorded in relations to the disposal of Aspire shares in the fourth quarter of 2014.

Finance income was $0.3 million in the fourth quarter of 2014 compared to $1.3 million in the fourth quarter of 2013 and primarily consisting of unrealized gains on the fair value change of the embedded derivatives in the CIC Convertible Debenture ($0.3 million in the fourth quarter of 2014 and $1.6 million in the fourth quarter of 2013). The fair value of the embedded derivatives in the CIC Convertible Debenture is driven by many factors including: the Company's common share price, U.S. Dollar and Canadian Dollar exchange rates and share price volatility.

Income tax expense was nil in the fourth quarter of 2014 compared to an expense of $13.1 million in the fourth quarter of 2013. The $13.1 million expense in the fourth quarter of 2013 related to deductible temporary differences and adjustments to the amount of loss carry-forwards being recognized. No corresponding amounts in respect of deferred tax balances were recorded in the fourth quarter of 2014.

4. NON-IFRS FINANCIAL MEASURES

The Company has included the non-IFRS financial measure "cash costs" in this MD&A to supplement its condensed consolidated interim financial statements, which have been prepared in accordance with IFRS.

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

Cash Costs

The Company uses cash costs to describe its cash production costs. 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 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 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.

$ in thousands, except per tonne information	Three months ended December 31, 2014	Three months ended December 31, 2013	Year ended December 31, 2014	Year ended December 31, 2013
Cash costs				
Cost of sales determined in accordance with IFRS	**$ 19,757**	$ 40,359	**$ 82,132**	$ 112,627
Less non-cash expenses	**(1,980)**	(15,062)	**(23,721)**	(40,442)
Less non-cash idled mine asset costs	**(11,564)**	(3,721)	**(30,305)**	(25,053)
Total cash costs	**6,213**	21,576	**28,106**	47,132
Less idled mine asset cash costs	**(2,318)**	(39)	**(5,634)**	(5,386)
Total cash costs excluding idled mine asset cash costs	**3,895**	21,537	**22,472**	41,746
Coal sales *(millions of tonnes)*	**0.37**	1.72	**2.04**	3.26
Total cash costs of product sold *(per tonne)*	**$ 10.53**	$ 12.52	**$ 11.02**	$ 12.81

$ in thousands, except per tonne information	Three months ended December 31, 2014	Three months ended December 31, 2013	Year ended December 31, 2014	Year ended December 31, 2013
Cash costs				
Direct cash costs of product sold *(per tonne)*	**$ 8.09**	$ 11.13	**$ 8.33**	$ 10.58
Mine administration cash costs of product sold *(per tonne)*	**2.44**	1.39	**2.69**	2.23
Total cash costs of product sold *(per tonne)*	**$ 10.53**	$ 12.52	**$ 11.02**	$ 12.81

5. PROPERTIES

The Company currently holds two mining licenses and four exploration licenses in Mongolia, which in total cover an area of approximately 223,000 hectares ("ha"). The mining licenses pertain to the Ovoot Tolgoi Complex (12726A) and the Soumber Deposit (MV-016869).

In addition to the existing mining licenses, the Company also holds two exploration licenses (9443X and 9449X) pertaining to certain areas associated with the Soumber Deposit for which pre-mining agreements ("PMAs") have been issued. The Company holds two mineral exploration licenses (license numbers 13779X and 5267X) pertaining to the Zag Suuj Deposit for which PMAs have been issued.

Operating Mines

Ovoot Tolgoi Mine

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

Saleable products from the Ovoot Tolgoi Mine primarily include the Standard and Premium semi-soft coking coal products. The Company's raw semi-soft products together with raw higher-ash coals are suitable for washing and blending in order to be sold as a 1/3 coking coal in the Chinese market. Some higher-ash 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 of 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, and as part of this strategy is cooperating with Ejin Jinda to study the utilization of the Ejin Jinda wet washing facility (refer to "Processing Infrastructure – Wet Washing Facility" section below).

Reserves and Resources

On March 19, 2012, the Company announced an updated NI 43-101 compliant independent resource estimate prepared by RPM. RPM estimated that the Ovoot Tolgoi Mine contains 175.7 million tonnes of proven and probable surface coal reserves, 133.3 million tonnes of measured coal resources, 59.9 million tonnes of indicated coal resources and 24.0 million tonnes of inferred coal resources as at October 31, 2011. All of these resources are located above 300m and are amenable to surface mining. The Measured and Indicated Mineral Resources are inclusive of those Mineral Resources modified to produce the Mineral Reserves. Details of the assumptions and parameters used to estimate the reserves, resources and coal quality estimates and information on data verification are set out in the company's Annual Information Form dated March 30, 2015, and available on SEDAR at www.sedar.com (the "Annual Information Form").

The Company is currently reviewing the geology and mine plan for Ovoot Tolgoi and changes thereto may impact the quantities of measured and/or indicated resources and reserves of Ovoot Tolgoi. The classification of the geology type of the coal deposits at the Ovoot Tolgoi Complex is currently under review. The results of this review are not yet known and may have a material impact on production levels from the Ovoot Tolgoi Complex. For more information on the risks associated with classification of geology type of coal deposits, refer to the Risk Factor entitled "The Company's coal reserves and resources are estimates based on a number of assumptions and the Company may produce less coal than its current estimates.

The coal rank at the Ovoot Tolgoi Mine is high volatile B to A bituminous based on the ASTM D388 standard. High volatile B produces between 7,212 to 7,785 kcal/kg and high volatile A produces greater than 7,785 kcal/kg heat output.

Operational Data and Financial Results

Refer to section 3 for an overview of the operational data and financial results of the Ovoot Tolgoi Mine.

Processing Infrastructure

Dry Coal Processing

Following an extensive review that commenced in the fourth quarter of 2013, the Company concluded that it did not plan to either complete or use the DCHF at the Ovoot Tolgoi Mine in the foreseeable future. As a result of the review and subsequent impairment assessment, the Company recorded a $66.9 million non-cash impairment charge in the fourth quarter of 2013 to reduce the carrying value of the DCHF to its recoverable amount. The DCHF had a carrying value of $11.2 million at December 31, 2014. The Company continues to use mobile screens for initial dry processing of its higher-ash coals. The use of mobile screens at stockpile areas closer to the pits has enabled the Company to realize a cost benefit compared to hauling the coal to the central DCHF and operating the rotary breaker. This provides a lower cost solution without adversely impacting the coal quality of the coal planned to be mined over the next year.

When coal markets improve and production from the Ovoot Tolgoi Mine increases in line with its anticipated annual capacity of 9 million tonnes run-of-mine production, the Company will review the use of the DCHF as part of its existing assets and continue developing beneficiation capabilities to maximize value from its product.

Wet Washing Facility

In 2011, the Company entered into an agreement with Ejin Jinda, a subsidiary of China Mongolia Coal Co. Ltd. to toll-wash coals from the Ovoot Tolgoi Mine. The agreement has a duration of five years from commencement of the contract and provides for an annual wet washing capacity of approximately 3.5 million tonnes of input coal. To date, commercial operations at the wet washing facility have not commenced.

In 2011, the Company made an initial payment of $33.6 million in respect of prepaid toll washing fees. The Company recorded a $30.2 million impairment loss on the $33.6 million of prepaid toll washing fees during the year ended December 31, 2013 and in the quarter ended June 30, 2014, the Company recorded an additional impairment of $3.4 million to fully impair the deposit. As at December 31, 2014 the Company has reassessed the carrying value of this prepayment and continues to believe it is appropriate for the balance to be fully impaired. This impairment continues to be recognized due to the continued delay in starting the commercial operations at the wet washing facility and the continued soft coal market in China.

Under the original agreement which required the commercial operation of the wet washing facility to commence on October 1, 2011 the additional fees payable by the Company under wet washing contract would be $18.5 million. The Company assesses on a continuous basis the agreement with Ejin Jinda and has determined it is not probable the $18.5 million will be required to be paid as part of the initial contract.

The Company's objective continues to be the implementation of an effective and profitable wet washing solution, and the Company is cooperating with Ejin Jinda in reviewing the utilization of the wet washing facility.

Transportation Infrastructure

On August 2, 2011, the State Property Committee of Mongolia awarded the tender to construct a paved highway from the Ovoot Tolgoi Complex to the Shivee Khuren Border Crossing to consortium partners NTB LLC and SGS (together referred to as "RDCC LLC"). SGS holds a 40% interest in RDCC LLC.

On October 26, 2011, RDCC LLC signed a concession agreement with the State Property Committee of Mongolia. RDCC LLC has the right to conclude a 17 year build, operate and transfer agreement under the Mongolian Law on Concessions. The Company announced the completion of the paved highway construction on September 28, 2014. The completion of the highway was one of the Company's key objectives for 2014 and will significantly increase the safety of coal transportation, reduce environmental impacts and improve the efficiency and capacity of coal transportation. The highway was commissioned in January 2015.

On September 27, 2014 a traffic opening ceremony was held in respect of a new paved highway from the Ovoot Tolgoi Complex to the Shivee Khurne Border Crossing. This highway which the Company has an indirect 40% shareholding is expected to significantly increase the safety of coal transportation, reduce environmental impacts and improve efficiency and capacity of coal transportation. The commercial operation of this highway has been delayed and is currently expected to commence in the second quarter of 2015. The paved highway is expected to have a carrying capacity in excess of 20 million tonnes of coal per year.

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, 22 MT4400AC (218 tonne capacity) haul trucks and two Terex TR100 (91 tonne capacity) haul trucks, together with various pieces of ancillary equipment. The 2014 production plan did not fully utilize the Company's existing mining fleet.

Workforce

As at December 31, 2014, SouthGobi Sands LLC employed 349 employees in Mongolia. Of the 349 employees, 39 are employed in the Ulaanbaatar office, 2 in outlying offices and 308 at the Ovoot Tolgoi Mine site. Of the 349 employees based in Mongolia, 343 (98%) are Mongolian nationals and of those, 155 (44%) are residents of the local Gurvantes, Dalanzadgad, Sevrei and Noyon Soums.

Development Projects and Exploration Program

Soumber Deposit

The Soumber Deposit, comprising the Central Soumber, East Soumber, Biluut, South Biluut and Jargalant Fields, is located approximately 20km east of the Ovoot Tolgoi Mine. It lies within the administrative units of Gurvantes and Noyon Soums in the Umnugobi Aimag (South Gobi Province), approximately 50km northeast of the Shivee Khuren Border Crossing. The proximity of the Soumber Deposit to the Ovoot Tolgoi Mine will allow any future mining operation at the Soumber Deposit to share existing infrastructure with the Ovoot Tolgoi Mine.

The Central and East Soumber Fields include six major seam groups. Approximately 40% of the resources are contained in one seam, averaging 5.9m in thickness. All seam groups consist of a number of coal plies of highly variable thickness, separated by stone partings. Interburden between the seam groups is mainly sandstone and conglomerate, whilst partings within the seam groups tend to be dominated by mudstone and carbonaceous mudstone.

Three major seams have been identified at the Biluut, South Biluut and Jargalant Fields. Correlation of these seams with the Central and East Soumber Fields has not been undertaken. Approximately 60% of the resources are contained in one seam, averaging 5.5m in thickness.

On March 25, 2013, the Company reported an updated NI 43-101 compliant independent resource estimate prepared by RPM. RPM estimated that the Soumber Deposit contains measured coal resources of 62.4 million tonnes, indicated coal resources of 110.3 million tonnes and inferred coal resources of 123.0 million tonnes as at January 10, 2013. Approximately 76% of the Soumber Deposit resource is located above 300m and is amenable to surface mining. Details of the assumptions and parameters used to calculate the resources and coal quality estimates and information on data verification are set out in the Annual Information Form available on SEDAR at www.sedar.com.

The coal rank at the Soumber Deposit is low to medium volatile bituminous based on the ASTM D388 standard producing between 5,000 to 7,800 kcal/kg of heat output. Laboratory data demonstrated that some of the coal seams exhibit potential coking coal characteristics.

On July 6, 2011, the Company announced that the Mineral Resources Authority of Mongolia ("MRAM") issued the Company a mining license pertaining to the Soumber Deposit. The 10,993ha mining license was granted for an initial term of 30 years with an option for two 20 year extensions. In addition to the existing mining license, the Company also holds two exploration licenses pertaining to certain areas associated with the Soumber Deposit for which PMAs have been issued. The Company has applied for a mining license on the area covered by the PMA issued on January 18, 2013. The Company plans to progress to the mining license application process for the PMA issued on August 14, 2013.

Environmental baseline studies have been completed and general environmental impact assessments have been approved. The Company has delayed plans for a pre-feasibility study for the Soumber Deposit and intends to manage the feasibility planning and physical preparation of the Soumber Deposit with respect to ongoing market conditions, government requirements and the Company's available financial resources. The Company has engaged the relevant authorities in Mongolia concerning these planned delays.

Zag Suuj Deposit

The Zag Suuj Deposit, located approximately 150km east of the Ovoot Tolgoi Mine and approximately 45km north of the Mongolia-China border, lies within the administrative units of Noyon and Bayandalai Soums in the Umnugobi Aimag (South Gobi Province).

Based on the exploration results to date, the coal occurrence at the Zag Suuj Deposit can be divided into four major seam groups. Each of the seam groups split into a number of coal plies of highly variable thickness, separated by stone partings. Interburden between the seams is mainly sandstone and conglomerate, whilst partings within the seams tend to be dominated by mudstone and carbonaceous mudstone. Correlation of the coal seams at the Zag Suuj Deposit with the Ovoot Tolgoi Deposit and the Soumber Deposit has not been undertaken.

Several of the seams at the Zag Suuj Deposit have an average free swell index greater than 5, indicating metallurgical properties; however, limited metallurgical testing has been undertaken to date.

On March 25, 2013, the Company reported an updated NI 43-101 compliant independent resource estimate for the Zag Suuj Deposit prepared by RPM. RPM estimated that the Zag Suuj Deposit contains indicated coal resources of 21.5 million tonnes and inferred coal resources of 84.0 million tonnes as at January 10, 2013. The entire Zag Suuj Deposit resource is located above 300m and is amenable to surface mining. Details of the assumptions and parameters used to calculate the resources and coal quality estimates and information on data verification are set out in the Annual Information Form available on SEDAR at www.sedar.com.

The coal rank at the Zag Suuj Deposit ranges between low to medium volatile bituminous coal based on the ASTM D388 standard. The average calorific value for individual coal seams ranges between 5,600 and 6,100 kcal/kg (ad).

The Company holds two exploration licenses pertaining to the Zag Suuj Deposit for which PMAs were issued on August 14, 2013 by MRAM. The Company plans to progress to the mining license application process for the PMAs.

It is anticipated that coals from the Zag Suuj Deposit can be washed to produce a coking coal product or a coking coal blend product. Limited exploration activities are planned for the Zag Suuj Deposit in 2015. Exploration activities in 2015 will ensure to meet the requisite requirements under the Mongolian Minerals Law.

Ovoot Tolgoi Underground Deposit

The Ovoot Tolgoi Underground Deposit is contiguous to, and located directly below, the Ovoot Tolgoi Mine. The entire extension of the coal at depth from 300m to 600m that is designated for potential underground development is located inside the existing Ovoot Tolgoi mining license.

