SouthGobi Resources

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ANNUAL REPORT 2015

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SouthGobi Resources Ltd.
Annual Report 2015

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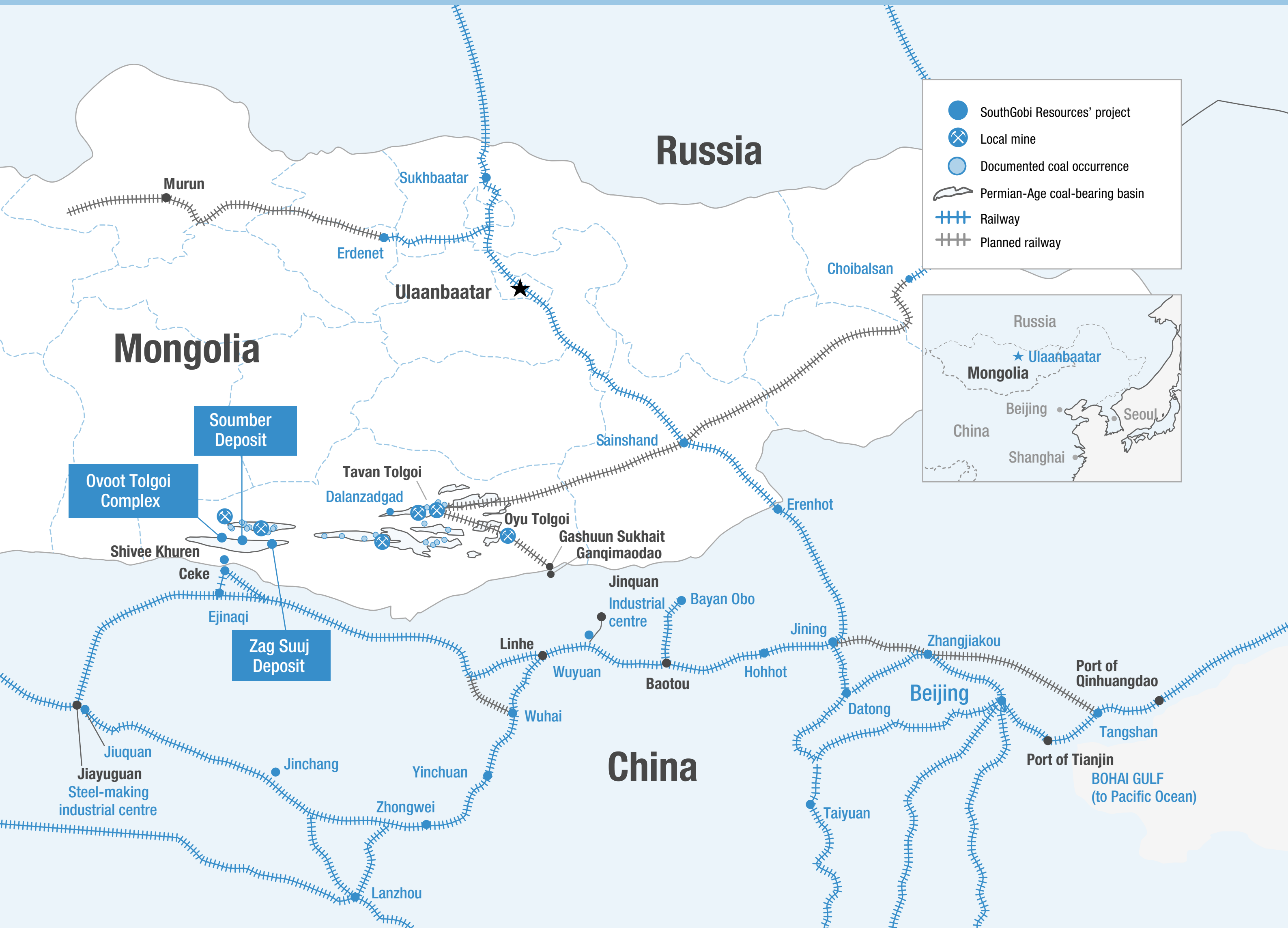
SouthGobi Resources Ltd. (the "Company" or "SouthGobi") is focused on the exploration, development and production of its coking coal deposits in Mongolia's South Gobi Region. The Company has a 100% shareholding in SouthGobi Sands LLC, the Mongolian registered company that holds SouthGobi's mining and exploration licenses in Mongolia and operates the flagship Ovoot Tolgoi coal mine. Ovoot Tolgoi produces and sells coal to customers in China.



SIGNIFICANT EVENTS AND HIGHLIGHTS

The Company's significant events and highlights for the year ended December 31, 2015 and subsequent period to March 29, 2016 are as follows:

- ***Operating results*** – The Company continues to operate under difficult market conditions as prices for coal remained weak in the People's Republic of China ("China") in 2015. The impact of these conditions on the Company's operations continues to be exacerbated given the Company's liquidity constraints. The Company sold 0.2 million tonnes of its coal products during the fourth quarter of 2015 compared to 0.4 million tonnes in the fourth quarter of 2014. The production for the fourth quarter of 2015 was 0.6 million tonnes, allowing the Company to position itself to meet its commitments under existing and expected new coal offtake contracts.

- ***Updated Resource Estimate – Ovoot Tolgoi Mine*** – As a consequence of material changes in some key assumptions underlying the analysis of its resources subsequent to the last detailed review of the project in 2012, particularly those relating to ongoing changes in coal market conditions and geologic analysis, the Company has updated its mineral resource estimate for the Ovoot Tolgoi Project, resulting in a decrease in estimated mineral resources from the previous estimate completed in 2012. The decrease is principally based on the exclusion of underground mineralization from the resources estimate and a reclassification of the geology type of certain zones in the mine based on detailed analysis of the results of additional drilling and mining activities since 2012, resulting in updated resources estimated as of January 1, 2015 (and confirmed as at March 24, 2016) of 170 million tonnes (Mt) of indicated resources and inferred resources of 78 Mt, compared to 133.3 Mt of measured resources, 59.9 Mt of indicated resources, and 24 Mt of inferred resources estimated in 2012. The Company previously reported 175.7 million tonnes of proven and probable reserves in respect of the Ovoot Tolgoi deposit based on a preliminary feasibility study completed in 2012. Since the Company's 2012 estimate of reserves was derived from the 2012 resource estimate, and a number of key assumptions upon which the 2012 reserve estimate was based have now materially changed, it is expected that, once all relevant factors have been fully analyzed such that an updated reserve estimate can be prepared, the Company's 2012 reserve estimates will also be quantitatively reduced and qualitatively downgraded. Additional drilling will likely be required to establish the degree of confidence required to produce an updated estimate of reserves.

- ***Tax investigation case in Mongolia*** – On October 6, 2015, the Company was informed by its Mongolia banks (where the $1.2 million deposits with restricted use were placed (the "Restricted Funds")) that they had received an official request from the Court Decision Implementing Agency of Mongolia (the "CDIA") to transfer the Restricted Funds to CDIA in partial payment of the MNT35.3 billion (approximately $17.6 million on February 1, 2016) tax penalty imposed on SouthGobi Sands LLC ("SGS") the Company's wholly-owned subsidiary, as a result of being found financially liable as a "civil defendent" in the tax evasion case of its three former employees (the "Tax Penalty"). $1.2 million was transferred to CDIA from the frozen bank accounts in October and November 2015. As at December 31, 2015, the provision for the Tax Verdict was reduced to $16.5 million.

SIGNIFICANT EVENTS AND HIGHLIGHTS

- ***Novel Sunrise Investments Limited ("Novel Sunrise") private placement*** – On February 24, 2015, the Company announced it had entered into a private placement agreement with Novel Sunrise providing for the subscription of up to 21.75 million Common Shares for gross proceeds of up to approximately $7.5 million.

  On March 3, 2015, the initial tranche of the private placement consisting of approximately $3.5 million of Mandatory Convertible Units was closed. The Mandatory Convertible Units were converted into approximately 10.1 million Common Shares on April 23, 2015 at a conversion price of CAD$0.432 per Common Share.

  On April 23, 2015, the Company successfully closed the second tranche of the Novel Sunrise private placement for gross proceeds of approximately $4.0 million through the issue of approximately 11.6 million Common Shares.

- ***Swiss Life Gestion Privee ("Swiss Life GP") private placement*** – On July 14, 2015, the Company announced it had obtained all the necessary regulatory approvals for the private placement and subsequently successfully closed the Swiss Life GP Private Placement, raising $2.9 million for the issuance of 5 million Common Shares.

- ***TSX remedial delisting review*** – On November 30, 2015, the Company announced that the TSX has confirmed and announced it has completed its review of the Company and has determined that the Company meets the TSX's continued listing requirements.

- ***China Investment Corporation ("CIC") convertible debenture ("CIC Convertible Debenture")*** – On May 20, 2015 under the terms of the CIC Convertible Debenture, CIC confirmed to the Company that, subject to certain conditions and limitations, it would grant a deferral of payment of approximately $7.9 million in cash interest due by the Company to CIC on May 19, 2015 ("May 2015 cash interest installment") until July 22, 2015, subject to a three day cure period which expired on July 27, 2015.

  On July 27, 2015, CIC confirmed to the Company that, subject to certain conditions and limitations, it agreed to grant a further deferral of payment of the May 2015 cash interest installment until November 19, 2015 to allow the Company to execute its Funding Plan (as defined below in the section entitled "Going Concern").

  On November 24, 2015, CIC confirmed to the Company that, subject to certain conditions and limitations, it had agreed to grant further deferral of payment of the May 2015 cash interest installment to be due and repayable between November 2015 and May 2016 while the cash interest payment due on November 19, 2015 of approximately $8.1 million shall be due and repayable on May 18, 2016.

  On February 18, 2016, CIC confirmed to the Company that, subject to certain conditions and limitations, it had agreed to grant further deferral of a payment due on February 19, 2016 of $1 million to be due and repayable on February 29, 2016. It was subsequently repaid in February 2016.

SIGNIFICANT EVENTS AND HIGHLIGHTS

- ***Novel Sunrise change in ownership*** – On July 20, 2015, Novel Sunrise reported that China Cinda (HK) Investments Management Company Limited ("Cinda"), a wholly-owned subsidiary of China Cinda Asset Management Corporation Limited, had acquired ownership and control of all of the outstanding voting (ordinary) shares of Novel Sunrise through Hope Rosy Limited, a wholly-owned subsidiary of Cinda.

- ***Shareholder loan extension*** – On October 27, 2015, Turquoise Hill Resources Limited ("Turquoise Hill") signed a Deferral Letter Agreement with the Company, in which Turquoise Hill agreed to a limited and circumscribed deferral of repayment of all remaining amounts and obligations now and hereafter owing under the Turquoise Hill Loan Facility ("TRQ Loan") to April 22, 2016.

- ***Notice of arbitration*** – On June 24, 2015, First Concept Logistics Limited ("First Concept") served a notice of arbitration (the "Notice") on SGS in respect of a coal supply agreement dated May 19, 2014 as amended on June 27, 2014 (the "Coal Supply Agreement").

  According to the Notice, First Concept: alleged, inter alia, (i) that SGS had failed and/or wrongfully refused to sell any coal to First Concept; (ii) expressed its wish to have the dispute settled in an arbitration to be administered by the Hong Kong International Arbitration Centre; and (iii) sought the repayment of the prepayment, in the sum of $11.5 million, it made to SGS under the Coal Supply Agreement, as well as any and all damages that may be due to it.

  The Company firmly rejects the allegations of the First Concept in the Notice as lacking any merit. On October 26, 2015, the Company received the Statement of Claim from First Concept and will vigorously defend itself in the Arbitration, including claiming the relevant fees and damages from First Concept. The trial dates of the Arbitration are scheduled to be held in the fourth quarter of 2016.

- ***Notice of claim*** – On July 2, 2015, the Company announced it had been served with a notice of claim by former President and Chief Executive Officer, Alexander Molyneux. The claim relates to alleged breaches of Mr. Molyneux's employment agreement by the Company and is seeking damages in excess of $1 million. The Company considers the claim has no merit and is vigorously defending the action. The Company filed a response to Civil Claim and Counterclaim in September 2015. A trial date has not yet been set.

- ***Short-term Bridge loan*** – On October 27, 2015, the Company executed a $10 million bridge loan agreement with an independent Asian based private equity fund. As at December 31, 2015, the outstanding balance for the short-term bridge loan was $4.9 million.

- ***Class Action Lawsuit*** – On November 5, 2015, the Ontario Superior Court of Justice (the "Ontario Court") rendered its decision on the preliminary motions to seek leave to bring a claim under applicable Canadian securities legislation and certification of an Ontario class action (the "Class Action"). The Ontario Court dismissed the plaintiff's motions as against each of the former senior officers and former and current directors of the Company named in the Class Action. The plaintiff has appealed this decision. The Ontario Court granted the preliminary leave motion against the Company and the Company is seeking leave to appeal the decision. The appeal by the plaintiff and, if leave to appeal is granted, the appeal by the Company are scheduled to be heard in June 2016. Rulings are expected by the end of September 2016.

SIGNIFICANT EVENTS AND HIGHLIGHTS

- ***Changes in Management and Directors***

  Mr. Enkh-Amgalan Sengee: Mr. Sengee tendered his resignation as President and Chief Executive Officer on March 13, 2015.

  Mr. Ted Chan: Mr. Chan was initially appointed as an Executive Director of the Company on March 3, 2015. On July 26, 2015, following the appointment of Mr. Yulan Guo as Interim Chief Executive Officer, Mr. Chan ceased to be an Executive Director but remained as a Non-Executive Director of the Company until August 6, 2015, the date of the Company's Annual Meeting of Shareholders (the "AGM"), where Mr. Chan did not stand for election.

  Mr. Jeffery Tygesen: Mr. Tygensen resigned as a Non-Executive Director on March 17, 2015.

  Mr. Yulan Guo: Mr. Guo was initially appointed to the board of directors as a Non-Executive Director on May 15, 2015. On July 26, 2015, Mr. Guo was appointed as Interim Chief Executive Officer and an Executive Director of the Company and was re-elected as a director of the Company at the AGM. On September 1, 2015, Mr. Guo was appointed as Chief Financial Officer and ceased to be Interim Chief Executive Officer.

  Mr. Ningqiao Li: Mr. Li was appointed to the board of directors as a Non-Executive Director on May 15, 2015 and was re-elected as a director of the Company at the AGM. On September 17, 2015, Mr. Li was appointed as an Executive Director and Executive Chairman of the board of directors.

  Mr. Aminbuhe: On August 6, 2015, Mr. Aminbuhe was elected to the board of directors as a Non-Executive Director following the conclusion of the AGM. On September 1, 2015, Mr. Aminbuhe was appointed as an Executive Director and Chief Executive Officer.

  Mr. Bold Baatar: Mr. Baatar resigned as a Non-Executive Director on May 15, 2015.

  Mr. Zhu Liu and Ms. Jin Lan Quan: On August 6, 2015, Mr. Liu and Ms. Quan were elected to the board of directors as Independent Non-Executive Directors following the conclusion of the AGM.

  Mr. Kelly Sanders: On August 6, 2015, Mr. Sanders did not stand for the re-election at the AGM and ceased to be a Non-Executive Director.

  Mr. Bertrand Troiano: Mr. Troiano stepped down as Chief Financial Officer of the Company following a two-year secondment from Rio Tinto plc ("Rio Tinto") which ended on July 31, 2015.

  Mr. André Deepwell: Mr. Deepwell resigned as an Independent Non-Executive Director and Chairman of the Audit Committee on August 31, 2015.

  Mr. Mao Sun: Mr. Sun was appointed as an Independent Non-Executive Director and Chairman of the Audit Committee on November 5, 2015.

  Mr. Gordon Lancaster: Mr. Lancaster retired as an Independent Non-Executive Director on December 14, 2015.

  Mr. Huiyi Wang: Mr. Wang was appointed as a Non-Executive Director on February 18, 2016.

- ***Going Concern*** – As at the date hereof, the Company, together with its strategic partner and significant shareholder, Novel Sunrise, has developed and continues to execute on a funding plan (the "Funding Plan") in order to pay the interest due under the CIC Convertible Debenture and TRQ Loan, meet the Company's obligations as they fall due and achieve its business objectives in 2016. However, there is no guarantee that the Company will be able to successfully advance the Funding Plan or secure other sources of financing. See section 6 "Liquidity and Capital Resources" and section 14 "Risk Factors" of the Management's Discussion and Analysis for details. As at March 29, 2016, the Company had cash of $0.7 million.

MESSAGE FROM THE CHAIRMAN

SouthGobi has embraced a year of changes in 2015. The Company completed a private placement with Novel Sunrise Investments Limited ("Novel Sunrise") which subscribed for 21.8 million common shares of SouthGobi. Novel Sunrise also purchased an additional 50.4 million common shares of SouthGobi from Turquoise Hill Resources Limited. Following the transactions, Novel Sunrise became the largest shareholder of SouthGobi. As a result of the changes of ownership, there have been a number of changes in Directors and Management. On behalf of the board, I would like to welcome Novel Sunrise, our new Strategic Partner, our new Management team and Directors and recognize the efforts of the former Directors, CEO and CFO.

Management continued to look for ways to improve market share the Company, such as inventory control, product mix management, competitive pricing strategy, and more efficient mining. We have also focused on minimizing capital expenditures and the ongoing preservation of the Company's financial resources. Despite our efforts, SouthGobi continued to be confronted with the weakening of the global coal industry and difficult market conditions in China. These challenges impacted SouthGobi's margins and liquidity. The Company is preserving its liquidity by implementing a variety of cost cutting measures and executing the Funding Plan with Novel Sunrise, our new Strategic Partner.

In 2015, SouthGobi commenced the implementation of the Funding Plan, with the intention of improving the Company's cash flow and supporting the business strategy and operations in a difficult market. To support the Company's operations, SouthGobi secured a US$10 million bridge loan agreement with an independent Asian based private equity fund. The Funding Plan, bridge loan and fund raising have allowed the Company to maintain operations on an ongoing basis and contemplate expansionary plans.

Regarding the tax investigation case in Mongolia, while the Company had various additional legal avenues available to it to continue defending itself, it has decided to and is currently seeking to resolve amicably the dispute giving rise to the Tax Verdict in a manner that is both appropriate having regard to the Company's limited financial resources and supportive of a positive environment for foreign investment in Mongolia.

In May 2015, the commercial operation of the paved highway from the Ovoot Tolgoi Complex to the Shivee Khuren Border Crossing commenced. The paved highway is expected to significantly increase the safety of coal transportation, reduce environmental impacts, improve efficiency and increase the capacity of coal transportation. In September 2015, the Invest Mongolia Agency and the Company's joint venture RDCC LLC, signed an amendment to the concession agreement to extend the exclusive right of ownership of the paved highway from 17 years to 30 years.

In 2016, the new Management team lead by the Board of Directors will drive SouthGobi forward. We will continue to strive for revenue growth by focusing on expanding our customer base with an enhanced product mix. Safety is still our top priority and we remain vigilant to ensure we continue to operate in a socially responsible manner. In addition, SouthGobi will also explore other business opportunities in Mongolia to diversify the risk profile of the Company.

On behalf of the Board of Directors, I would like to thank all SouthGobi staff, the communities and authorities of Mongolia, our customers, suppliers and you our shareholders for all your support throughout these challenging times.

Ningqiao Li
Executive Chairman of the Board and
Executive Director

BRIDGE INTO THE NEW ERA OF MONGOLIA PROSPERITY

The Company is well positioned to capture the resulting business opportunities between the two countries given i) strong strategic support from its largest shareholders (Cinda and CIC), which are both state-owned enterprises in China; and ii) the Company has a strong operation record for ten years in Mongolia and being one of the largest enterprises in Mongolia.


SouthGobi
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BOARD OF DIRECTORS

Ningqiao Li

Executive Chairman of the Board and Executive Director

Mr. Li, 52, was appointed to the Board of Directors on May 15, 2015 as a Non-Executive Director and became an Executive Director on September 17, 2015 when he was appointed as the Executive Chairman. Mr. Li has approximately 30 years' experiences in enterprise management, corporate governance and strategic investment. He also has experience in the real estate, energy, and financial institution industries. In addition to his directorships with the Company and Novel Sunrise, Mr. Li is the Senior Advisor of Convoy Investment Services Limited; a Hong Kong based securities company. Previously, Mr. Li was the Director of China Orient Group Corporation Ltd., and held the positions of Senior Advisor of United Energy Group Limited as well as several senior management positions in China National Real Estate Development Group Corporation.

Mr. Li graduated from Tsinghua University and holds a Bachelor of Engineering degree. Mr. Li is a member of the Canadian Institute of Corporate Directors.

Aminbuhe

Executive Director and Chief Executive Officer

Mr. Aminbuhe, 40, joined the Company as a Non-Executive Director on August 6, 2015 and became an Executive Director on September 1, 2015 upon his appointment to the position of Chief Executive Officer at that time. He is a coal mining professional with diverse senior experience that includes sales and marketing, exploration, logistics, business development and Hong Kong public company disclosure requirements. Mr. Aminbuhe previously held the position of Executive Director at National United Resources Holding Limited ("NUR"); a Hong Kong listed commodity trading and investment company operating in China and Mongolia. Prior to his position at NUR, Mr. Aminbuhe was Chairman and President of Inner Mongolia Ejina Jin Yun Kun Tai Industrial Development Co. Ltd., a leading coal trading company operating in China and Mongolia. Mr. Aminbuhe also owned and operated Inner Mongolia Rong Chun Coal Co. Ltd., with its coal mine located in Inner Mongolia of China.

Mr. Aminbuhe graduated from the Beijing Institute of Technology with a Bachelor degree in Management Engineering and is a member of the Canadian Institute of Corporate Directors.

BOARD OF DIRECTORS

Yulan Guo

Executive Director and Chief Financial Officer

Mr. Guo, 31, joined the Company as a Non-Executive Director on May 15, 2015 and became an Executive Director on July 26, 2015 upon his appointment to the position of interim Chief Executive Officer at that time. He acted in the capacity of interim Chief Executive Officer from July 26, 2015 to September 1, 2015 and assumed the role of Chief Financial Officer on September 1, 2015.

Mr. Guo commenced his career in 2008 with China International Capital Corporation Limited, the leading investment bank in the greater China market where he most recently held the position of Vice President of the Investment Banking Department. Mr. Guo has extensive transaction experience in capital markets in mainland China, Hong Kong and the United States of America. He has arranged significant equity and debt financings and been involved in mergers and acquisitions. Mr. Guo has developed industry expertise in the financial and operational aspects of the metals and mining, power, and energy sectors.

Mr. Guo graduated from Peking University where he obtained a Master's of Science and Bachelor of Science degrees. He also finished his MBA program from University of International Business & Economics in Beijing. Mr. Guo is a member of the Canadian Institute of Corporate Directors.

Pierre Lebel

Independent Non-Executive Director and Lead Director

Mr. Lebel, 66, joined the Company as an Independent Non-Executive Director on August 13, 2003. Mr. Lebel is the Company's Lead Director and served as its Chairman from 2003 until June 2007. He has a distinguished career in mining spanning over 35 years, with a primary focus on mine financing, construction and development. Mr. Lebel currently serves as Chairman and a Director of Imperial Metals Corporation, a TSX-listed mine developer and operator. In 1998, Mr. Lebel was awarded the E.A. Scholz Medal by the British Columbia and Yukon Chamber of Mines for excellence in mine development in British Columbia and was recognized by the Mining Association of British Columbia as its 2012 Mining Person of the Year.

Mr. Lebel holds a Masters of Business Administration from McMaster University and a Bachelor of Laws (LLB) from the University of Western Ontario. He is a retired member of the Law Society of British Columbia. Mr. Lebel is also a member of the Board of Directors of the Mining Association of Canada, the Mining Association of British Columbia, Business Council of BC, the Lions Gate Hospital Foundation and a member of the Institute of Corporate Directors.

BOARD OF DIRECTORS

Zhu Liu

Independent Non-Executive Director

Mr. Liu, 70, joined the Board of Directors on August 6, 2015 as an Independent Non-Executive Director. He has had a distinguished career in the shipping industry spanning over 40 years. As former Deputy Chief Executive Officer and President of China Ocean Shipping (Group) Company ("COSCO"), Mr. Liu gained extensive operation and management experience derived from overseeing the company's large multinational logistics enterprises. This position also provided him with unique transportation and logistics industry expertise. While at COSCO, Mr. Liu led the debt restructuring of Orient Overseas Hong Kong Corporation on behalf of COSCO.

Mr. Liu studied in France, first at the Faculty of Arts of University of Paris from 1964 to 1967 and subsequently at the University of Grenoble. In 1987 Mr. Liu obtained the title of Senior Economist in China and in 1989 was a member of the China Strait Affairs Council. Mr. Liu is a member of the Canadian Institute of Corporate Directors.

Jin Lan Quan

Independent Non-Executive Director

Ms. Quan, 53, joined the Board of Directors on August 6, 2015 as an Independent Non-Executive Director.

She is currently an independent financial planner and business consultant based in Sydney, Australia. Ms. Quan resigned following an extensive and diverse finance and audit career, with her last position being audit partner with Arthur Anderson in Sydney, Australia in 2003. Ms. Quan has extensive experiences in financial consulting services with specialist skills in external auditing, internal audit structuring, corporate financing and risk management and business acquisition.

Ms. Quan is a certified public accountant of China and a member of the Chinese Institute of Certified Public Accountants. She is also a fellow of the Association of Chartered Certified Accountants of the United Kingdom and a member of the Canadian Institute of Corporate Directors.

BOARD OF DIRECTORS

Mao Sun

Independent Non-Executive Director

Mr. Sun, 39, joined the Board of Directors on November 5, 2015 as an Independent Non-Executive Director. He is a founding partner of SunRonkai LLP, a private accounting firm offering tax, assurance and management consulting services.

Mr. Sun has over ten years of experience in the accounting sector and has extensive knowledge of Canadian accounting standards, International Financial Reporting Standards and Canadian taxation laws. Mr. Sun has strong experience with Canadian listed companies and was the Director and Chairman of the Audit Committee of Yalian Steel Corporation from 2012 to 2013 and has been the Chief Financial Officer of HFX Holding Corp since 2014. Prior to founding SunRonkai LLP, Mr. Sun was the audit manager in Vancouver office of KPMG, an internationally recognized accounting firm.

Mr. Sun graduated from Columbia University in New York with a Master Degree of International Affairs, International Finance and Business and a Bachelor Degree in Computer Science from Nanjing University, China. Mr. Sun is a member of the Institute of Chartered Accountants of British Columbia, the Canadian Tax Foundation and the Canadian Institute of Corporate Directors.

Huiyi Wang

Non-Executive Director

Mr. Wang, 28, joined the Board of Directors on February 18, 2016 as a Non-Executive Director. Mr. Wang is an investment associate with China Cinda (HK) Holdings Company Limited ("Cinda HK"), the intermediate holding company of Novel Sunrise Investments Limited which is the Company's largest shareholder. Before joining Cinda HK in 2014, Mr. Wang worked in the Investment Banking Department of Macquarie Capital (Hong Kong) Limited from 2011 to 2014 and gained extensive experience in cross border mergers and acquisitions transactions, valuation, due diligence and investment analysis.

Mr. Wang graduated from University of Sydney with a Master Degree of Economics in 2011 and a Bachelor Degree in Economics & Finance in 2010. Mr. Wang is a member of the Canadian Institute of Corporate Directors.

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.

DIRECTORS' REPORT

The Board of Directors (the "Board") of SouthGobi Resources Ltd. is pleased to present their report along with the audited consolidated financial statements (the "Financial Statements") of SouthGobi Resources Ltd. ("SGQ") together with its subsidiaries (collectively the "Company") for the financial year ended December 31, 2015 ("Financial Year").

Principal activities, business review and geographical analysis of operations

The Company is an integrated coal mining, development and exploration company. The Company's principal subsidiaries are set out in Note 27 of the Financial Statements and the activities of all subsidiaries of the Company at December 31, 2015 are set out in the table below:

Name	Country of incorporation	Issued ordinary/registered share capital	Principal activities
SGQ Coal Investment Pte. Ltd	Singapore	US$1	Investment holding
SGQ Dayarcoal Mongolia Pte. Ltd	Singapore	US$1	Investment holding
Mazaatt Holdings Pte. Ltd.	Singapore	US$1	Investment holding
SouthGobi Sands LLC	Mongolia	MNT 132,455,700	Coal mining, development and exploration of properties in Mongolia
Mazaalai Resources LLC	Mongolia	MNT 1,000,000	Investment holding
Mazaatt Holdings LLC	Mongolia	MNT 131,636,000	Investment holding
Dayarbulag LLC	Mongolia	MNT 137,712,300	Investment holding
SouthGobi Resources (Hong Kong) Limited	Hong Kong	HK$1	Business services and investment holding
TST Holdings Limited	Hong Kong	HK$1	Investment holding
SouthGobi Trading (Beijing) Co., Ltd.	China	US$400,000	Coal trading

The analysis of the principal activities by geographical location of the operations of the Company for the Financial Year is set out in Note 4 of the Financial Statements.

Further discussion and analysis of these activities, including a description of the principal risks and uncertainties facing the Company and an indication of likely future development in the Company's business, can be found in Management Discussion and Analysis set out on pages 42 to 107 of this Annual Report. This discussion forms part of this directors' report.

Results

The results of the Company for the Financial Year are set out in the Consolidated Statement of Comprehensive Income on page 112.

Dividends

The Board has not recommended, declared or paid any dividends for the Financial Year.

Property, plant and equipment

Details of the movement in the property, plant and equipment of the Company during the Financial Year are set out in Note 15 of the Financial Statements.

Share capital

Details of the movement in the share capital of the Company during the Financial Year are set out in the Consolidated Statement of Changes in Equity on page 114.

Details of the placements during the Financial Year are set out below:

On February 23, 2015, the Company entered into a placement agreement with Novel Sunrise Investments Limited ("Novel Sunrise") to place 21.7 million Common Shares at a placing price of CAD$0.432 per Common Share. On March 3, 2015, the initial tranche of the private placement with Novel Sunrise with net proceeds of approximately $3.5 million of mandatory convertible units was closed. The mandatory convertible units were converted into 10.1 million Common Shares on April 23, 2015 at a conversion price of CAD$0.432 per Common Share. On

April 23, 2015, the Company successfully closed the second tranche of the Novel Sunrise private placement for net proceeds of approximately $3.8 million through the issue of approximately 11.6 million Common Shares at CAD$0.432 per Common Share.

The closing price of the Common Share as quoted on Toronto Stock Exchange ("TSX") on February 23, 2015, being the date of entering into the placement agreement with Novel Sunrise, was CAD$0.51 per Common Share.

On June 25, 2015, the Company entered into a placement agreement with Swiss Life Gestion Privee ("Swiss Life GP") to place 5.0 million Common Shares at a placing price of CAD$0.71 per Common Share. On July 3, 2015, the Company completed the private placement to Swiss Life GP, raising a net proceed of $2.8 million for the issuance of 5 million Common Shares.

The closing price of the Common Share as quoted on TSX on June 25, 2015, being the date of entering into the placement agreement with Swiss Life GP, was CAD$0.90 per Common Share.

The purpose of making the placements with Novel Sunrise and Swiss Life GP is to increase the working capital of the Company for daily operations.

Novel Sunrise and Swiss Life GP are third parties independent of the Company and its connected persons.

Of the gross proceeds of approximately $13.0 million, $2.9 million was used to settle the related share issue expense. The remaining balance was allocated to the general working capital of the Company for daily operations and meeting the obligations due.

Neither the Company, nor any of its subsidiaries purchased or redeemed any of the Company's listed securities during the year.

Reserves

Details of the reserves available for distribution to the shareholders as at December 31, 2015 are set out in the Consolidated Statement of Changes in Equity on page 114.

DIRECTORS' REPORT

Directors

The directors during the Financial Year and up to the date of this report are as follows:

Independent Non-Executive Directors

Current

Mr. Pierre Lebel *(Lead Director)*
Mr. Zhu Liu
Ms. Jin Lan Quan
Mr. Mao Sun

Prior

Mr. André Deepwell (5)
Mr. Gordon Lancaster (6)

Executive Directors

Current

Mr. Ningqiao Li *(Executive Chairman)* (1)
Mr. Aminbuhe (2)
Mr. Yulan Guo (3)

Prior

Mr. Ted Chan (8)

Non-Executive Directors

Current

Mr. Huiyi Wang (4)

Prior

Mr. Bold Baatar (7)
Mr. Kelly Sanders (8)
Mr. Jeffery Tygesen (9)

Notes:

(1) Mr. Li is an Executive Director of the Company and the Executive Chairman,
(2) Mr. Aminbuhe is an Executive Director of the Company and Chief Executive Officer,
(3) Mr. Guo is an Executive Director of the Company and Chief Financial Officer,
(4) Mr. Wang is an employee of China Cinda (HK) Holdings Company Limited, an intermediate holding company of Novel Sunrise,
(5) Mr. Deepwell stepped down as a Director of the Company on August 31, 2015,
(6) Mr. Lancaster stepped down as a Director of the Company on December 14, 2015,
(7) Mr. Baatar stepped down as a Director of the Company on May 15, 2015,
(8) Messrs. Chan and Sanders did not stand for re-election at the August 6, 2015 annual general meeting, and
(9) Mr. Tygesen stepped down as a Director of the Company on March 17, 2015.

Except where such director has already resigned from the Board, the term of office for each of the directors will end at the conclusion of the forthcoming annual general meeting. In accordance with article 14.1 of the articles of continuation for the Company, each of the directors, including the independent non-executive directors, are subject to retirement and re-election annually at the annual general meeting.

Directors' service contracts

None of the directors proposed for re-election at the forthcoming annual general meeting have a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

Directors' interests in transactions, arrangements or contracts of significance

No transactions, arrangements or contracts of significance to which the Company was a party and in which a director or a connected entity of a director of the Company had a material interest, whether directly or indirectly, subsisted at December 31, 2015 or at any time during the Financial Year.

Directors' interests in competing businesses

During the Financial Year and up to the date of this report, to the best knowledge of the directors, none of the directors had any interests in businesses that compete or are likely to compete, either directly or indirectly, with the Company.

Directors' and senior management's interests in shares and share options

At December 31, 2015, or in the case of departed directors as at their resignation date, the interests of the directors and senior management in the shares and share options of the Company and its associated corporations were as follows:

Shares

Name	Name of company	Nature of Interest	Shares held	Approximate % interest in the company
Current Directors				
Ningqiao Li	SGQ	N/A	Nil	Nil
	Novel Sunrise	N/A	Nil	Nil
	China Investment Corporation ("CIC")	N/A	Nil	Nil
	Turquoise Hill Resources Ltd ("TRQ")	N/A	Nil	Nil
	Rio Tinto plc and its group companies (collectively "Rio Tinto Group")	N/A	Nil	Nil
Aminbuhe	SGQ	N/A	Nil	Nil
	Novel Sunrise	N/A	Nil	Nil
	CIC	N/A	Nil	Nil
	TRQ	N/A	Nil	Nil
	Rio Tinto Group	N/A	Nil	Nil
Yulan Guo	SGQ	N/A	Nil	Nil
	Novel Sunrise	N/A	Nil	Nil
	CIC	N/A	Nil	Nil
	TRQ	N/A	Nil	Nil
	Rio Tinto Group	N/A	Nil	Nil
Pierre Lebel	SGQ	Direct	5,100	0.00%
	Novel Sunrise	N/A	Nil	Nil
	CIC	N/A	Nil	Nil
	TRQ	N/A	Nil	Nil
	Rio Tinto Group	N/A	Nil	Nil
Zhu Liu	SGQ	N/A	Nil	Nil
	Novel Sunrise	N/A	Nil	Nil
	CIC	N/A	Nil	Nil
	TRQ	N/A	Nil	Nil
	Rio Tinto Group	N/A	Nil	Nil

DIRECTORS' REPORT

Name	Name of company	Nature of Interest	Shares held	Approximate % interest in the company
Mao Sun	SGQ	N/A	Nil	Nil
	Novel Sunrise	N/A	Nil	Nil
	CIC	N/A	Nil	Nil
	TRQ	N/A	Nil	Nil
	Rio Tinto Group	N/A	Nil	Nil
Jin Lan Quan	SGQ	N/A	Nil	Nil
	Novel Sunrise	N/A	Nil	Nil
	CIC	N/A	Nil	Nil
	TRQ	N/A	Nil	Nil
	Rio Tinto Group	N/A	Nil	Nil
Huiyi Wang	SGQ	N/A	Nil	Nil
	Sunrise	N/A	Nil	Nil
	CIC	N/A	Nil	Nil
	TRQ	N/A	Nil	Nil
	Rio Tinto Group	N/A	Nil	Nil
Former Directors				
Bold Baatar (1)	SGQ	N/A	Nil	Nil
	Novel Sunrise	N/A	Nil	Nil
	CIC	N/A	Nil	Nil
	TRQ	N/A	Nil	Nil
	Rio Tinto plc	Direct	17,757	0.00%
Ted Chan	SGQ	N/A	Nil	Nil
	Novel Sunrise	N/A	Nil	Nil
	CIC	N/A	Nil	Nil
	TRQ	N/A	Nil	Nil
	Rio Tinto Group	N/A	Nil	Nil
André Deepwell (2)	SGQ	Direct/Indirect	45,000	0.02%
	Novel Sunrise	N/A	Nil	Nil
	CIC	N/A	Nil	Nil
	TRQ	N/A	Nil	Nil
	Rio Tinto Group	N/A	Nil	Nil
Gordon Lancaster	SGQ	N/A	Nil	Nil
	Novel Sunrise	N/A	Nil	Nil
	CIC	N/A	Nil	Nil
	TRQ	N/A	Nil	Nil
	Rio Tinto Group	N/A	Nil	Nil
Kelly Sanders (3)	SGQ	N/A	Nil	Nil
	Novel Sunrise	N/A	Nil	Nil
	CIC	N/A	Nil	Nil
	TRQ	N/A	Nil	Nil
	Rio Tinto plc	Direct	103,556	0.00%
Jeffery Tygesen (4)	SGQ	N/A	Nil	Nil
	Novel Sunrise	N/A	Nil	Nil
	CIC	N/A	Nil	Nil
	TRQ	N/A	Nil	Nil
	Rio Tinto plc	Direct	27,450	0.00%

(1) Includes vested and unvested shares

(2) Includes 43,000 shares held by the spouse of Mr. Deepwell

(3) Includes vested and unvested shares

(4) Includes vested and unvested shares

Share Options

Name	Name of company	Number of Options held
Current Directors		
Ningqiao Li	SGQ	100,000
	Novel Sunrise	Nil
	CIC	Nil
	TRQ	Nil
	Rio Tinto Group	Nil
Aminbuhe	SGQ	100,000
	Novel Sunrise	Nil
	CIC	Nil
	TRQ	Nil
	Rio Tinto Group	Nil
Yulan Guo	SGQ	100,000
	Novel Sunrise	Nil
	CIC	Nil
	TRQ	Nil
	Rio Tinto Group	Nil
Pierre Lebel	SGQ	337,352
	Novel Sunrise	Nil
	CIC	Nil
	TRQ	Nil
	Rio Tinto Group	Nil
Zhu Liu	SGQ	100,000
	Novel Sunrise	Nil
	CIC	Nil
	TRQ	Nil
	Rio Tinto Group	Nil
Jin Lan Quan	SGQ	100,000
	Novel Sunrise	Nil
	CIC	Nil
	TRQ	Nil
	Rio Tinto Group	Nil
Mao Sun	SGQ	100,000
	Novel Sunrise	Nil
	CIC	Nil
	TRQ	Nil
	Rio Tinto Group	Nil
Huiyi Wang	SGQ	Nil
	Novel Sunrise	Nil
	CIC	Nil
	TRQ	Nil
	Rio Tinto Group	Nil

DIRECTORS' REPORT

Name	Name of company	Number of Options held
Former Directors		
Bold Baatar	SGQ	Nil
	Novel Sunrise	Nil
	CIC	Nil
	TRQ	Nil
	Rio Tinto plc	Nil
Ted Chan	SGQ	Nil
	Novel Sunrise	Nil
	CIC	Nil
	TRQ	Nil
	Rio Tinto Group	Nil
André Deepwell	SGQ	332,352
	Novel Sunrise	Nil
	CIC	Nil
	TRQ	Nil
	Rio Tinto Group	Nil
Gordon Lancaster	SGQ	327,352
	Novel Sunrise	Nil
	CIC	Nil
	TRQ	Nil
	Rio Tinto Group	Nil
Kelly Sanders	SGQ	Nil
	Novel Sunrise	Nil
	CIC	Nil
	TRQ	Nil
	Rio Tinto plc	9,601
Jeffery Tygesen	SGQ	Nil
	Novel Sunrise	Nil
	CIC	Nil
	TRQ	Nil
	Rio Tinto plc	3,422

Other than the holdings disclosed in the preceding tables, none of the directors, senior management and their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or of its associated corporations as at December 31, 2015.

Management contracts

No contracts concerning the management and administration of the Company were entered into or existed during the Financial Year.

Share option plan

The particulars of the Company's share option plan are set out in Note 23 of the Financial Statements. The following table discloses movements in the Company's share options for the Financial Year:

	Number of share options								
Name	At January 1, 2015	Granted during the year	Exercised during the year	Forfeited during the year	Expired during the year	At December 31, 2015	Date of grant of share options	Exercise period of share options	Exercise price of share options CAD$ per share
Ningqiao Li	–	100,000	–	–	–	100,000	December 14, 2015	December 14, 2016 – December 14, 2020	0.29
	–	**100,000**	**–**	**–**	**–**	**100,000**			
Aminbuhe	–	100,000	–	–	–	100,000	December 14, 2015	December 14, 2016 – December 14, 2020	0.29
	–	**100,000**	**–**	**–**	**–**	**100,000**			
Yulan Guo	–	100,000	–	–	–	100,000	December 14, 2015	December 14, 2016 – December 14, 2020	0.29
	–	**100,000**	**–**	**–**	**–**	**100,000**			
Pierre Label	35,000	–	–	–	(35,000)	–	August 13, 2010	August 13, 2011 – August 13, 2015	12.58
	40,000	–	–	–	–	40,000	August 15, 2011	August 15, 2012 – August 15, 2016	9.43
	20,000	–	–	–	–	20,000	March 21, 2012	March 21, 2013 – March 21, 2017	6.16
	20,000	–	–	–	–	20,000	December 6, 2012	December 6, 2013 – December 6, 2017	1.92
	257,352	–	–	–	–	257,352	August 13, 2014	August 13, 2015 – August 13, 2019	0.58
	372,352	**–**	**–**	**–**	**(35,000)**	**337,352**			
Zhu Liu	–	100,000	–	–	–	100,000	December 14, 2015	December 14, 2016 – December 14, 2020	0.29
	–	**100,000**	**–**	**–**	**–**	**100,000**			
Jin Lan Quan	–	100,000	–	–	–	100,000	December 14, 2015	December 14, 2016 – December 14, 2020	0.29
	–	**100,000**	**–**	**–**	**–**	**100,000**			
Mao Sun	–	100,000	–	–	–	100,000	December 14, 2015	December 14, 2016 – December 14, 2020	0.29
	–	**100,000**	**–**	**–**	**–**	**100,000**			
André Deepwell	35,000	–	–	–	(35,000)	–	August 13, 2010	August 13, 2011 – August 13, 2015	12.58
	35,000	–	–	–	–	35,000	August 15, 2011	August 15, 2012 – August 15, 2016	9.43
	20,000	–	–	–	–	20,000	March 21, 2012	March 21, 2013 – August 31, 2016	6.16
	20,000	–	–	–	–	20,000	December 6, 2012	December 6, 2013 – August 31, 2016	1.92
	257,352	–	–	–	–	257,352	August 13, 2014	August 13, 2015 – August 31, 2016	0.58
	367,352	**–**	**–**	**–**	**(35,000)**	**332,352**			
Gordon Lancaster	150,000	–	–	–	(150,000)	–	August 13, 2010	August 13, 2011 – August 13, 2015	12.58
	35,000	–	–	–	–	35,000	August 15, 2011	August 15, 2012 – August 15, 2016	9.43
	17,500	–	–	–	–	17,500	March 21, 2012	March 21, 2013 – December 14, 2016	6.16
	17,500	–	–	–	–	17,500	December 6, 2012	December 6, 2013 – December 14, 2016	1.92
	257,352	–	–	–	–	257,352	August 13, 2014	August 13, 2015 – December 14, 2016	0.58
	477,352	**–**	**–**	**–**	**(150,000)**	**327,352**			
	70,000	–	–	–	–	70,000	August 14, 2013	August 14, 2014 – March 13, 2016	1.16
Enkh-Amgalan Sengee	123,554	–	–	–	–	123,554	August 13, 2014	August 13, 2015 – March 13, 2016	0.58
	193,554	**–**	**–**	**–**	**–**	**193,554**			
Total for Directors	**1,410,610**	**600,000**	**-**	**-**	**(220,000)**	**1,790,610**			
	239,500	–	–	(194,500)	(45,000)	–	August 13, 2010	August 13, 2011 – August 13, 2015	12.58
	172,500	–	–	(127,500)	–	45,000	August 15, 2011	August 15, 2012 – August 15, 2016	9.43
	101,550	–	–	(69,550)	–	32,000	March 21, 2012	March 21, 2013 – March 21, 2017	6.16
	116,250	–	–	(61,750)	–	54,500	December 6, 2012	December 6, 2013 – December 6, 2017	1.92
	150,000	–	–	(150,000)	–	–	August 14, 2013	August 14, 2014 – August 14, 2018	1.16
	70,000	–	–	(70,000)	–	–	January 13, 2014	January 13, 2015 – April 10, 2015	0.84
	245,439	–	(12,103)	(200,489)	–	32,847	March 26, 2014	March 26, 2015 – March 26, 2019	0.65
	546,396	–	–	(513,778)	–	32,618	August 13, 2014	August 13, 2015 – August 13, 2019	0.58
	–	539,003	–	(127,983)	–	411,020	April 1, 2015	April 1, 2016 – April 1, 2020	0.92
Total for other share option holders	**1,641,635**	**539,003**	**(12,103)**	**(1,515,550)**	**(45,000)**	**607,985**			
TOTAL	**3,052,245**	**1,139,003**	**(12,103)**	**(1,515,550)**	**(265,000)**	**2,398,595**			

Details of the accounting policy for the Company's share option plan are set out in Note 3.10 of the Financial Statements.

Arrangement to purchase shares and debentures

Eligible directors, employees and members of management are able to participate in the Company's share purchase plan, which allows participants to contribute up to 7% of their basic annual salary to purchase shares in the Company. The Company contributes 50% of the participant's contribution and at the end of each calendar quarter shares are purchased on behalf of the participant.

Substantial shareholders

The register of interests in shares and short positions of the Company showed that as at December 31, 2015, the Company has been notified of the following interests in shares representing 5% or more of the Company's issued share capital:

Name	Nature of interest	Shares held	Approximate % of issued shares
Novel Sunrise (note a)	Beneficial	72,127,140	27.99%
Hope Rosy Limited (note a)	Interest of controlled corporation	72,127,140	27.99%
China Cinda (HK) Investments Management Company Limited (note a)	Interest of controlled corporation	72,127,140	27.99%
China Cinda (HK) Holdings Company Limited (note a)	Interest of controlled corporation	72,127,140	27.99%
China Cinda Asset Management Co., Ltd. (note a)	Interest of controlled corporation	72,127,140	27.99%
The Ministry of Finance of the People's Republic of China ("MOF") (note a)	Interest of controlled corporation	72,127,140	27.99%
Land Breeze II S.a.r.l. (note b)	Beneficial	49,875,030	19.36%
Fullbloom Investment Corporation (note b)	Interest of controlled corporation	49,875,030	19.36%
CIC (note b)	Interest of controlled corporation	49,875,030	19.36%
TRQ (note c)	Beneficial	49,348,915	19.15%
Rio Tinto plc (note c)	Interest of controlled corporation	49,348,915	19.15%

Notes:

(a) Novel Sunrise is a wholly-owned subsidiary of Hope Rosy Limited, which is a wholly-owned subsidiary of China Cinda (HK) Investments Management Company Limited. China Cinda (HK) Investments Management Company Limited is wholly-owned subsidiary of China Cinda (HK) Holdings Company Limited, which is wholly owned by China Cinda Asset Management Co., Ltd. China Cinda Asset Management Co., Ltd. is partially owned by MOF. Accordingly, Hope Roxy Limited is deemed to be interested in shares held by Novel Sunrise; and each of China Cinda (HK) Investments Management Company Limited, China Cinda (HK) Holdings Company Limited, China Cinda Asset Management Co., Ltd and MOF.

(b) Land Breeze II S.a.r.l. is a wholly-owned subsidiary of Fullbloom Investment Corporation, which is wholly owned by CIC. Accordingly, Fullbloom Investment Corporation and CIC are deemed to be interested in shares held by Land Breeze II S.a.r.l. and CIC.

(c) TRQ is partially owned by Rio Tinto plc. Accordingly, Rio Tinto plc is deemed to be interested in shares held by TRQ.

Other than as disclosed above, the Company has not been notified of any relevant interests or short positions in the issued share capital of the Company as at December 31, 2015.

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, 2015.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's articles of continuation or under the laws of Canada which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Sufficiency of public float

Pursuant to the TSX rules and regulations, a company's securities may be delisted if the number of freely-tradable, publicly held securities is less than 500,000 or the number of public security holders, each holding a board lot consisting of 100 common shares or more, is less than 150. The requirement that a prescribed percentage of shares of any class of listed securities must at all times be held by the public does not apply to the Company.

Major customers and suppliers

Details of the Company's transactions with its major suppliers and customers during the Financial Year are set out below:

Purchases

The largest supplier accounted for 27% of the Company's purchases.

The five largest suppliers accounted for 64% of the Company's purchases.

Sales

The largest customer accounted for 56% of the Company's sales.

The five largest customers accounted for 100% of the Company's sales.

At no time during the Financial Year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) have an interest in any of the Company's five largest suppliers or five largest customers.

Charitable donations

During the Financial Year the Company made charitable donations amounting to US$37,871.

Independent auditor

A resolution will be submitted at the annual general meeting to appoint PricewaterhouseCoopers LLP as auditors of the Company.

On behalf of the Board

Ningqiao Li
Executive Chairman of the Board,
Executive Director
March 29, 2016

CORPORATE GOVERNANCE REPORT

Corporate Governance

The Board of Directors (the "**Board**") considers good corporate governance practices to be an important factor in the continued and long-term success of the Company by helping to maximize shareholder value over time.

To further this philosophy and ensure the Company follows good governance practices, the Board has taken the following steps:

- approved and adopted a mandate for the Board, which sets out its stewardship responsibilities;
- appointed Mr. Pierre Lebel, an independent non-executive director, as "Lead Director", with the specific responsibility of, among other things, maintaining the independence of the Board and ensuring the Board carries out its responsibilities mandated by applicable statutory and regulatory requirements and stock exchange listing standards;
- appointed an Audit Committee (composed of independent directors), a Nominating and Corporate Governance Committee (composed of independent directors), a Compensation and Benefits Committee (composed of independent directors), a Health, Environment, Safety and Social Responsibility Committee (composed of independent and executive directors);
- approved charters for the Audit, Nominating and Corporate Governance, Compensation and Benefits, and Health, Environment, Safety and Social Responsibility Board committees;
- established a management Disclosure Committee for the Company, with the mandate to oversee the Company's disclosure practices;
- formalized the Company's Corporate Disclosure, Confidentiality and Securities Trading Policy;
- adopted formalized written position descriptions for the Chairman, Lead Director, CEO and CFO, as well as the Chairs of the Audit, Compensation and Benefits and Nominating and Corporate Governance Committees clearly defining their respective roles and responsibilities;
- adopted and implemented a compliance program for all Directors and employees; including business integrity policies and the EthicsPoint whistleblower program;
- formalized a process for assessing the effectiveness of the Board as a whole, the committees of the Board and the contribution of individual directors, on a regular basis; and
- adopted an executive compensation model for the Company.

Compliance with Corporate Governance

Throughout the Financial Year, the Company has applied the principles and complied with the requirements of its corporate governance practices as defined by the Board and all applicable statutory, regulatory and stock exchange listings standards. The Company's current practices are reviewed and updated regularly to ensure that the latest developments in corporate governance are followed and observed.

In December 2012 the Company approved the adoption and implementation of a new compliance program. Throughout 2013 and 2014 additional Business Integrity standards were adopted, including Anti-bribery, Anti-corruption, Dawn Raid Guidelines, Conflict of Interest Policies and Guidelines for the investigation into allegations of serious wrongdoing (collectively, the "**Code of Conduct Standards**"), and the EthicsPoint whistle-blowing program.

The Code of Conduct Standards provides that the Company's employees, consultants, officers and directors will uphold its commitment to a culture of honesty, integrity and accountability and that the Company requires the highest standards of professional and ethical conduct from its employees, consultants, officers and directors. The various policies forming the Code of Conduct Standards are available on the Company's website (SouthGobi.com) and a copy of the Company's Code of Conduct Standards may be obtained, without charge, by request to SouthGobi Resources Ltd., 1100 – 355 Burrard Street, Vancouver, British Columbia, Canada V6C 2G8, Attention: Company Secretary, or by phone to 604-681-6799.

EthicsPoint is the Company's whistleblowing service and it is available for use when someone suspects or is aware of illegal, unsafe or inappropriate activity at work. EthicsPoint provides avenue for employees to raise concerns confidentially and anonymously.

The Audit Committee monitors compliance with the Code of Conduct Standards. The Nominating and Corporate Governance Committee monitors the disclosure of conflicts of interest by directors with a view to ensuring that no director votes or participates in any board deliberations on a matter in respect of which such director has a material interest.

Board Composition

In its corporate governance guidelines, the Canadian Securities Administrators (the "**CSA**") recommend that a majority of the directors of a corporation be independent directors. Under the CSA corporate governance guidelines, a director is independent if he has no direct or indirect material relationship with the Company. A "material relationship" is one which could, in the view of the Board, be reasonably expected to interfere with the exercise of the director's independent judgment. The Company considers that a partner, shareholder or officer of an organization that has a material relationship with the Company has an indirect material relationship under the CSA corporate governance guidelines and is therefore not an independent director.

Based on information regarding personal and business circumstances provided in a comprehensive questionnaire completed annually by each of the Company's directors and reasonable enquiry of the Board to determine whether or not the members of the Board are independent, the Company's Board is satisfied that four (4) of its eight (8) current members representing 50% of all Board members are independent.

Although a majority of the board members are not independent, five (5) of the eight (8) directors are non-executive directors. In the event the board must consider a potential or actual conflict, such matter is referred to the independent directors to ensure processes are in place to receive independent scrutiny. To facilitate the exercise of independent judgment, the independent and non-executive members of the Board meet regularly. In 2015, the independent non-executive directors met five (5) times.

Independent Non-Executive Directors	Executive Directors
Current	**Current**
Mr. Pierre Lebel *(Lead Director)*	Mr. Ningqiao Li *(Executive Chairman)* (1)
Mr. Zhu Liu	Mr. Aminbuhe (2)
Ms. Jin Lan Quan	Mr. Yulan Guo (3)
Mr. Mao Sun	
	Prior
Prior	Mr. Ted Chan (8)
Mr. André Deepwell (5)	
Mr. Gordon Lancaster (6)	**Non-Executive Directors**
	Mr. Huiyi Wang (4)
	Prior
	Mr. Bold Baatar (7)
	Mr. Kelly Sanders (8)
	Mr. Jeffery Tygesen (9)

Notes:

(1) Mr. Li is an Executive Director of the Company and the Executive Chairman,

(2) Mr. Aminbuhe is an Executive Director of the Company and Chief Executive Officer,

(3) Mr. Guo is an Executive Director of the Company and Chief Financial Officer,

(4) Mr. Wang is an employee of China Cinda (HK) Holdings Company Limited, an intermediate holding company of Novel Sunrise,

(5) Mr. Deepwell stepped down as a Director of the Company on August 31, 2015,

(6) Mr. Lancaster stepped down as a Director of the Company on December 14, 2015,

(7) Mr. Baatar stepped down as a Director of the Company on May 15, 2015,

(8) Messrs. Chan and Sanders did not stand for re-election at the August 6, 2015 annual general meeting, and

(9) Mr. Tygesen stepped down as a Director of the Company on March 17, 2015.

CORPORATE GOVERNANCE REPORT

As at March 29, 2016, Novel Sunrise Investments Limited held approximately 28.0%, China Investment Corporation held approximately 19.4% and Turquoise Hill Resources Ltd. held approximately 17.9% of the Company's issued and outstanding common shares.

The Board has determined that Messrs. Lebel, Liu and Sun and Ms. Quan are independent directors.

The Board is of the view that appropriate structures and procedures are in place to allow the Board to function independently of management while continuing to provide the Company with the benefit of having an Executive Chairman of the Board with extensive experience and knowledge of the Company's business.

The role of the Executive Chairman and Chief Executive Officer are separate and exercised by different individuals. The Executive Chairman of the Company is responsible for chairing meetings of and facilitating the functions of the Board, while the Chief Executive Officer of the Company is responsible for the Company's operations.

The Board has in place a Lead Director with the specific responsibility of maintaining the independence of the Board and ensuring that the Board carries out its responsibilities. Mr. Lebel has served as the Company's Lead Director since 2007. Mr. Lebel does not serve in a similar capacity with any other company.

The Company has received from each of the independent non-executive directors, their respective confirmation of independence pursuant to listing rules in all applicable jurisdictions. The Company considers four (4) of the five (5) non-executive directors to be independent.

To the best knowledge of the Company, none of the directors of the Company are related, except indirectly as noted below. Relationships include financial, business or family relationships. In this connection the Company notes that Mr. Li is a director of Novel Sunrise, the Company's largest shareholder, and Mr. Wang is an employee of China Cinda (HK) Holdings Company Limited, the intermediate holding company of Novel Sunrise. Each director is free to exercise their independent judgment.

Mandate of the Board

Under the British Columbia Business Corporations Act ("**BCBCA**"), the directors of the Company are required to manage the Company's business and affairs, and in doing so to act honestly and in good faith with a view to further the best interests of the Company. In addition, each director must exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Board is responsible for supervising the conduct of the Company's affairs and the management of its business. The Board's mandate includes setting long-term goals and objectives for the Company, formulating the plans and strategies necessary to achieve those objectives and supervising senior management in their implementation. Although the Board delegates the responsibility for managing the day-to-day affairs of the Company to senior management personnel, the Board retains a supervisory role in respect of, and ultimate responsibility for, all matters relating to the Company and its business.

The Board's mandate requires that the Board be satisfied that the Company's senior management will manage the affairs of the Company in the best interest of the shareholders, in accordance with the Company's principles, and that the arrangements made for the management of the Company's business and affairs are consistent with their duties described above. The Board is responsible for protecting shareholder interests and ensuring that the incentives of the shareholders and of management are aligned. The obligation of the Board must be performed continuously, and not merely from time to time, and in times of crisis or emergency the Board may have to assume a more direct role in managing the affairs of the Company.

In discharging this responsibility, the Board's mandate provides that the Board oversees and monitors significant corporate plans and strategic initiatives. The Board's strategic planning process includes annual budget reviews and approvals, and discussions with management relating to strategic and budgetary issues. At least one (1) Board meeting per year is devoted to a comprehensive review of strategic corporate plans proposed by management.

CORPORATE GOVERNANCE REPORT

As part of its ongoing review of business operations, the Board periodically reviews the principal risks inherent in the Company's business, including financial risks, through periodic reports from management of such risks, and assesses the systems established to manage those risks. Directly and through the Audit Committee, the Board also assesses the integrity of internal controls over financial reporting and management information systems.

In addition to those matters that must, by law, be approved by the Board, the Board is required under its mandate to approve annual operating and capital budgets, any material dispositions, acquisitions and investments outside of the ordinary course of business or not provided for in the approved budgets, long-term strategy, organizational development plans and the appointment of senior executive officers. Management is authorized to act, without Board approval, on all ordinary course matters relating to the Company's business.

The mandate provides that the Board also expects management to provide the directors, on a timely basis, with information concerning the business and affairs of the Company, including financial and operating information and information concerning industry developments as they occur, all with a view to enabling the Board to discharge its stewardship obligations effectively. The Board expects management to efficiently implement its strategic plans for the Company, to keep the Board fully apprised of its progress in doing so and to be fully accountable to the Board in respect to all matters for which it has been assigned responsibility.

The Board has instructed management to maintain procedures to monitor and promptly address shareholder concerns and has directed and will continue to direct management to apprise the Board of any major concerns expressed by shareholders.

Each Committee of the Board is empowered to engage external advisors as it sees fit. Any individual director is entitled to engage an outside advisor at the expense of the Company provided such director has obtained the approval of the Nominating and Corporate Governance Committee to do so. In order to ensure that the principal business risks borne by the Company are identified and appropriately managed, the Board receives periodic reports from management of the Company's assessment and management of such risks. In conjunction with its review of operations, the Board considers risk issues when appropriate and approves corporate policies addressing the management of the risk of the Company's business.

The Board takes ultimate responsibility for the appointment and monitoring of the Company's senior management. The Board approves the appointment of senior management and reviews their performance on an annual basis.

The Company has a disclosure policy addressing, among other things, how the Company interacts with analysts and the public, and contains measures for the Company to avoid selective disclosure. The Company has a management Disclosure Committee responsible for overseeing the Company's disclosure practices. The Disclosure Committee assesses materiality and determines when developments justify public disclosure. The committee reviews the disclosure policy annually and as otherwise needed to ensure compliance with regulatory requirements as well as review all documents which are reviewed by the Board and Audit Committee. The Board reviews and approves the Company's material disclosure documents, including its Annual Report, Annual Information Form and Management Proxy Circular. The Company's annual and quarterly financial statements, Management's Discussion and Analysis and other financial disclosure are reviewed by the Audit Committee and recommended to the Board prior to release.

Committees of the Board

Audit Committee

The Board has established an Audit Committee, which operates under a charter approved by the Board. It is the Board's responsibility to ensure that the Company has an effective internal control framework. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators.

The Company's Audit Committee consists of Messrs. Lebel and Sun and Ms. Quan. Mr. Sun is the Chair of the Audit Committee. Mr. Deepwell was a member and Chair of the Audit Committee until August 31, 2015. Mr. Lancaster was a member of the Audit Committee until December 14, 2015.

The primary objective of the Audit Committee of the Company is to act as a liaison between the Board and the Company's independent auditors (the "**Auditors**") and to assist the Board in fulfilling its oversight responsibilities with respect to (a) the financial statements and other financial information provided by the Company to its shareholders, the public and others, (b) the Company's compliance with legal and regulatory requirements, (c) the qualification, independence and performance of the Auditors and (d) the Company's risk management and internal financial and accounting controls, and management information systems.

Although the Audit Committee has the powers and responsibilities set forth in its charter, the role of the committee is oversight. The members of the Audit Committee are not employees of the Company and may or may not be accountants or auditors by profession or experts in the fields of accounting or auditing and, in any event, do not serve in such a capacity. Consequently, it is not the duty of the committee to conduct audits or to determine that the Company's financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles and applicable rules and regulations. These are the responsibilities of management and the Auditors.

All services to be performed by the Company's independent auditor must be approved in advance by the Audit Committee or a designated member of the Audit Committee (a "**Designated Member**"). The Designated Member is a member of the Audit Committee who has been given the authority to grant pre-approvals of permitted audit and non-audit services. Pre-approvals by the Designated Member are ratified by the Audit Committee at the next meeting thereof.

The Audit Committee has considered whether the provision of services other than audit services is compatible with maintaining the auditors' independence and has adopted a policy governing the provision of these services. This policy requires the pre-approval by the Audit Committee or the Designated Member of all audit and non-audit services provided by the external auditor, other than any de minimis non-audit services allowed by applicable law or regulation. The decisions of the Designated Member to pre-approve permitted services need to be reported to the Audit Committee at its regularly scheduled meetings. Pre-approval from the Audit Committee or Designated Member can be sought for planned engagements based on budgeted or committed fees. No further approval is required to pay pre-approved fees. Additional pre-approval is required for any increase in scope or in final fees. Pursuant to these procedures, 100% of each of the services provided by the Company's external auditor relating to the fees reported as audit, audit-related, tax and other fees were pre-approved by the Audit Committee or the Designated Member.

The Audit Committee held four (4) meetings during the Financial Year. In performing its duties in accordance with the Audit Committee Charter, the Audit Committee has:

- overseen the relationship with the Company's auditors;
- reviewed the interim and annual financial statements;
- reviewed and assessed the effectiveness of systems of risk management and internal controls; and
- reported to the Board on the proceedings and deliberations of the Committee.

Nominating and Corporate Governance Committee

The Board has established a Nominating and Corporate Governance Committee, which operates under a charter approved by the Board. The primary objective of the Nominating and Corporate Governance Committee is to assist the Board in fulfilling its oversight responsibilities by (a) identifying individuals qualified to become Board and committee of the Board members and recommending that the Board select director nominees for appointment or election to the Board; and (b) developing and recommending to the Board corporate governance guidelines for the Company and making recommendations to the Board with respect to corporate governance practices. The Nominating and Corporate Governance Committee monitors the disclosure of conflicts of interest to the Board and ensures that no director will vote or participate in a discussion on a matter in respect of which such director has a material interest. Committee Chairs perform the same function with respect to meetings of each Board committee.