On March 19, 2012, the Company announced an updated NI 43-101 compliant independent resource estimate prepared by RPM. RPM estimated that the Ovoot Tolgoi Underground Deposit contains measured coal resources of 65.8 million tonnes, indicated coal resources of 43.3 million tonnes and inferred coal resources of 62.0 million tonnes as at October 31, 2011. Details of the assumptions and parameters used to calculate the resources and coal quality estimates and information on data verification are set out in the Annual Information Form available on SEDAR at www.sedar.com.

The coal rank at the Ovoot Tolgoi Underground Deposit is high volatile B to A bituminous based on the ASTM D388 standard. High volatile B produces between 7,212 to 7,785 kcal/kg and high volatile A produces greater than 7,785 kcal/kg heat output.

The Company has indefinitely delayed studies to determine the feasibility and economics of conducting an underground mining operation at the Ovoot Tolgoi Underground Deposit.

Aspire

Aspire is a company listed on the Australian Securities Exchange under the symbol AKM. In the fourth quarter of 2014, the Company raised a total of $2.8 million through the sale of 123.5 million shares held in Aspire Mining Limited. This reduced the Company's shareholding in Aspire Mining Limited to nil at December 31, 2014 down from 18.8% at December 31, 2013.

Exploration Program

The Company continued to minimize evaluation and exploration expenditures in 2014 in order to preserve the Company's financial resources. The 2015 exploration program will be limited to ensuring that the Company meets the Mongolian Minerals Law requirements in respect of its mining and exploration licenses including those related to the Soumber Deposit.

6. LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Capital Management

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

Turquoise Hill Loan Facility

On May 25, 2014, the Company announced it had obtained a $10 million revolving credit facility from Turquoise Hill to meet its short term working capital requirements. The terms and conditions of this facility were filed on SEDAR (www.sedar.com) on June 2, 2014. The key commercial terms of the facility were as follows:

- original maturity date of August 30, 2014 (subsequently extended);
- interest rate of one month US dollar LIBOR Rate in effect plus 11% margin per annum;
- commitment fee of 35% of interest rate payable quarterly in arrears on undrawn principal amount of facility;
- front end fee of $0.1 million;
- draws subject to customary closing conditions and the Company's cash requirements in the ordinary course of business;
- facility is subject to certain mandatory prepayment and termination provisions; and
- the Company to continue to seek other funding alternatives.

On August 30, 2014, subject to certain conditions and limitations, Turquoise Hill agreed to grant a deferral of payment of $3.8 million plus accrued interest thereon owing by the Company under the Turquoise Hill Loan Facility and reduced the revolving credit facility to the same $3.8 million. This deferral of payment and repayment is granted to the Company without prejudice to Turquoise Hill's right and ability to assert and re-assert at any point in time to demand payment and repayment of all amounts owing to Turquoise Hill under the Turquoise Hill Loan Facility.

Subsequently, on December 4, 2014 as a result of unavoidable delays in closing the NUR SPA, Turquoise Hill agreed to a further limited deferral of repayment on the $3.8 million principal and accrued interest owing on the Turquoise Hill Loan Facility as follows:

(i) $1.9 million in principal and all interest that has accrued on and under the Turquoise Hill Loan Facility up to and including May 30, 2015 shall become due and payable on May 30, 2015; and

(ii) $1.9 million in principal and all interest that has accrued on and under the Turquoise Hill Loan Facility from June 1, 2015 up to and including August 31, 2015 shall become due and payable on August 31, 2015.

This limited deferral is subject to certain conditions and limitations, including the completion by April 30, 2015 of the transaction contemplated by the NUR SPA, as amended by an agreement dated December 2, 2014.

As at December 31, 2014 the Company had drawn $3.8 million and owed accrued interest of $0.1 million under this facility (December 31, 2013: nil).

Private placements

December 2014 private placements

On December 3, 2014, the Company announced the successful completion of private placements with independent investors. The total gross proceeds from the private placements were US$9.0 million (US$8.9 million net after fees) through the issue of 24,360,773 Common Shares at CAD$0.42 per share.

The placing price of CAD$0.42 represented a discount of approximately 17.8% to the volume-weighted average price per Common Share of approximately CAD$0.51 as quoted on the TSX for the last five consecutive trading days immediately prior to December 3, 2014.

Novel Sunrise private placement

On February 24, 2015, the Company announced it has entered into a private placement agreement with Novel Sunrise providing for the initial subscription of 10,131,113 Mandatory Convertible Units for approximately US$3.5 million, and, upon the closing of the Novel SPA, described in further detail below, for the subscription of up to 11,618,887 Common Shares for additional gross proceeds of approximately US$4.0 million.

The initial tranche of the private placement consisting of approximately US$3.5 million of Mandatory Convertible Units closed on March 3, 2015 having been subject to regulatory approvals and other customary closing conditions. Each Mandatory Convertible Unit is convertible on a one for one basis into a Common Share, resulting in a deemed issue price of CAD$0.432 per Common Share ("Placing Price"). The Mandatory Convertible Units mandatorily convert into Common Shares upon either the closing of the Novel SPA or the termination thereof. The Mandatory Convertible Units do not have any voting rights until converted into Common Shares in accordance with their terms.

After the initial subscription and upon completion of the Novel SPA, Novel Sunrise has agreed to subscribe for up to an additional approximate US$4.0 million of Common Shares at the Placing Price (the "Subsequent Tranche") over a maximum period of 45 days from February 24, 2015, subject to regulatory approvals and other customary closing conditions. Assuming issuance of the full amount of Common Shares issuable under the Subsequent Tranche, the total gross proceeds of the placement will be approximately US$7.5 million. The proceeds from the private placement will be applied towards general working capital.

The Placing Price of CAD$0.432 represented a discount of approximately 20% to the 5-day volume-weighted average price per Common Share of approximately CAD$0.54, as of the date the Company received price protection from the TSX for the private placement. The Placing Price was determined with reference to the prevailing market price of the Common Shares and was negotiated on an arm's length basis between the Company's independent directors and Novel Sunrise.

The closing of the private placement and related transactions was subject to acceptance of notice of the placement by the TSX pursuant to the financial hardship provisions of the TSX Company Manual and the delisting review (For more information on the delisting review, refer to the heading "TSX Financial Hardship Exemption Application and Status of Listing on TSX" in this MD&A).

Under the private placement agreement, the Company has also agreed to grant Novel Sunrise the following additional rights:

- Mr. Ted Chan to join the Board contemporaneous with the closing of the initial tranche of the private placement as an Executive Director, subject to TSX approval;
- Two more nominees of Novel Sunrise to join the Board, plus additions to the Company's management team, upon closing of the Novel SPA;
- Novel Sunrise to have pro rata participation rights in future financings; and
- Novel Sunrise to have registration rights under Canadian provincial securities laws in connection with its shareholdings.

Mr. Chan was appointed as an Executive Director on March 3, 2015 and brings with him over 20 years of enterprise management experience. He has played a key role in the management of Novel Sunrise and its affiliated companies in China, particularly through establishing and managing client relationships. Mr. Chan holds a bachelor degree from Communication University of China.

<u>Novel SPA</u>

On February 24, 2015, the Company was advised by Novel Sunrise and Turquoise Hill that they had entered into a Sale and Purchase Agreement for the purchase by Novel Sunrise of 48,705,155 Common Shares currently held by Turquoise Hill. The closing of the Novel SPA is subject to certain terms and closing conditions including the approval of the TSX, obtaining clearance from the Hong Kong Securities and Futures Commission that the transactions contemplated by the proposed private placement and the Novel SPA will not trigger a mandatory general offer to the shareholders of the Company, and other customary conditions.

Assuming the Novel SPA and the private placement are completed, Novel Sunrise will hold 70,455,155 Common Shares, representing 29.3% of the expanded share capital of the Company, assuming full completion of the Novel Sunrise private placement and the issuance of 21,750,000 new Common Shares.

Going concern considerations

Notwithstanding the provision of the private placements, the coal prepayments received from customers and the Turquoise Hill Loan Facility, the Company continues to experience negative impacts on its margins and liquidity and there can be no assurance that the Company will have sufficient funding to be able to continue as a going concern.

The Company anticipates that coal prices in China will remain under pressure in 2015, which will continue to impact the Company's margins and liquidity. Therefore the Company is actively seeking prepaid coal offtake agreements and other additional sources of financing to continue operating and meet its business objectives, while continuing to be focused on minimizing uncommitted capital expenditures and preserving the Company's growth options. The Company, together with its new strategic partner, Novel Sunrise Investments Ltd., has developed a funding plan (the "Proposed Funding Plan") in order to pay the interest due under the CIC Convertible Debenture, meet its obligations as they fall due and achieve its business objectives in 2015. These obligations may include potential penalties incurred as a consequence of the tax case in Mongolia (refer to section 7 "Regulatory Issues and Contingencies" for details). However, there is no guarantee that the Company will be able to implement this funding plan or secure other sources of financing. If it fails to do so, or is unable to secure additional capital or otherwise restructure or refinance its business in order to address its cash requirements through December 31, 2015, then the Company is unlikely to have sufficient capital resources or cash flows from mining operations in order to satisfy its ongoing obligations and future contractual commitments, including cash interest payments due on the CIC Convertible Debenture (approximately $7.9 million on May 19, 2015 and approximately $8.0 million on November 19, 2015). Refer to section 11 "Risk Factors". Therefore, the Company is actively seeking additional sources of financing to continue operating and meet its objectives.

The Company's consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue operating until at least December 31, 2015 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 transaction to provide it with additional liquidity. If it fails to do so, or is unable to secure additional capital or otherwise restructure or refinance its business in order to address its cash requirements through December 31, 2015, then the Company is unlikely to have sufficient capital resources or cash flows from mining operations in order to satisfy its ongoing obligations and future contractual commitments, including cash interest payments due on the CIC Convertible Debenture, it may not be able to continue as a going concern.

If for any reason, the Company is unable to secure the additional sources of financing and continue as a going concern, then 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.

While the Company intends to secure additional sources of financing as soon as possible, a continued delay in securing additional financing could ultimately result in an event of default of the $250 million CIC Convertible Debenture, which if not cured within applicable cure periods in accordance with the terms of such debenture, may result in the principal amount owing and all accrued and unpaid interest becoming immediately due and payable upon notice to the Company by CIC.

The Company is also subject to a remedial delisting review by the TSX in connection with its reliance on the financial hardship exemption from approval by its shareholders of the private placement with Novel Sunrise as announced on February 24, 2015. Refer to the below section "TSX Financial Hardship Exemption Application and Status of Listing on TSX" for details. The failure by the Company to clear the TSX delisting review within 90 days from February 25, 2015 may result in the Company's delisting which would result in an event of default under the CIC Convertible Debenture. An event of default may result in the principal amount owing and all accrued and unpaid interest becoming immediately due and payable upon notice to the Company by CIC.

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 December 31, 2014, the Company had cash of $3.8 million compared to cash of $21.8 million as at December 31, 2013. Working capital (excess current assets over current liabilities) was $3.4 million as at December 31, 2014 compared to $41.7 million as at December 31, 2013. As at March 30, 2015, the Company had cash of $4.2 million.

As at December 31, 2014, the Company's gearing ratio was 0.23 (December 31, 2013: 0.19), which was calculated based on the Company's long term liabilities to total assets. As at December 31, 2014, the Company is not subject to any externally imposed capital requirements.

Proposed Funding Plan

The Company has entered into the transaction with Novel Sunrise as a new significant shareholder and strategic partner intending to bring its operational and marketing expertise to the Company. Novel Sunrise, together with its affiliated companies in China, is a leading private enterprise in the real estate, logistics and supply chain management industries. In this connection, Novel Sunrise has agreed to assist the Company in the implementation of a funding plan intended to improve cash flow for the Company and support its business strategy and operations in a difficult market, with the goal of positioning the Company with a strong future as a coal producer. The proposed plan includes introducing potential customers in China to the Company to allow the Company to expand its customer base further inland in China, and helping the Company to secure longer-term coal offtake arrangements, thereby allowing the Company to ramp up production to capacity. Novel Sunrise has also advised the Company as part of the financing plan that it intends to help the Company to establish relationships with commercial banks in China and Hong Kong to help the Company to secure short term bridge loans, trading credit facilities and other types of financing.

While it is the Company's intention to proceed to implement the new funding plan with Novel Sunrise's assistance as soon as possible, the proposed plan is indicative only and the Company's ability to implement it successfully is dependent on a number of factors beyond its control, including but not limited to, China's economic growth and coal demand growth, market prices of coal, the availability of credit and market interest rates, and exchange rates of currencies of countries where the Company operates, and there can be no assurance that the Company will be able to do so, or that it will be able to do so in sufficient time to continue as a going concern. In such event, the Company is likely to be unable to meet its obligations, which could result in voluntary or involuntary insolvency proceedings involving the Company as discussed under the heading "Risk Factors" in the Management Discussion and Analysis issued on March 30, 2015 and available on SEDAR at www.sedar.com.

TSX Financial Hardship Exemption Application and Status of Listing on TSX

As Novel Sunrise are expected to hold greater than 20% of the Common Shares after the completion of the Novel SPA and the private placement – and, assuming China Investment Corporation does not elect to employ its pre-emptive or conversion rights under the $250 million debenture issued to it by the Company, Novel Sunrise would become the largest shareholder of the Company - the TSX has advised the Company that it takes the view that the private placement and the Novel SPA must be considered as one transaction, having a material effect on control of the Company, which normally would require the approval of a majority of disinterested shareholders under the provisions of the TSX Company Manual.

On the basis that the Company is in serious financial difficulty and does not have sufficient time to obtain shareholder approval in a timely manner prior to the completion of the private placement and the Novel SPA, the Company applied to the TSX pursuant to the "financial hardship" provisions of section 604(e) of the TSX Company Manual for an exemption from the requirement to obtain shareholder approval for the private placement, the Novel SPA and the associated potential material effect on control.

On February 25, 2015, the TSX confirmed that the Company had been placed on remedial delisting review in connection with its reliance on the financial hardship exemption from approval by its shareholders of the private placement and advised the Company that its financial and operating results may not warrant that its securities continue to be listed on the TSX. A delisting review is customary practice under TSX policies when a listed company relies on the financial hardship exemption. SouthGobi has 90 days to comply with all requirements of the TSX for continued listing and a meeting of the TSX Continued Listing Committee to consider this matter has been scheduled for May 19, 2015. The Company believes the proceeds of the private placement will allow it to meet its short term financing needs and that it will be compliant with the continued listing requirements of the TSX within the 90 day compliance period following full completion of the private placement; however, no assurance can be provided as to the outcome of the remedial delisting review and the Company may become subject to delisting from the TSX.

CIC Convertible Debenture

In November 2009, the Company entered into a financing agreement with a wholly owned subsidiary of the 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 charge over the Company's assets and certain subsidiaries. The financing was required primarily to support the accelerated investment program in Mongolia and up to $120 million of the financing could also be used for working capital, repayment of debt due on funding, general and administrative expenses and other general corporate purposes. The Company's actual use of financing has been in accordance with the above.