The members of the Nominating and Corporate Governance Committee are Messrs. Lebel, Liu, Sun and Ms. Quan. Mr. Lebel is the Chair of the Nominating and Corporate Governance Committee. Mr. Liu joined the committee on August 31, 2015; Ms. Quan joined the committee on December 14, 2015 and Mr. Sun joined the committee on February 23, 2016. Mr. Tygesen ceased to be a committee member on March 17, 2015; Mr. Deepwell ceased to be a committee member on August 31, 2015, and Mr. Lancaster ceased to be a committee member on December 14, 2015.

During the course of 2015, the Nominating and Corporate Governance Committee met ten (10) times. In performing its duties in accordance with the Nominating and Corporate Governance Committee Charter, the Nominating and Corporate Governance Committee has:

- reviewed the Nominating and Corporate Governance Committee charter to ensure the Company has the appropriate procedures and processes in place to facilitate the nomination of Directors;
- reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board;
- made recommendations to the Board on the selection of individuals nominated for directorship in view of their qualifications and related expertise;
- made recommendations to the Board on the selection of individuals nominated for senior management roles;
- evaluated the Company's executive management succession plans;

CORPORATE GOVERNANCE REPORT

- ensured that the Board has the necessary structures and procedures so that it can function with an appropriate degree of independence from management;
- provided a forum without management present to receive expressions of concern, including any concern regarding matters involving the independence of the Board from management;
- conducted induction programs for new Directors; and
- reviewed the practices and procedures of the Board in light of ongoing developments in regulatory and stock exchange requirements and industry best practices in matters of corporate governance and recommended to the Board any changes considered necessary or desirable.

Compensation and Benefits Committee

The Board has established a Compensation and Benefits Committee, which operates under a charter approved by the Board. The primary objective of the Compensation and Benefits Committee is to discharge the Board's responsibilities relating to compensation and benefits for the Directors and executive officers of the Company. This role includes reviewing and approving executive compensation including long-term incentive components and making applicable recommendations to the Board, administering the Employee Incentive Plan ("EIP"), determining the recipients of, and the nature and size of share compensation awards and bonuses granted from time to time, and reviewing reports as may be required under applicable laws and regulations.

The members of the Compensation and Benefits Committee are Messrs. Lebel, Liu and Sun. Mr. Liu joined the committee on August 31, 2015 and was appointed Chair on December 14, 2015; Mr. Sun joined the committee on December 14, 2015; Mr. Deepwell ceased to be a committee member on August 31, 2015, and Mr. Lancaster ceased to be Chair the committee and be a member on December 14, 2015.

During the course of 2015, the Compensation and Benefits Committee met three (3) times. In performing its duties in accordance with the Compensation and Benefits Committee Charter, the Compensation and Benefits Committee has:

- reviewed and approved corporate goals and objectives for the CEO and CFO's compensation, evaluating his performance and setting his compensation level;
- reviewed and made recommendations to the Board with respect to the adequacy and form of compensation and benefits of all executive officers and directors;
- administered and made recommendations to the Board with respect to the Company's incentive compensation plans and equity-based plans;
- recommended to the Board the CEO and CFO's performance evaluation, taking into consideration the CEO and CFO's annual objectives and performance; and
- determined the recipients of, and the nature and size of share compensation awards and bonuses granted from time to time.

Health, Environment, Safety and Social Responsibility Committee

The Board has established a Health, Environment, Safety and Social Responsibility ("**HESS**") Committee. The primary objective of the HESS Committee is to review and oversee the Company's established HESS policies and procedures at the Company's project sites. The HESS Committee also reviews any incidents that occur and provides guidance on how to prevent any recurrences.

During the course of 2015, the HESS Committee met two (2) times.

The members of the HESS Committee are Messrs. Aminbuhe, Guo and Liu. Messrs. Aminbuhe, Guo and Liu joined the committee on August 31, 2015 and Mr. Aminbuhe was appointed Chair on November 5, 2015; Mr. Chan was a committee member from March 17 to August 6, 2015. Mr. Sanders did not stand for re-election at the August 6, 2015 annual general meeting and ceased to be committee Chair and a member at that time. Mr. Baatar ceased to be a committee member on May 15, 2015.

Mergers and Acquisitions Committee

The Board established a Mergers and Acquisitions ("**M&A**") Committee in 2010. The primary objective of the M&A Committee was to review, assess and provide guidance on all potential acquisitions, divestitures and strategic investment transactions to which the Company may become a party. As a result of the Independent Directors oversight of the Company's interests in potential future merger and acquisition transactions, the M&A Committee is inactive at this time and did not meet in 2015.

Ad Hoc/Special Committees

In appropriate circumstances, the Board may establish a special committee to review a matter in which several directors or management may have a conflict of interest. In 2014, a Special Committee composed of the Company's Independent Directors was formed to oversee the Company's interests in proposed transactions between Turquoise Hill and interested parties. The Special Committee continued to meet as required throughout 2015.

Through its Audit Committee (comprised solely of independent directors), the Company conducted an internal investigation into possible breaches of law, internal corporate policies and codes of conduct arising from allegations raised in the context of investigations by Mongolian authorities. The Audit Committee had the assistance of independent legal counsel in connection with its investigation.

The former Chair of the Audit Committee also participated in a tripartite committee, comprised of the Audit Committee Chairs of the Company and Turquoise Hill and a representative of Rio Tinto, focused on the investigation of a number of those allegations, including possible violations of anti-corruption laws. Independent legal counsel and forensic accountants assisted this committee with its investigation. The tripartite committee substantially completed the investigative stage of its activities during the third quarter of 2013. The Company continued to cooperate with the Mongolian authorities and with Canadian and American government and regulatory authorities that were monitoring the Mongolian investigations. It is possible that these authorities may subsequently conduct their own review or investigation or seek further information from the Company. Pending further reviews or questions from any of such government or regulatory authorities, the tripartite committee was stood down and investigations were paused. There have been no significant developments in respect of the internal investigations since the completion of the investigation phase during the third quarter of 2013.

The Company, through its Board of Directors and management, has taken a number of steps to address issues noted during the investigations and to focus ongoing compliance by all employees with all applicable laws, internal corporate policies and codes of conduct, and with the Company's disclosure controls and procedures and internal controls over financial reporting.

Following the conclusion of the internal investigations, the need for the tripartite committee was suspended pending further review or questions from any relevant regulatory authority.

CORPORATE GOVERNANCE REPORT

Meetings of the Board and Committees of the Board

The Board holds regular quarterly meetings. Between quarterly meetings, the Board meets as required, generally by means of telephone conferencing facilities. As part of the quarterly meetings, the independent non-executive directors also have the opportunity to meet separate from management. If required, between regularly scheduled Board meetings, a meeting of independent non-executive Directors, chaired by the Lead Director, is held by teleconference to update the Directors on corporate developments since the last Board meeting. Management also communicates informally with members of the Board on a regular basis, and may solicit the advice of the Board members on matters falling within their special knowledge or experience.

During the Financial Year there were: 19 meetings of the Board of Directors, four (4) meetings of the Audit Committee, ten (10) meetings of the Nominating and Corporate Governance Committee, three (3) meetings of the Compensation and Benefits Committee and two (2) meetings of the HESS Committee were held. The Mergers and Acquisitions Committee was inactive in 2015 and no meetings were held. Attendance by directors at the board and Committee meetings is shown below:

Attendance record for the Board and Board Committee meetings during the Financial Year [1]	Board meetings	Audit Committee meetings	Nominating & Corporate Governance Committee meetings	Compensation and Benefits Committee meetings	Health, Environment, Safety & Social Responsibility Committee meetings
	(Number of Attendances/Number of Meetings)				
Executive Directors					
Mr. Ningqiao Li *(Executive Chairman)* [2]	6/10 [2]	N/A	N/A	N/A	N/A
Mr. Yulan Guo [3]	8/10 [3]	N/A	N/A	N/A	1/1
Mr. Aminbuhe [4]	3/3	N/A	N/A	N/A	1/1
Mr. Ted Chan [5]	10/10	N/A	N/A	N/A	1/1
Independent Non-Executive Directors					
Mr. Pierre Lebel *(Lead Director)*	19/19	3/4	10/10	3/3	N/A
Mr. Zhu Liu [6]	3/3	N/A	3/3	1/1	1/1
Mr. Mao Sun [7]	1/1	1/1	N/A	N/A	N/A
Ms. Jin Lan Quan [8]	3/3	1/1	N/A	N/A	N/A
Mr. W. Gordon Lancaster [9]	17/19	4/4	8/10	1/1	N/A
Mr. André Deepwell [10]	18/18	3/3	7/7	2/2	N/A
Non-Executive Directors					
Mr. Huiyi Wang [11]	N/A	N/A	N/A	N/A	N/A
Mr. Bold Baatar [12]	6/10	N/A	N/A	N/A	0/1
Mr. Kelly Sanders [13]	12/16	N/A	N/A	N/A	1/1
Mr. Jeffery Tygesen [14]	6/7	N/A	N/A	N/A	N/A

Notes:

1) The Mergers and Acquisitions Committee is inactive and no meetings were held in 2015.

2) Mr. Li joined the Board on May 15, 2015 and was appointed Executive Chairman on September 17, 2015. He was in attendance at the two Board meetings in 2015 held subsequent to the date of his appointment as Executive Chairman.

3) Mr. Guo joined the Board on May 15, 2015, became an Executive Director on July 26, 2015 and joined the HESS Committee on August 31, 2015. He was in attendance at all Board meetings in 2015 held subsequent to the date of his appointment as an Executive Director.

4) Mr. Aminbuhe joined the Board on August 6, 2015, became an Executive Director on September 1, 2015 and joined the HESS Committee on August 31, 2015.

5) Mr. Chan joined the Board on March 3, 2015, became an Executive Director on March 17, 2015 and joined the HESS Committee on March 17, 2015. Mr. Chan did not stand for re-election at the August 6, 2015 annual general meeting. He ceased to be a Director and a member of any Board committee's at that date.

6) Mr. Liu joined the Board on August 6, 2015, the Compensation and Benefits Committee, the HESS Committee and the Nominating and Corporate Governance Committee on August 31, 2015.
7) Mr. Sun joined the Board on November 5, 2015, the Audit Committee as Chairman on November 5, 2015 and the Compensation and Benefits Committee on December 14, 2015. There no meetings of the Compensation and Benefits Committee after this date. Mr. Sun joined the Nominating and Corporate Governance Committee on February 23, 2016.
8) Ms. Quan joined the Board on August 6, 2015, the Audit Committee on August 31, 2015 and the Nominating and Corporate Governance Committee on December 14, 2015. There no meetings of the Nominating and Corporate Governance Committee after this date.
9) Mr. Lancaster stepped down as Interim Chairman on September 17, 2015 and retired as a Director and a member of any Board committee's on December 14, 2015.
10) Mr. Deepwell stepped down as a Director and ceased to be a member of any Board committees on August 31, 2015.
11) Mr. Wang joined the Board on February 18, 2016.
12) Mr. Baatar stepped down as a Director and ceased to be a member of any Board committees on May 15, 2015.
13) Mr. Sanders did not stand for re-election at the August 6, 2015 annual general meeting. He ceased to be a Director and a member of any Board committees at that date.
14) Mr. Tygesen stepped down as a Director and ceased to be a member of any Board committees on March 17, 2015.

The annual general meeting of shareholders was held on August 6, 2015 and was attended by Messrs. Deepwell, Lancaster and Lebel. Messrs. Sun, Baatar, Tygesen and Wang were not members of the Board of Directors at the time of this meeting.

Professional Development

The Company takes steps to ensure that prospective directors fully understand the role of the Board and its Committees and the contribution individual directors are expected to make, including, in particular, the commitment of time and energy that the Company expects. New directors are provided with a director orientation and are also briefed by management as to the status of the Company's business and are encouraged to visit the Company's properties.

In addition, all directors received a comprehensive briefing on the duties, responsibilities and liabilities of directors, including the statutory duty of directors to act honestly and in good faith with a view to the best interests of the Company when exercising the powers and performing the functions of directors. In particular, the briefings focused on the directors' obligations to provide objective oversight of the Company on behalf of all shareholders notwithstanding other prior or current relationships.

Management and outside advisors provide information and education sessions to the Board and its committees as necessary to keep the directors up-to-date with the Company, its business and the environment in which it operates as well as with developments in the responsibilities of directors. Presentations are made to the directors from time to time to educate and keep them informed of changes within the Company and of regulatory and industry requirements and standards.

As a means of facilitating continuing education opportunities for directors, all directors are members of the Canadian Institute of Corporate Directors and have the opportunity to attend courses relevant to the Company and its business, particularly with respect to corporate governance and the mining industry, at the Company's expense.

Ethical Business Conduct

Throughout the financial year the Company has applied the principles and complied with the requirements of its corporate governance practices as defined by the Board and all applicable statutory, regulatory and stock exchange listings standards. The Company's current practices are reviewed and updated regularly to ensure that the latest developments in corporate governance are followed and observed.

In 2012 the Company adopted the implementation of a revised Code of Business Conduct and Ethics (the "**Ethics Policy**") called "The way we work". The Ethics Policy is applicable to all employees, consultants, officers and Directors regardless of their position in the organization, at all times and everywhere the Company does business.

In addition to "The way we work", the Company has also adopted additional guidance notes and standards which form part of the Company's overall Ethics Policy. The guidance notes and standards adopted include: Guidelines for investigations into allegations of serious wrongdoing, dawn raid guidance notes, anti-bribery due diligence guidelines, business integrity standards relating to anti-corruption and conflicts of interest (collectively "**Code of Conduct Standards**"), and the EthicsPoint program.

EthicsPoint is the Company's whistleblowing service and it is available for use whenever someone suspects or is aware of illegal, unsafe or inappropriate activity at work. EthicsPoint provides an avenue for employees to raise concerns confidentially and anonymously.

The Ethics Policy and the Code of Conduct Standards provide that the Company's employees, consultants, officers and Directors will uphold its commitment to a culture of honesty, integrity and accountability and that the Company requires the highest standards of professional and ethical conduct from its employees, consultants, officers and Directors. A copy of the Ethics Policy entitled "The way we work" and the various policies forming the Code of Conduct Standards are available on the Company's website (SouthGobi.com) and may be obtained, without charge, by request to SouthGobi Resources Ltd., 1100 – 355 Burrard Street, Vancouver, British Columbia, Canada V6C 2G8, Attention: Company Secretary, or by phone to 604-681-6799.

The Audit Committee monitors compliance with the Code of Conduct Standards. The Nominating and Governance Committee monitors the disclosure of conflicts of interest by Directors with a view to ensuring that no Director votes or participates in any Board deliberations on a matter in respect of which such Director has a material interest.

Appointment and Re-election of Directors

The Board determines, in light of the opportunities and risks facing the Company, what competencies, skills and personal qualities it should seek in new board members in order to add value to the Company. Based on this framework, the Nominating and Corporate Governance Committee developed a skills matrix outlining the Company's desired complement of directors' competencies, skills and characteristics. The specific make-up of the matrix includes such items and experiences as international business exposure, leading growth-orientated companies, mining exploration, diversity, financial literacy, legal knowledge, corporate governance, etc. The committee annually assesses the current competencies and skill-sets represented on the Board and utilize the matrix to determine the Board's strengths and identify any gaps that need to be filled. This analysis assists the committee in discharging its responsibility for approaching and proposing to the full Board new nominees to the Board, and for assessing directors on an ongoing basis.

Unless a director dies, resigns or is removed from office in accordance with the BCBCA, the term of office of each of the incumbent director ends at the conclusion of the next annual meeting of the shareholders following his or her most recent election or appointment.

At every annual general meeting the shareholders entitled to vote at the annual general meeting for the election of directors are entitled to elect a board consisting of the number of directors for the time being set under the articles of continuation for the Company (the "**Articles**") and all the directors cease to hold office immediately before such election but are eligible for re-election. If the Company fails to hold an annual general meeting on or before the date by which the annual general meeting is required to be held under the BCBCA or the shareholders fail, at the annual general meeting, to elect or appoint any directors then each director then in office continues to hold office until the earlier of:

- the date on which his or her successor is elected or appointed; and
- the date on which he or she otherwise ceases to hold office under the BCBCA or the Articles.

Securities Transactions by Directors

The Company has adopted policies in its Corporate Disclosure, Confidentiality and Securities Trading Policy that have terms that are no less exacting than those set out in Appendix 10 – (Model Code for Securities Transactions by Directors of Listed Issuers) of the rules governing the listing of securities on the Hong Kong Stock Exchange. The Company receives confirmation that the Directors have received, reviewed and agree to abide by the terms of the Corporate Disclosure, Confidentiality and Securities Trading Policy,

Furthermore, if a director (a) enters into a transaction involving a security of the Company or, for any other reason, the direct or indirect beneficial ownership of, or control or direction over, securities of the Company changes from that shown or required to be shown in the latest insider report filed by the director, or (b) the director enters into a transaction involving a related financial instrument, the director must, within the prescribed period, file an insider report in the required form on the SEDI website at sedi.ca and a Form 3A is filed with the Stock Exchange of Hong Kong Limited.

A "related financial instrument" is defined as: (a) an instrument, agreement, security or exchange contract the value, market price or payment obligations of which are derived from, referenced to or based on the value, market price or payment obligations of a security, or (b) any other instrument, agreement or understanding that affects, directly or indirectly, a person's economic interest in respect of a security or an exchange contract.

Remuneration of Directors

The Compensation and Benefits Committee periodically reviews and makes recommendations to the Board regarding the adequacy and form of the compensation for non-management directors to ensure that such compensation realistically reflects the responsibilities and risks involved in being an effective director, without compromising a director's independence. Directors who are executives of the Company receive no additional remuneration for their services as directors.

All non-executive directors receive CAD$25,000 per annum for acting as such. Mr. Lebel, in the capacity of Lead Director, receives an additional fee of CAD$60,000 per annum. Mr. Sun in the capacity of Chairman of the Audit Committee receives an additional fee of CAD$40,000 per annum. The Chairs of the Compensation Committee and Nominating and Governance Committee each receive an additional fee of CAD$25,000 per annum for acting in such capacity.

If the HESS Committee was chaired by a non-executive director, he or she would be entitled to receive an additional fee of CAD$25,000 per annum for acting in such capacity.

Each non-executive director receives a fee of CAD$1,500 for each Board meeting and each Committee meeting attended in person and CAD$600 for each conference call meeting in which they participate. Directors also receive a travel allowance of CAD$2,000 per round-trip in excess of four (4) hours travel time.

Mr. Lancaster, as Interim Chairman, and Mr. Li, prior to his appointment as Executive Chairman effective February 1, 2016, each received a retainer of CAD$60,000 per annum and the meeting fees as described above. As at February 1, 2016, Mr. Li, as Executive Chairman, no longer received such retainer or meeting fees. However, to reflect his added responsibilities as Executive Chairman, effective February 1, 2016, Mr. Li began to receive compensation of $25,000 per month, with the ability to earn additional funds if certain key performance indicators are fulfilled.

In 2015, each of the newly appointed Directors, being Ms. Quan and Messrs. Aminbuhe, Guo, Li, Liu and Sun, each received 100,000 incentive stock options exercisable for five years, with a strike price of CAD$0.29 per share.

All Directors are entitled to be reimbursed for actual expenses reasonably incurred in the performance of their duties as Directors.

Details regarding the remuneration of directors of the Company are set out in Note A2 of the Financial Statements.

Internal Controls

The Board is responsible for overseeing the internal controls of the Company. Internal controls are used by the Board to: facilitate the effectiveness and efficiency of operations, safeguard the investment of shareholders and assets of the Company and to ensure compliance with relevant statutory and regulatory requirements. The Company's internal control policies are designed to provide reasonable, but not absolute, assurance against material misstatements and help the Board identify and mitigate, but not eliminate, risk exposure.

The Board conducts annual reviews of the internal controls of the Company to ensure that internal control policies and procedures are adequate. On an ongoing basis, the Directors review the adequacy of the Company's resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting function. The Audit Committee reviewed the effectiveness of the Company's internal control policies as at December 31, 2015, and is of the view that the internal control system in place is effective in safeguarding the investment of shareholders and assets of the Company.

Auditors

PricewaterhouseCoopers LLP is the auditor of the Company and is independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia. The financial reporting responsibilities and audit report of the independent auditors are set out on page 111.

PricewaterhouseCoopers LLP will be nominated at the upcoming annual general meeting for reappointment as auditors of the Company at remuneration to be fixed by the Board. PricewaterhouseCoopers LLP have served as the Company's auditors since April 3, 2012. Previously the Company's auditors were Deloitte LLP.

Fees paid/payable to the external auditors, PricewaterhouseCoopers LLP and its affiliates in respect of audit and non-audit services provided during the year ended December 31, 2015 are as follows:

Nature of services rendered	Fees paid/payable (CAD$000's)
Audit fees [(1)]	358
Audit related fees	90
Total	448

Notes:

(1) Fees for audit services billed relating to fiscal 2015 consisted of: (i) audit of the Company's annual financial statements; (ii) reviews of the Company's quarterly financial statements; and (iii) comfort letters, consents, and other services related to Canadian securities regulatory authorities' matters.

Responsibilities in Respect of the Financial Statements

The directors acknowledge their responsibility in overseeing the preparation of financial statements that give a true and fair view of the financial affairs of the Company. With the assistance of the management of the Company, the directors ensure that the financial statements of the Company are being prepared and published in a timely manner and in accordance with the applicable accounting standards and statutory requirements.

Company Secretary

The Corporate Secretary is a member of the Canadian Institute of Corporate Directors and the Canadian Society of Corporate Secretaries and through these organizations has completed the on-going development under Hong Kong Stock Exchange Listing Rule 3.29.

Shareholders' Rights

Under Canadian corporate law, shareholders' rights are governed by the business corporation's legislation of the jurisdiction of incorporation of a company and by a company's constating documents. In the case of the Company, the BCBCA and the Articles govern the rights of shareholders of the Company, as summarized in this section.

How Shareholders can convene an Extraordinary General Meeting

Shareholders may requisition a meeting for the purpose of transacting any business that may be transacted at a general meeting. The shareholder or a group of shareholders are required to hold (on the date of giving the requisition to the Company) an aggregate of at least 1/20 (5%) of the common shares.

A valid requisition must:

- state the business to be transacted at the meeting (including the wording of any special resolution or exceptional resolution) in 1,000 words or less;
- be signed by and include the names and mailing addresses of all the requisitioning shareholders;
- be made in a single record or several records, each of which is signed by one or more of the requisitioning shareholders; and
- be delivered to the delivery address or mailed to the mailing address of the Company at its registered office.

If the requisition consists of more than one record, the requisition is deemed to be received by the Company on the first date by which the Company received requisition records that comply with the above-listed conditions and by shareholders holding the minimum number of shares to qualify for the requisition.

On receiving a valid requisition, the Board must call a general meeting to be held not more than four months after the date on which the Company receives the requisition. The notice and information circular must include the date, time, location and text of the business to be approved. If the Board does not call a meeting within 21 days after the date of receiving the requisition, the requisitioning shareholders or any one of them holding more than 1/40 (2.5%) of the common shares may send notice of a general meeting to transact the business stated in the requisition.

A general meeting called by the requisitioning shareholders must be held within four months of the Company receiving the requisition notice and must be conducted in the same manner as a general meeting called by the Board.

Unless the shareholders otherwise resolve by an ordinary resolution at the meeting called, the Company must reimburse the requisitioning shareholders for the expenses reasonably incurred by them requisitioning, calling and holding the meeting.

The quorum for meetings of shareholders is set forth in the Articles. A quorum for a meeting of shareholders is two persons who are, or who represent by proxy, shareholders who, in the aggregate, hold at least five per cent (5%) of the issued and outstanding common shares.

Procedures by which enquiries may be put to the Board

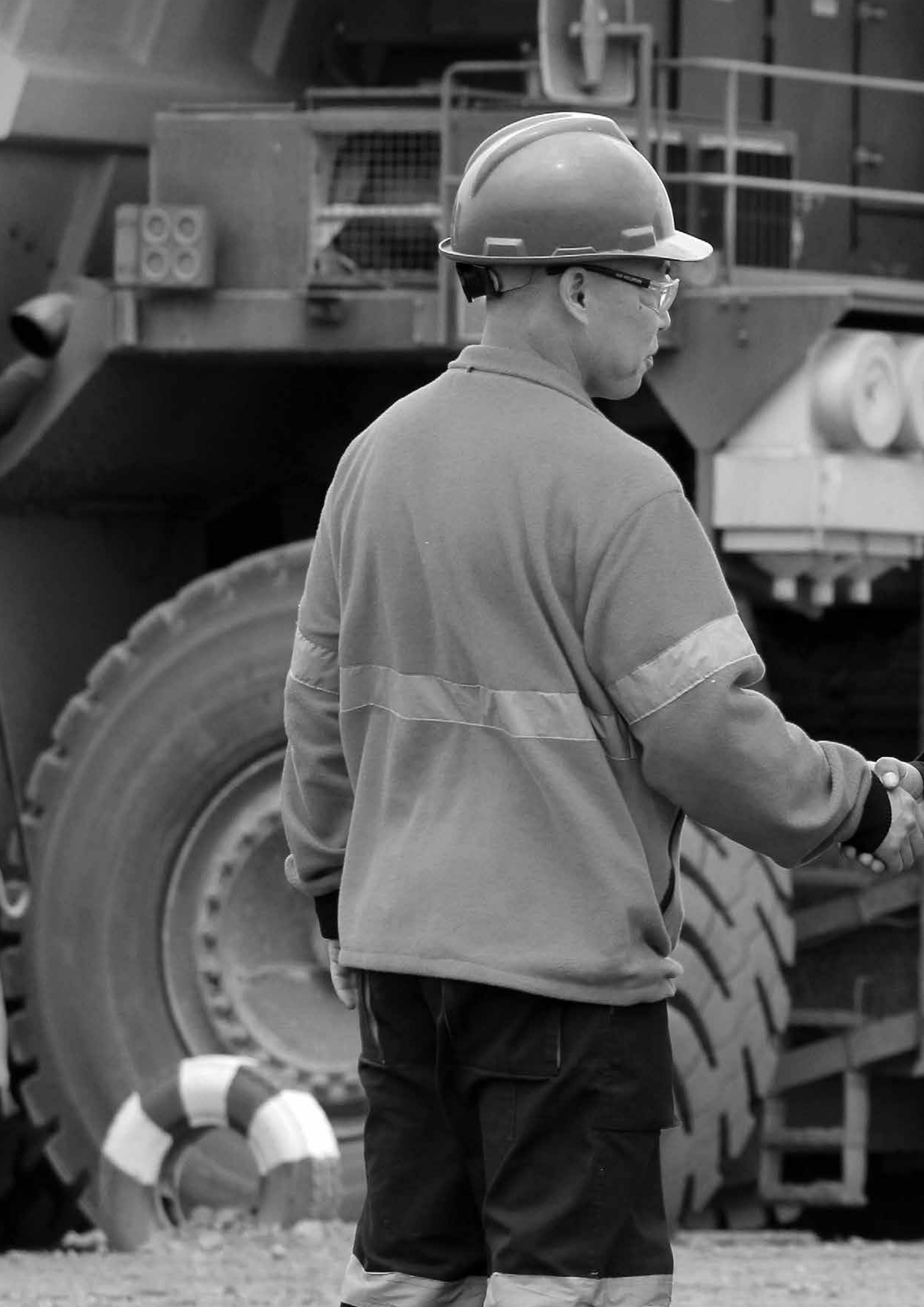
The BCBCA does not legislate procedures by which shareholder enquiries may be put to the board of a company and the Company's constating documents do not mandate a specific process for enquiries to be put to the Board. However, shareholders are kept informed of material information regarding the Company's financial position and operations through annual public disclosure in accordance with applicable Canadian securities laws. Further, the Directors are obliged to place the annual financial statements of the Company and an auditor's report made on those financial statements before shareholders at an annual general meeting and must send a copy of this information to shareholders who request such information within six (6) months of the annual general meeting.

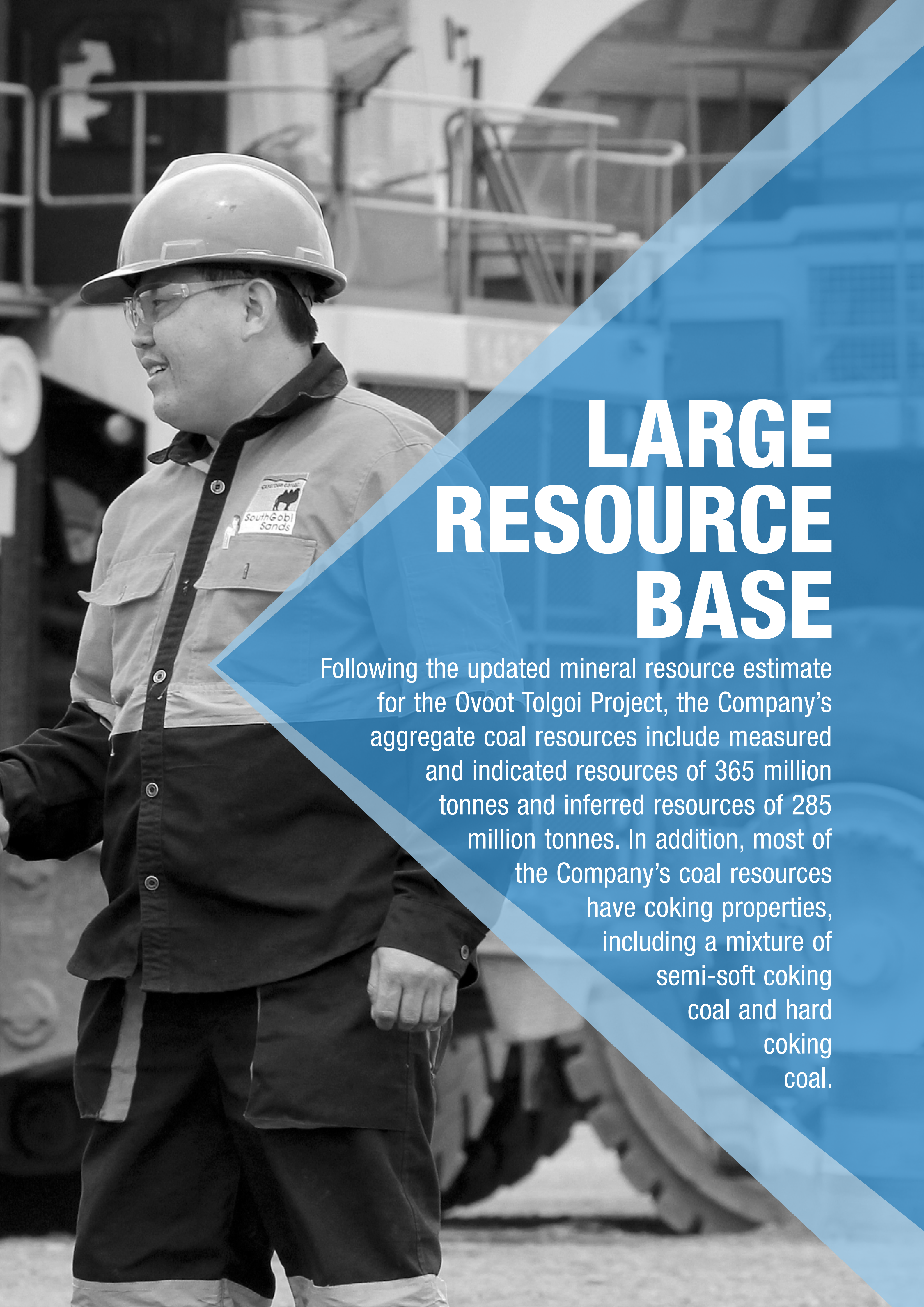
Procedures for putting forward proposals at Shareholders' Meetings

Qualified shareholders (as herein defined) may put forward a written proposal setting out a matter that the qualified shareholder wishes to have considered at the next annual general meeting of the Company. A qualified shareholder is a shareholder who is, and who has been for an uninterrupted period of at least two (2) years before the date of the signing of the proposal, an owner of (a) Common share(s) (subject to certain exceptions).

A valid proposal must be signed by the submitter and by qualified shareholder(s) (each, a "**supporter**") who, together with the submitter, are holders of common shares that, at the time of signing, in the aggregate constitute at least one per cent (1%) of the issued and outstanding common shares. A declaration signed by the submitter and each supporter, must accompany the proposal, providing contact and details as to shareholdings of the submitter or supporter, as the case may be.

Each of the proposal and the declarations must be received at the registered office of the Company at least three (3) months before the anniversary of the previous year's annual general meeting and the Company must then (subject to certain statutory exceptions) send the text of the proposal to all holders of common shares. The Company must allow a submitter to present the proposal at the annual general meeting in relation to which the proposal was made.





LARGE RESOURCE BASE

Following the updated mineral resource estimate for the Ovoot Tolgoi Project, the Company's aggregate coal resources include measured and indicated resources of 365 million tonnes and inferred resources of 285 million tonnes. In addition, most of the Company's coal resources have coking properties, including a mixture of semi-soft coking coal and hard coking coal.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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, the future prices of the Company’s common shares (the “Common Shares”) and ownership thereof;
- the Company’s anticipated business activities, planned expenditures and corporate strategies;
- the Company’s intention to develop markets for its semi-soft coking coal brands and to pursue long-term supply offtake agreements with end users in the People’s Republic of China (“China”);
- costs relating to anticipated capital expenditures and the 2016 exploration program;
- the Company’s anticipated financing needs, development plans and future production levels;
- expected impacts of the remaining administrative restrictions on certain of the Company’s Mongolian assets and the anticipated impact on the Company’s activities;
- the results and impact of the Ontario class 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 satisfy the Tax Penalty (as defined under the heading “OVERVIEW – Significant Events and Highlights” in this MD&A);
- 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 meet its ongoing obligations and future contractual commitments, including the Company’s ability to secure additional funding and to meet its obligations under each of the China Investment Corporation (“CIC”) convertible debenture (the “CIC Convertible Debenture”) and the Turquoise Hill Resources Ltd. (“Turquoise Hill”) shareholder loan (the “TRQ Loan”), as the same become due;
- the possible impact of changes to the inputs to the valuation model used to value the embedded derivatives in the CIC Convertible Debenture;
- the estimates and assumptions included in the Company’s impairment analysis and the possible impact of changes thereof;
- the 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 Company’s plans to file a technical report for the new mineral resource estimate described herein for the Ovoot Tolgoi Mine and the timing thereof;

Forward-looking statements continued

- the results of the Company's mine plan optimization efforts in respect of Ovoot Tolgoi (as defined under the heading "OVERVIEW" in this MD&A) and corresponding mineral reserve evaluation process;
- the ability for higher-ash product to be sold as a thermal coal product and the type of coal products being produced;
- 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 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;
- 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 the remainder of 2016 and beyond;
- the implementation and impact of the Funding Plan (as defined under the heading "OVERVIEW – Going Concern" in this MD&A) and actions to be taken under the Funding Plan;
- the Company continuing as a going concern and its ability to realize its assets and discharge its liabilities in the normal course of operations as they become due; adjustments to the amounts and classifications of assets and liabilities in the Company's financial statements and the impact thereof; the Company's objectives for the remainder of 2016 and beyond;
- the capacity and future toll rate of the paved highway;
- the impact of amendments to, or the application of, the laws of Mongolia and other countries in which the Company carries on business;
- the impact of the Company's activities on the environment and actions taken for the purpose of mitigation of potential environmental impacts and planned focus on health, safety and environmental performance;
- the outcome of legal proceedings involving the Company and its former Chief Executive Officer, Mr. Alexander Molyneux;
- the outcome of arbitration proceedings involving the Company and First Concept Logistics Limited with respect a coal supply agreement and payments thereunder;
- greenfield development 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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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, 2015. The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements are presented in the U.S. Dollar, which is the functional currency of SouthGobi Resources Ltd. and its subsidiaries. The functional currency of the joint venture, RDCC LLC, is the Mongolian Tugrik ("MNT"). All figures in this MD&A are presented in U.S. Dollars unless otherwise stated.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

Disclosure of a scientific or technical nature in this MD&A in respect of the Company's material mineral projects was prepared by or under the supervision of the Qualified Persons (as that term is defined in NI 43 – 101) ("QPs") listed below and, other than the estimate of mineral resources in respect of the Ovoot Tolgoi deposit, is derived from the technical report prepared for the Ovoot Tolgoi Deposit dated March 19, 2012 (the "Ovoot Tolgoi Technical Report 2012") prepared by RungePincockMinarco ("RPM") (known then as Minarco-MineConsult), the technical report on the Soumber Deposit dated March 25, 2013 (the "Soumber Technical Report") prepared by RPM, the technical report on the Zag Suuj Deposit dated March 25, 2013 (the "Zag Suuj Technical Report") prepared by RPM, was prepared by or under the supervision of the Qualified Persons listed below. Copies of the Ovoot Tolgoi Technical Report 2012, the Soumber Technical Report and the Zag Suuj Technical Report are available on SEDAR at www.sedar.com. A technical report supporting the estimate of mineral resources in respect of the Ovoot Tolgoi deposit disclosed in this MD&A is being prepared and is expected to be filed on SEDAR within 45 days of the filing of this MD&A.

Property	Qualified Persons	Field of Expertise	Relationship to Company
Ovoot Tolgoi	Brendan Stats	Resources	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 RPM, a registered Fellow 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.

1. Overview

The Company is an integrated coal mining, development and exploration company with 354 employees as at December 31, 2015. 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.

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

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, on the Chinese side of the Shivee Khuren Border Crossing, is a major Chinese coal distribution terminal with rail connections to key coal markets in the People's Republic of China ("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.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

1. Overview continued

Significant Events and Highlights

The Company's significant events and highlights for the year ended December 31, 2015 and subsequent period to March 29, 2016 are as follows:

- ***Operating results*** – The Company continues to operate under difficult market conditions as prices for coal remained weak in China in 2015. The impact of these conditions on the Company's operations continues to be exacerbated given the Company's liquidity constraints. The Company sold 0.2 million tonnes of its coal products during the fourth quarter of 2015 compared to 0.4 million tonnes in the fourth quarter of 2014. The production for the fourth quarter of 2015 was 0.6 million tonnes, allowing the Company to position itself to meet its commitments under existing and expected new coal offtake contracts.

- ***Updated Resource Estimate – Ovoot Tolgoi Mine*** – As a consequence of material changes in some key assumptions underlying the analysis of its resources subsequent to the last detailed review of the project in 2012, particularly those relating to ongoing changes in coal market conditions and geologic analysis, the Company has updated its mineral resource estimate for the Ovoot Tolgoi Project, resulting in a decrease in estimated mineral resources from the previous estimate completed in 2012. The decrease is principally based on the exclusion of underground mineralization from the resources estimate and a reclassification of the geology type of certain zones in the mine based on detailed analysis of the results of additional drilling and mining activities since 2012, resulting in updated resources estimated as of January 1, 2015 (and confirmed as at March 24, 2016) of 170 million tonnes (Mt) of indicated resources and inferred resources of 78 Mt, compared to 133.3 Mt of measured resources, 59.9 Mt of indicated resources, and 24 Mt of inferred resources estimated in 2012. The Company previously reported 175.7 million tonnes of proven and probable reserves in respect of the Ovoot Tolgoi deposit based on a preliminary feasibility study completed in 2012. Since the Company's 2012 estimate of reserves was derived from the 2012 resource estimate, and a number of key assumptions upon which the 2012 reserve estimate was based have now materially changed, it is expected that, once all relevant factors have been fully analyzed such that an updated reserve estimate can be prepared, the Company's 2012 reserve estimates will also be quantitatively reduced and qualitatively downgraded. Additional drilling will likely be required to establish the degree of confidence required to produce an updated estimate of reserves.

- ***Tax investigation case in Mongolia*** – On October 6, 2015, the Company was informed by its Mongolia banks (where the $1.2 million deposits with restricted use were placed (the "Restricted Funds")) that they had received an official request from the Court Decision Implementing Agency of Mongolia (the "CDIA") to transfer the Restricted Funds to CDIA in partial payment of the MNT35.3 billion (approximately $17.6 million on February 1, 2016) tax penalty imposed on SouthGobi Sands LLC ("SGS"), the Company's wholly-owned subsidiary, as a result of being found financially liable as a "civil defendent" in the tax evasion case of its three former employees (the "Tax Penalty"). $1.2 million was transferred to CDIA from the frozen bank accounts in October and November 2015. As at December 31, 2015, the provision for the Tax Verdict was reduced to $16.5 million.

1. Overview continued

Significant Events and Highlights continued

- ***Novel Sunrise Investments Limited ("Novel Sunrise") private placement*** – On February 24, 2015, the Company announced it had entered into a private placement agreement with Novel Sunrise providing for the subscription of up to 21.75 million Common Shares for gross proceeds of up to approximately $7.5 million.

  On March 3, 2015, the initial tranche of the private placement consisting of approximately $3.5 million of Mandatory Convertible Units was closed. The Mandatory Convertible Units were converted into approximately 10.1 million Common Shares on April 23, 2015 at a conversion price of CAD$0.432 per Common Share.

  On April 23, 2015, the Company successfully closed the second tranche of the Novel Sunrise private placement for gross proceeds of approximately $4.0 million through the issue of approximately 11.6 million Common Shares.

- ***Swiss Life Gestion Privee ("Swiss Life GP") private placement*** – On July 14, 2015, the Company announced it had obtained all the necessary regulatory approvals for the private placement and subsequently successfully closed the Swiss Life GP Private Placement, raising $2.9 million for the issuance of 5 million Common Shares.

- ***TSX remedial delisting review*** – On November 30, 2015, the Company announced that the TSX has confirmed and announced it has completed its review of the Company and has determined that the Company meets the TSX's continued listing requirements.

- ***CIC Convertible Debenture*** – On May 20, 2015 under the terms of the CIC Convertible Debenture, CIC confirmed to the Company that, subject to certain conditions and limitations, it would grant a deferral of payment of approximately $7.9 million in cash interest due by the Company to CIC on May 19, 2015 ("May 2015 cash interest installment") until July 22, 2015, subject to a three day cure period which expired on July 27, 2015.

  On July 27, 2015, CIC confirmed to the Company that, subject to certain conditions and limitations, it agreed to grant a further deferral of payment of the May 2015 cash interest installment until November 19, 2015 to allow the Company to execute its Funding Plan (as defined below in the section entitled "Going Concern").

  On November 24, 2015, CIC confirmed to the Company that, subject to certain conditions and limitations, it had agreed to grant further deferral of payment of the May 2015 cash interest installment to be due and repayable between November 2015 and May 2016 while the cash interest payment due on November 19, 2015 of approximately $8.1 million shall be due and repayable on May 18, 2016.

  On February 18, 2016, CIC confirmed to the Company that, subject to certain conditions and limitations, it had agreed to grant further deferral of a payment due on February 19, 2016 of $1 million to be due and repayable on February 29, 2016. It was subsequently repaid in February 2016.

- ***Novel Sunrise change in ownership*** – On July 20, 2015, Novel Sunrise reported that China Cinda (HK) Investments Management Company Limited ("Cinda"), a wholly-owned subsidiary of China Cinda Asset Management Corporation Limited, had acquired ownership and control of all of the outstanding voting (ordinary) shares of Novel Sunrise through Hope Rosy Limited, a wholly-owned subsidiary of Cinda.

- ***Shareholder loan extension*** – On October 27, 2015, Turquoise Hill signed a Deferral Letter Agreement with the Company, in which Turquoise Hill agreed to a limited and circumscribed deferral of repayment of all remaining amounts and obligations now and hereafter owing under the Turquoise Hill Loan Facility to April 22, 2016.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

1. Overview continued

Significant Events and Highlights continued

- ***Notice of arbitration*** – On June 24, 2015, First Concept Logistics Limited ("First Concept") served a notice of arbitration (the "Notice") on SGS in respect of a coal supply agreement dated May 19, 2014 as amended on June 27, 2014 (the "Coal Supply Agreement").

  According to the Notice, First Concept: alleged, inter alia, (i) that SGS had failed and/or wrongfully refused to sell any coal to First Concept; (ii) expressed its wish to have the dispute settled in an arbitration to be administered by the Hong Kong International Arbitration Centre; and (iii) sought the repayment of the prepayment, in the sum of $11.5 million, it made to SGS under the Coal Supply Agreement, as well as any and all damages that may be due to it.

  The Company firmly rejects the allegations of the First Concept in the Notice as lacking any merit. On October 26, 2015, the Company received the Statement of Claim from First Concept and will vigorously defend itself in the Arbitration, including claiming the relevant fees and damages from First Concept. The trial dates of the Arbitration are scheduled to be held in the fourth quarter of 2016.

- ***Notice of claim*** – On July 2, 2015, the Company announced it had been served with a notice of claim by former President and Chief Executive Officer, Alexander Molyneux. The claim relates to alleged breaches of Mr. Molyneux's employment agreement by the Company and is seeking damages in excess of $1 million. The Company considers the claim has no merit and is vigorously defending the action. The Company filed a response to Civil Claim and Counterclaim in September 2015. A trial date has not yet been set.

- ***Short-term Bridge loan*** – On October 27, 2015, the Company executed a $10 million bridge loan agreement with an independent Asian based private equity fund. As at December 31, 2015, the outstanding balance for the short-term bridge loan was $4.9 million.

- ***Class Action Lawsuit*** – On November 5, 2015, the Ontario Superior Court of Justice (the "Ontario Court") rendered its decision on the preliminary motions to seek leave to bring a claim under applicable Canadian securities legislation and certification of an Ontario class action (the "Class Action"). The Ontario Court dismissed the plaintiff's motions as against each of the former senior officers and former and current directors of the Company named in the Class Action. The plaintiff has appealed this decision. The Ontario Court granted the preliminary leave motion against the Company and the Company is seeking leave to appeal the decision. The appeal by the plaintiff and, if leave to appeal is granted, the appeal by the Company are scheduled to be heard in June 2016. Rulings are expected by the end of September 2016.

- ***Changes in Management and Directors***

  Mr. Enkh-Amgalan Sengee: Mr. Sengee tendered his resignation as President and Chief Executive Officer on March 13, 2015.

  Mr. Ted Chan: Mr. Chan was initially appointed as an Executive Director of the Company on March 3, 2015. On July 26, 2015, following the appointment of Mr. Yulan Guo as Interim Chief Executive Officer, Mr. Chan ceased to be an Executive Director but remained as a Non-Executive Director of the Company until August 6, 2015, the date of the Company's Annual Meeting of Shareholders (the "AGM"), where Mr. Chan did not stand for election.

  Mr. Jeffery Tygesen: Mr. Tygensen resigned as a Non-Executive Director on March 17, 2015.

  Mr. Yulan Guo: Mr. Guo was initially appointed to the board of directors as a Non-Executive Director on May 15, 2015. On July 26, 2015, Mr. Guo was appointed as Interim Chief Executive Officer and an Executive Director of the Company and was re-elected as a director of the Company at the AGM. On September 1, 2015, Mr. Guo was appointed as Chief Financial Officer and ceased to be Interim Chief Executive Officer.

1. Overview continued

Significant Events and Highlights continued

- ***Changes in Management and Directors*** continued

  Mr. Ningqiao Li: Mr. Li was appointed to the board of directors as a Non-Executive Director on May 15, 2015 and was re-elected as a director of the Company at the AGM. On September 17, 2015, Mr. Li was appointed as an Executive Director and Executive Chairman of the board of directors.

  Mr. Aminbuhe: On August 6, 2015, Mr. Aminbuhe was elected to the board of directors as a Non-Executive Director following the conclusion of the AGM. On September 1, 2015, Mr. Aminbuhe was appointed as an Executive Director and Chief Executive Officer.

  Mr. Bold Baatar: Mr. Baatar resigned as a Non-Executive Director on May 15, 2015.

  Mr. Zhu Liu and Ms. Jin Lan Quan: On August 6, 2015, Mr. Liu and Ms. Quan were elected to the board of directors as Independent Non-Executive Directors following the conclusion of the AGM.

  Mr. Kelly Sanders: On August 6, 2015, Mr. Sanders did not stand for the re-election at the AGM and ceased to be a Non-Executive Director.

  Mr. Bertrand Troiano: Mr. Troiano stepped down as Chief Financial Officer of the Company following a two-year secondment from Rio Tinto plc ("Rio Tinto") which ended on July 31, 2015.

  Mr. André Deepwell: Mr. Deepwell resigned as an Independent Non-Executive Director and Chairman of the Audit Committee on August 31, 2015.

  Mr. Mao Sun: Mr. Sun was appointed as an Independent Non-Executive Director and Chairman of the Audit Committee on November 5, 2015.

  Mr. Gordon Lancaster: Mr. Lancaster retired as an Independent Non-Executive Director on December 14, 2015.

  Mr. Huiyi Wang: Mr. Wang was appointed as a Non-Executive Director on February 18, 2016.

- ***Going Concern*** – As at the date hereof, the Company, together with its strategic partner and significant shareholder, Novel Sunrise, has developed and continues to execute on a funding plan (the "Funding Plan") in order to pay the interest due under the CIC Convertible Debenture and TRQ Loan, meet the Company's obligations as they fall due and achieve its business objectives in 2016. However, there is no guarantee that the Company will be able to successfully advance the Funding Plan or secure other sources of financing. See section 6 "Liquidity and Capital Resources" and section 14 "Risk Factors" for details. As at March 29, 2016, the Company had cash of $0.7 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

2. Selected Annual Information(iv)

$ in thousands, except per share and per tonne information		Year ended December 31, 2015		2014		2013
Revenue (i)	**$**	**16,030**	$	24,494	$	58,636
Loss from operations		**(166,917)**		(82,734)		(196,829)
Net loss		**(186,765)**		(103,683)		(237,464)
Basic loss per share	**$**	**(0.79)**	$	(0.55)	$	(1.30)
Diluted loss per share	**$**	**(0.79)**	$	(0.55)	$	(1.30)
Cash from/(used in) operating activities		**(10,014)**		(29,673)		7,559
Cash used in investing activities		**(8,572)**		(625)		(4,892)
Cash from financing activities		**15,202**		12,378		129
Coal sales volumes *(millions of tonnes)* (ii)		**1.07**		2.04		3.26
Average realized selling price *(per tonne)* (iii)	**$**	**17.66**	$	14.76	$	24.25

$ in thousands		As at December 31, 2015		2014		2013
Cash and cash equivalents	**$**	**377**	$	3,789	$	21,837
Total working capital		**(42,322)**		3,430		41,670
Total assets		**290,474**		416,139		506,206
Total non-current liabilities		**95,137**		95,590		96,610

(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.

(iv) In reviewing selected annual financial information, readers are advised to note the Company's current mine optimization initiatives for the Ovoot Tolgoi Mine and to review the Risk Factor entitled "There can be no assurance that the continuing optimization of the mine plan at the Ovoot Tolgoi Mine will ultimately provide the basis for an updated preliminary feasibility study that will support a new estimate of mineral reserves".

In order to manage coal inventories and to maintain efficient working capital levels, the mining activities were curtailed from the end of the second quarter of 2012 until operations at the Ovoot Tolgoi Mine recommenced 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. 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.

In 2015, the Company continued to operate in difficult market environment, sale volume has further dropped to 1.07 million tonnes as compared to 2.04 million tonnes in 2014. The Company has been preserving its liquidity by implementing different cost cutting measures and executing the Funding Plan with the new strategic partner and significant shareholder, Novel Sunrise. In 2015, the Company successfully completed private placements for gross proceeds of $10.4 million.

From 2013 to date, the Company has focused on minimizing uncommitted capital expenditures and exploration expenditures in order to preserve the Company's financial resources.

3. Overview of Operational Data and Financial Results

Summary of Annual Operational Data(iv)

		Year ended December 31, 2015		2014
Sales Volumes, Prices and Costs				
Premium semi-soft coking coal				
Coal sales *(millions of tonnes)*		**0.22**		0.02
Average realized selling price *(per tonne)* (i)	**$**	**22.33**	$	26.77
Standard semi-soft coking coal				
Coal sales *(millions of tonnes)*		**0.59**		0.86
Average realized selling price *(per tonne)* (i)	**$**	**19.12**	$	19.52
Thermal coal				
Coal sales *(millions of tonnes)*		**0.26**		1.16
Average realized selling price *(per tonne)* (i)	**$**	**10.24**	$	10.99
Total				
Coal sales *(millions of tonnes)*		**1.07**		2.04
Average realized selling price *(per tonne)* (i)	**$**	**17.66**	$	14.76
Raw coal production *(millions of tonnes)*		**1.95**		1.57
Direct cash costs of product sold *(per tonne)* (ii)	**$**	**13.63**	$	8.33
Mine administration cash costs of product sold *(per tonne)* (ii)	**$**	**3.44**	$	2.69
Total cash costs of product sold *(per tonne)* (ii)	**$**	**17.07**	$	11.02
Other Operational Data				
Production waste material moved *(millions of bank cubic meters)*		**7.02**		5.47
Strip ratio *(bank cubic meters of waste material per tonne of coal produced)*		**3.60**		3.51
Lost time injury frequency rate (iii)		**0.00**		0.21

(i) Average realized selling price is presented before deduction of royalties and selling fees.

(ii) A non-IFRS financial measure, see section 4. 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.

(iv) In reviewing summary of annual operational data, readers are advised to note the Company's current mine optimization initiatives for the Ovoot Tolgoi Mine and to review the Risk Factor entitled "There can be no assurance that the continuing optimization of the mine plan at the Ovoot Tolgoi Mine will ultimately provide the basis for an updated preliminary feasibility study that will support a new estimate of mineral reserves".

3. Overview of Operational Data and Financial Results continued

Overview of Annual Operational Data

The Company has operated under difficult market conditions throughout 2015 which have affected the Company's results in respect of sales prices and volumes. In 2015, the Company sold 1.07 million tonnes of coal compared to 2.04 million tonnes in 2014.

The Company's production in 2015 was higher than 2014, at 1.95 million tonnes compared to 1.57 million tonnes. On March 30, 2015, the Company resumed mining operations allowing the Company to position itself to meet its commitments under existing and expected new coal offtake contracts.

The Company maintained a strong safety record throughout 2015. As at December 31, 2015, the Company has a lost injury time frequency rate of 0.00 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, 2015	2014
Revenue [(i),(ii)]	**$ 16,030**	$ 24,494
Cost of sales [(ii)]	**(63,691)**	(82,132)
Gross loss excluding idled mine asset costs	**(22,226)**	(21,699)
Gross loss including idled mine asset costs	**(47,661)**	(57,638)
Other operating expenses	**(18,951)**	(5,960)
Administration expenses	**(7,509)**	(8,944)
Evaluation and exploration expenses	**(145)**	(1,312)
Impairment of property, plant and equipment	**(92,651)**	(8,880)
Loss from operations	**(166,917)**	(82,734)
Finance costs	**(21,371)**	(21,848)
Finance income	**1,302**	1,586
Share of earnings/(losses) of a joint venture	**225**	(101)
Income tax expense	**(4)**	(586)
Net loss	**(186,765)**	(103,683)
Basic loss per share	**$ (0.79)**	$ (0.55)
Diluted loss per share	**$ (0.79)**	$ (0.55)

(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 Annual Financial Results

The Company recorded a $166.9 million loss from operations in 2015 compared to a $82.7 million loss from operations in 2014. The 2015 operations were impacted by continuing difficult market conditions which resulted in lower sales volumes and prices compared to 2014. The lower cost of sales and lower administration expense were offset by lower revenue generated, higher impairment losses and provisions in 2015.

3. Overview of Operational Data and Financial Results continued

Overview of Annual Financial Results continued

Revenue was $16.0 million in 2015 compared to $24.5 million in 2014. The Company sold 1.07 million tonnes of coal at an average realized selling price of $17.66 per tonne in 2015, compared to sales of 2.04 million tonnes at an average realized selling price of $14.76 per tonne in 2014. The increase in the average realized selling price mainly resulted from differences in product mix in 2015 compared to 2014. The product mix in 2015 consisted of approximately 55% of Standard semi-soft coking coal and 21% of Premium semi-soft coking coal compared to approximately 43% of sales consisting of either Premium or Standard semi-soft coking coal in 2014.

The Company's revenue is presented after deduction of royalties and selling fees. The Company's effective royalty rate for 2015, based on the Company's average realized selling price of $17.66 per tonne, was 12.7% or $2.25 per tonne compared to 12.5% or $1.85 per tonne based on the average realized selling price of $14.76 per tonne in 2014.

Royalty regime in Mongolia

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

On January 1, 2015, the "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.

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

Cost of sales was $63.7 million in 2015 compared to $82.1 million in 2014. 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, **2015**	2014
Operating expenses	**$ 18,266**	$ 22,472
Share-based compensation expense	**42**	230
Depreciation and depletion	**5,361**	7,235
Impairment of coal stockpile inventories	**14,588**	16,256
Cost of sales from mine operations	**38,257**	46,193
Cost of sales related to idled mine assets	**25,434**	35,939
Cost of sales	**$ 63,691**	$ 82,132

3. Overview of Operational Data and Financial Results continued

Overview of Annual Financial Results continued

Operating expenses in cost of sales were $18.3 million in 2015 compared to $22.5 million in 2014. The overall decrease in operating expenses is primarily the result of the combined effect of (i) decrease of sales volume from 2.04 million tonnes in 2014 to 1.07 million tonnes in 2015; and (ii) continued focus on cost saving initiatives, including the curtailment of mining operations in the first quarter of 2015. However the cost of sales per tonne is higher in 2015, which is mainly due to reduced production levels and the impairment of coal stockpile inventories during the year.

Cost of sales in 2015 and 2014 included coal stockpile impairments of $14.6 million and $16.3 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 years 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 2015 included $22.5 million related to depreciation expenses for idled equipment (2014: $30.3 million).

Other operating expenses were $19.0 million in 2015 compared to $6.0 million in 2014.

	Year ended December 31,			
$ in thousands		**2015**		2014
Sustainability and community relations	**$**	**250**	$	252
Foreign exchange gain		**(896)**		(1,151)
Provision for doubtful trade and other receivables		**161**		567
Impairment of available-for-sale financial asset		**–**		1,766
Loss on settlement of prepayments		**712**		–
Impairment of prepaid expenses and deposits		**–**		3,780
Impairment of materials and supplies inventories		**675**		2,981
Gain on disposal of mining licenses		**–**		(2,235)
Provision for court case penalty		**18,049**		–
Other operating expenses	**$**	**18,951**	$	5,960

Compared to 2014, the increase in other operating expenses is primarily related to the provision for the court case penalty (refer to "Governmental and Regulatory Investigations" of Section 7 for details) in 2015.

In 2015, the Company also recognized an impairment charge of $0.7 million in respect of surplus materials and supplies inventories as the Company continued to operate below capacity in 2015 (2014: $3.0 million).

The Company recognized an impairment loss of $1.8 million in 2014 which was related to its investment in Aspire, which is accounted for as an available-for-sale financial asset and carried at its fair value. The Company disposed all of its investment in Aspire during 2014.

In 2014, the Company recognized an impairment loss of $3.4 million related to prepaid toll washing fees under the contract with Ejin Jinda. The impairment charge 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.

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.

3. Overview of Operational Data and Financial Results continued

Overview of Annual Financial Results continued

Administration expenses were $7.5 million in 2015 compared to $8.9 million in 2014.

$ in thousands	Year ended December 31, 2015	2014
Corporate administration	**$ 2,112**	$ 2,591
Legal and professional fees	**2,921**	2,680
Salaries and benefits	**2,155**	2,955
Share-based compensation expense	**199**	590
Depreciation	**122**	128
Administration expenses	**$ 7,509**	$ 8,944

Administration expenses were lower in 2015 compared to 2014 which reflects the Company's cost reduction initiatives.

Evaluation and exploration expenses were $0.1 million in 2015 compared to $1.3 million in 2014. The Company continued to minimize evaluation and exploration expenditures in 2015 in order to preserve the Company's financial resources. Evaluation and exploration activities and expenditures in 2015 were limited to ensuring that the Company met the Mongolian Minerals Law requirements in respect of its mining and exploration licenses.

Given the difficult market conditions and the associated delays in projects and the commissioning of equipment, the Company recorded $92.7 million of impairment charges to reduce various items of property, plant and equipment to their recoverable amounts for the year ended December 31, 2015 (2014: $8.9 million). In particular, after conducting the impairment test on the Ovoot Tolgoi Mine cash generating unit, the Company recorded an $76.7 million impairment charge in 2015 (refer to "Ovoot Tolgoi Mine Impairment Analysis" of Section 6 for details). After a further review of the dry coal handling facility ("DCHF") in the fourth quarter of 2015 related to the new mine plan, the Company concluded that there is no longer a plan to restart the DCHF project or utilize the facility. As a result, the Company recorded an $8.5 million impairment charge in 2015 to reduce the carrying value of the DCHF to $nil as at December 31, 2015.

Finance costs were $21.4 million and $21.8 million in 2015 and 2014 respectively, which primarily consisted of interest expense on the $250.0 million CIC Convertible Debenture.

Finance income was $1.3 million in 2015 compared to $1.6 million in 2014, primarily relating to unrealized gains on the change in fair value of the embedded derivatives in the CIC Convertible Debenture ($1.1 million and $1.6 million respectively for 2015 and 2014). 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 negligible in 2015 compared to an expense of $0.6 million in 2014. In 2014, $0.5 million relate to taxes paid in respect of the sale of the Tsagaan Tolgoi mining license.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

3. Overview of Operational Data and Financial Results continued

Summary of Quarterly Operational Data

Quarter Ended	2015 31-Dec	30-Sep	30-Jun	31-Mar	2014 31-Dec	30-Sep	30-Jun	31-Mar
Sales Volumes, Prices and Costs								
Premium semi-soft coking coal								
Coal sales *(millions of tonnes)*	**0.04**	**0.16**	**0.02**	**–**	0.02	–	–	–
Average realized selling price *(per tonne)* (i)	**$ 21.72**	**$ 22.32**	**$ 23.37**	**$ –**	$ 26.77	$ –	$ –	$ –
Standard semi-soft coking coal								
Coal sales *(millions of tonnes)*	**0.12**	**0.31**	**0.11**	**0.05**	0.14	0.31	0.12	0.29
Average realized selling price *(per tonne)* (i)	**$ 18.91**	**$ 19.10**	**$ 19.97**	**$ 17.95**	$ 18.32	$ 17.41	$ 20.33	$ 22.00
Thermal coal								
Coal sales *(millions of tonnes)*	**0.05**	**0.02**	**0.06**	**0.13**	0.21	0.34	0.51	0.10
Average realized selling price *(per tonne)* (i)	**$ 9.26**	**$ 10.48**	**$ 10.47**	**$ 10.46**	$ 11.69	$ 10.66	$ 10.72	$ 12.07
Total								
Coal sales *(millions of tonnes)*	**0.21**	**0.49**	**0.19**	**0.18**	0.37	0.65	0.63	0.39
Average realized selling price *(per tonne)* (i)	**$ 17.19**	**$ 19.76**	**$ 17.42**	**$ 12.66**	$ 15.04	$ 13.87	$ 12.52	$ 19.54
Raw coal production *(millions of tonnes)*	**0.62**	**0.71**	**0.62**	**–**	0.21	0.17	0.55	0.64
Direct cash costs of product sold *(per tonne)* (ii)	**$ 6.55**	**$ 17.46**	**$ 15.57**	**$ 8.68**	$ 8.09	$ 7.38	$ 8.23	$ 10.43
Mine administration cash costs of product sold *(per tonne)* (ii)	**$ 1.78**	**$ 2.81**	**$ 7.90**	**$ 2.11**	$ 2.44	$ 2.30	$ 2.49	$ 3.80
Total cash costs of product sold *(per tonne)* (ii)	**$ 8.33**	**$ 20.27**	**$ 23.47**	**$ 10.79**	$ 10.53	$ 9.68	$ 10.72	$ 14.23
Other Operational Data								
Production waste material moved *(millions of bank cubic meters)*	**1.08**	**2.33**	**3.62**	**–**	0.55	0.20	2.17	2.55
Strip ratio *(bank cubic meters of waste material per tonne of coal produced)*	**1.75**	**3.25**	**5.87**	**–**	2.61	1.20	3.97	4.02
Lost time injury frequency rate (iii)	**0.00**	**0.00**	**0.00**	**0.25**	0.21	0.17	0.15	0.00

(i) Average realized selling price is presented before deduction of royalties and selling fees.

(ii) A non-IFRS financial measure, see section 4. 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 existing and expected demand for its coal products. The coal market remains challenging in the fourth quarter of 2015. As a result the Company operated significantly below capacity during the quarter and its production decreased slightly from 0.71 million tonnes in the third quarter of 2015 to 0.62 million tonnes in the fourth quarter of 2015.

The Company maintained a strong safety record and completed the fourth quarter of 2015 without a lost time injury.