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 (Cdn$11.88). As at December 31, 2014, the CIC owned, through its indirect wholly owned subsidiary, approximately 17.3% of the issued and outstanding common shares of the Company.

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

Mongolian IAAC Investigation

In the first quarter of 2013, the Company was subject to orders imposed by Mongolia's Independent Authority against Corruption (the "IAAC") which placed restrictions on certain of the Company's Mongolian assets. The orders were imposed on the Company in connection with the IAAC's investigation of the Company. The SIA also continues to enforce the orders on the Company.

The orders placing restrictions on certain of the Company's Mongolian assets could ultimately result in an event of default of the Company's CIC Convertible Debenture. Following a review by the Company and its advisers, it is the Company's view that this does not result in an event of default as defined under the CIC Convertible Debenture terms. However, if an event of default of the CIC Convertible Debenture occurs that remains uncured for ten business days, the principal amount owing and all accrued and unpaid interest will become immediately due and payable upon notice to the Company by CIC.

The orders relate to certain items of operating equipment and infrastructure and the Company's Mongolian bank accounts. The orders related to the operating equipment and infrastructure restricts the sale of these items; however, the orders do not restrict the use of these items in the Company's mining activities. The orders related to the Company's Mongolian bank accounts restrict the use of in-country funds. While the orders restrict the use of in-country funds pending outcome of the investigation, they are not expected to have any material impact on the Company's activities.

Cash Flow Highlights

$ in thousands	Year ended December 31, 2014	2013
Cash generated from/(used in) operating activities	**$ (29,673)**	$ 7,559
Cash used in investing activities	**(625)**	(4,892)
Cash generated from financing activities	**12,378**	129
Effect of foreign exchange rate changes on cash	**(128)**	(633)
Increase/(decrease) in cash for the year	**(18,048)**	2,163
Cash balance, beginning of year	**21,837**	19,674
Cash balance, end of year	**$ 3,789**	$ 21,837

Cash from/(used in) Operating Activities

The Company used $29.7 million of cash in operating activities in 2014 compared to cash generated from operating activities of $7.6 million in 2013.

In 2014, there was an increase in non-cash working capital of $0.9 million compared to a reduction of $33.0 million in 2013. In 2014, the Company reduced the level of trade and other payables by $13.5 million which was funded in part through the increase in deferred revenues from prepaid coal sales ($10.9 million) and the reduction in prepaid expenses and deposits ($0.9 million). The reduction in prepaid expenses and deposits in 2014 includes the impact of the reclassification of restricted cash of $1.2 million from cash to prepaid expenses and deposits. In 2013, the Company reduced its prepaid expenses and deposits by $22.6 million and increased its trade and other payables ($19.9 million) following the ramp-up in operating activities in 2013 compared to the end of 2012.

Cash used in Investing Activities

For 2014, the Company used $0.6 million of cash in investing activities compared to $4.9 million for 2013. In 2014, expenditures on property, plant and equipment (including capitalized deferred stripping activities) totaled $2.8 million and investments in RDCC LLC were $2.5 million. These expenditures were partially offset by net proceeds of $1.3 million generated from the sale of the Tsagaan Tolgoi mining license which was completed in the second quarter of 2014. In comparison, for 2013, expenditures on plant, property and equipment (including capitalized deferred stripping activities) of $11.8 million and investments in RDCC LLC of $10.4 million were partially offset by proceeds from maturing investments of $15.4 million.

Cash generated from Financing Activities

The cash generated from financing activities in the 2014 primarily related to the proceeds from the private placement of $8.6 million and the revolving credit facility obtained from Turquoise Hill ("Turquoise Hill Loan Facility"). At December 31, 2014, the Company had drawn down $3.8 million under this facility and is no longer eligible to make further withdrawals.

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 December 31, 2014, the Company's operating and capital commitments were:

	As at December 31, 2014			
	Within 1 year	2-3 years	Over 3 years	Total
Capital expenditure commitments	$ 2,519	$ 16,691	$ -	$ 19,210
Operating expenditure commitments	12,221	355	355	12,931
Commitments	**$ 14,740**	**$ 17,046**	**$ 355**	**$ 32,141**

Ovoot Tolgoi Mine Impairment Analysis

Unchanged from the assessment made as at December 31, 2013, March 31, 2014, June 30, 2014 and September 30, 2014 respectively, the Company determined that an indicator of impairment existed for its Ovoot Tolgoi Mine cash generating unit as at December 31, 2014. The impairment indicator was the continued weakness in the Company's share price during the fourth quarter of 2014 and the fact that the market capitalization of the Company, as at December 31, 2014, was less than the carrying value of its net assets.

Therefore, the Company conducted an impairment test whereby the carrying value of the Company's Ovoot Tolgoi Mine cash generating unit was compared to its "value in use" using a discounted future cash flow valuation model. The Company's cash flow valuation model has been updated to take into consideration the latest available information to the Company, including but not limited to, sales price, sales volumes and washing assumptions, operating cost assumptions and life of mine coal production assumptions as at December 31, 2014. The Company's Ovoot Tolgoi Mine cash generating unit carrying value was $358.6 million as at December 31, 2014.

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

- Long term price estimates from an independent market consulting firm;
- Forecasted sales volumes in line with production levels as per the updated mine plan;
- Updated life-of-mine coal production, strip ratio, capital costs and operating costs;
- A pre-tax discount rate of 16.0% based on an analysis of market, country and the Company specific factors; and
- Coal processing yield of 75%.

Key sensitivities in the valuation model are as follows:

- For each 1% increase/(decrease) in the long term price estimates, the calculated fair value of the cash generating unit increases/(decreases) by approximately $19.3/($19.3) million;
- For each 1% increase/(decrease) in the discount rate, the calculated fair value of the cash generating unit (decreases)/increases by approximately ($25.0)/$27.5 million; and
- For each 1% increase/(decrease) in the cash mining cost estimates, the calculated fair value of the cash generating unit (decreases)/increases by approximately ($10.8)/$10.8 million.

The impairment analysis did not result in the identification of an impairment loss and no charge was required as at December 31, 2014. A decline of more than 1% in the long term price estimates, an increase of more than 1% in the pre-tax discount rate or an increase of more than 2% in the cash mining cost estimates may trigger an impairment charge on the cash generating unit. The Company believes that the estimates and assumptions incorporated in the impairment analysis are reasonable; however, the estimates and assumptions are subject to significant uncertainties and judgments.

The Company is currently reviewing its mine plan for the Ovoot Tolgoi project. Changes to the mine plan may have an impact on the quantities of measured and/or indicated resources and reserves of the Ovoot Tolgoi project.

Investment in RDCC LLC Impairment Analysis

The Company determined that an indicator of impairment existed for its investment in RDCC LLC as at December 31, 2014. The impairment indicator was the continued delay in the commencement of operation.

Therefore, the Company conducted an impairment test whereby the carrying value of the Company's investment in RDCC LLC compared to its "value in use" using a discounted future cash flow valuation model. The carrying value was $26.6 million as at December 31, 2014.

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

- Toll fee estimates reference to the concession agreement;
- Traffic volume;
- Repair, maintenance and operating cost; and
- A pre-tax discount rate of 15.9% based on a weighted average cost of capital of the Company.

Key sensitivities in the valuation model are as follows:

- For each 1% increase/(decrease) in the toll fee estimates or traffic volume, the calculated fair value of the carrying unit increases/(decreases) by approximately $0.3/($0.3) million; and
- For each 1% increase/(decrease) in the discount rate, the calculated fair value of the carrying unit (decreases)/increases by approximately ($1.5)/$1.7 million.

The impairment analysis did not result in the identification of an impairment loss and no charge was required as at December 31, 2014. The Company believes that the estimates and assumptions incorporated in the impairment analysis are reasonable; however, the estimates and assumptions are subject to significant uncertainties and judgments.

Financial Instruments

The fair value of financial assets and financial liabilities at amortized cost is determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions. The Company considers that the carrying amount of all its financial assets and financial liabilities recognized at amortized cost in the financial statements approximates their fair value.

The fair values of financial instruments that are traded on an active liquid market are determined with reference to the quoted market prices. The fair value of the Company's investment in the shares of Kangaroo Resources Limited ("Kangaroo") and Aspire was determined using this methodology. The Company's investment in the shares of Kangaroo and its money market investments were classified as fair value through profit or loss ("FVTPL"). The Company's investment in the shares of Aspire was classified as available-for-sale. The Company disposed all its investment in Aspire and Kangaroo during 2014 and did not hold any Aspire or Kangaroo shares as at December 31, 2014.

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

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

	As at December 31,	
$ in thousands	**2014**	**2013**
Financial assets		
Loans-and-receivables		
Cash	**$ 3,789**	$ 21,837
Trade and other receivables	**462**	2,578
Available-for-sale		
Investment in Aspire	**-**	6,175
Fair value through profit or loss		
Investment in Kangaroo	**-**	222
Total financial assets	**$ 4,251**	$ 30,812

	As at December 31,	
$ in thousands	**2014**	**2013**
Financial liabilities		
Fair value through profit or loss		
Convertible debenture - embedded derivatives	**$ 1,834**	$ 3,395
Other-financial-liabilities		
Trade and other payables	**18,124**	31,241
Interest-bearing borrowing	**3,945**	-
Convertible debenture - debt host	**93,353**	93,208
Total financial liabilities	**$ 117,256**	$ 127,844

The net loss in 2014 and 2013 included the following amounts of unrealized losses/(gains) from the fair value adjustments to certain financial instruments which are classified as FVTPL:

	Three months ended December 31,		Year ended December 31,	
$ in thousands	**2014**	**2013**	**2014**	**2013**
Unrealized loss on FVTPL investments	**$ -**	$ 60	**$ -**	$ 656
Unrealized gain on embedded derivatives in CIC convertible debenture	**(308)**	(1,278)	**(1,560)**	(5,481)

The Company recognized impairment losses of $1.8 million and $3.1 million in other operating expenses in 2014 and 2013 related to the investment in Aspire, respectively.

7. REGULATORY ISSUES AND CONTINGENCIES

Regulatory Issues

Governmental and Regulatory Investigations

The Company was subject to investigations by IAAC regarding allegations of breaches of Mongolia's anti-corruption laws (the "Anti-Corruption Case"), tax evasion and money laundering (the "Tax Evasion Case"). On March 18, 2013 the Prosecutor's Office decided to split the Tax Evasion Case from the Anti-Corruption Case and on April 12, 2013, the Public Prosecutor of Capital city Prosecutor's Office issued a resolution that the jurisdiction to conduct the investigation on Tax Evasion Case was with the SIA and not the IAAC, and the Tax Evasion Case was transferred to SIA.

While the IAAC has not made any formal accusations against any current or former employee of the Company or the Company under the Anti-Corruption Case, administrative penalties were imposed on certain of the Company's Mongolian assets in connection with the investigation, including a restriction of the use of US$1.2 million (the "Restricted Funds") held in bank accounts in Mongolia to spending in Mongolia. The Company has been informed that the Anti-Corruption Case has been suspended; however, it has not received formal notice that the investigation is completed and the restriction on the Restricted Funds remains in place. The Restricted Funds are included within the prepaid expenses and deposits balance in the Company's financial statements. This restriction may have a material impact on the Company's activities in light of the Tax Penalty.

Investigations under the Tax Evasion Case included investigations of three of the Company's former employees (the "Former Employees"). On December 30, 2014, the Capital City Prosecutor's Office (Ulaanbaatar, Mongolia) dismissed the allegations of money laundering as not having been proven during the investigation. The Former Employees were indicted for tax evasion by the Prosecutor General on March 14, 2014. The case was sent to the First Instance Second District Criminal Court of Justice (the "District Court"). The Company was advised on May 12, 2014 that the appointed judge of the District Court concluded that the investigation of the Tax Evasion Case initiated by IAAC and continued by SIA was incomplete and ordered the case to be returned to the Prosecutor General for additional investigation. The additional investigation was subsequently completed and the case was sent to the District Court again on June 4, 2014. The trial took place on August 25 and 26, 2014. A panel of three judges appointed to the case returned the case to the Prosecutor General once again for further investigation due to insufficient evidence presented by the prosecutor.

On October 7, 2014, based on the District Court verdict, the SIA ordered a re-investigation (the "Fourth Investigation") into allegations of violations of Mongolian tax laws by the Former Employees. Following the completion of the Fourth Investigation, the Former Employees were indicted again and on December 31, 2014 the Former Employees were tried in the District Court. On January 30, 2015, the panel of appointed judges from the District Court found the Former Employees guilty of tax evasion and imposed sentences on the Former Employees ranging from 5 years and 6 months to 5 years and 10 months of imprisonment in the correctional facilities of strict regimen in Mongolia. The Former Employees were immediately imprisoned. The Company was informed that, following the receipt of the written verdict (the "Tax Verdict"), the Former Employees requested pardons from the President of Mongolia and waived their right of appeal. On February 26, 2015 the President of Mongolia issued a decree to pardon to the Former Employees. The Former Employees were released from imprisonment following the decree and departed Mongolia.

The Tax Verdict declared SGS to be financially liable as a "civil defendant" for a penalty (the "Tax Penalty") of MNT35.3 billion (approximately US$18.2 million on February 1, 2015). The Company firmly rejects this conclusion. On February 18, 2015, the Company appealed the Tax Verdict (the "Tax Verdict

Appeal") on the grounds that it has prepared its financial statements, including those of SGS, in compliance with IFRS, and lodged all its tax returns in the required format under Mongolian tax law. The hearing of the Tax Penalty Appeal took place on March 25, 2015 at the 10th Appeal Court for Criminal Case of Mongolia (the "Court of Appeal") and a panel of three appointed judges decided to uphold the Tax Verdict and dismissed the Tax Verdict Appeal by the Company. As of the date of this MD&A, the Court of Appeal has not provided any explanation of its reasoning to uphold the Tax Verdict and the Company is awaiting a written version of the Appeal Court's verdict ("Appeal Verdict"). It is the view of the Company that there is a lack of evidence to support both the Tax Verdict and the Appeal Verdict.

The Company has been advised that it can appeal further to the Supreme Court of Mongolia. However there is no assurance that the Supreme Court of Mongolia will agree to hear the appeal. The Tax Penalty would only be payable after a final appeal. The Company will continue to defend itself through all available legal means including a final appeal.

The consequences for the Company of the Tax Verdict and the Appeal Verdict are uncertain. If the Tax Verdict is not reversed on final appeal, or if the amount of the Tax Penalty is not reduced upon exhaustion of the foregoing appeal process, the Company may not be able to pay the Tax Penalty or the final assessed amount, which could result in voluntary or involuntary insolvency proceedings involving the Company. For further information see the Risk Factor entitled "If the Company is unsuccessful in appealing the Tax Verdict it will likely not have sufficient cash resources to satisfy the penalty imposed thereunder" in this MD&A.