3. Overview of Operational Data and Financial Results continued

Summary of Quarterly Financial Results

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

$ in thousands, except per share information	2015				2014			
Quarter Ended	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
Financial Results								
Revenue (i), (ii)	**$ 2,873**	**$ 8,621**	**$ 2,949**	**$ 1,587**	$ 5,054	$ `7,611	$ 6,691	$ 5,137
Cost of sales (ii)	**(12,072)**	**(22,108)**	**(11,833)**	**(17,678)**	(19,757)	(23,922)	(20,086)	(18,366)
Gross loss excluding idled mine asset costs	**(5,338)**	**(10,641)**	**(5,017)**	**(1,230)**	(821)	(2,178)	(8,497)	(10,202)
Gross loss including idled mine asset costs	**(9,199)**	**(13,487)**	**(8,884)**	**(16,091)**	(14,703)	(16,311)	(13,395)	(13,229)
Other operating income/(expenses)	**(1,093)**	**621**	**(19,450)**	**971**	(3,386)	(2)	(1,499)	(1,073)
Administration expenses	**(2,154)**	**(1,967)**	**(1,963)**	**(1,425)**	(1,924)	(2,530)	(2,253)	(2,237)
Evaluation and exploration expenses	**(46)**	**(40)**	**22**	**(81)**	(911)	(122)	(107)	(172)
Impairment of property, plant and equipment	**(92,651)**	**–**	**–**	**–**	(8,603)	–	(277)	–
Loss from operations	**(105,143)**	**(14,873)**	**(30,275)**	**(16,626)**	(29,527)	(18,965)	(17,531)	(16,711)
Finance costs	**(5,694)**	**(5,351)**	**(5,222)**	**(6,648)**	(6,351)	(5,257)	(5,215)	(5,025)
Finance income	**580**	**1,984**	**274**	**8**	317	135	127	1,007
Share of earnings/(losses) of a joint venture	**(7)**	**99**	**151**	**(18)**	(40)	(32)	(3)	(26)
Income tax expense	**(2)**	**(1)**	**(1)**	**–**	(40)	–	(546)	–
Net loss	**(110,266)**	**(18,142)**	**(35,073)**	**(23,284)**	(35,641)	(24,119)	(23,168)	(20,755)
Basic loss per share	**$ (0.44)**	**$ (0.07)**	**$ (0.15)**	**$ (0.11)**	$ (0.19)	$ (0.13)	$ (0.12)	$ (0.11)
Diluted loss per share	**$ (0.44)**	**$ (0.07)**	**$ (0.15)**	**$ (0.11)**	$ (0.19)	$ (0.13)	$ (0.12)	$ (0.11)

(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 $105.1 million loss from operations in the fourth quarter of 2015 compared to a $29.5 million loss from operations in the fourth quarter of 2014. Continuing difficult market conditions resulted in lower sales volumes in the fourth quarter of 2015 compared to the fourth quarter of 2014. This lower revenue and higher impairment charge was offset by a lower cost of sales and lower administration expenses in the fourth quarter of 2015 compared to the fourth quarter of 2014.

Revenue was $2.9 million in the fourth quarter of 2015 compared to $5.1 million in the fourth quarter of 2014. The Company sold 0.21 million tonnes of coal at an average realized selling price of $17.19 per tonne in the fourth quarter of 2015 compared to sales of 0.37 million tonnes at an average realized selling price of $15.04 per tonne in the fourth quarter of 2014. Revenue decreased in the fourth quarter of 2015 compared to the fourth quarter of 2014 as a result of the lower sales volumes. The average realized selling price in the fourth quarter of 2015 compared to the fourth quarter of 2014 was impacted by differences in product mix. The majority of the Company's sales in the fourth quarter of 2015 were of Standard semi-soft coking coal while Thermal coal product comprised the majority of sales in the fourth quarter of 2014.

The Company's revenue is presented after deduction of royalties and selling fees. The Company's effective royalty rate for the fourth quarter of 2015, based on the Company's average realized selling price of $17.19 per tonne, was 13.8% or $2.38 per tonne while the Company's effective royalty rate was 8.1% or $1.22 per tonne based on the average realized selling price of $15.04 per tonne in the fourth quarter of 2014. The difference in the effective royalty rate is mainly driven by the change from the flexible tariff royalty regime to previous regime which is based on a set reference price on January 1, 2015 (refer to "Royalty regime in Mongolia" in this MD&A for details).

3. Overview of Operational Data and Financial Results continued

Overview of Quarterly Financial Results continued

Cost of sales was $12.1 million in the fourth quarter of 2015 compared to $19.8 million in the fourth quarter of 2014. 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.

	Three months ended December 31,	
$ in thousands	**2015**	2014
Operating expenses	**$ 1,780**	$ 3,895
Share-based compensation expense/(recovery)	**8**	(3)
Depreciation and depletion	**946**	953
Impairment of coal stockpile inventories	**5,477**	1,030
Cost of sales from mine operations	**8,211**	5,875
Cost of sales related to idled mine assets	**3,861**	13,882
Cost of sales	**$ 12,072**	$ 19,757

Operating expenses included in cost of sales were $1.8 million in the fourth quarter of 2015 compared to $3.9 million in the fourth quarter of 2014. The overall decrease in operating expenses is primarily the result of both (i) decrease of sales volume from 0.37 million tonnes in the fourth quarter of 2014 to 0.21 million tonnes in the fourth quarter of 2015; and (ii) continued focus on cost saving initiatives.

Cost of sales in the fourth quarter of 2015 and the fourth quarter of 2014 included coal stockpile impairments of $5.5 million and $1.0 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 2015 and 2014 reflect the challenging coal market conditions.

Idled mine asset costs included in cost of sales decreased in the fourth quarter of 2015 compared to the fourth quarter of 2014 as a result of the mining operations’ slowdown which commenced in June 2014 and then resumed on March 30, 2015. Idled mine asset costs in the fourth quarter of 2015 included $3.9 million related to depreciation expense for idled mine equipment (2014: $11.6 million).

Other operating expenses were $1.1 million in the fourth quarter of 2015 (2014: $3.4 million).

	Three months ended December 31,	
$ in thousands	**2015**	2014
Sustainability and community relations	**$ 61**	$ 42
Foreign exchange gain	**(355)**	(163)
Provision for doubtful trade and other receivables	**–**	567
Loss on settlement of prepayments	**712**	–
Impairment of prepaid expenses and deposits	**–**	375
Impairment of materials and supplies inventories	**675**	2,981
Gain on disposal of mining license	**–**	(416)
Other operating expenses	**$ 1,093**	$ 3,386

The Company’s other operating expenses were lower in the fourth quarter of 2015 compared to the fourth quarter of 2014 primarily due to decreased impairment of prepaid expenses and deposits and materials and supplies inventories totaling $0.7 million in the fourth quarter of 2015 compared to $3.4 million in the fourth quarter of 2014.

3. Overview of Operational Data and Financial Results continued

Overview of Quarterly Financial Results continued

In the fourth quarter of 2015, the Company also recognized an impairment charge of $0.7 million in respect of surplus materials and supplies inventories as the Company continued to operate below capacity in 2015 (2014: $3.0 million).

Administration expenses were $2.2 million in the fourth quarter of 2015 compared to $1.9 million in the fourth quarter of 2014.

	Three months ended December 31,	
$ in thousands	**2015**	2014
Corporate administration	**$ 647**	$ 865
Legal and professional fees	**786**	243
Salaries and benefits	**682**	774
Share-based compensation expense	**12**	10
Depreciation	**27**	32
Administration expenses	**$ 2,154**	$ 1,924

Administration expenses increased in the fourth quarter of 2015 compared to the fourth quarter of 2014 mainly due to higher legal and professional fees. The legal fees incurred in the fourth quarter of 2015 includes consultancy and advisory fees in relation to different financing projects as well as the TSX delisting hearing and lawsuits.

Evaluation and exploration expenses were $0.1 million in the fourth quarter of 2015 compared to $0.9 million in the fourth quarter of 2014. The Company continued to minimize evaluation and exploration expenditures in the fourth quarter of 2015 in order to preserve the Company's financial resources. Evaluation and exploration activities and expenditures in the fourth quarter of 2015 were limited to ensuring that the Company met the Mongolian Minerals Law requirements in respect of its mining and exploration licenses.

Given the difficult market conditions and the associated delays in projects and the commissioning of equipment, the Company recorded $92.7 million of impairment charges to reduce various items of property, plant and equipment to their recoverable amounts in the fourth quarter of 2015 (2014: $8.6 million). In particular, after conducting the impairment test on the Ovoot Tolgoi Mine cash generating unit, the Company recorded an $76.7 million impairment charge in 2015 (refer to "Ovoot Tolgoi Mine Impairment Analysis" of Section 6 for details). After a further review has been performed on DCHF in the fourth quarter of 2015 related to the new mine plan, the Company concluded that there is no longer plan to restart the DCHF project or utilize the facility. As a result, the Company recorded an $8.5 million impairment charge in 2015 to reduce the carrying value of the DCHF to $nil as at December 31, 2015.

Finance costs were $5.7 million and $6.4 million in the fourth quarters of 2015 and 2014 which primarily consisted of interest expense on the $250.0 million CIC Convertible Debenture. Further, $1.1 million of realized loss was recorded in relation to the disposal of Aspire shares in the fourth quarter of 2014.

Finance income was $0.6 million in the fourth quarter of 2015 compared to $0.3 million in the fourth quarter of 2014 and primarily consisting of unrealized gains on the fair value change of the embedded derivatives in the CIC Convertible Debenture ($0.4 million in the fourth quarter of 2015 and $0.3 million in the fourth quarter of 2014). 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.

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, **2015**	2014	Year ended December 31, **2015**	2014
Cash costs				
Cost of sales determined in accordance with IFRS	**$ 12,072**	$ 19,757	**$ 63,691**	$ 82,132
Less non-cash expenses	**(6,431)**	(1,980)	**(19,991)**	(23,721)
Less non-cash idled mine asset costs	**(3,861)**	(11,564)	**(22,463)**	(30,305)
Total cash costs	**1,780**	6,213	**21,237**	28,106
Less idled mine asset cash costs	**–**	(2,318)	**(2,972)**	(5,634)
Total cash costs excluding idled mine asset cash costs	**1,780**	3,895	**18,265**	22,472
Coal sales *(millions of tonnes)*	**0.21**	0.37	**1.07**	2.04
Total cash costs of product sold *(per tonne)*	**$ 8.34**	$ 10.53	**$ 17.07**	$ 11.02

$ in thousands, except per tonne information	Three months ended December 31, **2015**	2014	Year ended December 31, **2015**	2014
Cash costs				
Direct cash costs of product sold *(per tonne)*	**$ 6.56**	$ 8.09	**$ 13.63**	$ 8.33
Mine administration cash costs of product sold *(per tonne)*	**1.78**	2.44	**3.44**	2.69
Total cash costs of product sold *(per tonne)*	**$ 8.34**	$ 10.53	**$ 17.07**	$ 11.02

The cash cost of product sold per tonne was $17.07 for 2015, which has significantly increased compared to $11.02 per tonne for 2014. The reason for the increase is primarily related to less costs being allocated to idled mine asset costs during the year ($3.0 million for 2015 as compared to $5.6 million for 2014 in which the Company placed approximately half of its workforces on furlough for the second half of 2014).

5. Properties

The Company currently holds four mining licenses and two exploration licenses in Mongolia, which in total cover an area of approximately 98,000 hectares ("ha").

The mining licenses pertain to the Ovoot Tolgoi Complex (12726A) and the Soumber Deposit (MV-016869, MV-025436 and MV-020451).

The two exploration licenses held by the Company are 13779X and 5267X, which are pertaining to the Zag Suuj Deposit for which pre-mining agreements ("PMAs") have been issued.

Two exploration licenses (9443X and 9449X) were being converted to mining licenses (MV-025436 and MV-020451) by the Mineral Resources Authority of Mongolia ("MRAM") in January 2016.

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.

Resources

Updated Resource Estimate – Ovoot Tolgoi Mine

As a consequence of material changes in some key assumptions underlying the analysis of its resources subsequent to the last detailed review of the project in 2012, particularly those relating to ongoing changes in coal market conditions and geologic analysis, the Company has updated its mineral resource estimate for the Ovoot Tolgoi Project, resulting in a decrease in estimated mineral resources from the previous estimate completed in 2012. The decrease is principally based on the exclusion of underground mineralization from the resources estimate and a reclassification of the geology type of certain zones in the mine based on detailed analysis of the results of additional drilling and mining activities since 2012.

In the context of current coal market conditions, and in particular, a significant decline in coal prices in China, the Company's principal market, mineralization in the 350m to 600m underground portion of the Ovoot Tolgoi Mine is now assessed by the Company as not having reasonable prospects for eventual economic extraction.

A reclassification of certain zones in the Ovoot Tolgoi deposit by the Company's independent mining consultants, RPM, from a degree of geological complexity that was previously characterized as "Complex" to "Severe" (as defined in Geological Survey of Canada Paper 88-21) has necessitated downgrading quantities of the previously estimated resources from the measured category to the indicated and inferred categories. The "Severe" classification requires much tighter data point spacing of drilling results to support the degree of confidence necessary for a categorization of resources as measured.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

5. Properties continued

Operating Mines continued

Resources continued

Updated Resource Estimate – Ovoot Tolgoi Mine continued

Updated resources have been estimated as of January 1, 2015 (and confirmed as at March 24, 2016). The exclusion of underground mineralization and the re-classification of certain geological zones has resulted in indicated resources of 170 million tonnes (Mt) and inferred resources of 78 Mt, compared to 133.3 Mt of measured resources, 59.9 Mt of indicated resources, and 24 Mt of inferred resources estimated in 2012.

The updated estimate of resources at the Ovoot Tolgoi deposit is summarized in the table below.

			Resources Mt	
Field	Seam Group	Measured	Indicated	Inferred
Sunrise (depth <350m)	7	–	–	3
	6U	–	–	10
	6L	–	–	4
	5U	–	21.0	20
	5L	–	50.9	15
	Subtotal	–	72	53
Sunset (depth <350m)	10	–	10.8	2
	09	–	29.7	3
	08	–	7.7	1
	5U	–	33.3	7
	5L	–	16.4	13
	Subtotal	–	98	26
Ovoot Tolgoi (depth <350m)	Grand Total	–	170	78

The criteria used to limit the resources are:

- Minimum coal thickness = 0.3metres (m) (previous estimates used 0.3m).
- Minimum coal parting = 0.2m (previous estimates used 0.3m).
- Base of weathering = 4m (same as previous estimate).
- Resources are limited to a depth of 350m.
- Volumes are converted to tonnages using laboratory relative density analytical results converted to an estimated in-situ basis.
- Resources are limited to the mining license boundary.
- The Resource estimations contained within are on an in-situ basis (i.e. as an in-situ tonnage and not adjusted for mining losses or recovery).
- Resources depleted by mined out tonnage (as of January 1, 2015). Mined out surfaces are based on survey data from January 27, 2015 for the Sunrise Field and November 19, 2014 for the Sunset Field. No mining activity has taken place since the survey information was collected that would materially affect the resources estimate.

Totals may not add up due to rounding.

The updated mineral resource estimate for the Ovoot Tolgoi Project was prepared on the Company's behalf by RPM. RPM has been engaged to prepare a technical report reflecting the updated mineral resource estimate, which the Company expects to file on SEDAR within 45 days.

5. Properties continued

Operating Mines continued

Resources continued

Updated Resource Estimate – Ovoot Tolgoi Mine continued

The Company previously reported 175.7 million tonnes of proven and probable reserves in respect of the Ovoot Tolgoi deposit based on a preliminary feasibility study completed in 2012. Since the previously reported estimate of reserves was derived from the 2012 resource estimate that has now been updated and revised as noted above, and a number of key assumptions upon which the 2012 reserve estimate was based have now materially changed, it is expected that, once all relevant factors have been fully analyzed such that an updated reserve estimate can be prepared, the reserves previously reported in respect of the Ovoot Tolgoi deposit will also be quantitatively reduced and qualitatively downgraded. Additional drilling will likely be required to establish the degree of confidence required to produce an updated estimate of reserves.

The Company is engaged in a comprehensive review of the mine plan's design parameters, mine design and project development schedule in order to reflect an updated production plan and current market conditions. The objective of this exercise is to optimize the Company's mine plan having regard to the change in circumstances since the 2012 preliminary feasibility study was prepared. Factors 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 can be expected to exert downward pressure on reserve quantities. These may be offset to some degree by an upgrading of some resources from the inferred category to the 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. However, there can be no assurance that the continuing optimization of the mine plan at the Ovoot Tolgoi Mine will ultimately provide the basis for an updated preliminary feasibility study that will support a new estimate of mineral reserves.

Any downward adjustments to the Company's mineral reserve estimates could materially affect the Company's development and mining plans, which could materially and adversely affect its business and results of operations.

See Risk Factor entitled "There can be no assurance that the continuing optimization of the mine plan at the Ovoot Tolgoi Mine will ultimately provide the basis for an updated preliminary feasibility study that will support a new estimate of mineral reserves" in this MD&A.

Operational Data and Financial Results

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

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 (the "Paved Highway") to consortium partners NTB LLC and SGS (together referred to as "RDCC LLC"). The Company has an indirect 40% shareholding in RDCC LLC through its Mongolian subsidiary SGS.

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.

5. Properties continued

Operating Mines continued

Transportation Infrastructure continued

On May 8, 2015, the commercial operation of the Paved Highway commenced and subsequently the unpaved highway which was previously used to transport coal through the Shivee Khuren Border Crossing was closed. The Paved Highway is expected to significantly increase the safety of coal transportation, reduce environmental impacts and improve efficiency and capacity of coal transportation. The current toll rate is set at nine hundred (900) MNT per tonne of coal as compared to fifteen hundred (1,500) MNT as stated in the signed concession agreement between RDCC LLC and the State Property Committee of Mongolia.

On September 17, 2015, the Invest Mongolia Agency signed an amendment to concession agreement with RDCC LLC to extend the exclusive right of ownership to 30 years.

The paved highway is expected to have a carrying capacity in excess of 20 million tonnes of coal per year.

For the year ended December 31, 2015, RDCC LLC recognized toll fee revenue of $2.6 million (2014: nil).

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, 23 MT4400AC (218 tonne capacity) haul trucks and three Terex TR100 (91 tonne capacity) haul trucks, together with various pieces of ancillary equipment.

Workforce

As at December 31, 2015, SGS employed 337 employees in Mongolia. Of the 337 employees, 37 are employed in the Ulaanbaatar office, 5 in outlying offices and 295 at the Ovoot Tolgoi Mine site. Of the 337 employees based in Mongolia, 336 (99%) are Mongolian nationals and of those, 164 (49%) 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.

5. Properties continued

Development Projects and Exploration Program continued

Soumber Deposit continued

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 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 (9443X and 9449X) pertaining to certain areas associated with the Soumber Deposit for which PMAs have been issued. In January 2016, these two exploration licenses were being converted to mining licenses (MV-025436 and MV-020451) by MRAM.

A territory (Central, East Soumber and Biluut) covering the Soumber Deposit mining license area was designated by the provincial authorities as a special protected area (refer to section 7 "Regulatory Issues and Contingencies" for details of the status of the Soumber Deposit in respect of the latest decision by the provincial authorities).

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.

5. Properties continued

Development Projects and Exploration Program continued

Zag Suuj Deposit continued

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 300metres (“m”) 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 coal 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 2016 will 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. In the context of current coal market conditions, and in particular, a significant decline in coal prices in China, the Company’s principal market, underground mineralization is now assessed by the Company as not having reasonable prospects for eventual economic extraction.

Exploration Program

The Company continued to minimize evaluation and exploration expenditures during 2015 in order to preserve the Company’s financial resources. The 2016 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.

Novel Sunrise private placement

On February 24, 2015, the Company announced it had entered into a private placement agreement with Novel Sunrise providing for the subscription of up to 21.75 million Common Shares for gross proceeds of up to approximately $7.5 million.

On March 3, 2015, the initial tranche of the private placement consisting of approximately $3.5 million of Mandatory Convertible Units was closed. The Mandatory Convertible Units was converted into approximately 10.1 million Common Shares on April 23, 2015 at a price of CAD$0.432 per Common Share.

On April 23, 2015, the Company successfully closed the second tranche of the Novel Sunrise private placement for gross proceeds of approximately $4.0 million through the issue of approximately 11.6 million Common Shares.

6. Liquidity and Capital Resources continued

Liquidity and Capital Management continued

Novel Sunrise private placement continued

The issue price for both tranches of the private placement was set at CAD$0.432 ("Placing Price") and represented a discount of approximately 20% to the then 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.

Swiss Life GP private placement

On July 14, 2015, the Company announced it had successfully closed the private placement with Swiss Life GP, raising $2.9 million for the issuance of 5 million Common Shares.

Sales and purchase agreement between Novel Sunrise and Turquoise Hill

On February 24, 2015, the Company was advised by Novel Sunrise and Turquoise Hill that they had entered into a Sale and Purchase Agreement ("Novel SPA") for the purchase by Novel Sunrise of 48,705,155 Common Shares currently held by Turquoise Hill.

On April 23, 2015, the Company was advised that the Novel SPA, as initially announced by the Company on February 24, 2015, had received all the necessary approvals and closed. Pursuant to the Novel SPA, Novel Sunrise has purchased 48.7 million Common Shares from Turquoise Hill.

Novel Sunrise change in ownership

Novel Sunrise, the largest shareholder of the Company, announced on July 20, 2015 that Cinda acquired ownership and control of all of the outstanding voting (ordinary) shares of Novel Sunrise through Hope Rosy Limited, a wholly-owned subsidiary of Cinda.

Turquoise Hill Loan Facility

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

During 2014 and 2015, the due date of the TRQ Loan was extended several times and the limit has been reduced to $3.8 million.

On October 27, 2015, Turquoise Hill agreed to and signed a Deferral Letter Agreement with the Company, in which Turquoise Hill agreed to a limited and circumscribed deferral of repayment all remaining amounts and obligations now and hereafter owing under the TRQ Loan to April 22, 2016. The key terms and conditions are as follows:

- The Company agreed to effect a partial repayment under the TRQ Loan and a one-time deferral fee of $0.2 million and $50 thousand, respectively, no later than the fifth business day following October 27, 2015, the outstanding amount under the TRQ Loan shall be reduced by $0.4 million upon the receipt of such amount. The Company has made the repayment of $0.2 million and settled the one-time deferral fee of $50 thousand accordingly;
- Interest shall continue to accrue on all outstanding obligations but at the prevailing 12-month US dollar LIBOR rate plus 8%;

6. Liquidity and Capital Resources continued

Liquidity and Capital Management continued

Turquoise Hill Loan Facility continued

- In the event that the Company has the ability and capacity to make one or more further partial repayments between October 27, 2015 and April 22, 2016, then Turquoise Hill agrees to accept such partial repayment up to an aggregate amount of $1 million and the outstanding amount under the TRQ Loan shall be reduced by an amount equal to 200% of the amount so partially repaid up to a maximum aggregate reduction of $2 million;
- In the event that the Company receives any cash proceeds upon closing of any financing or funding transactions by ways of issuance of equity or debt securities or of hybrid equity-debt securities, or any cash proceeds under and sales, offtake or other commercial agreement(s) (whether as a payment, prepayment or otherwise), then immediately following the receipt of such proceeds, the Company shall make a partial repayment to Turquoise Hill in an amount equal to 10% of the aggregate gross proceeds and the outstanding amount under the TRQ Loan shall be reduced by an amount equal to 200% of the amount so repaid;
- In the event that the Company fails to strictly comply with any of the provisions set in the Deferral Letter Agreement shall result in the immediate termination and revocation of the Deferral Letter Agreement and the Company shall immediately be in default of the TRQ Loan.

At December 31, 2015, the outstanding principal and accrued interest under this facility amounted to $3.4 million and $0.6 million respectively (at December 31, 2014, the outstanding principal and accrued interest amounted to $3.8 million and $0.1 million respectively).

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

Interim Funding Loan Commitment

On June 17, 2015, the Company negotiated an interim loan (“Interim Loan”) for up to $8 million from Mr. Wilson Chen (a former principal of Novel Sunrise), with immediate availability, intended to address funding obligations pending the closing of certain private placements. Mr. Chen was a related party of the Company when the Interim Loan was agreed to. Drawdowns under the Interim Loan are to be in the minimum amount of $2 million, with interest at LIBOR + 12% per annum, payable in cash on a quarterly basis in arrears, and maturing on June 18, 2016. The Interim Loan is unsecured and is subject to mandatory repayment upon completion of $30 million of equity or other debt financing.

The Company has not received any funds under the Interim Loan after multiple funding requests, and therefore the Company does not expect to receive any funds from such loan facility.

Short-term Bridge Loan

On October 27, 2015, the Company executed a $10 million bridge loan agreement with an independent Asian based private equity fund. The key commercial terms of the loan are as follows:

- $5.3 million and $4.7 million will mature on May 10, 2016 and July 30, 2016, respectively;
- Interest rate of 8% per annum and payable upon the repayment of loan principal; and
- Loan arrangement fee is charged at 4% of the loan principal drawn.

As at December 31, 2015, the outstanding balance for the short-term bridge loan was $4.9 million (2014: nil).

6. Liquidity and Capital Resources continued

Liquidity and Capital Management continued

Funding Plan

The Company, together with its strategic partner and significant shareholder, Novel Sunrise, continues to advance a funding plan (the "Funding Plan"), with the intention of improving 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.

Subsequent to the change in ownership of Novel Sunrise, the Company held discussions with Cinda who confirmed to the Company its continuing support for the Funding Plan. Therefore the Company continues to advance of the Funding Plan, which includes expanding its customer base further inland in China, securing longer-term coal offtake arrangements, thereby allowing the Company to ramp up production to capacity and obtaining additional loans as required to meet existing obligations and expected further working capital requirements.

At present the Company has decided to advance the Funding Plan rather than additional equity placements.

While it is the Company's intention to continue to advance the Funding Plan, the Funding Plan is dynamic and subject to change based on a number of factors beyond its control. Such factors include 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. There can be no assurance that the Company will be able to continue to execute the Funding Plan or to continue as a going concern.

Going concern considerations

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, 2016 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, 2016, 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 and TRQ Loan. As a result, it may not be able to continue as a going concern. 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 remaining focused on minimizing uncommitted capital expenditures and preserving the Company's growth options.

Several adverse conditions and material uncertainties cast significant doubt upon the going concern assumption. The Company had limited cash of $0.4 million at December 31, 2015 and anticipates that coal prices in China will remain under pressure in 2016, 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 remaining focused on minimizing uncommitted capital expenditures and preserving the Company's growth options.

6. Liquidity and Capital Resources continued

Liquidity and Capital Management continued

Going concern considerations continued

The Company, together with Novel Sunrise continues to advance the Funding Plan in order to pay the interest due under the CIC Convertible Debenture and the TRQ Loan, meet its obligations as they fall due and achieve its business objectives in 2016. These obligations include the tax penalty due to the Government of Mongolia (Refer to "Governmental and Regulatory Investigations" of Section 7 for details). However, there is no guarantee that the Company will be able to continue to advance the 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, 2016, 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 TRQ Loan and the CIC Convertible Debenture (subsequent to December 31, 2015 the Company paid the required cash interest payments under the debenture for January, February and March 2016 of $1.0 million each) and the $1.0 million on April 19, 2016, $10.1 million on May 18, 2016, $8.0 million on May 19, 2016 and $8.1 million on November 19, 2016 remain outstanding to date. As a result, the Company 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 CIC Convertible Debenture and the TRQ Loan, which if not cured within applicable cure periods in accordance with the terms of such instruments, 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 and Turquoise Hill, respectively.

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, 2015, the Company had cash of $0.4 million compared to cash of $3.8 million as at December 31, 2014. The Company had a working capital deficiency (excess current liabilities over current assets) of $(42.3) million as at December 31, 2015 compared to $3.4 million in working capital as at December 31, 2014. As at March 29, 2016, the Company had cash of $0.7 million.

As at December 31, 2015, the Company's gearing ratio was 0.33 (December 31, 2014: 0.23), which was calculated based on the Company's long term liabilities to total assets. As at December 31, 2015, the Company is not subject to any externally imposed capital requirements.

TSX Financial Hardship Exemption Application and Status of Listing on TSX

Prior to completing the Novel Sunrise Private Placement, the TSX advised the Company that it took the view that the placement and the Novel SPA would be aggregated and 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.

6. Liquidity and Capital Resources continued

TSX Financial Hardship Exemption Application and Status of Listing on TSX continued

The Company determined that its then financial circumstances and the time required to obtain shareholder approval required it to rely on the TSX's "financial hardship" exemption and proceed to close the Novel Sunrise Private Placement without first receiving shareholder approval of same.

On February 25, 2015, the TSX placed the Company on remedial delisting review as a consequence of its reliance on the hardship exemption.

On November 30, 2015, the TSX confirmed that it had completed its review of the Company and has determined that the Company met TSX's continued listing requirements.

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 (CAD$11.88). As at December 31, 2015, the CIC owned, through its indirect wholly owned subsidiary, approximately 19.4% 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.

Cash Flow Highlights

$ in thousands	Year ended December 31, 2015		2014
Cash used in operating activities	$	**(10,014)**	$ (29,673)
Cash used in investing activities		**(8,572)**	(625)
Cash generated from financing activities		**15,202**	12,378
Effect of foreign exchange rate changes on cash		**(28)**	(128)
Decrease in cash for the year		**(3,412)**	(18,048)
Cash balance, beginning of year		**3,789**	21,837
Cash balance, end of year	$	**377**	$ 3,789

6. Liquidity and Capital Resources continued

Cash Flow Highlights continued

Cash used in Operating Activities

The Company used $10.0 million of cash in operating activities in 2015 compared to $29.7 million in 2014.

In 2015, there was a decrease in non-cash working capital of $3.6 million compared to an increase of $0.8 million in 2014. In 2015, there has been an increase in the trade and other receivables of $8.2 million and inventories of $2.8 million while the trade and other payables was increased by $13.7 million. 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).

Cash used in Investing Activities

For 2015, the Company used $8.6 million of cash in investing activities compared to $0.6 million for 2014. In 2015, expenditures on property, plant and equipment (including capitalized deferred stripping activities) totaled $8.4 million. In comparison, for 2014, expenditures on plant, property and equipment (including capitalized deferred stripping activities) of $2.8 million and investments in RDCC LLC of $2.5 million were partially offset by net proceeds of $1.7 million generated from the sale of the Tsagaan Tolgoi mining license and proceeds from maturing investments of $3.0 million.

Cash generated from Financing Activities

The cash generated from financing activities in the 2015 primarily related to the net proceeds from the private placements of $10.2 million and the net proceeds obtained from the short-term bridge loan of $5.0 million. For 2014, proceeds generated from private placements were $8.6 million and $3.8 million was drawn from the revolving credit facility obtained from Turquoise Hill.

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, 2015, the Company's operating and capital commitments were:

	As at December 31, 2015			
	Within 1 year	2-3 years	Over 3 years	Total
Capital expenditure commitments	$ 7,328	$ 7,308	$ –	$ 14,636
Operating expenditure commitments	8,530	1,287	645	10,462
Commitments	$ 15,858	$ 8,595	$ 645	$ 25,098

Ovoot Tolgoi Mine Impairment Analysis

The Company determined that an indicator of impairment existed for its Ovoot Tolgoi Mine cash generating unit as at December 31, 2015. The impairment indicator was the continued weakness in the Company's share price during the year ended December 31, 2015 and the fact that the market capitalization of the Company, as at December 31, 2015, was significantly 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 "fair value less costs of disposal" ("FVLCTD") 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, operating cost and life of mine coal production assumptions as at December 31, 2015. The resulting FVLCTD was $217.4 million as at December 31, 2015.

6. Liquidity and Capital Resources continued

Ovoot Tolgoi Mine Impairment Analysis continued

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

- Coal resources as estimated by a third party engineering firm;
- Long term price estimates from an independent market consulting firm;
- Forecasted sales volumes in line with production levels as per the updated 20-year mine plan;
- Updated life-of-mine coal production, strip ratio, capital costs and operating costs; and
- A post-tax discount rate of 14.1% based on an analysis of the market, country and asset specific factors.

Key sensitivities in the valuation model are as follows:

- For each 1% increase/(decrease) in the long term price estimates, the calculated fair value of the cash generating unit increases/(decreases) by approximately $10.7/($10.7) million;
- For each 1% increase/(decrease) in the discount rate, the calculated fair value of the cash generating unit (decreases)/increases by approximately ($17.5)/$20.3 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 ($6.8)/$6.8 million.

The impairment analysis resulted in the identification of an impairment loss and $76.7 million was charged to other operating expense as at December 31, 2015. 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 also recorded impairments to specific assets, prior to the impairment test, in the amount of $16.0 million during the year ended December 31, 2015.

The Company is engaged in a comprehensive review of the Ovoot Tolgoi mine plan's design parameters, mine design and project development schedule in order to reflect an updated production plan and current market conditions. The objective of this exercise is to optimize the Company's mine plan having regard to the change in circumstances since the 2012 preliminary feasibility study was prepared. Factors 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 can be expected to exert downward pressure on reserve quantities. These may be offset to some degree by an upgrading of some resources from the inferred category to the 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. However, there can be no assurance that the continuing optimization of the mine plan at the Ovoot Tolgoi Mine will ultimately provide the basis for an updated preliminary feasibility study that will support a new estimate of mineral reserves.

Any downward adjustments to the Company's mineral reserve estimates could materially affect the Company's development and mining plans, which could materially and adversely affect its business and results of operations.

For more information on the risks associated with the Company's review of its mine plan and the potential effect on a new reserve estimate, refer to the Risk Factor entitled "There can be no assurance that the continuing optimization of the mine plan at the Ovoot Tolgoi Mine will ultimately provide the basis for an updated preliminary feasibility study that will support a new estimate of mineral reserves" in this MD&A.

6. Liquidity and Capital Resources continued

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, 2015. The impairment indicator was the current toll rate being levered is lower than the rate per the concession agreement.

Therefore, the Company conducted an impairment test whereby the carrying value of the Company's investment in RDCC LLC compared to its FVLCTD using a discounted future cash flow valuation model. The carrying value was $25.7 million as at December 31, 2015.

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

- Toll fee estimates reference to the current rate and the concession agreement;
- Traffic volume;
- Repair, maintenance and operating cost; and
- A post-tax discount rate of 11.1% based on an analysis of the market, country and asset specific factors.

Key sensitivities in the valuation model are as follows:

- For each 10% increase/(decrease) in the toll fee estimates or traffic volume, the calculated fair value of the carrying unit increases/(decreases) by approximately $2.0/($2.1) million; and
- For each 1% increase/(decrease) in the discount rate, the calculated fair value of the carrying unit (decreases)/increases by approximately ($2.6)/$3.0 million.

On April 30, 2015 in response to the Road and Transportation Minister's Order no. 115 dated April 29, 2015 a working group was established to assist in the commencement of commercial operations of the paved highway from the Ovoot Tolgoi Complex to the Shivee Khuren border crossing ("Paved Highway"). The current toll rate is set at nine hundred (900) MNT per tonne of coal as compared to fifteen hundred (1,500) MNT as stated in the signed concession agreement between RDCC LLC and the State Property Committee of Mongolia. On September 17, 2015, the Invest Mongolia Agency signed an amendment to concession agreement with RDCC LLC to extend the exclusive right of ownership to 30 years.

The impairment analysis did not result in the identification of an impairment loss and no charge was required as at December 31, 2015. A decline of more than 15% in the toll fee estimates or traffic volume or an increase of more than 1% in the post-tax discount rate may trigger an impairment charge on the investment in RDCC LLC. 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 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.

6. Liquidity and Capital Resources continued

Financial Instruments continued

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.

$ in thousands		As at December 31, 2015		2014
Financial assets				
Loans-and-receivables				
Cash	**$**	**377**	$	3,789
Trade and other receivables		**8,196**		462
Total financial assets	**$**	**8,573**	$	4,251

$ in thousands		As at December 31, 2015		2014
Financial liabilities				
Fair value through profit or loss				
Convertible debenture – embedded derivatives	**$**	**757**	$	1,834
Other-financial-liabilities				
Trade and other payables		**30,917**		18,124
Interest-bearing borrowing		**8,905**		3,945
Convertible debenture – debt host		**107,902**		93,353
Total financial liabilities	**$**	**148,481**	$	117,256

The net loss in 2015 and 2014 included the following amounts of unrealized gain from the fair value adjustments to the embedded derivatives of the convertible debenture which is classified as FVTPL:

$ in thousands		Three months ended December 31, 2015		2014		Year ended December 31, 2015		2014
Unrealized gain on embedded derivatives in CIC Convertible Debenture	**$**	**(379)**	$	(308)	**$**	**(1,077)**	$	(1,560)

7. Regulatory Issues and Contingencies

Governmental and Regulatory Investigations

The Company was subject to investigations by Mongolia's Independent Authority Against Corruption (the "IAAC") regarding allegations of breaches of Mongolia's anti-corruption laws (the "Anti-Corruption Case"), and tax evasion and money laundering (the "Tax Evasion Case").

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 the Restricted Funds held in bank accounts 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.

With respect to the Tax Evasion Case, 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; however, proceedings in respect of tax evasion by former employees of the Company proceeded and culminated in February 2015, when the Company received the written verdict (the "Tax Verdict") of Mongolian Second District Criminal Court. The Tax Verdict pronounced the three former employees of SGS guilty and declared SGS to be financially liable as a "civil defendant" for a penalty (the "Tax Penalty") of MNT35.3 billion (approximately $18.2 million on February 1, 2015).

7. Regulatory Issues and Contingencies continued

Governmental and Regulatory Investigations continued

On February 18, 2015, the Company appealed the Tax Verdict on the grounds that it had 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 appeal by the 10th Appeal Court for Criminal Case of Mongolia (the "Court of Appeal") took place on March 25, 2015 and a panel of three appointed judges upheld the Tax Verdict and dismissed the appeal by the Company (the "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 received the written version Appeal Verdict on April 10, 2015. The Company lodged a final appeal with the Supreme Court of Mongolia on April 22, 2015. In accordance with Mongolia's criminal procedure law, SGS filed the appeal with the Supreme Court of Mongolia through the Second District Criminal Court of Justice.

On April 29, 2015 the Second District Criminal Court refused to advance SGS's appeal to the Supreme Court. Following an immediate protest by SGS, the Second District Criminal Court delivered SGS's appeal to the Supreme Court of Mongolia.

On May 20, 2015, SGS was informed that the Supreme Court had refused to hear the appeal and had returned the appeal to the Second District Criminal Court of Justice. The Supreme Court based its decision on a restrictive reading of Article 342 of the Criminal Procedure Law of Mongolia which stipulates that "the defendant, person acquitted, the victim, and their respective defense counsel have the right to lodge a complaint to the Supreme Court". The Supreme Court concluded that the omission of a specific reference to a civil defendant in Article 342, in and of itself denies SGS, in such capacity, the right to lodge an appeal to the Supreme Court.

In its decision, the Supreme Court did not address other provisions of the Criminal Procedure Law and the Law on Courts of Mongolia, which provide that civil defendants have standing to appeal to the Supreme Court and that no judicial proceedings or decisions in Mongolia are outside of the scope of supervision by the Supreme Court.

On May 21, 2015, SGS sent an official letter of protest to the Presiding Justice of the Criminal Chamber of the Supreme Court (the "Presiding Justice"), challenging the decision to refuse to hear the tax case on appeal. On June 2, 2015, SGS received a formal response from the Presiding Justice, confirming the Supreme Court's refusal to hear the tax case. In the letter, the Presiding Justice reaffirmed the restrictive interpretation of Article 342 of the Criminal Procedure Law.

With the refusal by the Supreme Court to hear the case on appeal, the Tax Verdict has entered into force. The Tax Verdict is, however, not immediately payable and enforceable against SGS absent further actions prescribed by the laws of Mongolia. In particular, SGS has not received a copy of the bailiff's resolution on execution of the Tax Verdict, as required under the Law of Mongolia on Execution of Court Decisions in order for any judgment execution process to happen. However, the Company made a corresponding provision for the court case penalty of $18.0 million in the second quarter of 2015 given the Tax Verdict has entered into force.

On October 6, 2015, the Company was informed by its Mongolian banks (where the Restricted Funds were held) that they had received an official request from CDIA to transfer the Restricted Funds according to the court decision. $1.2 million was transferred to CDIA from the frozen bank accounts in October and November 2015.

7. Regulatory Issues and Contingencies continued

Governmental and Regulatory Investigations continued

While the Company had various additional legal avenues available to it to continue defending itself, it has decided to and is currently seeking to resolve amicably the dispute giving rise to the Tax Verdict in a manner that is both appropriate having regard to the Company's limited financial resources and supportive of a positive environment for foreign investment in Mongolia. There can be no assurance, however, that any such resolution can be successfully negotiated by the Company either at all or on favourable terms, or that the terms of any resolution to which the Government would be prepared to agree would not be materially adverse to the Company. In such case, this may result in an event of default under each of the CIC Convertible Debenture and the TRQ Loan by Turquoise Hill and each of CIC and Turquoise Hill would have the respective right to declare the full principal and accrued interest owing to such party immediately due and payable. Such an event of default under the CIC Convertible Debenture, the TRQ Loan or the Company's inability to pay the penalty could result in voluntary or involuntary proceedings involving the Company (including bankruptcy). For further information see the Risk Factor entitled "If the Tax Verdict is enforceable against SGS and the Tax Penalty is immediately payable the Company 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 conducted an internal investigation into possible breaches of law, internal corporate policies and codes of conduct arising from allegations raised in the context of investigations by Mongolian authorities. The former Chair of the Audit Committee also participated in a tripartite committee, comprised of the Audit Committee Chairs of the Company and Turquoise Hill and a representative of Rio Tinto, focused on the investigation of a number of those allegations, including possible violations of anti-corruption laws. The tripartite committee substantially completed the investigative stage 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 investigation 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.

In the opinion of management of the Company, at December 31, 2015 a provision for this matter is not required.

Mongolian IAAC investigation

In the first quarter of 2013, the Company was subject to orders imposed by 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 as described above under "Governmental and Regulatory Investigations" and continued to be enforced by the Mongolian State Investigation Office (the "SIA"). The restrictions on the assets were reaffirmed in the Tax Verdict and form part of the Tax Penalty payable by the Company.

The orders related 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 restricted the use of in-country funds but did not have any material impact on the Company's activities. The Restricted Funds were transferred to the CDIA as partial payment of the Tax Verdict in October and November 2015. See "Governmental and Regulatory Investigations" above.

7. Regulatory Issues and Contingencies continued

Mongolian IAAC investigation continued

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

Class action lawsuit

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

For more details in respect of the class action lawsuit, 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 "Regulatory Issues and Contingencies".

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

The Ontario Court dismissed the plaintiff's leave motion as against each of the former senior officers and former and current directors of the Company named in the Class Action on the basis that the "large volume of compelling evidence" proved the defence of reasonable investigation on the balance of probabilities and provided the basis for dismissing the Leave Motion as against them.

The Ontario Court granted the Certification Motion against the Company on the basis that, at this stage, the plaintiff met the low legal standard of "reasonable possibility of success". In granting leave, however, the Court acknowledged the "… compelling evidence of the defendant company … that may prevail at trial …". The Ontario Court refused an award of costs for the Certification Motion to the plaintiff. The Company is seeking leave to appeal this decision. The plaintiff has also appealed this decision. The appeal by the plaintiff and, if leave to appeal is granted, the appeal by the Company, are scheduled to be heard in June 2016. Rulings are expected by the end of September 2016.

The Company disputes and is vigorously defending 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 Clsss Action or determine the amount of any potential losses, if any. However, the Company has judged a provision for this matter at December 31, 2015 is not required.

Toll wash plant agreement with Ejin Jinda

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

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

7. Regulatory Issues and Contingencies continued

Mining prohibition in Specified Areas Law

In July 2009, Mongolia promulgated the Law on Prohibiting Mineral Exploration and Extraction Near Water Sources, Protected Areas and Forests (the "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.

In order to address the issues facing its implementation, in February, 2015 the Parliament of Mongolia adopted an amendment to the Law on Implementation of the Mining Prohibition in Specified Areas Law (the "Amended Law on Implementation"). The Amended Law on Implementation provides an opportunity for license holders covered within the scope of application of the Mining Prohibition in 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 will be adopted by the Government. The license holders must also apply within 3 months after the amendment to the Law on Implementation comes into effect for permission to MRAM to resume activities. The Company submitted its application with respect to its mining licenses before the deadline set on June 16, 2015 but has not yet received any communication from MRAM on the status of its application.

Pursuant to the Mongolian Law "To prohibit mineral exploration and mining operations at headwaters of rivers, water protection zones and forested areas", the government administrative agency has notified the Company that special license area 12726A is partly overlapping with a water reservoir. The Company has inspected the area together with the Cadastral Division of the Mineral Resource Authority as well as through the cadastral registration system of the Ministry of Environment, it is determined that 29 hectares of Sukhait Bulag is partly overlapping with a water reservoir, of which has been partly handed over. (Resolution No.6/7522 issued on September 29, 2015 by the Head of Cadastral Division of the Mineral Resource Authority)

In accordance with Article 22.3 of Law of Mongolia on Water, 5,602.96 hectares of land, including Sukhaityn Bulag, Uvur Zadgai, and Zuun Shand pertaining to exploration license 9443X, is overlapping with protected area boundary. It has been officially handed over to the local administration. (Resolution No.688 issued on September 24, 2015 by the Head of Cadastral Division of the Mineral Resource Authority)

In connection with the nullification of Annex 2 of the government order No.194 "On determining boundary" issued on June 5, 2012, area around the water reservoir located at MV-016869 license area and Soumber mining license 9449X has been annulled from the Specified Area Law.

Therefore, mining license 12726A, MV-016869 and exploration licenses 9443X, 9449X were removed from the list of licenses that is overlapping with the prohibited areas described in the law.

The potential impact of the Mining Prohibition in Specified Areas Law on the mineral exploration licenses 13779X and 5267X is unclear pending the adoption by the Government of the relevant regulations pursuant to the Amended Law on implementation. The Company will continue to monitor the developments and ensure that it follows the necessary steps in the Amended Law on Implementation to secure its operations and licenses and is fully compliant with Mongolian law.

7. Regulatory Issues and Contingencies continued

Special Needs Territory in Umnugobi

On February 13, 2015, the whole of the Soumber mining license and a portion of SGS' exploration license No.9443X (the "License Areas") were included into a special protected area (to be further referred as Special Needs Territory "SNT") newly set up by the Umnugobi Aimag's Civil Representatives Khural (the "CRKh") to establish a strict regime on the protection of natural environment and prohibit mining activities in the territory of the SNT.

In March 2015, SGS filed a complaint with the 12th Court for Administrative Cases of First Instance (the "Administrative Court") seeking the annulment of CRKh's decision to the extent it impacted the License Areas. In parallel, SGS initiated negotiations with the CRKh in order to reach an acceptable solution.

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

Commercial arbitration in Hong Kong

On June 24, 2015, First Concept served the Notice on SGS in respect of the Coal Supply Agreement. The arbitral proceedings (the "Arbitration") are deemed to have commenced on June 24, 2015, as the date when the respondent received the Notice.

According to the Notice, First Concept: alleged, inter alia, (i) that SGS had failed and/or wrongfully refused to sell any coal to First Concept; (ii) expressed its wish to have the dispute settled in an arbitration to be administered by the Hong Kong International Arbitration Centre; and (iii) sought the repayment of the prepayment, in the sum of $11.5 million, it made to SGS under the Coal Supply Agreement, as well as any and all damages that may be due to it.

Under the Coal Supply Agreement, SGS agreed to sell coal to First Concept between May 22, 2014 and May 31, 2015 for a total consideration of $11.5 million. It was also agreed that that First Concept would pre-pay the $11.5 million. While First Concept fulfilled its payment obligation under the contract, it totally failed to fulfill its obligation to collect and transport the coal. Pursuant to the Coal Supply Agreement that obligation fell squarely on First Concept, while SGS was only obliged to make the coal available at its stockpile. The sole reason for the lack of coal sales to First Concept was the continued failure of First Concept to complete the necessary legal requirements for collection and transportation of coal and to provide a pickup schedule in accordance with industry practice. Contrary to the allegation by First Concept that SGS "wrongfully refused" to sell the coal, SGS has repeatedly advised First Concept of its willingness, ability and readiness to make available the coal for collection at its stockpile. In fact, SGS, at all times during the term of the Coal Supply Agreement, had more than sufficient coal at its stockpile to meet its obligations.

The Company, therefore, firmly rejects the allegations of First Concept in the Notice as lacking any merit. On October 26, 2015, the Company received the Statement of Claim from First Concept and will vigorously defend itself in the Arbitration, including claiming the relevant fees and damages from First Concept. The trial dates of the Arbitration are scheduled to be held in the fourth quarter of 2016.

7. Regulatory Issues and Contingencies continued

Commercial arbitration in Hong Kong continued

There can be no assurance, however, that the Company will prevail in the Arbitration. Should SGS be unsuccessful in the Arbitration, the Company may not be able to re-pay the sum of $11.5 million. In such case, this may result in an event of default under the Debenture held by CIC and CIC would have the right to declare the full principal and accrued interest owing thereunder immediately due and payable. Such an event of default under the CIC Convertible Debenture or the Company's inability to re-pay the sum of $11.5 million to First Concept could result in voluntary or involuntary proceedings involving the Company.

Notice of claim by former Chief Executive Officer

On June 30, 2015, the Company was served with a Notice of Civil Claim filed by the Company's former President and Chief Executive Officer, Alexander Molyneux, in the British Columbia Supreme Court. The claim relates to alleged breaches of Mr. Molyneux's employment agreement by the Company. In addition to the Company, Turquoise Hill, the Company's largest shareholder at the time of Mr. Molyneux's employment, was also named in the claim.

Mr. Molyneux acted as the Company's President (from April 2009) and Chief Executive Officer (from October 2009) until September 2012, when the Company terminated his employment.

Mr. Molyneux is seeking damages in excess of $1 million in his Notice of Claim. The Company considers the action is without merit. SouthGobi intends to vigorously defend the action and reserves its right to pursue all legal rights and remedies available to it in connection with the proceedings. The Company filed a response to Civil Claim and Counterclaim in September 2015. A trial date has not yet been set.

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.

8. Environment continued

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 independent 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 – Prior the completion of the Novel SPA and private placement with Novel Sunrise on April 23, 2015, Turquoise Hill was the Company's immediate parent company. Turquoise Hill's shareholding at April 1, 2015 was approximately 48% which declined to 20% at December 31, 2015 of the outstanding Common Shares following the completion of the Novel SPA. Turquoise Hill provides various administrative services to the Company on commercial terms.

- Rio Tinto – Prior to the completion of the Novel SPA and private placement with Novel Sunrise on April 23, 2015, Rio Tinto was the Company's ultimate parent company. 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.

- 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.

9. Related Party Transactions continued

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

		Year ended December 31, 2015		2014
Corporate administration	$	**463**	$	711
Salaries and benefits		**216**		1,392
Finance cost		**409**		415
Related party expenses	**$**	**1,088**	$	2,518

		Year ended December 31, 2015		2014
Turquoise Hill		**409**		513
Rio Tinto		**261**		1,392
Turquoise Hill Singapore		**418**		415
Related party expenses	**$**	**1,088**	$	2,518

		Year ended December 31, 2015		2014
Corporate administration	**$**	**–**	$	62

		Year ended December 31, 2015		2014
Turquoise Hill	**$**	**–**	$	62
Related party expense recovery	**$**	**–**	$	62

As at December 31, 2015, the Company had accounts payable of $8.6 million (2014: $8.5 million) and interest-bearing borrowings totaling $4.0 million (2014: $3.9 million) with related parties. Included in the $12.6 million accounts payable as at December 31, 2015 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 7 “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, 2015.

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 29, 2016, 257.7 million common shares were issued and outstanding. There are also incentive share options outstanding to acquire 2.1 million unissued common shares with exercise prices ranging from CAD$0.29 to CAD$9.43. There are no preferred shares outstanding.

As at March 29, 2016, Novel Sunrise holds a total of approximately 72.1 million Common Shares representing approximately 28.0% of the issued and outstanding Common Shares.

As at March 29, 2016, CIC holds a total of 49.9 million Common Shares representing approximately 19.4% of the issued and outstanding Common Shares.

As at March 29, 2016, Turquoise Hill directly owned approximately 46.1 million Common Shares representing approximately 17.9% of the issued and outstanding Common Shares.

11. Disclosure Controls and Procedures and Internal Controls over Financial Reporting (“ICFR”)

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

Management, including the Chief Executive Officer 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, 2015, Chief Executive Officer 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.

11. Disclosure Controls and Procedures and Internal Controls over Financial Reporting ("ICFR") continued

Management assessed the effectiveness of internal control over financial reporting using the Internal Control – Updated Integrated Framework (2013) 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, 2015.

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, 2015. 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.

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, 2016 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, 2016, 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.

Several adverse conditions and material uncertainties cast significant doubt upon the going concern assumption. The Company had limited cash of $0.4 million at December 31, 2015 and anticipates that coal prices in China will remain under pressure in 2016, 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 remaining focused on minimizing uncommitted capital expenditures and preserving the Company's growth options.

12. Critical Accounting Estimates and Judgments continued

Liquidity and Going Concern Assumption continued

The Company, together with Novel Sunrise, continues to advance the Funding Plan in order to pay the interest due under the CIC Convertible Debenture and the TRQ Loan, meet its obligations as they fall due and achieve its business objectives in 2016. These obligations include the tax penalty due to the Government of Mongolia (Refer to "Governmental and Regulatory Investigations" of Section 7 for details). However, there is no guarantee that the Company will be able to continue to advance the 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, 2016, 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 TRQ Loan and CIC Convertible Debenture (subsequent to December 31, 2015 the Company paid the required cash interest payments under the debenture for January, February and March 2016 of $1.0 million each) and the $1.0 million on April 19, 2016, $10.1 million on May 18, 2016, $8.0 million on May 19, 2016 and $8.1 million on November 19, 2016 remain outstanding to date. As a result, the Company 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 under each of the CIC Convertible Debenture and the TRQ Loan, which if not cured within applicable cure periods in accordance with the terms of such instruments, 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 and Turquoise Hill, respectively.

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, 2015. Changes in the inputs to the valuation model could impact the carrying value of the embedded derivatives in the CIC Convertible Debenture and the amount of unrealized gains or losses were 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.

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, 2015.

12. Critical Accounting Estimates and Judgments continued

Review of Carrying Value of Assets and Impairment Charges continued

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, 2015.

Estimated resources

The Company estimates its mineral resources based on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the ore body, and requires complex geological judgments to interpret the data. Changes in resource estimates may impact the carrying value of mining interests, mine restoration provisions, recognition of deferred tax assets, and depreciation and amortization charges.

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.

13. Recent Accounting Pronouncements

The standards and interpretations that are issued up to the date of issuance of the Company's financial statements, but were not effective during the year ended December 31, 2015, are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

IFRS 9	Financial Instruments(ii)
IFRS 15	Revenue from Contracts with Customers(ii)
IFRS 16	Leases(iii)
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations(i)
Amendments to IFRS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation(i)

(i) Effective for annual periods beginning on or after January 1, 2016
(ii) Effective for annual periods beginning on or after January 1, 2018
(iii) Effective for annual periods beginning on or after January 1, 2019

IFRS 9, Financial Instruments ("IFRS 9") – classification and measurement, addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through P&L. The standard introduces a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted. The Company has yet to assess IFRS 9's impact on its financial statements.

13. Recent Accounting Pronouncements continued

IFRS 15, Revenue from Contracts with Customers ("IFRS 15"), deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18, Revenue, and IAS 11, Construction Contracts, and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2018 and earlier application is permitted. The Company has yet to assess IFRS 15's impact on its financial statements.

IFRS 16, Leases ("IFRS 16"), on January 13, 2016 the IASB issued IFRS 16, according to which, all leases will be on the balance sheet of lessees, except those that meet the limited exception criteria. Respectively, rent expense is to be removed and replaced by the recording of depreciation and finance expenses. The standard is effective for annual periods beginning on or after January 1, 2019. The Company has yet to assess the impact of adoption.

There are no other IFRS or IFRIC interpretations with future effective dates that are expected to have a material 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 the economic operation of the Company's Ovoot Tolgoi Project; (iii) risks relating to the Company's other projects in Mongolia; and (iv) 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.

Several 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 $0.4 million at December 31, 2015 and anticipates that coal prices in China will remain under pressure in 2016, 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, 2016 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 options 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 CIC Convertible Debenture, the operational synergies created by its association with Novel Sunrise and advancement of the 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.

14. Risk Factors continued

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

Unless the Company acquires additional sources of financing and/or funding in the short term, the ability of the Company to continue as a going concern is threatened. continued

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 CIC Convertible Debenture, which is approximately $1.0 million on April 19, 2016, $10.1 million on May 18, 2016, $8.0 million on May 19, 2016 and $8.1 million on November 19, 2016.

In addition to advancing of the 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 advancement of the Funding Plan (see "risk factor described in "RISK FACTORS – Risk Relating to the Company's Ability to Continue As A Going Concern – "The Funding Plan may not be successfully advanced" in this MD&A) and based the projections from these processes for the year ending December 31, 2016, 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 TRQ Loan, and monetary penalty imposed in respect of the Tax Penalty.

Further, the Company must continue to actively seek additional sources of financing and/or coal prepayments to continue operating and meet its objectives.

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 Funding Plan may not be successfully advanced.

While it is the Company's intention to continue to advance the Funding Plan, the advancement of such plan 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 in 2016, which will continue to impact the Company's margins and liquidity. If the Company in unable to successfully advance the 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 Funding Plan, refer to "LIQUIDITY AND CAPITAL RESOURCES – Liquidity and Capital Management – Funding Plan" in this MD&A.

If the Tax Verdict is enforceable against SGS and the Tax Penalty is immediately payable; it will likely not have sufficient cash resources to satisfy the penalty imposed thereunder.

With the refusal by the Supreme Court to hear the case on appeal, the Tax Verdict has entered into force. The Tax Verdict is, however, not immediately payable and enforceable against SGS absent further actions prescribed by the laws of Mongolia. In particular, SGS has not received a copy of the bailiff's resolution on execution of the Tax Verdict, as required under the Law of Mongolia on Execution of Court Decisions in order for any judgment execution process to happen. However, the Company made a corresponding provision for the court case penalty of $18.0 million in the second quarter of 2015 given the Tax Verdict has entered into force. In addition, in October 2015, the Restricted Funds were transferred to the CDIA in partial satisfaction of the Tax Penalty.

14. Risk Factors continued

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

If the Tax Verdict is enforceable against SGS and the Tax Penalty is immediately payable; it will likely not have sufficient cash resources to satisfy the penalty imposed thereunder. continued

If the Tax Verdict is enforceable against SGS and the Tax Penalty is immediately payable, 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 Class Action or determine the amount of any potential losses, if any.

On November 5, 2015, the Ontario Court rendered its decision on preliminary motions to seek leave to bring a claim under applicable Canadian securities legislation and certification of the Class Action. The Ontario Court dismissed the plaintiff's motions as against each of the former senior officers and former and current directors of the Company named in the Class Action. The plaintiff has appealed this decision. The Ontario Court granted the preliminary leave motion against the Company and the Company is seeking leave to appeal the decision. The appeal by the plaintiff and leave to appeal by the Company are scheduled to be heard in June 2016. Rulings are expected on the plaintiff's appeal by the end of September 2016.

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 Class 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 Class Action.

If an event of default occurs under the CIC 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 CIC 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 CIC 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.

14. Risk Factors continued

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

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 CIC Convertible Debenture (see Risk Factor below entitled "If an event of default occurs under the CIC 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.

Risks Relating to the Economic Operation of the Company's Ovoot Tolgoi Project

There can be no assurance that the continuing optimization of the Ovoot Tolgoi Mine and will ultimately provide the basis for an updated preliminary feasibility study that will support a new estimate of mineral reserves

The Company previously reported 175.7 million tonnes of proven and probable reserves in respect of the Ovoot Tolgoi deposit based on a preliminary feasibility study completed in 2012. Since the previously reported estimate of reserves was derived from the 2012 resource estimate that has now been updated and revised as noted above, and a number of key assumptions upon which the 2012 reserve estimate was based have now materially changed, it is expected that, once all relevant factors have been fully analyzed such that an updated reserve estimate can be prepared, the reserves previously reported in respect of the Ovoot Tolgoi deposit will also be quantitatively reduced and qualitatively downgraded. Additional drilling will likely be required to establish the degree of confidence required to produce an updated estimate of reserves.

The Company is engaged in a comprehensive review of the mine plan's design parameters, mine design and project development schedule in order to reflect an updated production plan and current market conditions. The objective of this exercise is to optimize the Company's mine plan having regard to the change in circumstances since the 2012 preliminary feasibility study was prepared. Factors 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 can be expected to exert downward pressure on reserve quantities. These may be offset to some degree by an upgrading of some resources from the inferred category to the 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. However, there can be no assurance that the continuing optimization of the mine plan at the Ovoot Tolgoi Mine will ultimately provide the basis for an updated preliminary feasibility study that will support a new estimate of mineral reserves.

Any downward adjustments to the Company's mineral reserve estimates could materially affect the Company's development and mining plans, which could materially and adversely affect its business and results of operations.

14. Risk Factors continued

Risks Relating to the Company's Projects in Mongolia

In addition to the Tax 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, 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.

14. Risk Factors continued

Risks Relating to the Company's Projects in Mongolia continued

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). Refer to Risk Factor entitled "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."

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 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.

14. Risk Factors continued

Risks Relating to the Company's Projects in Mongolia continued

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. continued

In order to address the issues facing its implementation, in February, 2015 the Parliament of Mongolia adopted an amendment to the Law on Implementation of the Mining Prohibition in Specified Areas Law (the "Amended Law on Implementation"). The Amended Law on Implementation provides an opportunity for license holders covered within the scope of application of the Mining Prohibition in 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 will be adopted by the Government. The license holders must also apply within 3 months after the amendment to the Law on Implementation comes into effect for permission to MRAM to resume activities. The Company submitted its application with respect to its mining licenses before the deadline set on June 16, 2015 and hasn't yet received any communication from the MRAM on the status of its application.

Pursuant to the Mongolian Law "To prohibit mineral exploration and mining operations at headwaters of rivers, water protection zones and forested areas", the government administrative agency has notified the Company that special license area 12726A is partly overlapping with a water reservoir. The Company has inspected the area together with the Cadastral Division of the Mineral Resource Authority as well as through the cadastral registration system of the Ministry of Environment, it is determined that 29 hectares of Sukhait Bulag is partly overlapping with a water reservoir, of which has been partly handed over. (Resolution No.6/7522 issued on September 29, 2015 by the Head of Cadastral Division of the Mineral Resource Authority)

In accordance with Article 22.3 of Law of Mongolia on Water, 5,602.96 hectares of land, including Sukhaityn Bulag, Uvur Zadgai, and Zuun Shand pertaining to exploration license 9443X, is overlapping with protected area boundary. It has been officially handed over to the local administration. (Resolution No.688 issued on September 24, 2015 by the Head of Cadastral Division of the Mineral Resource Authority)

In connection with the nullification of Annex 2 of the government order No.194 "On determining boundary" issued on June 5, 2012, area around the water reservoir located at MV-016869 license area and Soumber mining license 9449X has been annulled from the Specified Area Law.

Therefore, mining license 12726A, MV-016869 and exploration licenses 9443X, 9449X were removed from the list of licenses that is overlapping with the prohibited areas described in the law.

The potential impact of the Mining Prohibition in Specified Areas Law on the mineral exploration licenses 13779X and 5267X is unclear pending the adoption by the Government of the relevant regulations pursuant to the Amended Law on implementation. The Company will continue to monitor the developments and ensure that it follows the necessary steps in the Amended Law on Implementation to secure its operations and licenses 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.

14. Risk Factors continued

Risks Relating to the Company's Projects in Mongolia continued

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. In 2015, the Parliament of Mongolia adopted an amendment to the 2006 Minerals Law providing for the possibility for the Government to collect a special royalty on Mineral Deposits of Strategic Importance in lieu of holding an equity stake in such deposit. It stipulates that the parties can agree to transfer to the licence holder the state's share in the Mineral Deposit of Strategic Importance upon the approval of an authorized Government body, with the licence holder agreeing to pay a special royalty at a percentage (not to exceed 5%) to be approved by the Government.

14. Risk Factors continued

Risks Relating to the Company's Projects in Mongolia continued

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. continued

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

Even if the Company establishes the economic viability of a project, original estimates may prove inaccurate and/or costs may exceed original budgets and may not achieve the intended economic results.

The Company's business strategy has historically depended largely on expanding its production capacity at the Ovoot Tolgoi Mine and further developing its other coal projects into commercially viable mines. However, the economic viability of the Ovoot Tolgoi Mine is subject to reassessment in connection with the mine plan optimization review currently underway. The Company's long term intention to re-establish reserves at Ovoot Tolgoi Mine and to develop mines at the Soumber Deposit and the Zag Suuj 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.