Internal Investigations

Through its Audit Committee (comprised solely of independent directors), the Company has conducted an internal investigation into possible breaches of law, internal corporate policies and codes of conduct arising from the allegations which have been raised through the investigations in Mongolia. The Chair of the Audit Committee has also participated in a tripartite committee, comprised of the Audit Committee Chairs of the Company and Turquoise Hill and a representative of Rio Tinto, which focused on the investigation of a number of those allegations, including possible violations of anti-corruption laws. The tripartite committee substantially completed the investigative phase of its activities during the third quarter of 2013. There have been no significant developments in respect of the internal investigations since the completion of the investigative phase during the third quarter of 2013.

The investigations referred to above could result in one or more Mongolian, Canadian, United States or other governmental or regulatory agencies taking civil or criminal action against the Company, its affiliates or its current or former employees. The likelihood or consequences of such an outcome are unclear at this time but could include financial or other penalties, which could be material, and which could have a material adverse effect on the Company. Refer to the Company's MD&A for the year ended December 31, 2013, which is available on SEDAR at www.sedar.com, section 14 risk factors, "the Company is subject to continuing governmental, regulatory and internal investigations, the outcome of which is unclear at this time but could have a material adverse effect on the Company".

Mining Prohibition in Specified Areas Law

Pursuant to the Mining Prohibition in Specified Areas Law, the Government of Mongolia has defined the boundaries of certain areas in which exploration and mining is purportedly prohibited. A list of licenses has been prepared that overlap with the prohibited areas described in the law based on information submitted by water authority agencies, forest authority agencies and local authorities for submission to the Government of Mongolia.

Portions of the Company's Ovoot Tolgoi mining license and exploration licenses pertaining to the Zag Suuj Deposit and the South Biluut and Jargalant Fields within the Soumber Deposit are included on the list of licenses published by the Government of Mongolia, potentially affecting the status of those licenses under the Mining Prohibition in Specified Areas Law.

In regard to the Ovoot Tolgoi mining license, the potential area which may be affected is a relatively small area which represents approximately 3% of the entire area of the mining license and does not contain any of the Company's NI 43-101 reserves or resources or immovable assets. Accordingly, the loss of the potentially affected area would not materially and adversely affect the existing operations.

Activities historically carried out on the other licenses referred to above include drilling, trenching and geological reconnaissance. The Company has no immovable assets located in any of the potentially affected areas of these licenses and the loss of any or all of these potentially affected properties would not materially and adversely affect the existing operations.

The Company understands that as such the amendment will be effective as of March 17, 2015. However, the status of the Mining Prohibition in Specified Areas Law and its potential impact on the Company's licenses is unclear. An amendment to the Implementation Policy on the Mining Prohibition in Specified Areas Law was made on February 18, 2015. The Company will ensure that it follows the necessary steps in the Implementation Policy to secure its operations and licenses and is fully compliant with Mongolian law.

Contingencies

Class Action Lawsuit

On or about January 6, 2014, Siskinds LLP, a Canadian law firm, filed a proposed securities class action (the "Ontario Action") against the Company, certain of its former senior officers and current directors, and its former auditors, Deloitte LLP, in the Ontario Superior Court of Justice in relation to the Company's restatement of financial statements as previously disclosed in the Company's public filings.

There have been no significant developments in respect of the class action lawsuit since the first quarter ended March 31, 2014. For more details, refer to the Company's Management Discussion and Analysis for the quarter ended March 31, 2014 available on SEDAR at www.sedar.com, and, in particular, the sub-section on "Contingencies – Class Action Lawsuit of the section 6 on "Regulatory Issues and Contingencies".

The Company disputes and will vigorously defend itself against these claims through independent Canadian litigation counsel retained by the Company and the other defendants for this purpose. Due to the inherent uncertainties of litigation, it is not possible to predict the final outcome of the Ontario Action or determine the amount of any potential losses, if any. However, the Company has judged a provision for this matter at December 31, 2014 is not required.

8. ENVIRONMENT

The Company is subject to the Environmental Protection Law of Mongolia ("EPL") and has the following duties with respect to environmental protection:

- To comply with the EPL and the decisions of the government, local self-governing organizations, local governors and Mongolian state inspectors;
- To comply with environmental standards, limits, legislation and procedures and to supervise their implementation within the organization;

- To keep records on toxic substances, adverse impacts, and waste discharged into the environment; and
- To report on measures taken to reduce or eliminate toxic chemicals, adverse impacts, and waste.

In addition to those duties imposed on them by the EPL, mining license holders are required to prepare an initial environmental impact assessment analysis before the mine comes into production. The mining license holders must also annually develop and implement an environmental management plan (including reclamation measures) in co-operation with the Ministry of Environment, Green Development and Tourism, which should take into account the results of the environmental impact assessment. The Company received approval of its detailed Environmental Impact Assessment and Environmental Management Plan from the Mongolian Ministry of Environment for the mining operation at the Ovoot Tolgoi Mine in 2007 and renewed in 2013.

The Company has implemented a number of internal policies to embrace responsibility for the impact of its business activities on the environment. By conducting studies, carefully designing mine plans, implementing pollution control recommendations from internal and external sources, monitoring the effects of mining on mining areas and carefully designing mine closure plans, the Company seeks to minimize the impact of its activities on the environment.

The Company established an environmental policy in 2008. The environmental policy affirms the Company's commitment to environmental protection. The Company monitors its operations to ensure that it complies with all applicable environmental requirements, and takes actions to prevent and correct problems if needed. In accordance with new provisions specified in Mongolian laws and regulations, the Company has developed a protection strategy jointly with professional organization for a whole year of 2014. This strategic plan can serve as a policy document directed to protection of biological diversity, ecosystem balance and its preservation; and support species dwelling nearby the Ovoot Tolgoi mine area.

The Board maintains a Health, Environment, Safety and Social Responsibility Committee. The Committee is composed of non-executive and executive directors. The primary objective of the Health, Environment, Safety and Social Responsibility Committee is to review and oversee the Company's established health, environmental, safety and social responsibility policies and procedures at the Company's project sites. The Committee also reviews any incidents that may occur and provides guidance on how to prevent any recurrences.

9. RELATED PARTY TRANSACTIONS

The Company had related party transactions with the following companies related by way of directors or shareholders in common:

- Turquoise Hill – Turquoise Hill is the Company's immediate parent company and at December, 2014 owned approximately 48% of the outstanding common shares of the Company. Turquoise Hill provides various administrative services to the Company on a cost-recovery basis.
- Rio Tinto – Rio Tinto is the Company's ultimate parent company and at December 31, 2014 Rio Tinto controlled Turquoise Hill. The Company recovers administration and other costs incurred on behalf of Rio Tinto on a cost-recovery basis. Rio Tinto recovers from the Company the costs of salaries and benefits of employees assigned to work for the Company and recovers legal and professional fees from the Company in respect of the internal and tripartite committees referred to in section 6 "Regulatory Issues and Contingencies".
- Turquoise Hill Resources Singapore Pte. Ltd. ("Turquoise Hill Singapore") – Turquoise Hill Singapore (formerly I2MS.NET Pte. Ltd.) is a private company 100% owned by Turquoise Hill. Turquoise Hill

Singapore provides information technology and other related services to the Company on a cost-recovery basis.

- Global Mining Management ("GMM") – On October 31, 2013, the Company and Turquoise Hill ceased being shareholders of GMM, a private company. GMM was owned equally by seven companies, two of which included the Company and Turquoise Hill. GMM provided administration, accounting and other office services to the Company on a cost-recovery basis. The provision of these services ceased on October 31, 2013.

The following tables summarize related party expense and recovery amounts with the related parties listed above:

	Year ended December 31, 2014	Year ended December 31, 2013
Corporate administration	**$ 711**	$ 781
Salaries and benefits	**1,392**	1,505
Finance cost	**416**	-
Related party expenses	**$ 2,519**	$ 2,286

	Year ended December 31, 2014	Year ended December 31, 2013
GMM	**$ -**	$ 40
Turquoise Hill	**513**	205
Rio Tinto	**1,392**	1,353
Turquoise Hill Singapore	**614**	688
Related party expenses	**$ 2,519**	$ 2,286

	Year ended December 31, 2014	Year ended December 31, 2013
Corporate administration	**$ 62**	$ 17

	Year ended December 31, 2014	Year ended December 31, 2013
Turquoise Hill	**$ 62**	$ -
Rio Tinto	**-**	17
Related party expense recovery	**$ 62**	$ 17

As at December 31, 2014, the Company had accounts receivable of nil (December 31, 2013: $0.1 million), accounts payable of $12.5 million (December 31, 2013: $1.4 million) and amounts classified as interest bearing loans and borrowings totaling $3.8 million as at December 31, 2014, (December 31, 2013: nil) with related parties. Included in the $12.5 million accounts payable as at December 31, 2014 are $5.3 million of legal and professional fees payable to Rio Tinto in respect of the internal and tripartite committees referred to in section 6 "Regulatory Issues and Contingencies".

Emolument Policy

The emolument policy of the executives of the Company is administered by the Compensation and Benefits Committee on the basis of merit, qualifications and competence and approved by the Board. The emolument policy for the rest of the employees is determined on a department by department basis with the executive in charge of each department determining the emoluments for senior employees and managers in the department and the emoluments for non-senior employees being determined by an appropriately designated manager. The emolument policy for non-executives is administered in conjunction with the human resources department and is done on the basis of merit, qualifications and competence.

The emolument policy for the directors of the Company is administered by the Compensation and Benefits Committee and approved by the Board, having regard to comparable market statistics.

The Company has also adopted an equity incentive plan to incentivize directors and eligible employees. Details of the plan are set out in note 23 of the Company's consolidated financial statements for the year ended December 31, 2014.

10. 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 March 30, 2015, 218.8 million common shares were issued and outstanding. There are also incentive share options outstanding to acquire 3.1 million unissued common shares with exercise prices ranging from Cdn$0.58 to Cdn$12.58. There are no preferred shares outstanding.

As at March 30, 2015, Turquoise Hill directly owned 104.8 million common shares representing approximately 48% of the issued and outstanding common shares of the Company.

On December 2, 2014, an amendment to the SPA was agreed. According to the SPA, NUR has agreed to purchase 56,102,000 shares from Turquoise Hill.

Further, on February 25, 2015, Novel Sunrise has agreed with Turquoise Hill to purchase 48,705,155 shares from Turquoise Hill.

Upon closing of the transaction on i) the sale of 56,102,000 shares between Turquoise Hill and NUR; and ii) the sale of 48,705,155 shares between Turquoise Hill and Novel Sunrise, the number of shares held by Turquoise Hill is expected to reduce to nil.

On December 3, 2014, the Company announced the successful completion of private placements with independent investors. The total gross proceeds from the private placements were $9.0 million ($8.9 million net after fees) through the issue of 24,360,773 Common Shares at CAD$0.42 per share.

On February 24, 2015, the Company announced it has entered into a private placement agreement with Novel Sunrise as a proposed new significant investor and strategic partner for proceeds of up to approximately $7.5 million through the issue (or deemed issue) of up to of 21,750,000 Common Shares at CAD$0.432 per share.

11. INTERNAL CONTROLS OVER FINANCIAL REPORTING

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 Executive Director and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management, including the Executive Director and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. As of December 31, 2014, Executive Director and Chief Financial Officer 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, are effective to achieve the purpose for which they have been designed.

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. Management is also 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; provide reasonable assurance that 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 provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements.

Because of their inherent limitations, internal controls over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. 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.

Management assessed the effectiveness of internal control over financial reporting using the Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2014.

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.

12. 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, 2014. Information about judgments and estimates in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

Liquidity and Going Concern Assumption

In the determination of the Company's ability to meet its ongoing obligations and future contractual commitments, management relies on the Company's planning, budgeting and forecasting process to help determine the funds required to support the Company's normal operations on an ongoing basis and its expansionary plans. The key inputs used by the Company in this process include forecasted capital deployment, results from operations, results from the exploration and development of its properties and general industry conditions.

Several adverse conditions and material uncertainties cast significant doubt upon the going concern assumption. The Company had limited cash of $3.8 million at December 31, 2014 and anticipates that coal prices in China will remain under pressure in 2015, which will continue to impact the Company's margins and liquidity. Therefore the Company is actively seeking prepaid coal offtake agreements and other additional sources of financing to continue operating and meet its business objectives, while continuing to be focused on minimizing uncommitted capital expenditures and preserving the Company's growth options. The Company, together with its new strategic partner, Novel Sunrise, has developed the Proposed Funding Plan in order to pay the interest due under the CIC Convertible Debenture, meet its obligations as they fall due and achieve its business objectives in 2015. These obligations may include potential penalties incurred as a consequence of the tax case in Mongolia (refer to section 7 "Regulatory Issues and Contingencies" for details). However, there is no guarantee that the Company will be able to implement the Proposed Funding Plan or secure other sources of financing. If it fails to do so, or is unable to secure additional capital or otherwise restructure or refinance its business in order to address its cash requirements through December 31, 2015, then the Company is unlikely to have sufficient capital resources or cash flows from mining operations in order to satisfy its ongoing obligations and future contractual commitments, including cash interest payments due on the CIC Convertible Debenture (approximately $7.9 million on May 19, 2015 and approximately $8.0 million on November 19, 2015). As a result, the Company may not be able to continue as a going concern.

The Company's consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue operating until at least December 31, 2015 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 transaction to provide it with additional liquidity. If it fails to do so, or is unable to secure additional capital or otherwise restructure or refinance its business in order to address its cash requirements through December 31, 2015, then the Company is unlikely to have sufficient capital resources or cash flows from mining operations in order to satisfy its ongoing obligations and future contractual commitments, including cash interest payments due on the CIC Convertible Debenture. As a result, it may not be able to continue as a going concern.

If for any reason, the Company is unable to secure the additional sources of financing and continue as a going concern, then 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.

While the Company intends to secure additional sources of financing as soon as possible, a continued delay in securing additional financing could ultimately result in an event of default of the $250.0 million CIC Convertible Debenture, which if not cured within applicable cure periods in accordance with the terms of such debenture, may result in the principal amount owing and all accrued and unpaid interest becoming immediately due and payable upon notice to the Company by CIC.

The Company is also subject to a remedial delisting review by the TSX in connection with its reliance on the financial hardship exemption from approval by its shareholders of the private placement with Novel Sunrise as announced on February 24, 2015. The TSX has advised that the Company's financial and operating results may not warrant that its securities continue to be listed on the TSX. A meeting of the TSX Continued Listing Committee to consider this matter has been scheduled for May 19, 2015. The failure by the Company to clear the TSX delisting review within 90 days from February 25, 2015 may result in the Company's delisting which would result in an event of default under the CIC Convertible Debenture. An event of default may result in the principal amount owing and all accrued and unpaid interest becoming immediately due and payable upon notice to the Company by CIC.

Valuation of Embedded Derivatives

The embedded derivatives in the Company's Convertible Debenture are valued using a Monte Carlo simulation valuation model. A Monte Carlo simulation model is a valuation model that relies on random sampling and is often used when modeling systems with a large number of inputs and where there is significant uncertainty in the future value of inputs and where the movement of the inputs can be independent of each other. The key inputs used by the Company in its Monte Carlo simulation are further disclosed in note 20.2 and note 20.3 of the Company's consolidated financial statements for the year ended December 31, 2014. Changes in the inputs to the valuation model could impact the carrying value of the embedded derivatives in the Convertible Debenture and the amount of unrealized gains or losses recognized in profit or loss.

Review of Carrying Value of Assets and Impairment Charges

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

Prepaid Toll Washing Fees

Refer to section 5 "Processing Infrastructure – Wet Washing Facility" for further analysis of the $3.4 million impairment loss recorded on the prepaid toll washing fees which are part of the contract with Ejin Jinda.

Ovoot Tolgoi Mine Cash Generating Unit

Refer to section 6 "Liquidity and Capital Resources – Ovoot Tolgoi Mine Impairment Analysis" for further analysis of the impairment test performed as at December 31, 2014.

Investment in RDCC LLC

Refer to section 6 "Liquidity and Capital Resources – Investment in RDCC LLC Impairment Analysis" for further analysis of the impairment test performed as at December 31, 2014.

Estimated Recoverable Reserves

Reserve estimates involve expressions of judgment based on various factors such as knowledge, experience and industry practice, and the accuracy of these estimates may be affected by many factors, including estimates and assumptions with respect to coal prices, operating costs, mine plan and life, coal quality and recovery, foreign currency exchange rates and inflation rates. Reserve estimates are made by qualified persons, but will be impacted by changes in the above estimates and assumptions.

Estimated recoverable reserves are used to determine the depletion of mineral properties, in accounting for deferred production stripping costs, in performing impairment testing and for forecasting the timing of the payment of decommissioning, restoration and similar costs. Therefore, changes in the estimates and assumptions used to determine recoverable reserves could impact the carrying value of assets, depletion expense and impairment charges recognized in profit or loss and the carrying value of the decommissioning, restoration and similar liabilities.

Useful Lives and Depreciation Rates for Property, Plant and Equipment

Depreciation expense is allocated based on estimated property, plant and equipment useful lives and depreciation rates. Therefore, changes in the useful life or depreciation rates from the initial estimate could impact the carrying value of property, plant and equipment and an adjustment would be recognized in profit or loss.

Income Taxes and Recoverability of Deferred Tax Assets

Actual amounts of income tax expense are not final until tax returns are filed and accepted by the taxation authorities. Therefore, profit or loss in future reporting periods will be affected by the amount that income tax expense estimates differ from the final tax returns. Judgment is required in determining whether deferred tax assets are recognized on the statement of financial position. Deferred tax assets, including those arising from unutilized tax losses, require management of the Company to assess the likelihood that the Company will generate sufficient taxable profit in future periods in order to utilize recognized deferred tax assets. Estimates of future taxable profit are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable profit differ from estimates, the ability of the Company to realize the deferred tax assets recorded on the statement of financial position could be impacted.

13. RECENT ACCOUNTING PRONOUNCEMENTS

The Company has adopted the new and revised standards and interpretations issued by the IASB listed below effective January 1, 2014. These changes were made in accordance with the transitional provisions outlined in the respective standards and interpretations.

IFRIC 21 Levies

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Company.

Annual Improvements 2010-2012 Cycle

In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 Fair Value Measurement. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at 1 January 2014, and it clarifies in the basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the Company.

14. RISK FACTORS

There are certain risks involved in the Company's operations, some of which are beyond its control. These risks can be broadly categorized into: (i) risks relating to the Company's ability to continue as a going concern, (ii) risks relating to its projects in Mongolia; and (iii) risks relating to its business and industry. Additional risks and uncertainties not presently known, or not expressed or implied below, or that are presently deemed immaterial, could also harm the Company's business, financial condition and operating results. Some of the following statements are forward-looking and actual results may differ materially from the results anticipated in these forward-looking statements.

Risks Relating to the Company's Ability to Continue as a Going Concern

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

Specifically adverse conditions and material uncertainties cast significant doubt upon the going concern assumption contained in the Company's financial statements. The Company had limited cash of $3.8 million at December 31, 2014 and anticipates that coal prices in China will remain under pressure through 2015, which will continue to impact the Company's margins and liquidity. The Company's consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue operating until at least December 31, 2015 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. While the Company is actively seeking prepaid coal offtake agreements and other additional sources of financing to continue operating and meet its objectives, there can be no assurance that such financing will be available on terms acceptable to the Company. Moreover, the Company's ability to successfully implement, and the cost of, any such transaction will depend on numerous factors, including the demand and prices for its coal products, general economic conditions, the strength of the credit and capital markets, its ability to successfully execute its funding plan and meet its operating and financial targets, its ability to remain in compliance with the Convertible Debenture, the operational synergies created by its association with Novel Sunrise and implementation of the Proposed Funding Plan, its ability to maintain relationships with its suppliers, customers, employees, stockholders and other third parties, and market and investor confidence as to its ability to continue as a going concern.

Notwithstanding the proceeds from the December 2014 private placement and the initial tranche of the Novel Sunrise private placement, the Turquoise Hill shareholder loan facility, and certain coal prepayments received from customers, the Company continues to experience negative impacts on its margins and liquidity. Therefore, there can be no assurance that the Company will have sufficient funding to be able to continue as a going concern, including the interest payment on the Convertible Debenture, which is approximately $8 million due on each of May 19, 2015 and November 19, 2015.

In addition to the implementation of the Proposed Funding Plan, the Company has in place planning, budgeting and forecasting processes to help determine the funds required to support the Company's normal operations on an ongoing basis and its expansionary plans. Assuming successful implementation of the Proposed Funding Plan (see "risk factor described in "RISK FACTORS – Risk Relating to the Company's Ability to Continue As A Going Concern - "The Proposed Funding Plan may not be successfully implemented" in this MD&A) and based the projections from these processes for the year ended December 31, 2015, the Company is still unlikely to have sufficient capital resources and does not expect to generate sufficient cash flows from mining operations in order to satisfy its ongoing obligations, future contractual commitments, including cash interest payments due on the CIC Convertible Debenture, and potential monetary penalty imposed in respect of the Tax Penalty.

The Company expects the receipt of the approximate $4.0 million cash proceeds underlying the Subsequent Tranche of the Novel Sunrise private placement will assist the Company in meeting its objectives; however, the Company notes that the funding of such tranche is conditional upon the occurrence of certain events that are outside of its control, and there is no assurance that these conditions will be fulfilled. Therefore, the Company must continue to actively seek additional sources of financing and/or coal prepayments to continue operating and meet its objectives. For a description of the Novel Sunrise private placement refer to "LIQUIDITY AND CAPITAL RESOURCES – Liquidity and Capital Management – *Private Placement – Novel Sunrise Private Placement"* in this MD&A.

If for any reason, the Company is unable to secure the additional sources of financing and continue as a going concern, then 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. If the Company is unable to continue as a going concern, it would likely need to seek relief under applicable bankruptcy and insolvency legislation, which may negatively affect the price and volatility of the Common Shares and any investment in such shares could suffer a significant decline or total loss in value.

The Proposed Funding Plan may not be successfully implemented.

While it is the Company's intention to proceed to implement the Proposed Funding Plan as soon as possible and assuming the Subsequent Tranche is completed, such plan is indicative only and the Company's ability to implement it successfully is dependent on a number of factors beyond its control, including but not limited to, the China's economic growth and coal demand growth, market prices of coal, the availability of credit and market interest rates, and exchange rates of currencies of countries where the Company operates. In particular, the Company anticipates that coal prices in China will remain under pressure through 2015, which will continue to impact the Company's margins and liquidity. If the Company in unable to successfully implement the Proposed Funding Plan, the Company would not likely be able to continue as a going concern and would likely need to seek relief under applicable bankruptcy and insolvency legislation, which may negatively affect the price and volatility of the Common Shares and any investment in such shares could suffer a significant decline or total loss in value. For more information on the Proposed Funding Plan, refer to "LIQUIDITY AND CAPITAL RESOURCES – Liquidity and Capital Management – *Proposed Funding Plan*" in this MD&A.

As a consequence of the Novel Private Placement and the series of related transactions, the Company is subject to mandatory de-listing review by the TSX, which could ultimately result in the delisting of the Common Shares from the TSX and the occurrence of an event of default under the Convertible Debenture, which events threaten the Company's ability to continue as a going concern.

Assuming completion of the Subsequent Tranche and completion of the acquisition of Common Shares by Novel Sunrise under the Novel SPA, Novel Sunrise will become the Company's largest shareholder with a 29.3% equity interest. As a result, the TSX views the Novel Sunrise private placement and the Novel SPA as one transaction and one that would have a material effect on control of the Company, which normally would require the approval of a majority of disinterested Shareholders under the provisions of the TSX Company Manual. Given the serious financial difficulty faced by the Company and the time delay inherent in holding a shareholder meeting to approve the transaction, the Company relied on the TSX's financial hardship exemption to avoid the requirement to obtain Shareholder approval.

As a result of the Company's reliance on the financial hardship exemption from the requirement to obtain Shareholder approval, the TSX has placed the Company under remedial delisting review. A delisting review is customary practice under TSX policies when a listed company requests relief in reliance on this exemption. The Company is currently in discussions with TSX staff to demonstrate the long term viability of the Company. The Company is confident that the business synergies emerging from its association with Novel Sunrise and the implementation of the Proposed Funding Plan will allow it to demonstrate its long term viability and to successfully clear the delisting review. However, if the Company is not successful in clearing the TSX delisting review by May 19, 2015, subject to possible extension, the Common Shares may be delisted from the TSX. The Company notes that any such delisting would result in an event of default under the Convertible Debenture, thereby allowing CIC to declare the principal and accrued interest owing thereunder immediately due and payable. The Company does not currently have the financial resources to satisfy the payment of all sums owing under the Convertible Debenture, and if the same were declared due and payable, the Company would not likely be able to continue as a going concern and would likely need to seek relief under applicable bankruptcy and insolvency legislation, which may negatively affect the price and volatility of the Common Shares and any investment in such shares could suffer a significant decline or total loss in value.

For a description of the Novel SPA refer to "LIQUIDITY AND CAPITAL RESOURCES – Liquidity and Capital Management – *Novel SPA"* in this MD&A.

Tax legislation in Mongolia is subject to varying interpretations and changes which may have a significant impact on the Company's financial position.

Mongolian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. The interpretation by the Company's management of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant authorities.

The Mongolian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged by tax authorities. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

The Mongolian tax legislation does not provide definitive guidance in certain areas, specifically in areas such as VAT, withholding tax, corporate income tax, personal income tax, transfer pricing and other areas. From time to time, the Company adopts interpretations of such uncertain areas that reduce the overall tax rate of the Company. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices. The impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity in question.

Management believes that its interpretation of the relevant legislation is appropriate and the Company's positions related to tax and other legislation will be sustained. Management believes that tax and legal risks are remote at present. Management performs regular re-assessment of tax risk and its position may change in the future as a result of the change in conditions that cannot be anticipated with sufficient certainty at present.

As of 31 December 2014 and 2013, management has assessed that recognition of a provision for uncertain tax position is not necessary.

If the Company is unsuccessful in a final appeal of Tax Verdict it will likely not have sufficient cash resources to satisfy the penalty imposed thereunder.

On February 4, 2015, the Company received the Tax Verdict from the District Court confirming the outcome of the criminal trial of the Former Employees and against SGS as a "civil defendant". The District Court pronounced the Former Employees guilty of tax evasion and sentenced such individuals to prison for periods ranging from 5 years and 6 months to 5 years and 10 months. In addition, SGS was held financially liable for the Tax Penalty under the Tax Verdict.

The Company announced on February 18, 2015 that it had appealed the Tax Verdict related to SGS. The Company has been informed that the Former Employees requested and received pardons from the President of Mongolia. These pardons were granted on the condition that the individuals not appeal the Tax Verdict as it applied to them. The Tax Verdict related to SGS was upheld at the hearing of the appeal on March 25, 2015. It is the view of the Company that there is a lack of evidence to support both the Tax Verdict and the Appeal Verdict and, accordingly, the Company will continue to defend itself through all available legal means including a final appeal.

The consequences for the Company of the Tax Verdict, the Appeal Verdict and the decision of the Supreme Court to hear a final appeal are uncertain. If the Appeal Verdict is not reversed on final appeal, or if the amount of the Tax Penalty is not reduced upon exhaustion of the foregoing appeal process, the Company may not be able to pay the Tax Penalty or the final assessed amount, which could result in voluntary or involuntary insolvency proceedings involving the Company. For further information see the Risk Factor entitled "*If the Company is unsuccessful in appealing the Tax Verdict it will likely not have sufficient cash resources to satisfy the penalty imposed thereunder*".

The Company remains confident in the merits of the final appeal of the Tax Verdict; however, if such appeal is not successful and SGS is required to pay the Tax Penalty, neither SGS nor the Company on its behalf is likely to have sufficient cash resources to satisfy such penalty. In such circumstances, all of the assets of SGS may become subject of seizure by Mongolian authorities in the enforcement of the Tax Penalty. Any enforcement of the Tax Penalty would likely impair the Company's ability to continue as a going concern and the Company would likely need to seek relief under applicable bankruptcy and insolvency legislation, which may negatively affect the price and volatility of the Common Shares and any investment in such shares could suffer a significant decline or total loss in value.

For a description of the Tax Penalty, Tax Verdict, the Appeal Verdict and Former Employees and matters relating thereto, refer to "REGULATORY ISSUES AND CONTINGENCIES – Regulatory Issues – *Governmental and Regulatory Issues*" in this MD&A.

Due to the inherent uncertainties of litigation, it is not possible to predict the final outcome of the Ontario Action or determine the amount of any potential losses, if any.

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

The plaintiff seeks leave to bring a claim under applicable Canadian securities legislation and seeks certification of a class action with respect to a class of persons who purchased shares of the Company between March 30, 2011 and November 7, 2013, alleging that the financial reporting of the Company during that period contained misrepresentations giving rise to liability at common law and under applicable Canadian securities legislation. The Ontario Action also seeks general damages against all defendants in the sum of Cdn$30 million, without particulars as to how such amount was determined, or such other amount that the Ontario Court deems appropriate. The motions for leave and certification will be heard in Toronto on June 17, 18 and 19, 2015. Assuming that leave is granted, the action is certified as a class proceeding, and there is a finding of liability, the actual quantum of damages will depend upon the evidence which is adduced in the court proceedings.

Named in the Ontario Class Action as individual defendants are the Company's former Chief Executive Officer, Alexander Molyneux, the Company's former Chief Financial Officers, Messrs. Terry Krepiakevich and Matthew O'Kane, and the members of its Audit Committee, Messrs. Andre Deepwell, Pierre Lebel and Gordon Lancaster, each of whom held those positions during the period at issue.

The Company disputes and will vigorously defend itself against these claims through independent Canadian litigation counsel retained by the Company and the other defendants for this purpose. Due to the inherent uncertainties of litigation, it is not possible to predict the final outcome of the Ontario Action or determine the amount of any potential losses, if any.