14. Risk Factors continued

Risks relating to the Company's business and industry continued

Even if the Company establishes the economic viability of a project, original estimates may prove inaccurate and/or costs may exceed original budgets and may not achieve the intended economic results. continued

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 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 (such as the current mine plan review in respect of Ovoot Tolgoi Project). 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.

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 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.

14. Risk Factors continued

Risks relating to the Company's business and industry continued

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

As at March 29, 2016, Novel Sunrise holds a total of approximately 72.1 million Common Shares representing approximately 28.0% of the issued and outstanding Common Shares.

As at March 29, 2016, CIC holds a total of 49.9 million Common Shares representing approximately 19.4% of the issued and outstanding Common Shares.

As at March 29, 2016, Turquoise Hill directly owned approximately 46.1 million Common Shares representing approximately 17.9% of the issued and outstanding Common Shares.

As of March 29, 2016, Novel Sunrise, CIC (also the Company's largest creditor by virtue of the CIC Convertible Debenture) and Turquoise Hills hold approximately 28.0%, 19.4% and 17.9% of the Common Shares, respectively. 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, both Novel Sunrise and CIC 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 parties.

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 2015 and 2014, management has assessed that recognition of a provision for uncertain tax position is not necessary.

14. Risk Factors continued

Risks relating to the Company's business and industry continued

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

14. Risk Factors continued

Risks relating to the Company's business and industry continued

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. continued

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, the whole of the Soumber mining license and a portion of SGS' exploration license No.9443X (the "License Areas") were included into a special protected area (to be further referred as Special Needs Territory "SNT") newly set up by the Umnugobi Aimag's Civil Representatives Khural (the "CRKh") to establish a strict regime on the protection of natural environment and prohibit mining activities in the territory of the SNT.

In March 2015, SGS filed a complaint with the 12th Court for Administrative Cases of First Instance (the "Administrative Court") seeking the annulment of CRKh's decision to the extent it impacted the License Areas. In parallel, SGS initiated negotiations with the CRKh in order to reach an acceptable solution.

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

The Company is confident of a positive outcome in its challenge of this new CRK resolution; however, 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.

14. Risk Factors continued

Risks relating to the Company's business and industry continued

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.

14. Risk Factors continued

Risks relating to the Company's business and industry continued

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. continued

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.

On May 8, 2015, the commercial operation of the Paved Highway commenced and subsequently the unpaved highway which was previously used to transport coal through the Shivee Khuren Border Crossing was closed. The Paved Highway is expected to significantly increase the safety of coal transportation, reduce environmental impacts and improve efficiency and capacity of coal transportation. 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.

14. Risk Factors continued

Risks relating to the Company's business and industry continued

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

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.

Depending on the ultimate success of the 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 five active customers with the largest customer representing approximately 56%, the second largest customer representing approximately 37%, the third largest customer representing approximately 4% and the remaining customers accounting for 3% of the Company's total sales for the year ended December 31, 2015. In order to mitigate this risk, the Company developed the 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.

14. Risk Factors continued

Risks relating to the Company's business and industry continued

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 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.

14. Risk Factors continued

Risks relating to the Company's business and industry continued

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

The relationship between Mongolia and China is strong at the present time in light of the recent presidential visits between the two countries over the past two years. Furthermore, with the implementation of the "Prairie Road" program in Mongolia and the "One Belt, One Road" strategy in China, which both symbolize more cooperative opportunities in the energy, infrastructure and agriculture sectors. The Company is well positioned to capture the resulting business opportunities between the two countries given i) strong strategic support from its largest shareholders (Cinda and CIC), which are both state-owned-enterprises in China; and ii) the Company has a strong operation record for the past ten years in Mongolia and being one of the largest enterprise in Mongolia.

2015 was a challenging year for commodity markets, including the coal market. The coal market in China, the main market for Mongolian coal producers, suffered from overcapacity coupled with decreasing demand. China's coal consumption fell by 3.7% in 2015 year-on-year while coal prices continued to decline before stabilizing in the fourth quarter of 2015. In response to the difficult market conditions, the Government of Mongolia introduced a more favorable royalty regime in February 2016 to ease the tax burden of Mongolian mining companies.

15. Outlook continued

In February 2016, China announced plans to reduce its coal production by approximately 500 million tonnes in 3 to 5 years to accelerate supply-side reform. This is anticipated to resolve the overcapacity issue in the medium term. Further, it is expected that china will implement more restrictive coal import policies, especially on lower grade coal, as a result of the government's initiatives to curb carbon emission. To cope with the challenging market conditions, the Company will improve its product mix by commencing coal washing operation in 2016 to beneficiate a portion of its coal into washed coal products to meet increasing market demand of higher quality coal. Despite the growing importance of sourcing alternative energy sources in China, the Company continues to believe that coal will remain as the main source of energy in China for the foreseeable future.

Despite the expected improvement in the coal market in the medium term following the implementation of supply-side reform policies of the Chinese government, the Company anticipates market conditions in 2016 will remain challenging. With the execution of the Company's sales strategy to reach out to end customers, coal sales have been steadily increasing since the beginning of 2016. The Company will continue to strive for revenue growth by expanding its customer base particularly in the north-western China region where the demand for higher quality coal is greater than in the rest of China.

In addition to the revenue growth, the Company will continue to improve operation efficiency and productivity to reduce costs. The Company is also evaluating various other business opportunities in addition to coal mining and trading in Mongolia to diversify the risk profile.

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

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

- **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** – Following the updated mineral resource estimate for the Ovoot Tolgoi Project, the Company's aggregate coal resources include measured and indicated resources of 365 million tonnes and inferred resources of 285 million tonnes. In addition, most of the Company's coal resources have coking properties, including a mixture of semi-soft coking coal and hard coking coal.

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

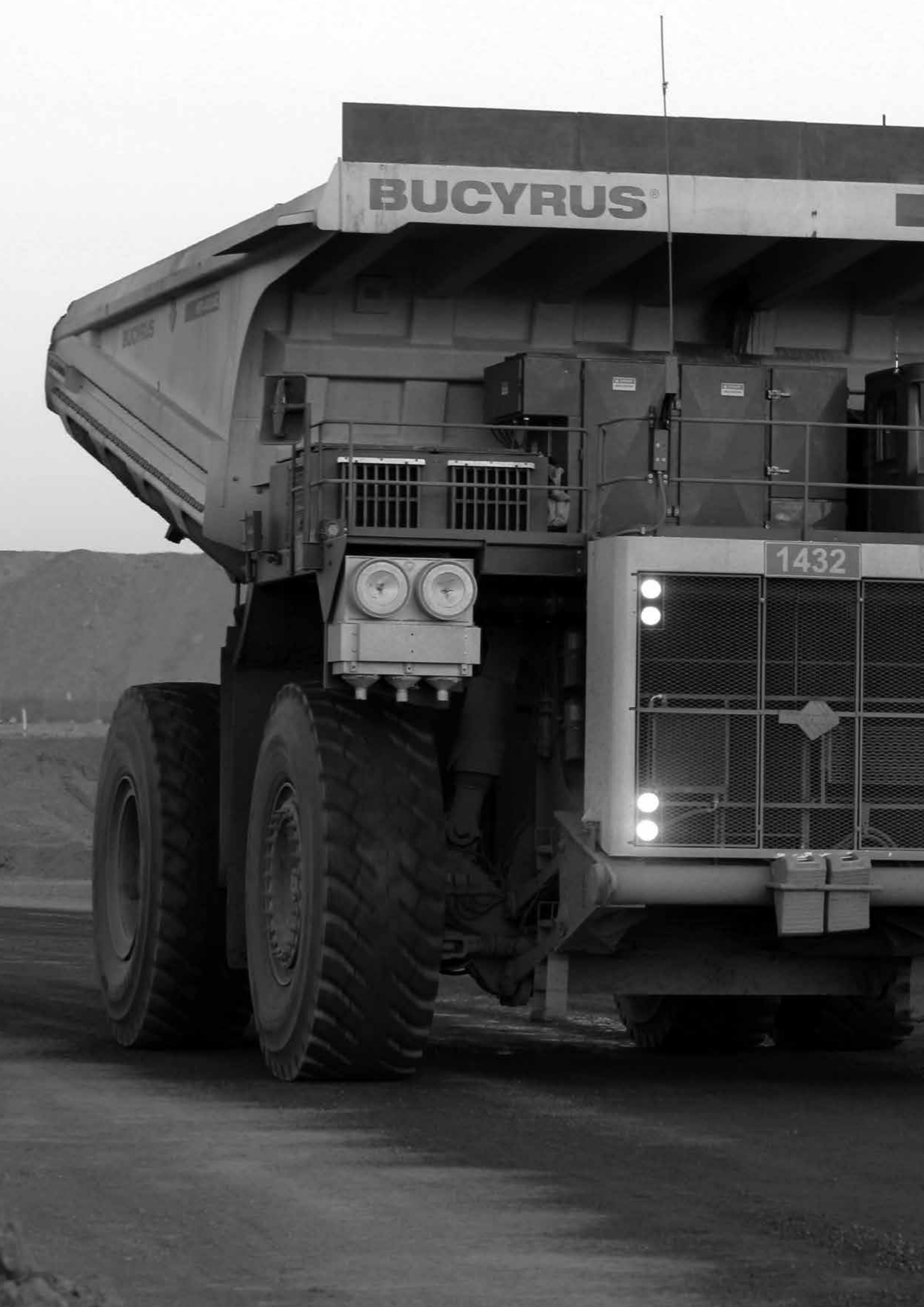
15. Outlook continued

Objectives

The Company's objectives for 2016 and the medium term are as follows.

- Expand customer base with enhanced product mix – The Company aims to strengthen the sales and logistics capabilities to expand the customer base further inland in China and to beneficiate the coal by washing.
- Optimize cost structure – The Company is focused on further cost reduction by improving productivity and operational efficiency while maintaining product quality and the sustainability of production.
- Progress growth options – Subject to available financial resources, the Company plans to further the development of the Soumber Deposit, while staying compliant with all government requirements in relation to its licenses and agreements.
- Diversify the risk profile of the Company – The Company is evaluating various business opportunities besides coal mining and coal trading in Mongolia, including but not limited to power generation, contract mining and real estate. The Company aims to bridge into the new era of Mongolia prosperity committed to contribute to the long term development of Mongolia.
- Operate in a socially responsible manner – The Company is focused on maintaining the highest standards in health, safety and environmental performance.

March 29, 2016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SEVERAL GROWTH OPTIONS

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

CONSOLIDATED FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of SouthGobi Resources Ltd.

We have audited the accompanying consolidated financial statements of SouthGobi Resources Ltd., which comprise the consolidated statement of financial position as at December 31, 2015 and December 31, 2014 and the consolidated statement of comprehensive income, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SouthGobi Resources Ltd. as at December 31, 2015 and December 31, 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that casts significant doubt about the Company's ability to continue as a going concern.

signed "PricewaterhouseCoopers LLP"
Chartered Professional Accountants
Vancouver, Canada
March 29, 2016

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

	Notes		Year ended December 31, 2015		2014
Revenue		$	**16,030**	$	24,494
Cost of sales	5		**(63,691)**		(82,132)
Gross loss			**(47,661)**		(57,638)
Other operating expenses	6		**(18,951)**		(5,960)
Administration expenses	7		**(7,509)**		(8,944)
Evaluation and exploration expenses	8		**(145)**		(1,312)
Impairment of property, plant and equipment	15		**(92,651)**		(8,880)
Loss from operations			**(166,917)**		(82,734)
Finance costs	9		**(21,371)**		(21,848)
Finance income	9		**1,302**		1,586
Share of earnings/(losses) of a joint venture	16		**225**		(101)
Loss before tax			**(186,761)**		(103,097)
Current income tax expense	10		**(4)**		(586)
Net loss attributable to equity holders of the Company			**(186,765)**		(103,683)
Other comprehensive loss to be reclassified to profit or loss in subsequent periods					
Change in value of available-for-sale financial asset, net of tax			**–**		(514)
Exchange differences on translation of foreign operations			**(1,275)**		–
Net comprehensive loss attributable to equity holders of the Company		$	**(188,040)**	$	(104,197)
Basic loss per share	11	$	**(0.79)**	$	(0.55)
Diluted loss per share	11	$	**(0.79)**	$	(0.55)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in thousands of U.S. Dollars)

	Notes	As at December 31, 2015	2014
Assets			
Current assets			
Cash and cash equivalents		**$ 377**	$ 3,789
Trade and other receivables	12	**8,196**	462
Inventories	13	**32,262**	31,255
Prepaid expenses and deposits	14	**1,487**	4,192
Total current assets		**42,322**	39,698
Non-current assets			
Property, plant and equipment	15	**222,485**	349,867
Long term investment	16	**25,667**	26,574
Total non-current assets		**248,152**	376,441
Total assets		**$ 290,474**	$ 416,139
Equity and liabilities			
Current liabilities			
Trade and other payables	17	**$ 30,917**	$ 18,124
Provision for court case penalty	30	**16,468**	–
Deferred revenue	18	**11,683**	11,898
Interest-bearing borrowings	19	**8,905**	3,945
Current portion of convertible debenture	20	**16,671**	2,301
Total current liabilities		**84,644**	36,268
Non-current liabilities			
Convertible debenture	20	**91,988**	92,886
Decommissioning liability	21	**3,149**	2,704
Total non-current liabilities		**95,137**	95,590
Total liabilities		**179,781**	131,858
Equity			
Common shares		**1,094,618**	1,080,417
Share option reserve	24	**52,292**	52,041
Exchange reserve		**(1,275)**	–
Accumulated deficit	22	**(1,034,942)**	(848,177)
Total equity		**110,693**	284,281
Total equity and liabilities		**$ 290,474**	$ 416,139
Net current assets/(liabilities)		**$ (42,322)**	$ 3,430
Total assets less current liabilities		**$ 205,830**	$ 379,871

Corporate information and going concern (Note 1), commitments for expenditure (Note 29) and contingencies (Note 30)

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

APPROVED BY THE BOARD:

"Mao Sun"

Director

"Pierre Lebel"

Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	Number of shares	Common shares	Share option reserve	Investment revaluation reserve	Exchange fluctuation reserve	Accumulated deficit	Total
Balances, January 1, 2014	187,309	$ 1,067,839	$ 51,198	$ 514	$ –	$ (744,494)	$ 375,057
Shares issued for:							
Interest settlement on convertible debenture	7,068	4,000	–	–	–	–	4,000
Private placement (net proceeds)	24,361	8,568	–	–	–	–	8,568
Employee share purchase plan	14	10	–	–	–	–	10
Share-based compensation charged to operations	–	–	843	–	–	–	843
Net loss for the year	–	–	–	–	–	(103,683)	(103,683)
Change in value of available-for-sale financial asset, net of tax	–	–	–	(514)	–	–	(514)
Balances, December 31, 2014	218,752	$ 1,080,417	$ 52,041	$ –	$ –	$ (848,177)	$ 284,281
Balances, January 1, 2015	**218,752**	**$ 1,080,417**	**$ 52,041**	**$ –**	**$ –**	**$ (848,177)**	**$ 284,281**
Shares issued for:							
Interest settlement on convertible debenture	**11,958**	**4,000**	**–**	**–**	**–**	**–**	**4,000**
Private placement, net proceeds	**16,619**	**6,580**	**–**	**–**	**–**	**–**	**6,580**
Exercise of stock options, net of redemptions	**12**	**9**	**(3)**	**–**	**–**	**–**	**6**
Employee share purchase plan	**11**	**6**	**–**	**–**	**–**	**–**	**6**
Discretionary bonus shares	**200**	**88**	**–**	**–**	**–**	**–**	**88**
Conversion of mandatory convertible units	**10,131**	**3,518**	**–**	**–**	**–**	**–**	**3,518**
Share-based compensation charged to operations	**–**	**–**	**254**	**–**	**–**	**–**	**254**
Net loss for the year	**–**	**–**	**–**	**–**	**–**	**(186,765)**	**(186,765)**
Exchange differences on translation of foreign operations	**–**	**–**	**–**	**–**	**(1,275)**	**–**	**(1,275)**
Balances, December 31, 2015	**257,683**	**$ 1,094,618**	**$ 52,292**	**$ –**	**$ (1,275)**	**$ (1,034,942)**	**$ 110,693**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

(Expressed in thousands of U.S. Dollars)

	Notes	Year ended December 31, 2015	2014
Operating activities			
Loss before tax		**$ (186,761)**	$ (103,097)
Adjustments for:			
Depreciation and depletion		**30,063**	37,625
Share-based compensation	23	**254**	843
Finance costs	9	**21,371**	21,848
Finance income	9	**(1,302)**	(1,586)
Share of losses/(earnings) of a joint venture	16	**(225)**	101
Interest paid		**(2,390)**	(16,262)
Commitment fee and front end fee		**(50)**	(187)
Income tax paid		**(15)**	(49)
Unrealized foreign exchange gain		**(566)**	(604)
Gain on disposal of property, plant and equipment		**(116)**	–
Provision for court case penalty	30	**18,049**	–
Provision for doubtful trade and other receivables	12	**161**	567
Impairment of available-for-sale financial asset	16	**–**	1,766
Impairment of inventories	13	**15,263**	19,237
Impairment of prepaid expenses and deposits	14	**–**	3,780
Impairment of property, plant and equipment	15	**92,651**	8,880
Net proceeds from disposal of mining license		**–**	(1,689)
Operating cash flows before changes in non-cash working capital items		**(13,613)**	(28,827)
Net change in non-cash working capital items	28	**3,599**	(846)
Cash generated used in operating activities		**(10,014)**	(29,673)
Investing activities			
Expenditures on property, plant and equipment		**(8,432)**	(2,809)
Interest received		**3**	8
Net proceeds from maturity or disposal of short and long term investments		**–**	2,957
Net proceeds from disposal of mining license		**–**	1,689
Investment in joint venture		**(143)**	(2,470)
Cash used in investing activities		**(8,572)**	(625)
Financing activities			
Proceeds from issuance of common shares, net of issue costs		**10,198**	8,578
Net drawings under borrowing from immediate parent company		**–**	3,800
Net drawings under borrowing from an interest-bearing loan		**5,004**	–
Cash generated from financing activities		**15,202**	12,378
Effect of foreign exchange rate changes on cash		**(28)**	(128)
Decrease in cash		**(3,412)**	(18,048)
Cash, beginning of year		**3,789**	21,837
Cash, end of year		**$ 377**	$ 3,789

Supplemental cash flow information (Note 28)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

1. Corporate information and going concern

SouthGobi Resources Ltd. is a publicly listed company incorporated in Canada with limited liability under the legislation of the Province of British Columbia and its shares are listed on the Toronto Stock Exchange (Symbol: SGQ) and Hong Kong Stock Exchange (Symbol: 1878). The company, together with its subsidiaries (collectively referred to as the "Company"), is an integrated coal mining, development and exploration company. At December 31, 2015, Novel Sunrise Investments Limited ("Novel Sunrise"), a wholly-owned subsidiary of China Cinda (HK) Investments Management Company Limited ("Cinda"), owned approximately 30% of the outstanding Common Shares of the Company. Turquoise Hill Resources Ltd. ("Turquoise Hill") and China Investment Corporation ("CIC") each owned approximately 20% 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 projects in Mongolia: the Ovoot Tolgoi open pit producing coal mine ("Ovoot Tolgoi Mine") and the following significant development projects, the Soumber Deposit, the Zag Suuj Deposit and the Ovoot Tolgoi Underground Deposit. These projects are located in the Umnugobi Aimag (South Gobi Province) of Mongolia, within 150 kilometers of each other and in close proximity to the Mongolia-China border. The Company owns a 100% interest in these coal projects.

The head office, principal address and registered and records office of the Company is located at 1100 – 355 Burrard Street, Vancouver, British Columbia, Canada, V6C 2G8.

Going concern assumption

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, 2016 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, 2016, 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 (the "CIC Convertible Debenture"). As a result, it may not be able to continue as a going concern.

Several adverse conditions and material uncertainties cast significant doubt upon the going concern assumption. The Company had limited cash of $377 at December 31, 2015 and anticipates that coal prices in the People's Republic of China ("China") will remain under pressure in 2016, 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 remaining focused on minimizing uncommitted capital expenditures and preserving the Company's growth options.

1. Corporate information and going concern continued

Going concern assumption continued

The Company, together with Novel Sunrise, continues to advance a funding plan (the "Funding Plan") in order to pay the interest due under the CIC Convertible Debenture and the Turquoise Hill shareholder loan (the "TRQ Loan"), meet its obligations as they fall due and achieve its business objectives in 2016. These obligations include the tax penalty due to the Government of Mongolia (Refer to Note 30.1 for details). However, there is no guarantee that the Company will be able to continue to advance the 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, 2016, 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 TRQ Loan and the CIC Convertible Debenture (Refer to Note 20.5 for details). As a result, the Company 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 CIC Convertible Debenture and TRQ Loan, which if not cured within applicable cure periods in accordance with the terms of such instruments, may result in the principal amounts owing and all accrued and unpaid interest becoming immediately due and payable upon notice to the Company by CIC and Turquoise Hill, respectively.

2. Basis of preparation

2.1 Statement of compliance

The consolidated financial statements, including comparatives, have been prepared in accordance with and using accounting policies in compliance with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements of the Company for the year ended December 31, 2015 were approved and authorized for issue by the Board of Directors of the Company on March 29, 2016.

2.2 Basis of presentation

The consolidated financial statements have been prepared on a historical cost basis except for certain financial assets and financial liabilities which are measured at fair value. The Company's financial instruments are further disclosed in Note 26.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2. Basis of preparation continued

2.3 Standards issued but not yet effective

The standards and interpretations that are issued up to the date of issuance of the Company's financial statements, but were not effective during the year ended December 31, 2015, are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

IFRS 9	Financial Instruments(ii)
IFRS 15	Revenue from Contracts with Customers(ii)
IFRS 16	Leases(iii)
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations(i)
Amendments to IFRS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation(i)

(i) Effective for annual periods beginning on or after January 1, 2016

(ii) Effective for annual periods beginning on or after January 1, 2018

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

IFRS 9, Financial Instruments ("IFRS 9") – classification and measurement, addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through P&L. The standard introduces a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted. The Company has yet to assess IFRS 9's impact on its financial statements.

IFRS 15, Revenue from Contracts with Customers ("IFRS 15"), deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18, Revenue, and IAS 11, Construction Contracts, and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2018 and earlier application is permitted. The Company has yet to assess IFRS 15's impact on its financial statements.

IFRS 16, Leases ("IFRS 16"), on January 13, 2016 the IASB issued IFRS 16, according to which, all leases will be on the balance sheet of lessees, except those that meet the limited exception criteria. Respectively, rent expense is to be removed and replaced by the recording of depreciation and finance expenses. The standard is effective for annual periods beginning on or after January 1, 2019. The Company has yet to assess the impact of adoption.

There are no other IFRS or IFRIC interpretations with future effective dates that are expected to have a material impact on the Company.

3. Summary of significant accounting policies

3.1 Basis of consolidation

The consolidated financial statements include the financial statements of SouthGobi Resources Ltd. and its controlled subsidiaries and investees.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate. All intercompany transactions, balances, income and expenses are eliminated in full on consolidation.

The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Company's equity therein. Total comprehensive income of the Company's subsidiaries is attributed to the equity holders of the Company and to the non-controlling interests even if this results in the non-controlling interest having a deficit balance. The Company did not have any non-controlling interests in the net assets of consolidated subsidiaries during the years presented.

3.2 Foreign currencies

The consolidated financial statements are presented in the U.S. Dollar, which is the functional currency of SouthGobi Resources Ltd. Each entity in the Company determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the U.S. Dollar rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the U.S. Dollar rate of exchange ruling at the end of each reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate prevailing at the date of the transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value is determined.

The functional currency of the joint venture, RDCC LLC, is the Mongolian Tugrik ("MNT"). At the end of the reporting period, the assets and liabilities of the entity are translated into the U.S. Dollar at the exchange rates prevailing at the end of the reporting period and the profit or loss is translated into the U.S. Dollar at the weighted average exchange rate for the year. The resulting exchange differences are recognized in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in profit or loss.

3.3 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. All other borrowing costs are expensed and included in profit or loss.

3. Summary of significant accounting policies continued

3.4 Inventories

Coal stockpile inventories are measured at the lower of production cost and net realizable value. Production cost is determined by the weighted average cost method and includes direct and indirect labor, operating materials and supplies, processing costs, transportation costs and an appropriate portion of fixed and variable overhead expenses. Fixed and variable overhead expenses include depreciation and depletion. Net realizable value represents the future estimated selling price of the product, less estimated costs to complete production and costs necessary to bring the product to sale.

Materials and supplies inventory consists of consumable parts and supplies which are valued at the lower of weighted average cost and net realizable value, less allowances for obsolescence. Replacement cost is used as the best available measure of net realizable value. Supplies used in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost.

3.5 Property, plant and equipment

Property, plant and equipment includes the Company's operating equipment and infrastructure, construction in progress and mineral properties. Property, plant and equipment is stated at cost less accumulated depreciation and depletion and accumulated impairment losses.

Initial recognition

The cost of an item of operating equipment and infrastructure consists of the purchase price or construction cost, including vendor prepayments, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, an initial estimate of the decommissioning liability and capitalized borrowing costs.

Construction in progress is classified to the appropriate category of property, plant and equipment when it is completed and is ready for its intended use.

All direct costs related to the acquisition of mineral property interests are capitalized on a property by property basis. The cost of mineral properties also includes mineral property development costs, certain production stripping costs and decommissioning liabilities related to the reclamation of the Company's mineral properties.

Depreciation and depletion

Depreciation and depletion are recorded based on the cost of an item of property, plant and equipment, less its estimated residual value, using the straight-line method or unit-of-production method over the following estimated useful lives:

Mobile equipment	5 to 7 years
Other operating equipment	1 to 10 years
Buildings and roads	5 to 20 years
Construction in progress	not depreciated
Mineral properties	unit-of-production basis based on proven and probable reserves

Upon the disposal, reclassification to the assets held for sale or when no future economic benefits are expected to arise from the continued use of an asset the original cost and related accumulated depreciation is removed from property, plant and equipment. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss.

The Company conducts an annual assessment of the residual balances, estimated useful lives and depreciation methods being used for property, plant and equipment and any changes arising from the assessment are applied by the Company prospectively.

3. Summary of significant accounting policies continued

3.6 Mineral properties

Evaluation and exploration expenses

Evaluation and exploration expenses are charged to profit or loss in the period incurred until such time as it has been determined that a mineral property has technically feasibility, commercially viability and management has determined that the mineral property will be developed.

Production phase

Upon a mine development being ready for its intended use it enters the production phase and depletion of the mineral property is recorded on a unit-of-production basis using the estimated resources, which are expected to be mined in the mine plan, as the depletion base. Management's determination of when an asset is ready for its intended use is based on several qualitative and quantitative factors including, but not limited to, the following:

- the elevation or bench where the coal to be mined has been reached; and
- the commissioning of major operating equipment and infrastructure is completed

3.7 Development and production stripping costs

Once a property is determined to have reached technical feasibility, commercially viability and management has determined that the mineral property will be developed, the Company's subsequent exploration and evaluation and development expenses are capitalized as mineral property costs within property, plant and equipment.

Production stripping activity assets are recognized when the following three criteria are met:

- it is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;
- the entity can identify the component of the ore body for which access has been improved; and
- the costs relating to the stripping activity associated with that component can be measured reliably.

If not all of the criteria are met, the stripping activity costs are included in the costs of inventory produced during the period incurred.

3.8 Decommissioning, restoration and similar liabilities

The Company recognizes provisions for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of mineral properties, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a provision for a decommissioning liability is recognized as its present value in the period in which it is incurred. Upon initial recognition of the liability, a corresponding amount is added to the carrying amount of the related asset and the cost is amortized as an expense over the estimated useful life of the asset using either the unit-of-production method or the straight-line method, as appropriate. Following the initial recognition of the decommissioning liability, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the discount rate and the amount or timing of the underlying cash flows required to settle the obligation. The discount rate used is a credit adjusted risk free rate.

3. Summary of significant accounting policies continued

3.9 Joint arrangements

The Company classifies joint arrangements as either joint operations or joint ventures, depending on the rights and obligations of the parties involved in the joint arrangement. Joint arrangements that are classified as joint operations require the venturers to recognize the individual assets, liabilities, revenues and expenses to which they have legal rights or are responsible. Joint arrangements that are classified as a joint venture are accounted for using the equity method of accounting.

3.10 Share-based payments

Share-based payment transactions

Employees (including directors and senior executives) of the Company receive a portion of their remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

In situations where equity instruments are issued to non-employees and the value of some or all of the goods or services received by the entity as consideration cannot be measured reliably, they are measured at the fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

Equity-settled transactions

The costs of equity-settled transactions with employees are measured by reference to the fair value at the date on which the awards are granted.

The costs of equity-settled transactions are recognized, together with a corresponding increase in the share option reserve, over the period in which the performance and/or service conditions are fulfilled and end on the date on which the relevant employees become fully entitled to the award. The cumulative expense recognized for equity-settled transactions at each reporting date reflects the Company's best estimate of the number of equity instruments that will ultimately vest. No expense is recognized for awards that do not ultimately vest.

When the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of the modification.

3.11 Earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of shares outstanding during the reporting period.

Diluted earnings per share is calculated by adjusting the profit or loss attributable to equity holders of the Company and the weighted average number of shares outstanding for the effects of all dilutive share equivalents. The Company's dilutive share equivalents include stock options and convertible debt.

3. Summary of significant accounting policies continued

3.12 Taxation

Income tax expense represents the sum of tax currently payable and deferred tax.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are substantively enacted at the end of each reporting period.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences, at the end of each reporting period, between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled by the parent, investor or venturer and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been substantively enacted at the end of each reporting period.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in profit or loss.

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

3. Summary of significant accounting policies continued

3.13 Financial assets

All financial assets are initially recorded at fair value and categorized upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans-and-receivables or at fair value through profit or loss ("FVTPL").

Financial assets categorized as FVTPL are measured at fair value with unrealized gains and losses recognized through profit or loss.

Financial assets categorized as loans-and-receivables and held-to-maturity are measured at amortized cost using the effective interest method less any allowance for impairment. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Financial assets categorized as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income except when there is objective evidence that the financial asset is impaired. Impairment losses on available-for-sale financial assets are recognized in profit or loss.

Transaction costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

3.14 Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other-financial-liabilities.

Financial liabilities categorized as other-financial-liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other-financial-liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Financial liabilities categorized as FVTPL include financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives, are also classified as FVTPL unless they are designated as effective hedging instruments. Transaction costs on financial liabilities classified as FVTPL are expensed as incurred. At the end of each reporting period subsequent to initial recognition, financial liabilities classified as FVTPL are measured at fair value, with changes in fair value recognized directly in profit or loss in the period in which they arise. The net gain or loss recognized in profit or loss excludes any interest paid on the financial liabilities.

3. Summary of significant accounting policies continued

3.15 Impairment of financial assets

The Company assesses at the end of each reporting period whether a financial asset is impaired.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in profit or loss.

3.16 Derecognition of financial assets and financial liabilities

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

3.17 Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the assets belong.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing fair value less costs to sell, recent market transactions are taken into account. The Company also considers the results of an appropriate valuation model which would generally be determined based on the present value of estimated future cash flows arising from the continued use and eventual disposal of the asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. Summary of significant accounting policies continued

3.18 Cash and cash equivalents

Cash and cash equivalents include cash at banks and short term money market instruments with original maturities of three months or less.

3.19 Revenue recognition

Revenue is recognized to the extent it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates or duties. Revenue from the sale of goods is recognized when the significant risks and rewards of ownership pass to the buyer, collection is reasonably assured and the selling price is reasonably determinable.

Revenue from the sale of coal is recognized when the significant risks and rewards of ownership and effective control of the coal are transferred to the buyer and the selling prices are known or can be reasonably estimated.

3.20 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to the passage of time is recognized as a finance cost.

3.21 Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control; related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

3.22 Significant accounting judgments and estimates

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

Liquidity and the 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 as well as the expected timing of payments of suppliers and the repayment of debt and other financial liabilities. Refer to note 1 for details.

Several adverse conditions and material uncertainties cast significant doubt upon the going concern assumption. The Company had limited cash of $377 at December 31, 2015 and anticipates that coal prices in China will remain under pressure in 2016, 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 remaining focused on minimizing uncommitted capital expenditures and preserving the Company's growth options.

3. Summary of significant accounting policies continued

3.22 Significant accounting judgments and estimates continued

Liquidity and the going concern assumption continued

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 CIC Convertible Debenture and the TRQ Loan, which if not cured within applicable cure periods in accordance with the terms of such debenture and loan, 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 and Turquoise Hill, respectively.