In the event the Company incurs any liability in connection with the Ontario Action, it maintains insurance with respect thereto. While the Company believes that such insurance coverage is in an amount that would be sufficient to cover any amounts the Company may be required or determines to pay with respect thereto, there can be no assurance that such coverage will be adequate to do so, and, if so, any amounts not so covered would be required to be paid by the Company. The Company's ability to continue as a going concern will be impacted to the extent it is required to pay any amounts in connection with the Ontario Action.

If the Company is unable to continue as a going concern it may be forced to seek relief under applicable bankruptcy and insolvency legislation.

If the Company seeks relief under applicable bankruptcy and insolvency legislation, its business and operations will be subject to certain risks, including but not limited to, the following:

- An insolvency filing by or against the Company will cause an event of default under the Convertible Debenture (see Risk Factor below entitled "*If an event of default occurs under the Convertible Debenture, CIC has the right to accelerate amounts owing thereunder*" in this MD&A);

- An insolvency filing by or against the Company may adversely affect its business prospects, including its ability to continue to obtain and maintain the contracts necessary to operate its business on competitive terms;

- There can be no assurance as to the Company's ability to maintain or obtain sufficient financing sources for operations or to fund any reorganization plan and meet future obligations;

- There can be no assurance that the Company will be able to successfully develop, prosecute, confirm and consummate one or more plans of reorganization that are acceptable to the applicable courts and its creditors, equity holders and other parties in interest; and

- The value of the Common Shares could be reduced to zero as result of an insolvency filing.

<u>Risks Relating to the Company's Projects in Mongolia</u>

In addition to the Tax Verdict and the Appeal Verdict, the Company is subject to continuing governmental, regulatory and internal investigations, the outcome of which is unclear at this time but could have a material adverse effect on the Company.

In addition to the Tax Verdict and the Appeal Verdict, the Company is subject to certain investigations referred to under the heading "REGULATORY ISSUES AND CONTINGENCIES – Regulatory Issues – *Governmental and Regulatory Issues*" in this MD&A, which could result in one or more of the Mongolian, Canadian, United States or other governmental or regulatory agencies taking civil or criminal action against the Company, its affiliates or its current or former employees. The likelihood or consequences of such investigative actions are unclear at this time but could include financial or other penalties, which could be material, and which could have a material adverse effect on the Company and the value of the Common Shares.

For a description of the Tax Verdict and the Appeal Verdict refer to "REGULATORY ISSUES AND CONTINGENCIES – Regulatory Issues – *Governmental and Regulatory Issues*" in this MD&A.

Legislation in Mongolia may be subject to conflicting interpretations, which may have adverse consequences on the Company's business.

The Mongolian legal system shares several of the qualitative characteristics typically found in a developing country and many of its laws, particularly with respect to matters of taxation, are still evolving. A transaction or business structure that would likely be regarded under a more established legal system as appropriate and relatively straightforward might be regarded in Mongolia as outside the scope of existing Mongolian law or regulation. As a result, certain business arrangements or structures and certain tax planning mechanisms may carry significant risks. In particular, when business objectives and practicalities dictate the use of arrangements and structures that, while not necessarily contrary to settled Mongolian law, are sufficiently novel within a Mongolian legal context, it is possible that such arrangements may be challenged resulting in their invalidation.

The legal system in Mongolia has inherent uncertainties that could limit the legal protections available to the Company, which include: (i) inconsistencies between laws; (ii) limited judicial and administrative guidance on interpreting Mongolian legislation; (iii) substantial gaps in the regulatory structure due to delay or absence of implementing regulations; (iv) the lack of established interpretations of new principles of Mongolian legislation, particularly those relating to business, corporate and securities laws; (v) a lack of judicial independence from political, social and commercial forces; and (vi) bankruptcy procedures that are not well developed and are subject to abuse. The Mongolian judicial system has relatively little experience in enforcing the laws and regulations that currently exist, leading to a degree of uncertainty as to the outcome of any litigation; it may be difficult to obtain swift and equitable enforcement, or to obtain enforcement of a judgment by a court of another jurisdiction.

In addition, while legislation has been enacted to protect private property against expropriation and nationalization, due to the lack of experience in enforcing these provisions and political factors, these protections may not be enforced in the event of an attempted expropriation or nationalization. Expropriation or nationalization of any of the Company's assets, or portions thereof, potentially without adequate compensation, could materially and adversely affect its business and results of operations.

If an event of default occurs under the Convertible Debenture, CIC has the right to accelerate amounts owing thereunder.

With the exception of an insolvency event, if an event of default occurs under the Convertible Debenture, and such event of default has not been cured or waived, the principal amount owing and all accrued and unpaid interest will become immediately due and payable upon notice to the Company by CIC which would have a material adverse effect on the business and operations of the Company.

If an insolvency event occurs under the Convertible Debenture, the principal amount owing and all accrued and unpaid interest will become immediately due and payable without the necessity for notice to the Company by CIC, which would have a material adverse effect on the business and operations of the Company.

Application of and amendments to legislation could adversely affect the Company's mining rights in its projects or make it more difficult or expensive to develop its projects and carry out mining.

The 2006 Minerals Law (as defined under the heading "DEFINTIONS AND OTHER INFORMATION – Defined Terms and Abbreviations" in the Annual Information Form), which preserves to a limited extent some of the substance of the former 1997 minerals legislation, was drafted with the assistance of legal experts in the area of mining legislation and was widely regarded as progressive, internally consistent and effective legislation. However, the 2006 Minerals Law has been subsequently amended and the potential for political interference has increased and the rights and security of title holders of mineral tenures in Mongolia has been weakened. Certain provisions of the 2006 Minerals Law are ambiguous and it is unclear how they will be interpreted and applied in practice. Examples of such provisions include those relating to the designation of a mineral deposit as a Mineral Deposit of Strategic Importance (as defined under the heading "DEFINTIONS AND OTHER INFORMATION – Defined Terms and Abbreviations" in the Annual Information Form).

In addition, the introduction of new Mongolian laws and regulations and the interpretation of existing ones may be subject to policy changes reflecting domestic political or social changes. For example, on July 16, 2009, the Parliament of Mongolia enacted the Mining Prohibition in Specified Areas Law (the "Specified Areas Law") that prohibits minerals exploration and mining in areas such as headwaters of rivers and lakes, forest areas as defined in the Law of Forests of Mongolia of May 17, 2012, as amended, and areas adjacent to rivers and lakes as defined in the Law of Mongolia on Water enacted on May 17, 2012, as amended.

Pursuant to the Specified Areas Law, the Government of Mongolia has defined the boundaries of certain areas in which exploration and mining is purportedly prohibited. A list of licences has been prepared that overlap with the prohibited areas described in the law based on information submitted by water authority agencies, forest authority agencies and local authorities for submission to the Government of Mongolia.

Portions of the mining licence in respect of the Ovoot Tolgoi Complex and the exploration licences pertaining to the Zag Suuj Deposit and the South Biluut and Jargalant Fields within the Soumber Deposit are included on the list of specified areas described in the Specified Areas Law.

In regard to the Ovoot Tolgoi Mining Licence, the potential area which may be affected is a relatively small area which represents approximately 3% of the entire area of the mining licence and does not contain any of the Company's NI 43-101 reserves or resources or immovable assets. Accordingly, the loss of the potentially affected area would not materially and adversely affect the existing operations.

Activities historically carried out on the other licences referred to above include drilling, trenching and geological reconnaissance. The Company has no immovable assets located in any of the potentially affected areas of these licences and the loss of any or all of these potentially affected properties would not materially and adversely affect the existing operations.

The Mining Prohibition in Specified Areas Law has not been adequately enforced to date mainly due to compensation issues due to the licence holders.

On February 18, 2015 the Parliament of Mongolia adopted an amendment to the Law on Implementation of the Specified Areas Law (the "Law on Implementation"). The amendment provides an opportunity for licence holders covered within the scope of application of the Specified Areas Law to continue their mining operations subject to advance placement of funds to cover 100% of the future environmental rehabilitation costs. A model contract and a specific Government regulation on this requirement is expected be adopted by the Government in the first half of 2015. The licence holder must also apply within 3 months after the amendment to the Law on Implementation comes into effect to obtain permission from MRAM to resume activities. Penalties for not acting in accordance with the Law on Implementation include the potential revocation of mining and exploration licences.

The Company will continue to monitor developments and will ensure that it follows the necessary steps in the Law on Implementation to secure its operations and licences and is fully compliant with Mongolian law.

There can be no assurance that future political and economic conditions in Mongolia will not result in the Government of Mongolia adopting different policies in relation to foreign development and ownership of mineral resources. Any such changes in government or policy may result in changes in laws affecting ownership of assets, environmental protection, labour relations, repatriation of income, return of capital, investment agreements, income tax laws, royalty regulation, government incentive and other areas, each of which may materially and adversely affect the Company's ability to undertake exploration and development activities in the manner currently contemplated. Any restrictions imposed or charges levied or raised (including royalty fees) under Mongolian law for the export of coal could harm the Company's competitiveness.

The Company's ability to carry on business in Mongolia is subject to political risk.

The Company's ability to efficiently conduct its exploration and development activities is subject to changes in government policy or shifts in political attitudes within Mongolia that are beyond the Company's control.

Government policy may change to discourage foreign investment, nationalization of mining industries may occur or other government limitations, restrictions or requirements not currently foreseen may be implemented. There is no assurance that the Company's assets will not be subject to nationalization, requisition or confiscation, whether legitimate or not, by any authority or body. The provisions under Mongolian law for compensation and reimbursement of losses to investors under such circumstances may not be effective to restore the value of the Company's original investment.

In addition, Mongolia may experience political instability. Such instability could have a material adverse effect on economic or social conditions in Mongolia and may result in outbreaks of civil unrest, which could materially and adversely affect the Company's business and results of operations.

The Government of Mongolia could determine that any one or more of the Company's projects in Mongolia is a Mineral Deposit of Strategic Importance.

Under the 2006 Minerals Law, the State Great Khural of Mongolia (the "Parliament of Mongolia") has wide discretion to designate mineral deposits to be Mineral Deposits of Strategic Importance. The Government of Mongolia is empowered to participate on an equity basis with the licence holder in the exploitation and/or mining of each Mineral Deposit of Strategic Importance on terms to be negotiated between the Government of Mongolia and such licence holder. Details of any minerals reserves must be filed by the relevant licence holder with the Government of Mongolia, and those deposits on the Strategic Deposits List represent most of the largest and highest profile deposits in Mongolia. In addition to deposits currently on the Strategic Deposits List and the additional Tier 2 Deposits List, the Parliament of Mongolia may at any time designate other deposits not yet currently on such Lists to be Mineral Deposits of Strategic Importance, add such deposits to either the Strategic Deposits List or the Tier 2 Deposits List and, in the former case, commence negotiations with the relevant licence holder with respect to the terms under which the Government of Mongolia will take an interest in such deposit. While the Government of Mongolia is in the process of adding the exact location and coordinates for each Mineral Deposit of Strategic Importance, a number of deposits on the Strategic Deposits List are identified by name only with no indication of the latitude and longitude coordinates for the deposit, and it is therefore not always possible to precisely determine the intended geographic area covered by each designated Mineral

Deposit of Strategic Importance or to accurately determine whether or not any given licence area is within, or overlaps, a Mineral Deposit of Strategic Importance.

Under the 2006 Minerals Law, the size of the Government of Mongolia's participation is determined largely by the level of state funding which has been provided for the exploration and development of any deposit, with the Government of Mongolia entitled to participate up to 50% in the event that there has been state funding of such deposit and up to 34% if there has not. However, the 2006 Minerals Law is very vague as to the details and method by which the Government of Mongolia will take its interest and the final arrangements in respect of the Government of Mongolia's interest in each Mineral Deposit of Strategic Importance, including the amount of compensation to be paid to the licence holder and the actual form of the Government of Mongolia's interest are subject to negotiation between the Government of Mongolia and the licence holder. As discussed in the section in the Annual Information Form entitled "Legislative Developments", on February 18, 2015, the Parliament of Mongolia adopted an amendment to the 2006 Minerals Law providing for a possibility for the Government to collect a special royalty on minerals deposit of strategic importance in lieu of holding an equity stake in such deposit.

The 2006 Minerals Law also contains provisions requiring any company which holds a Mineral Deposit of Strategic Importance to list no less than 10% of its shares on the Mongolian Stock Exchange. This particular provision of the 2006 Minerals Law has not yet been enforced and it is not clear how it will work in practice.

In recent years there have been a number of proposed amendments to the 2006 Minerals Law suggested by various parties, many of which have centered on amending the 2006 Minerals Law to increase the Government of Mongolia's participating interest in excess of 50%. While the 2006 Minerals Law provides that the interest of the Government of Mongolia should take the form of an equity interest, based on past practice, and depending on the results of individual negotiations, the interest may be in the form of production or profit sharing or some other arrangement negotiated between the licence holder and the Government of Mongolia. There can be no assurance that legislation will not be enacted which further strengthens the Government of Mongolia's right to participate in privately held mineral resources in Mongolia.

None of the deposits covered by the Company's existing mining licences or exploration licences are currently designated as Mineral Deposits of Strategic Importance. However, there can be no assurance that any one or more of these deposits will not be so designated in the future, in which case the Company's business and results of operations may be materially and adversely affected.

The Application of the new Foreign Investment Law of Mongolia approved by the Parliament of Mongolia is uncertain.

Prior to October 3, 2013, the Company was subject to the Foreign Investment Law of Mongolia ("FIL") described in the Company's Management's Discussion and Analysis of Financial Condition and Results of Operation for the period ended December 31, 2012. The Company considers that this Risk Factor has been substantially mitigated following the repeal of the FIL and introduction of the Investment Law on October 3, 2013, which appears to provide greater certainty for foreign investment in Mongolia. However, that certainty remains subject to the inherent uncertainties of the legal system in Mongolia as described in the Risk Factor entitled the "Legislation in Mongolia may be subject to conflicting interpretations, which may have adverse consequences on the Company's business".

Risks relating to the Company's business and industry

Some of the Company's projects may not be completed as planned; costs may exceed original budgets and may not achieve the intended economic results or commercial viability.

The Company's business strategy depends largely on expanding its production capacity at the Ovoot Tolgoi Mine and further developing its other coal projects into commercially viable mines. Whether a mineral deposit will be commercially viable depends on a number of factors, including: (i) the particular attributes of the deposit, such as size, grade and proximity to infrastructure; (ii) commodity prices, which are highly cyclical; and (iii) government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of mineral resources and environmental protection. The Company's long term intention to develop mines at the Soumber Deposit, the Zag Suuj Deposit, and the Ovoot Tolgoi Underground Deposit in the future is based on geological, engineering, environmental and mine planning evaluations. The feasibility of mining at these projects has not been and may never be established. If the Company is unable to develop all or any of its projects into a commercial working mine, its business, financial condition and results of operations will be materially and adversely affected.

The Company's projects are subject to both (i) technical risk in that they may not perform as designed, or (ii) operational redesign or modification as a result of the current evaluation of the projects (refer to "PROPERTIES – Operating Mines – *Ovoot Tolgoi Mine*" in this MD&A for more information on the current technical review being undertaken by the Company and the responsible QPs). Increased development costs, lower output or higher operating costs may all combine to make a project less profitable than expected at the time of the development decision. This would have a negative impact on the Company's business and results of operations. No assurance can be given that the Company would be adequately compensated by third party project design and construction companies (if not performed by the Company) in the event that a project did not meet its expected design specification.

The Ovoot Tolgoi Technical Report assumed that the Ejin Jinda wet wash plant at Ceke would process 1.5 million tonnes of coal in 2012. Construction of the wet wash plant was completed in 2012. The Ovoot Tolgoi Technical Report also assumes that the Ejin Jinda wet wash plant is expanded to process 7.0 million tonnes annually from mid-2014. The Company is currently cooperating with Ejin Jinda in studying the utilization of the wet washing facility. Any delay in expanding annual capacity to 7.0 million tonnes by mid-2014, would likely impact the project economics, as the coal would be sold as lower value coal. As of the date of the Annual Information Form, commercial operations of the Ejin Jinda wet wash plant have not commenced and to date no plans have been discussed with the Company for the expansion of the Ejin Jinda wet wash plant to the proposed 7.0 million tonne annual capacity.

As with all exploration properties or projects taken on by mining companies, there is a risk that exploration projects will not be converted to commercially viable mines, in part because actual costs from capital projects may exceed the original budgets. As a result of project delays, cost overruns, changes in project scientific or technical information, changes in market circumstances or other reasons, the Company may not be able to achieve the intended economic benefits or demonstrate the commercial feasibility of these projects, which in turn may materially and adversely affect the Company's business, results of operations and growth projects.

The Company's coal reserves and resources are estimates based on a number of assumptions, and the Company may produce less coal than its current estimates.

The coal reserve and resource estimates are based on a number of assumptions that have been made by the QPs in accordance with NI 43-101. Reserve and resource estimates involve expressions of judgment based on various factors such as knowledge, experience and industry practice, and the accuracy of these estimates may be affected by many factors, including quality of the results of exploration drilling and analysis of coal samples, as well as the procedures adopted by and the experience of the person making the estimates.

The Company and the responsible QPs are currently engaged in a comprehensive review of the information upon which the mineral resource and reserve estimates for the Ovoot Tolgoi Technical Report have been based. This review is part of the normal re-optimization process generally adopted by mining companies experiencing significant changes in their economic environment. The review of the mine plan by the Company includes updates of the cash costs and cost profile of the operations, project development and production sequencing and forecasts. The Company and the responsible QPs are also reviewing the classification of a portion of the geology type at the Ovoot Tolgoi Mine, which may have a material impact on production levels as discussed under the heading "PROPERTIES – Operating Mines – *Ovoot Tolgoi Mine*" in this MD&A. In addition, the Company is reviewing and updating its mine design parameters, mine designs and project development schedule in order to reflect its production plan and the market conditions.

The review of the geology and mine plan for the Ovoot Tolgoi Complex has not yet been completed, nor has a new mine plan been presented to or been approved by the Board. As a result of the significant changes in some of the mining planning factors compared to those used for the Ovoot Tolgoi Technical Report, this review may result in material changes to the reserves for the Ovoot Tolgoi Complex. Some of these changes, such as an upgrading of some resources from the inferred category to the measured and indicated category in the Sunset pit area, a change to mine design with steeper pit walls resulting in less waste and a lower strip ratio and improved mining cash costs, simplified and lower cost coal processing and product marketing, and general cost reductions achieved by the Company in recent times, may result in an increase in reserves. However, other changes, such as the decline in coal prices in China, decreased mining quantities resulting from smaller pit dimensions as a result of changed mining parameters and coal prices, and the exclusion of coal identified in the previous studies as marginally economic due to coal price reductions, may result in a decrease in reserves.

Until the Company has completed this review and adopted a new mine plan, it is unable to conclude that a change in the coal reserve estimates has occurred compared to previous studies and it is also unable to conclude on the materiality of any such change for the Company. Upon the completion and adoption of a new mine plan, the Company intends to have all input parameters, procedures and forecasts fully verified and reviewed in accordance with NI 43-101. This may lead, if required, to the preparation of a new technical report containing updated coal reserves estimates for the Ovoot Tolgoi Complex.

As a result of this review, estimates of the Company's mineral reserves and resources may change significantly, and existing interpretations and deductions on which the current reserves and resources estimates are based may prove to be inaccurate. Any downward adjustments to the Company's mineral resource or reserve estimates resulting from this review could materially affect the Company's development and mining plans, which could materially and adversely affect its business and results of operations.

In addition to the aforementioned specific review in respect of the Ovoot Tolgoi Technical Report, the Company also notes that, in general, mineral resource and reserve estimates are always subject to change based on new information. Specifically, should the Company encounter mineralization different from that predicted by past drilling, sampling and similar examination, mineral resource and/or reserve estimates may have to be adjusted downward. In addition, the rank of coal ultimately mined may differ from that indicated by drilling results. There can be no assurance that coal recovered in laboratory tests will be duplicated under on-site conditions or in production-scale operations. In the event that the actual level of impurities is higher than expected or the coal mined is of a lower quality than expected, the demand for, and realizable price of, the Company's coal may decrease. Short term factors relating to reserves, such as the need for orderly development of coal seams or the processing of new or different quality coals, may also materially and adversely affect the Company's business and results of operations. The inclusion of reserve and resource estimates should not be regarded as a representation that all these amounts can be economically exploited and nothing contained herein (including, without limitation, the estimates of mine lives) should be interpreted as assurance of the economic lives of the Company's coal reserves and resources or the profitability of its future operations.

The Company does not insure against all risks to which it may be subject in planned operations and insurance coverage could prove inadequate to satisfy potential claims.

For certain aspects of the Company's business operations, insurance coverage, in particular business interruption insurance, is restricted or prohibitively expensive. The Company currently holds its primary insurance policies through Canadian insurance providers to insure its properties. The Company has taken out insurance for risks including commercial general liability, and aviation premises liability. The Company maintains mining property insurance for all of its mining assets wherever located, property insurance on its office premises and liability insurance for its directors and officers. However, no assurance can be given that the Company will elect or be able to obtain such insurance coverage at economically reasonable premiums (or at all), or that any coverage it obtains will be adequate to cover the extent of any claims brought against it.

Exploration, development and production operations on mineral properties involve numerous risks, including environmental risks, such as unexpected or unusual geological operating conditions, rock bursts or slides, fires, floods, earthquakes or other environmental occurrences, and political and social instability. The Company does not maintain insurance against any environmental or political risks. Should any liabilities arise for which it is not insured or insurance coverage is inadequate to cover the entire liability, they could reduce or eliminate the Company's actual or prospective profitability, result in increasing costs and a decline in the value of the Common Shares and could materially and adversely affect the Company's business and results of operations.

Licences and permits are subject to renewal and various uncertainties and the Company may only renew its exploration licences a limited number of times for a limited period of time.

In Mongolia, the Company's mineral exploration licenses ("MELs") are subject to periodic renewal and may only be renewed a limited number of times for a limited period of time. There is no assurance that such renewals will be given as a matter of course and there is no assurance that new conditions will not be imposed in connection therewith. Although the Mongolian Government may have renewed the Company's licences and permits in the past, the Mongolian Government may retroactively revoke such renewals which could potentially result in the loss of the Company's MELs, pre-mining agreements ("PMAs") or mining licences. The Company's business objectives may also be impeded by the costs of holding and/or renewing the MELs in Mongolia. Licence fees for MELs increase substantially upon the passage of time from the original issuance of each individual MEL. The Company needs to continually assess the mineral potential of each MEL, particularly at the time of renewal, to determine if the costs of maintaining the MELs are justified by the exploration results to date, and may elect to let some of its MELs lapse. A moratorium on transfers of MELs has been imposed on two separate occasions and there is a risk that a similar moratorium could be imposed such that letting the MELs lapse may be the only practical option in some circumstances. Furthermore, the Company will require mining licences and permits to mine in order to conduct mining operations in Mongolia. There can be no assurance; however, that such licences and permits will be obtained on terms favourable to it or at all for the Company's future intended mining and/or exploration targets in Mongolia.

In April 2012, MRAM announced the suspension of exploration and mining activity on certain of the Company's licences including the licence pertaining to the Ovoot Tolgoi Mine. Although the Company did not receive official notification of a suspension of licences and had no reason to believe its licences were not in good standing, this announcement caused a significant disruption in the Company's business which ultimately lead to the curtailment of operations at the Ovoot Tolgoi Mine. Although the Company received a letter from MRAM on September 6, 2012 confirming that all MELs and mining licences were in good standing there is still a risk that its licences could be revoked.

In addition, certain provisions of the Law on Land of Mongolia enacted on June 7, 2002, as amended (the "Land Law of Mongolia") and the 2006 Minerals Law provide for the revocation of previously granted land use rights, MELs or mining licences on the grounds that the affected area of land has been designated as "special needs" territory ("SNT"). The Land Law of Mongolia grants the discretion to declare an area of land for special needs purposes to local governing authorities and identifies various broad categories which qualify as special needs. The 2006 Minerals Law requires the local governing authority that designates an area of land as a special needs territory to compensate within one year the licence holder whose rights or licence status are affected. The failure to pay the compensation within the one year period would allow the licence holder to resume its operations. If any of the Company's land use rights, MELs or mining licences in Mongolia are revoked because the underlying land is declared as special needs territory, there is no assurance that the Company will receive adequate compensation and its business and results of operation might be adversely and materially affected.

On February 13, 2015 a special meeting of the Citizens' Representatives Khural ("CRK") of Umnugobi Province was held. The CRK resolved to establish an SNT over an area covering approximately 233,600 ha in Gurvantes and Noyon Soums of Umnugobi Province. The resolution closely follows the resolutions adopted previously by the provincial CRK on the same issue, albeit the land area of the SNT has been reduced compared to previous resolutions.

The new SNT overlaps with the following licences held by the Company in the area:

- MEL XV-009443 at the south-east edge point of the licence; and
- The Soumber Mining Licence (as defined under the heading "MATERIAL PROPERTIES – Soumber Deposit – Property Description and Location" in the Annual Information Form).

The CRK has previously adopted similar resolutions purporting to take the areas covered by various licences of the Company to establish a new SNT, including MELs XV-009443X and MEL XV-009449, as well as the Soumber Mining Licence. The Company successfully challenged these previous resolutions though administrative court process and obtained court verdicts invalidating such resolutions. The Company is planning to yet again challenge the newest CRK resolution.

The Company is confident of a positive outcome in its challenge of this new CRK resolution; however, if the resolution is upheld by the court, there is no assurance that the Company will receive adequate compensation and its business and results of operation might be adversely and materially affected.

Prolonged periods of severe weather conditions could materially and adversely affect the Company's business and results of operations.

Severe weather conditions may require the Company to evacuate personnel or curtail operations and may cause damages to the project site, equipment or facilities, which could result in the temporary suspension of operations or generally reduce the Company's productivity. Severe weather conditions have not caused any delay or damages to the Company's operations to date. However, there can be no assurance that severe weather will not occur. Any damages to the Company's projects or delays in its operations caused by prolonged periods of severe weather could materially and adversely affect its business and results of operations.

The Company's business and results of operations are susceptible to the cyclical nature of coal markets and are vulnerable to fluctuations in prices for coal.

The Company expects to derive substantially all of its revenue and cash flow from the sale of coal. Therefore, the market price of the Common Shares, the Company's ability to raise additional financing and maintain ongoing operations and its financial condition and results of operations will be directly related to the demand for, and price of, coal and coal-related products. Coal demand and price are determined by numerous factors beyond the Company's control, including the international demand for steel and steel products, the availability of competitive coal supplies, international exchange rates, political and economic conditions in Mongolia, China and elsewhere in the world, milder or more severe than normal weather conditions, and production costs in major coal producing regions. The Chinese and international coal markets are cyclical and have in the past exhibited significant fluctuations in supply, demand and prices from year to year. There has been significant price volatility on the coal spot market. An oversupply of coal in China or a general downturn in the economies of any significant markets for the Company's coal and coal-related products could materially and adversely affect its business and results of operations. In addition, the Company's dependence on Asian markets may result in instability in its operations due to political and economic factors in those Asian jurisdictions which are beyond the Company's control. The combined effects of any or all of these factors on coal prices or volumes are impossible for the Company to predict.

If realized coal prices are below the full cost of production of any of the Company's future mining operations and remain at such a level for any sustained period, the Company could experience increased losses and may decide to discontinue operations, which could require the Company to incur closure costs and result in further reduced revenues.

The Company's coal mining activities are subject to operational risks, including equipment breakdown.

The Company's coal mining operations are subject to a number of operational risks, some of which are beyond its control, which could delay the production and delivery of coal. These risks include unexpected maintenance or technical problems, periodic interruptions to its mining operations due to inclement or hazardous weather conditions and natural disasters, industrial accidents, power or fuel supply interruptions and critical equipment failure, including malfunction and breakdown of its shovels, upon which its coal mining operations are heavily reliant and which would require considerable time to replace. These risks and hazards may result in personal injury, damage to, or destruction of, properties or production facilities, environmental damage, business interruption and damage to its business reputation. In addition, breakdowns of equipment, difficulties or delays in obtaining replacement shovels and other equipment, natural disasters, industrial accidents or other causes could temporarily disrupt the Company's operations, which in turn may also materially and adversely affect its business, prospects, financial condition and results of operations.

The unavailability or shortage of reliable and sufficient coal transportation capacity that meets Mongolian authority regulations will reduce the Company's coal revenue by causing it to reduce its production volume or impairing its ability to supply coal to its customers.

The Company anticipates that the majority of its coal production from the projects in Mongolia will be exported to China. Inadequate transportation infrastructure is likely to affect the pricing terms on which it can sell the coal to customers and the willingness and ability of such customers to purchase coal from it. Customers are likely to factor in any delays and the costs and availability of transportation in determining the price they are prepared to pay to purchase the Company's coal. Therefore, its mining operations are anticipated to be highly dependent on road and rail services in Mongolia and China.

In Mongolia, a bottleneck in the transportation of coal from the Ovoot Tolgoi Mine to customers in China may arise if the road connecting the Ovoot Tolgoi Mine to the Shivee Khuren Border Crossing does not have sufficient capacity to support the increased amount of cargo traffic, is affected by external factors such as disruptions caused by bad weather or is closed for repair, such as was the case during 2012, when the road connecting the Ovoot Tolgoi Mine to the Shivee Khuren Border Crossing was closed for over four weeks for repair.

In September 2014, a new paved highway from the Ovoot Tolgoi Complex to the Shivee Khuren Border Crossing was opened for limited use. This highway, which the Company has an indirect 40% shareholding, when fully operational on a commercial scale, is expected to significantly increase the safety of coal transportation, reduce environmental impacts and improve efficiency and capacity of coal transportation. The commercial operation of this highway has been delayed and is currently expected to commence in the second quarter of 2015. The paved highway is expected to have a carrying capacity in excess of 20 million tonnes of coal per year.

The opening hours of the Shivee Khuren Border Crossing also affect the Company's ability to expedite the movement of its coal shipments. There can be no assurance that there would be any other cost effective means of transporting the coal to the Company's primary market in China. As a result, the Company may experience difficulty expediting the movement of its coal shipments and/or significant cost escalation for the transportation services, which could affect its production and reduce its profitability.

In China, rail and road infrastructure and capacity has in the past been affected by extreme weather conditions, earthquakes, delays caused by major rail accidents, the diversion of rolling stock needed to deliver emergency food relief and seasonal congestion during public holidays. There can be no assurance that these problems will not recur or that new problems will not occur. In any of these circumstances, the customers may not be able to take delivery of the Company's coal, which may lead to delays in payment, or refusal to pay, for the Company's coal and, as a result, the Company's business and results of operations could be materially and adversely affected.

The Company's prospects depend on its ability to attract, retain and train key personnel.

Recruiting, retaining and training qualified personnel is critical to the Company's success. The number of persons skilled in the acquisition, exploration and development of mining properties is limited and competition within the mining industry for such persons is intense, in particular, Mongolian law requires that at least 90% of a mining company's employees be of Mongolian nationality. This provision of the law, coupled with the large number of active mining projects in Mongolia, further limits the number of available personnel and increases competition for skilled personnel. The reputation and capability to operate continuously over the longer term are key factors in also attracting key personnel to its business. The Company is reinforcing its core values of ethical behavior in dealing with all its stakeholders from senior management down in order to ensure the Company attracts the right people to its business. As the Company's business activity grows, it will require additional key financial, administrative, mining, marketing and public relations personnel as well as additional operations staff. If the Company is not successful in attracting such key personnel, or retaining existing key personnel, its business and results of operations could be materially and adversely affected.

In addition, the Company's ability to train operating and maintenance personnel is a key factor for the success of its business activities. If the Company is not successful in recruiting, training and retaining such personnel, its business and results of operations could be materially and adversely affected.

Competition in the coal industry may hinder development plans and adversely affect the Company's coal sales if it is not able to compete effectively.

Continued growth in mining and mineral exploration activities in Mongolia could create an increasing demand for mining equipment and related services. Shortages of, or higher costs for, equipment and services could restrict the Company's ability to carry out the exploration, development and production activities, increase its costs of operations and adversely affect its future plans.

The Company intends to sell a majority of the coal it produces in China. Competition in the Chinese coal industry is based on many factors, including, among others, price, production capacity, coal quality and characteristics, transportation capability and costs, blending capability and brand name. The Company's coal business will most likely compete in China with other large Chinese and international coal mining companies. Due to location, some of the Company's Chinese competitors may have lower transportation costs than the Company does. The Chinese coal market is highly fragmented and the Company faces price competition from some small local coal producers that produce coal for significantly lower costs than the Company due to various factors, including their lower expenditure on safety and regulatory compliance. Some of the Company's international competitors, including the Mongolian coal producers, may have greater coal production capacity as well as greater financial, marketing, distribution and other resources than the Company does, and may benefit from more established brand names in international markets. The Company's future success will depend on its ability to respond in an effective and timely manner to competitive pressure.

There are a number of risks associated with dependence on a limited number of customers and inability to attract additional customers.

Until the successful implementation of the Proposed Funding Plan (of which there can be no assurance), the Company will continue to depend on a relatively small number of customers. The incremental cost of transporting coal products from the Ovoot Tolgoi Mine and its other coal projects over long distances effectively limits the Company's potential customer base to a relatively proximate geographical area. This market has also been price sensitive and significant price volatility impacts contract performance.

Additionally, the Company has been selling its coal products since 2008. The Company had six active customers with the largest customer representing approximately 34%, the second largest customer representing approximately 29%, the third largest customer representing approximately 27% and the remaining customers accounting for 10% of the Company's total sales for the year ended December 31, 2014. In order to mitigate this risk, the Company developed the Proposed Funding Plan collaboratively with Novel Sunrise in order to expand its existing customer base.

The Company still expects to sell the majority of the coal from its Mongolian mining operations to customers in China. Chinese law requires specific authorization to be obtained by entities responsible for the import of coal into China. In the event that the Company's customers, or the agents of such customers who are responsible for importing coal into China on their behalf, fail to obtain and retain the necessary authorizations, their ability to import coal into China may be affected, which could materially and adversely affect the Company's business and results of operations.

The Company's operations are exposed to risks in relation to environmental protection and rehabilitation.

The operations of coal mines involve substantial environmental risks and hazards and the Company's operations are subject to laws and regulations relating to the environment, health and safety and other regulatory matters in Mongolia.

The risk of environmental liability is inherent in the operation of the Company's business. Environmental hazards may occur in connection with the Company's operations as a result of human negligence, force majeure, or otherwise. Claims may be asserted against the Company arising out of its operations in the normal course of business, including claims relating to land use, safety, health and environmental matters. The Company is not insured against environmental liabilities and there can be no assurance that environmental liabilities would not materially and adversely affect its business and results of operations.

In addition, the Company is subject to reclamation requirements. The Company's mine contains a finite amount of reserves and will eventually close. The key tasks in relation to the closure of the mines involves (i) long-term management of permanent engineered structures (for example, spillways, roads, waste dumps); (ii) achievement of environmental closure standards; (iii) orderly retrenchment of employees and contractors; and (iv) relinquishment of the site with associated permanent structures and community development infrastructure and programs to new owners. The successful completion of these tasks is dependent on the Company's ability to successfully implement negotiated agreements with the relevant government, community and employees. The consequences of a difficult closure range from increased closure costs and handover delays to ongoing environmental impacts and corporate reputation damage if desired outcomes cannot be achieved, which could materially and adversely affect the Company's business and results of operations.

Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. The Company may experience increased costs of production arising from compliance with environmental laws and regulations. Should the Company fail to comply with current or future environmental laws and regulations, the Company may be required to pay penalties or take corrective actions, any of which may have a material adverse effect on its results of operations and financial condition.

Foreign currency fluctuations could affect expenses and any future earnings.

The Company is exposed to foreign exchange fluctuations with respect to the MNT, Chinese Renminbi, Hong Kong, and Canadian dollars. The Company's financial results are reported in United States dollars. The salaries for local laborers in Mongolia are paid in local currency. Sales of coal into China have been and may continue to be settled in United States dollars and Renminbi. The Company has a subsidiary in Hong Kong where some expenses are incurred in Hong Kong dollars. Since the Company's headquarters is in Canada, a minor portion of its expenses are in Canadian dollars and the Company holds a portion of its cash in Canadian dollars. As a result, its financial position and results are impacted by the exchange rate fluctuations between the aforementioned currencies and the United States dollar.

The Company's results of operations are subject, to a significant extent, to economic, political and legal developments in China.

The Company expects that a majority of coal sales from the Ovoot Tolgoi Mine will be made to customers based in China. Accordingly, the economic, political and social conditions, as well as government policies, of China may affect its business. The Chinese economy differs from the economies of most developed countries in many respects, including: (i) structure; (ii) level of government involvement; (iii) level of development; (iv) growth rate; (v) control of foreign exchange; and (vi) allocation of resources. The Chinese economy has been transitioning from a planned economy to a more market-oriented economy. For the past two decades, the Chinese government has implemented economic reform measures emphasizing the utilization of market forces in the development of the Chinese economy. Changes in the Chinese's political, economic and social conditions, laws, regulations and policies could materially and adversely affect the Company's business and results of operations.

In addition, the Chinese government indirectly influences coal prices through its regulation of power tariffs and its control over allocation of the transportation capacity of the national rail system. Any significant downturn in the prices in China could materially and adversely affect the Company's business and results of operations. Additionally, the Chinese government could adopt new policies that could shift demand away from coal to other energy sources. Any significant decline in demand for, or over-supply of, coal could materially and adversely affect the Company's revenues from coal export sales.

The interests of the Company's principal stakeholders, TRQ, CIC and Novel Sunrise, may differ from those of the other stakeholders.

As of March 30, 2015, Turquoise Hill and CIC (also the Company's largest creditor by virtue of the Convertible Debenture) hold approximately 48% and17% of the Common Shares, respectively. If the Novel SPA closes (i) Novel Sunrise will acquire Common Shares from TR and (ii) pursuant to the terms of the Novel Private Placement, the Mandatory Convertible Units (as defined under the heading "MATERIAL CONTRACTS – Novel Private Placement" in the Annual Information Form) owned by Novel Sunrise will convert to Common Shares and Novel Sunrise will subscribe for additional Common Shares, such that Novel Sunrise will own approximately 29% of the Common Shares in the aggregate. The interests of each of these stakeholders may conflict with the interests of other Shareholders and there is no assurance that any of these stakeholders will vote its Common Shares in a way that benefits minority Shareholders. While no Shareholder has the ability to elect a majority of the Board unilaterally, each of CIC and Novel Sunrise have been granted contractual director appointment rights. In addition, the Company believes that third parties may be discouraged from making a tender offer or bid to acquire the Company because of this concentration of ownership of Common Shares among these three parties.

Future issuances or sales, or perceived possible issuances or sales, of substantial amounts of Common Shares in the public market could materially and adversely affect the prevailing market price of the Common Shares and the Company's ability to raise capital in the future.

The market price of the Common Shares could decline as a result of future sales of substantial amounts of the Common Shares or other securities relating to the Common Shares in the public market, including sales by its substantial Shareholders, or the issuance of new Common Shares, or the perception that such sales or issuances may occur. Future sales, or perceived possible sales, of substantial amounts of the Common Shares could also materially and adversely affect the Company's ability to raise capital in the future at a time and at a price favourable to it, and Shareholders may experience dilution in their holdings upon issuance or sale of additional Common Shares or other securities in the future.

Future stock market conditions may change.

There are risks involved with any equity investment. The market price of Common Shares may rise or fall depending upon a range of factors and stock market conditions, which are unrelated to the Company's future financial performance. Movements on international stock markets, local interest rates and exchange rates, domestic and international economic and political conditions, as well as government, taxation and other policy changes may affect the stock market. As the Company is a listed company on the TSX and the HKEX, its Common Share price will also be subject to numerous influences including broad trends in the stock market and the share prices of individual companies or sectors.

Information in this document regarding future plans reflects current intentions and is subject to change.

Whether the Company ultimately implements the business strategies described in this document will depend on a number of factors including, but not limited to: the political situation in Mongolia and China; the availability and cost of capital; current and projected coal prices; coal markets; costs and availability of drilling services, costs and availability of heavy equipment, supplies and personnel; success or failure of activities in similar areas to those in which the Company's projects are situated; and changes in estimates of project completion costs. The Company will continue to gather information about its projects, and it is possible that additional information will cause it to alter its schedule or determine that a project should not be pursued at all. Accordingly, the Company's plans and objectives may change from those described in this document.

15. OUTLOOK

Coal markets continued to deteriorate in 2014. China, the main market for Mongolian coal producers, suffered from overcapacity coupled with decreasing demand. China's import of thermal and coking coal fell by 1.2% and 17.2% respectively year-on-year.

Coal prices in China, which were already under pressure from excess supply, continued to decline as demand fell in 2014. Prices stabilized in the fourth quarter of 2014 after hitting seven year lows in the third quarter of 2014. However, prices remain well below the levels achieved over the last three years and the Mongolian coal industry faced strong competition from seaborne and domestic Chinese coal producers.

The Chinese government introduced quality standards for commercial coal in September 2014. These standards were implemented on January 1, 2015 and to both domestic and import coal. Coal import tariffs were also introduced by the Chinese government, effective as of October 15, 2014. Import tariff on coking coal is 3% and thermal coal is 6%. These import tariffs put Mongolian coal exporters at a disadvantage relative to coal producers from certain other countries as some of the largest coal exporters into China are exempt from the tariffs due to country-to-country trade agreements.

The outlook for Mongolian coal exports remains dependent on the Chinese economy. Demand in early 2015 has been seasonally weak with Chinese coal imports hitting a 43-month low in January 2015. Prices declined again after rising slightly in the fourth quarter of 2014.

The Company anticipates that coal prices in China will remain under pressure in 2015, which will continue to impact the Company's margins and liquidity. The Company continues to strive for further cost reductions and where possible will delay expenditures. In addition, the Company entered into the transaction with Novel Sunrise as a new significant shareholder and strategic partner intending to bring its operational and marketing expertise to the Company. Novel Sunrise has agreed to assist the Company in implementing a funding plan intended to improve cash flow for the Company and support its business strategy and operations in a difficult market, with the goal of positioning the Company with a strong future as a coal producer. The proposed plan includes introducing potential customers in China to the Company to allow the Company to expand its customer base further inland in China, and helping the Company to secure longer-term coal offtake arrangements, thereby allowing the Company to ramp up production to capacity. Novel Sunrise also intends to help the Company to establish relationships with commercial banks in China and Hong Kong to help the Company to secure short term bridge loans, trading credit facilities and other types of financing.

The Company's consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue operating until at least December 31, 2015 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. While the Company is actively seeking additional sources of financing to continue operating and meet its objectives, there can be no assurance that such financing will be available on terms acceptable to the Company. If for any reason, the Company is unable to implement the funding plan it has developed with Novel Sunrise or is not able to secure additional sources of financing to continue as a going concern, adjustments to the amounts and classifications of assets and liabilities in the Company's consolidated financial statements may be required and such adjustments could be material.

A continued delay in securing additional financing could ultimately result in an event of default of the Convertible Debenture, which if not cured within applicable cure periods in accordance with the terms of such debenture, may result in the principal amount owing and all accrued and unpaid interest becoming immediately due and payable upon notice to the Company by CIC.

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

- **Strategic location** – The Ovoot Tolgoi Mine is located approximately 40km from China, which represents the 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.

- **Large resource base** – The Company's aggregate coal resources include measured and indicated resources of 497 million tonnes and inferred resources of 293 million tonnes. These numbers have been aggregated from the Ovoot Tolgoi Technical Report, the Soumber Technical Report and the Zag Suuj Technical Report. The Measured and Indicated Coal Resources are inclusive of those Coal Resources modified to produce the Coal Reserves.

- **Several growth options** – The Company has several growth options including an anticipated increase to 9 million tonnes annual run-of-mine capacity at the Ovoot Tolgoi Mine as well as greenfield options with the Soumber Deposit and Zag Suuj Deposit, located approximately 20km east and approximately 150km east of the Ovoot Tolgoi Mine, respectively.

- **Flexible product offering** – Most of the Company's coal resources have coking properties, including a mixture of semi-soft coking coals and hard coking coals. The Company is currently studying options to supply washed coal to the market to further improve its market position and access to end customers.

Objectives

The Company's objectives for 2015 and the medium term are as follows.

- Execute step change improvement in the Company's sales, marketing and logistics capabilities and expand the Company's customer base further inland in China – Subject to available financial resources and in cooperation with the Company's new strategic partner, Novel Sunrise, implement an effective business structure and production profile that is capable of delivering a profitable product mix to the Chinese market.

- Drive operational excellence – The Company is focused on further improving productivity and operational efficiency in delivering production to meet market requirements.

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

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

- Enhance the Company's reputation – The Company is committed to contributing to the long term development and prosperity of Mongolia and its local communities.

March 30, 2015