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. 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. The carrying value of the embedded derivatives in the Company's convertible debenture as at December 31, 2015 was a liability of $757 (2014: $1,834).

Review of carrying value of assets and impairment charges

In the determination of carrying values and impairment charges, management of the Company reviews the recoverable amount (the higher of the fair value less costs of disposal or the value in use) in the case of non-financial assets 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.

Ovoot Tolgoi Mine cash generating unit

The Company determined that an indicator of impairment existed for its Ovoot Tolgoi Mine cash generating unit as at December 31, 2015. The impairment indicator was the continued weakness in the Company's share price during the year ended December 31, 2015 and the fact that the market capitalization of the Company, as at December 31, 2015, was significantly 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 "fair value less costs of disposal" ("FVLCTD") using a discounted future cash flow valuation model. The Company's cash flow valuation model takes into consideration the latest available information to the Company, including but not limited to, sales price, sales volumes, operating cost and life of mine coal production assumptions as at December 31, 2015. The resulting FVLCTD was $217,425 as at December 31, 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. Summary of significant accounting policies continued

3.22 Significant accounting judgments and estimates continued

Review of carrying value of assets and impairment charges continued

***Ovoot Tolgoi Mine cash generating unit* continued**

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

- Coal resources as estimated by a third party engineering firm;
- Long term price estimates from an independent market consulting firm;
- Forecasted sales volumes in line with production levels as per the updated 20-year mine plan;
- Updated life-of-mine coal production, strip ratio, capital costs and operating costs; and
- A post-tax discount rate of 14.1% based on an analysis of the market, country and asset specific factors.

Key sensitivities in the valuation model are as follows:

- For each 1% increase/(decrease) in the long term price estimates, the calculated fair value of the cash generating unit increases/(decreases) by approximately $10,700/($10,700);
- For each 1% increase/(decrease) in the discount rate, the calculated fair value of the cash generating unit (decreases)/increases by approximately ($17,500)/$20,300; 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 ($6,800)/$6,800.

The impairment analysis resulted in the identification of an impairment loss and $76,700 of impairment loss was charged to other operating expense as at December 31, 2015. 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 also recorded impairments to specific assets, prior to the impairment test in the amount of $15,951 during the year ended December 31, 2015.

The Company is engaged in a comprehensive review of the Ovoot Tolgoi mine plan's design parameters, mine design and project development schedule in order to reflect an updated production plan and current market conditions. The objective of this exercise is to optimize the Company's mine plan having regard to the change in circumstances since the 2012 preliminary feasibility study was prepared. Factors 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 can be expected to exert downward pressure on reserve quantities. These may be offset to some degree by an upgrading of some resources from the inferred category to the 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. However, there can be no assurance that the continuing optimization of the mine plan at the Ovoot Tolgoi Mine will ultimately provide the basis for an updated preliminary feasibility study that will support a new estimate of mineral reserves.

Any downward adjustments to the Company's mineral reserve estimates could materially affect the Company's development and mining plans, which could materially and adversely affect its business and results of operations.

3. Summary of significant accounting policies continued

3.22 Significant accounting judgments and estimates continued

Review of carrying value of assets and impairment charges continued

Investment in RDCC LLC

The Company determined that an indicator of impairment existed for its investment in RDCC LLC as at December 31, 2015. The impairment indicator was the current toll rate being levied is lower than the rate per the concession agreement.

Therefore, the Company conducted an impairment test whereby the carrying value of the Company's investment in RDCC LLC compared to its "fair value less costs of disposal" using a discounted future cash flow valuation model. The carrying value was $25,667 as at December 31, 2015.

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

- Toll fee estimates reference to the current rate and the concession agreement;
- Traffic volume;
- Repair, maintenance and operating cost; and
- A post-tax discount rate of 11.1% based on a weighted average cost of capital of the Company.

Key sensitivities in the valuation model are as follows:

- For each 10% increase/(decrease) in the toll fee estimates or traffic volume, the calculated fair value of the carrying unit increases/(decreases) by approximately $1,956/($2,050); and
- For each 1% increase/(decrease) in the discount rate, the calculated fair value of the carrying unit (decreases)/increases by approximately ($2,580)/$2,981.

On April 30, 2015 in response to the Road and Transportation Minister's Order no. 115 dated April 29, 2015 a working group was established to assist in the commencement of commercial operations of the paved highway from the Ovoot Tolgoi Complex to the Shivee Khuren border crossing ("Paved Highway"). Subsequently, on May 8, 2015 a three month trial period of operation in respect of the Paved Highway commenced. This trial period imposes a nine hundred (900) MNT charge per tonne of coal hauled on the Paved Highway in the Nariinsukhait-Shiveekhuren direction. This charge is lower than the fifteen hundred (1500) MNT charge per tonne stated in the signed concession agreement between RDCC LLC and the State Property Committee of Mongolia which formed the basis for the Company's investment decision. On September 17, 2015, the Invest Mongolia Agency signed an amendment to concession agreement with RDCC LLC to extend the exclusive right of ownership to 30 years.

The impairment analysis did not result in the identification of an impairment loss and no charge was required as at December 31, 2015. A decline of more than 15% in the toll fee estimates or traffic volume or an increase of more than 1% in the post-tax discount rate may trigger an impairment charge on the investment in RDCC LLC. 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.

Estimated resources

The Company estimates its mineral resources based on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the ore body, and requires complex geological judgments to interpret the data. Changes in resource estimates may impact the carrying value of mining interests, mine restoration provisions, recognition of deferred tax assets, and depreciation and amortization charges.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. Summary of significant accounting policies continued

3.22 Significant accounting judgments and estimates continued

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.

4. Segmented information

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

During the year ended December 31, 2015, the Coal Division had 5 active customers with the largest customer accounting for 56% of revenues, the second largest customer accounting for 37% of revenue, the third largest customer accounting for 4% of revenue and the other customers accounting for the remaining 3% of revenue.

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

	Coal Division	Unallocated(i)	Consolidated Total
Segment assets			
As at December 31, 2015	**$ 288,974**	**$ 1,500**	**$ 290,474**
As at December 31, 2014	411,816	4,323	416,139
Segment liabilities			
As at December 31, 2015	**$ 51,404**	**$ 128,377**	**$ 179,781**
As at December 31, 2014	22,770	109,088	131,858
Segment loss			
For the year ended December 31, 2015	**$ (162,534)**	**$ (24,231)**	**$ (186,765)**
For the year ended December 31, 2014	(76,515)	(27,168)	(103,683)
Segment revenues			
For the year ended December 31, 2015	**$ 16,030**	**$ –**	**$ 16,030**
For the year ended December 31, 2014	24,494	–	24,494
Impairment charge on assets(ii)			
For the year ended December 31, 2015	**$ 108,075**	**$ –**	**$ 108,075**
For the year ended December 31, 2014	32,464	1,766	34,230

(i) The unallocated amount contains all amounts associated with the Corporate Division.

(ii) The impairment charge on assets for the year ended December 31, 2015 and year ended December 31, 2014 relates to trade and other receivables (Note 12), inventories (Note 13), prepaid expenses and deposits (Note 14), property, plant and equipment (Note 15) and investments (Note 16).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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4. Segmented information continued

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

	Mongolia	Hong Kong	Canada	Consolidated Total
Revenues				
For the year ended December 31, 2015	**$ 16,030**	**$ –**	**$ –**	**$ 16,030**
For the year ended December 31, 2014	24,494	–	–	24,494
Non-current assets				
As at December 31, 2015	**$ 248,026**	**$ 26**	**$ 100**	**$ 248,152**
As at December 31, 2014	375,588	13	840	376,441

5. Cost of sales

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

	Year ended December 31, 2015	2014
Operating expenses	**$ 18,266**	$ 22,472
Share-based compensation expense (Note 23)	**42**	230
Depreciation and depletion	**5,361**	7,235
Impairment of coal stockpile inventories (Note 13)	**14,588**	16,256
Cost of sales from mine operations	**38,257**	46,193
Cost of sales related to idled mine assets[(i)]	**25,434**	35,939
Cost of sales	**$ 63,691**	$ 82,132

(i) Cost of sales related to idled mine assets for the year ended December 31, 2015 includes $22,462 of depreciation expense (2014: includes $30,305 of depreciation expenses). The depreciation expense relates to the Company's idled plant and equipment.

Cost of inventories recognized as expense in cost of sales for the year ended December 31, 2015 totaled $12,026 (2014: $23,713).

6. Other operating expenses

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

	Year ended December 31, 2015	2014
Sustainability and community relations	**$ 250**	$ 252
Foreign exchange gain	**(896)**	(1,151)
Provision for doubtful trade and other receivables (Note 12)	**161**	567
Impairment of available-for-sale financial asset	**–**	1,766
Loss on settlement of prepayments	**712**	–
Impairment of prepaid expenses and deposits (Note 14)	**–**	3,780
Impairment of materials and supplies inventories (Note 13)	**675**	2,981
Gain on disposal of mining licenses	**–**	(2,235)
Provision for court case penalty (Note 30.1)	**18,049**	–
Other operating expenses	**$ 18,951**	$ 5,960

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7. Administration expenses

The Company's administration expenses consist of the following amounts:

		Year ended December 31, 2015		2014
Corporate administration	**$**	**2,112**	$	2,591
Legal and professional fees		**2,921**		2,680
Salaries and benefits		**2,155**		2,955
Share-based compensation expense (Note 23)		**199**		590
Depreciation		**122**		128
Administration expenses	**$**	**7,509**	$	8,944

8. Evaluation and exploration expenses

The Company's evaluation and exploration expenses consist of the following amounts:

		Year ended December 31, 2015		2014
Direct expenses	**$**	**27**	$	818
License fees		**53**		6
Share-based compensation expense (Note 23)		**13**		23
Overhead and other		**52**		465
Evaluation and exploration expenses	**$**	**145**	$	1,312

9. Finance costs and income

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

		Year ended December 31, 2015		2014
Interest expense on convertible debenture (Note 20)	**$**	**20,549**	$	20,165
Interest expense on borrowings (Note 19)		**475**		242
Commitment fee and front end fee (Note 19)		**50**		187
Loan arrangement fee (Note 19)		**190**		–
Realized loss on disposal of available-for-sale financial asset		**–**		1,104
Realized loss on disposal of FVTPL investment		**–**		55
Accretion of decommissioning liability (Note 21)		**107**		95
Finance costs	**$**	**21,371**	$	21,848

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

		Year ended December 31, 2015		2014
Unrealized gain on embedded derivatives in convertible debenture (Note 20)	**$**	**1,077**	$	1,560
Gain on waiver of loan from Turquoise Hill		**200**		–
Interest income		**25**		26
Finance income	**$**	**1,302**	$	1,586

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

10. Taxes

10.1 Income tax recognized in profit or loss

The Canadian statutory tax rate was 26% (2014: 26%). A reconciliation between the Company's tax expense and the product of the Company's loss before tax multiplied by the Company's domestic tax rate is as follows:

	Year ended December 31, 2015	2014
Loss before tax	**$ (186,761)**	$ (103,097)
Statutory tax rate	**26.00%**	26.00%
Income tax recovery based on combined Canadian federal and provincial statutory rates	**(48,558)**	(26,805)
Deduct:		
Lower effective tax rate in foreign jurisdictions	**13,604**	920
Tax effect of tax losses and temporary differences not recognized	**5,553**	18,199
Non-deductible expenses	**29,405**	8,272
Income tax expenses	**$ 4**	$ 586

10.2 Deferred tax balances

The Company's deferred tax assets/(liabilities) consist of the following amounts:

	As at December 31, 2015	2014
Tax loss carry forwards	**$ 11,558**	$ 11,860
Property, plant and equipment and other assets	**(11,558)**	(11,860)
Total deferred tax balances	**$ –**	$ –

10.3 Unrecognized deductible temporary differences and unused tax losses

The Company's deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

	As at December 31, 2015	2014
Non-capital losses	**$ 133,756**	$ 140,694
Capital losses	**30,049**	50,964
Deductible temporary differences	**300,197**	276,791
Total unrecognized amounts	**$ 464,002**	$ 468,449

10.4 Expiry dates

The expiry dates of the Company's unused tax losses are as follows:

	As at December 31, 2015 U.S. Dollar Equivalent	Expiry dates
Non-capital losses		
Canada	$ 116,012	2033 – 2035
Mongolia	17,446	2017 – 2019
China	298	2020
	$ 133,756	
Capital losses		
Canada	$ 30,049	indefinite

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

11. Loss per share

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

	Year ended December 31, 2015	2014
Net loss	**$ (186,765)**	$ (103,683)
Weighted average number of shares	**237,560**	190,132
Basic and diluted loss per share	**$ (0.79)**	$ (0.55)

Potentially dilutive items not included in the calculation of diluted loss per share for the year ended December 31, 2015 include the convertible debenture (Note 20) and stock options (Note 23) that were anti-dilutive.

12. Trade and other receivables

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

	As at December 31, 2015	2014
Trade receivables	**$ 7,800**	$ –
Other receivables	**396**	462
Total trade and other receivables	**$ 8,196**	$ 462

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

	As at December 31, 2015	2014
Less than 1 month	**$ 4,399**	$ 305
1 to 3 months	**167**	123
3 to 6 months	**3,597**	34
Over 6 months	**33**	–
Total trade and other receivables	**$ 8,196**	$ 462

Trade receivables are normally paid within 30 days from the date of billing. Overdue balances are reviewed regularly by senior management. The Company does not hold any collateral or other credit enhancements over its trade and other receivable balances.

For the year ended December 31, 2015, the Company recorded a $161 loss provision on its trade and other receivables in other operating expenses (2014: $567). The Company anticipates full recovery of its remaining outstanding trade and other receivables; therefore, no further loss provisions have been recorded in respect of the Company's trade and other receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

13. Inventories

The Company's inventories consist of the following amounts:

	As at December 31, 2015	2014
Coal stockpiles	**$ 9,606**	$ 3,765
Materials and supplies	**22,656**	27,490
Total inventories	**32,262**	$ 31,255

Cost of sales for the year ended December 31, 2015 includes an impairment loss of $14,588 related to the Company's coal stockpile inventories (2014: $16,256). As at December 31, 2015, $1,711 of the Company's coal stockpile inventories are carried at their net realizable value (2014: $1,220).

Other operating expenses for the year ended December 31, 2015 includes an impairment loss of $675 related to surplus materials and supplies inventories (2014: $2,981). These items are not expected to be utilized with the Company's existing mining fleet and, therefore, were adjusted to their net realizable value.

14. Prepaid expenses and deposits

The Company's prepaid expenses and deposits consist of the following amounts:

	As at December 31, 2015	2014
Vendor prepayments	**$ 25**	$ 900
Restricted cash balance	**61**	1,239
Other prepaid expenses and deposits	**1,401**	2,053
Total short and long term prepaid expenses and deposits	**$ 1,487**	$ 4,192

14.1 Ejin Jinda toll coal washing prepayment

During the year ended December 31, 2011, the Company entered into an agreement with Ejin Jinda, a subsidiary of China Mongolia Coal Co. Ltd., to toll wash coal from the Ovoot Tolgoi Mine. The agreement covered a period of 5-years from commencement of coal washing and provided for an annual wet washing capacity and usage by the Company of approximately 3.5 million tonnes of input raw coal.

Commercial operations at the wet washing facility have not commenced. The Company identified the results of a trial sample from the wet washing facility and the delay in starting the commercial operations at the wet washing facility as indicators of impairment for the prepaid toll washing fees which are part of the contract with Ejin Jinda. Based on updated estimates and assumptions related to wash yields from the facility, a further impairment loss of $3,405 was recorded in other operating expenses during the year ended December 31, 2014 to fully provide against the initial prepayment of $33,556.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

15. Property, plant and equipment

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

	Mobile equipment	Other operating equipment	Buildings and roads	Mineral properties	Construction in progress	Total
Cost						
As at January 1, 2015	$ 366,427	$ 28,615	$ 72,194	$ 133,486	$ 6,268	$ 606,990
Additions	**3,101**	**31**	**–**	**11,784**	**–**	**14,916**
Disposals	**(2,400)**	**(112)**	**–**	**–**	**–**	**(2,512)**
Reclassifications	**2,189**	**–**	**–**	**–**	**(2,189)**	**–**
As at December 31, 2015	**$ 369,317**	**$ 28,534**	**$ 72,194**	**$ 145,270**	**$ 4,079**	**$ 619,394**
Accumulated depreciation and impairment charges						
As at January 1, 2015	$ (188,175)	$ (19,834)	$ (33,052)	$ (15,785)	$ (277)	$ (257,123)
Charge for the period	**(40,374)**	**(2,243)**	**(5,304)**	**(1,285)**	**–**	**(49,206)**
Impairment charges	**(3,885)**	**(4,807)**	**(3,700)**	**(76,663)**	**(3,596)**	**(92,651)**
Eliminated on disposals	**1,959**	**112**	**–**	**–**	**–**	**2,071**
As at December 31, 2015	**$ (230,475)**	**$ (26,772)**	**$ (42,056)**	**$ (93,733)**	**$ (3,873)**	**$ (396,909)**
Carrying amount						
As at December 31, 2014	$ 178,252	$ 8,781	$ 39,142	$ 117,701	$ 5,991	$ 349,867
As at December 31, 2015	**$ 138,842**	**$ 1,762**	**$ 30,138**	**$ 51,537**	**$ 206**	**$ 222,485**

	Mobile equipment	Other operating equipment	Buildings and roads	Mineral properties	Construction in progress	Total
Cost						
As at January 1, 2014	$ 363,689	$ 28,350	$ 72,214	$ 127,068	$ 6,276	$ 597,597
Additions	**3,564**	**326**	**14**	**6,418**	**–**	**10,322**
Disposals	**(826)**	**(61)**	**–**	**–**	**(42)**	**(929)**
Reclassifications	**–**	**–**	**(34)**	**–**	**34**	**–**
As at December 31, 2014	**$ 366,427**	**$ 28,615**	**$ 72,194**	**$ 133,486**	**$ 6,268**	**$ 606,990**
Accumulated depreciation and impairment charges						
As at January 1, 2014	$ (138,627)	$ (17,231)	$ (27,454)	$ (14,890)	$ –	$ (198,202)
Charge for the year	**(41,771)**	**(2,659)**	**(5,598)**	**(895)**	**–**	**(50,923)**
Impairment charges	**(8,603)**	**–**	**–**	**–**	**(277)**	**(8,880)**
Eliminated on disposals	**826**	**56**	**–**	**–**	**–**	**882**
As at December 31, 2014	**$ (188,175)**	**$ (19,834)**	**$ (33,052)**	**$ (15,785)**	**$ (277)**	**$ (257,123)**
Carrying amount						
As at December 31, 2013	$ 225,062	$ 11,119	$ 44,760	$ 112,178	$ 6,276	$ 399,395
As at December 31, 2014	**$ 178,252**	**$ 8,781**	**$ 39,142**	**$ 117,701**	**$ 5,991**	**$ 349,867**

15.1 Prepayments on property, plant and equipment

As at December 31, 2015, the cost of the Company's property, plant and equipment includes $16,492 of prepayments to vendors (2014: $28,232). The prepayments primarily relate to ordered but not yet delivered mobile equipment or mobile equipment delivered to the location of its intended use but not yet commissioned.

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

15. Property, plant and equipment continued

15.2 Impairment charges

For the year ended December 31, 2015, the Company recorded $92,651 of impairment charges to reduce various items of property, plant and equipment to their recoverable amounts. (2014: $8,880) The impairments relate to the following items of property, plant and equipment:

- Mineral properties – the Company conducted an impairment test of the Ovoot Tolgoi Mine cash generating unit in view of the existence of the impairment indicator of continuing weakness in the Company's share price during the year ended December 31, 2015 and the fact that the market capitalization of the Company, as at December 31, 2015, was less than the carrying value of its net assets. As a result of the impairment assessment, the Company recorded an $76,663 impairment charge in 2015. Refer to note 3.22 for details.

- Dry coal handling facility ("DCHF") – the Company conducted an extensive review of the DCHF in 2013 and the carrying value was reduced to $11,200 as at December 31, 2013, representing the estimated value of the rotary breaker facility, after the conclusion that the Company did not plan to either complete or use the balance of the DCHF at the Ovoot Tolgoi Mine in the foreseeable future. A second review has been performed on DCHF in the fourth quarter of 2015 related to the new mine plan and the Company determined that there was no plan to restart the project or to utilize the rotary breaker facility. As a result of the impairment assessment, the Company recorded an $8,507 impairment charge in 2015 to reduce the carrying value of the DCHF to $nil as at December 31, 2015.

- Other – the Company also recorded a write-off of $3,596 in the year ended December 31, 2015 related to construction in progress projects no longer anticipated to be put into use (2014: $277) and an impairment of $3,885 related to unused mobile equipment.

16. Long term investment

The Company's investment consists of the following amounts:

	As at December 31, 2015	2014
Non-current investment in joint venture		
Investment in RDCC LLC	**$ 25,667**	$ 26,574
Total investment	**$ 25,667**	$ 26,574

The Company has a 40% interest in RDCC LLC, a joint venture. RDCC LLC has a concession agreement with the State Property Committee of Mongolia to construct a paved highway from the Company's Ovoot Tolgoi Mine to the Mongolia-China border for the exclusive use of third party coal transport companies. The concession agreement was structured as a 17-year build, operate and transfer agreement. The construction was completed in 2014 and operations commenced in the second quarter of 2015. On April 30, 2015, in response to the Road and Transportation Minister's Order no. 115 dated April 29, 2015 a working group was established to assist in the commencement of commercial operations of the paved highway from the Ovoot Tolgoi Complex to the Shivee Khuren border crossing ("Paved Highway"). The current toll rate is set at nine hundred (900) MNT per tonne of coal as compared to fifteen hundred (1,500) MNT as stated in the signed concession agreement between RDCC LLC and the State Property Committee of Mongolia. On September 17, 2015, the Invest Mongolia Agency signed an amendment to concession agreement with RDCC LLC to extend the exclusive right of ownership to 30 years.

RDCC LLC accounts for the concession agreement in accordance with IFRIC 12 "Service Concession Arrangements" under the intangible asset model. In accordance with IFRIC 12, an intangible asset associated with the concession agreement is recorded by RDCC LLC instead of the infrastructure. Construction revenue is recognized during the construction phase of the concession agreement as an exchange of construction services for the intangible asset and toll revenue is recognized during the operational phase of the concession agreement.

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

16. Long term investment continued

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

	Year ended December 31, 2015	2014
Balance, beginning of period	$ 26,574	$ 24,205
Funds advanced	143	2,470
Share of earnings/(losses) of a joint venture	225	(101)
Share of other comprehensive loss of a joint venture	(1,275)	–
Balance, end of period	**$ 25,667**	$ 26,574

Summarized financial statement information of RDCC LLC is as follows (presented on a 100% basis of RDCC LLC in which the Company has a 40% investment):

	As at December 31, 2015	2014
Current assets	$ 2,029	$ 4,136
Non-current assets	50,243	48,776
Total assets	**$ 52,272**	$ 52,912
Current liabilities	$ 2,003	$ 19
Total liabilities	**$ 2,003**	$ 19

	Year ended December 31, 2015	2014
Revenue	$ 2,631	$ 16,544
Gross profit margin	932	11
Other operating and finance costs	1	(264)
Profit/(loss) before tax	616	(253)
Net profit/(loss)	**$ 562**	$ (253)
Other comprehensive loss	$ (3,186)	$ –
Total comprehensive loss	**$ (2,624)**	$ (253)

17. Trade and other payables

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

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

	As at December 31, 2015	2014
Less than 1 month	$ 9,465	$ 6,706
1 to 3 months	3,282	1,703
3 to 6 months	6,075	2,705
Over 6 months	12,095	7,010
Total trade and other payables	**$ 30,917**	$ 18,124

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

17. Trade and other payables continued

Included in trade and other payables are amounts due to related parties which are further disclosed in Note 27, the aging analysis of the trade and other payables due to related parties, based on invoice date, is as follows:

	As at December 31, 2015	2014
Less than 1 month	**$ 274**	$ 412
1 to 3 months	**54**	142
3 to 6 months	**192**	2,140
Over 6 months	**8,105**	5,838
Total trade and other payables	**$ 8,625**	$ 8,532

18. Deferred revenue

At December 31, 2015, the Company has deferred revenue of $11,683, which represents prepayments for coal sales from customers (2014: $11,898).

Included in deferred revenue is amount prepaid by First Concept Logistics Limited ("First Concept"), who served a notice of arbitration (the "Notice") on SouthGobi Sands LLC ("SGS"), a subsidiary of the Company, of $11,500 at December 31, 2015 (2014: $11,500), details are further disclosed in Note 30.8.

19. Interest-bearing borrowings

Turquoise Hill Loan Facility

On May 25, 2014, the Company announced it obtained a loan from Turquoise Hill in the form of a $10,000 revolving credit facility to meet its short term working capital requirements (the "TRQ Loan"). The key commercial terms of the facility were: an original maturity date of August 30, 2014 (subsequently extended); an interest rate of one month US dollar LIBOR Rate in effect plus 11% per annum; a commitment fee of 35% of interest rate payable quarterly in arrears on undrawn principal amount of facility and a front end fee of $100;

During 2014 and 2015, the due date of the TRQ Loan was extended several times and the limit has been reduced to $3,800.

On October 27, 2015, Turquoise Hill agreed to and signed a Deferral Letter Agreement with the Company, in which Turquoise Hill agreed to a limited and circumscribed deferral of repayment of all remaining amounts and obligations now and hereafter owing under the TRQ Loan to April 22, 2016. The key terms and conditions are as follows:

- The Company agreed to effect a partial repayment under the TRQ Loan and a one-time deferral fee of $200 and $50, respectively, no later than the fifth business day following October 27, 2015. The outstanding amount under the Turquoise Hill Loan Facility shall be reduced by $400 upon the receipt of such amount. The Company has made the repayment of $200 and settled the one-time deferral fee of $50 accordingly;

- Interest shall continue to accrue on all outstanding obligations but at the prevailing 12-month US dollar LIBOR rate plus 8%;

19. Interest-bearing borrowings continued

Turquoise Hill Loan Facility continued

- In the event that the Company has the ability and capacity to make one or more further partial repayments between October 27, 2015 and the April 22, 2016, then Turquoise Hill agrees to accept such partial repayment up to an aggregate amount of $1,000 and the outstanding amount under the TRQ Loan shall be reduced by an amount equal to 200% of the amount so partially repaid up to a maximum aggregate reduction of $2,000;

- In the event that the Company receives any cash proceeds upon closing of any financing or funding transactions by ways of issuance of equity or debt securities or of hybrid equity-debt securities, or any cash proceeds under and sales, offtake or other commercial agreement(s) (whether as a payment, prepayment or otherwise), then immediately following the receipt of such proceeds, the Company shall make a partial repayment to Turquoise Hill in an amount equal to 10% of the aggregate gross proceeds and the outstanding amount under the TRQ Loan shall be reduced by an amount equal to 200% of the amount so repaid;

- In the event that the Company fails to strictly comply with any of the provisions set in the Deferral Letter Agreement shall result in the immediate termination and revocation of the Deferral Letter Agreement and the Company shall immediately be in default of the TRQ Loan.

As at December 31, 2015, the outstanding principal and accrued interest under this facility amounted to $3,400 and $554, respectively (at December 31, 2014, the outstanding principal and accrued interest under this facility amounted to $3,800 and $145, respectively). The amounts owing are included in the interest-bearing borrowing amounts due to related parties which are further disclosed in Note 27.

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

Short-term Bridge Loan

On October 27, 2015, the Company executed a $10,000 bridge loan agreement with an independent Asian based private equity fund. The key commercial terms of the loan are as follows:

- $5,300 and $4,700 will mature on May 10, 2016 and July 30, 2016, respectively;

- Interest rate of 8% per annum and payable upon the repayment of loan principal; and

- Loan arrangement fee is charged at 4% of the loan principal drawn.

As at December 31, 2015, the outstanding balance for the short-term bridge loan was $4,885 (2014: nil) and the Company owed accrued interest of $66 (2014: nil).

20. Convertible debenture

20.1 Key commercial terms

On November 19, 2009, the Company issued a convertible debenture to a wholly owned subsidiary of CIC for $500,000. The convertible debenture bears interest at 8.0% per annum (6.4% payable semi-annually in cash and 1.6% payable annually in the Company's shares) and has a maximum term of 30 years. The convertible debenture is secured by a first charge over the Company's assets, including shares of its material subsidiaries. An event of default on the convertible debenture can be triggered as a result of certain encumbrances on the Company's assets (refer to Note 30.3). During 2010, the Company exercised a right within the debenture to call and convert $250,000 of the debenture for 21,471 common shares. Following the conversion the outstanding principal balance was $250,000 and has remained unchanged at that balance to December 31, 2015.

The key commercial terms of the financing include:

- Interest – 8% per annum (6.4% payable semi-annually in cash and 1.6% payable annually in the Company's common shares, where the number of shares to be issued is calculated based on the 50-day volume-weighted average price ("VWAP")).
- Term – Maximum of 30 years.
- Security – First charge over the Company's assets, including shares of its material subsidiaries. An event of default on the convertible debenture can be triggered as a result of certain encumbrances on the Company's assets (Note 30.3).
- Conversion price – The conversion price is set as the lower of CAD$11.88 or the 50-day VWAP at the date of conversion, with a floor price of CAD$8.88 per share.
- CIC's conversion right – CIC has the right to convert the convertible debenture, in whole or in part, into common shares twelve months after the date of issue.
- Company's normal conversion right – After sixty months from the issuance date, and when the conversion price is greater than CAD$10.66, the Company is entitled to force conversion of the outstanding convertible debenture, in whole or in part, into common shares at the conversion price.
- Representation on the Company's Board – While the convertible debenture is outstanding, or while CIC has a minimum 15% direct or indirect stake in the Company, CIC has the right to nominate one director to the Company's Board of Directors. The Company currently has eight Board of Directors members of which none were elected by CIC.
- Voting restriction – CIC has agreed that it will not have any voting rights in the Company beyond 29.9% if CIC ever acquires ownership of such a shareholder stake.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

20. Convertible debenture continued

20.1 Key commercial terms continued

- Pre-emption rights – While the convertible debenture is outstanding, or while CIC has a 15% direct or indirect stake in the Company, CIC has certain pre-emption rights on a pro-rata basis to subscribe for any new shares to be allotted and issued by the Company for the period which the convertible debenture is outstanding. The pre-emption rights will not apply to new shares issued pursuant to pro-rata public equity offerings made to all shareholders, exercise of stock options and shares issued to achieve a 25% public float.

- Right of first offer – While a portion of the convertible debenture is outstanding, or while CIC has a 15% direct or indirect stake in the Company, CIC has the right of first offer for any direct and indirect sale of Turquoise Hill's ownership stake in the Company.

- Registration rights – CIC has registration rights under applicable Canadian provincial securities laws in connection with the common shares issuable upon conversion of the convertible debenture.

20.2 Debt host and embedded derivatives

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

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

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

20. Convertible debenture continued

20.3 Valuation assumptions

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

	As at December 31, 2015	2014
Floor conversion price	**CAD$8.88**	CAD$8.88
Ceiling conversion price	**CAD$11.88**	CAD$11.88
Common share price	**CAD$0.39**	CAD$0.50
Historical volatility	**74%**	69%
Risk free rate of return	**2.03%**	2.24%
Foreign exchange spot rate (CAD$ to U.S. Dollar)	**0.72**	0.86
Forward foreign exchange rate curve (CAD$ to U.S. Dollar)	**0.72 – 0.74**	0.85 – 0.86

20.4 Presentation

Based on the Company's valuation as at December 31, 2015, the fair value of the embedded derivatives decreased by $1,077 compared to December 31, 2014. The decrease was recorded as finance income for the year ended December 31, 2015.

For the year ended December 31, 2015, the Company recorded interest expense of $20,549 related to the convertible debenture as a finance cost (2014: $20,165). The interest expense consists of the interest at the contract rate and the accretion of the debt host component of the convertible debenture. To calculate the accretion expense, the Company uses the contract life of 30 years and an effective interest rate of 22.2%.

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

	Year ended December 31, 2015	2014
Balance, beginning of year	**$ 95,187**	$ 96,603
Interest expense on convertible debenture	**20,549**	20,165
Decrease in fair value of embedded derivatives	**(1,077)**	(1,560)
Interest paid	**(6,000)**	(20,021)
Balance, end of year	**$ 108,659**	$ 95,187

The convertible debenture balance consists of the following amounts:

	As at December 31, 2015	2014
Current convertible debenture		
Interest payable	**$ 16,671**	$ 2,301
Non-current convertible debenture		
Debt host	**91,231**	91,052
Fair value of embedded derivatives	**757**	1,834
	91,988	92,886
Total convertible debenture	**$ 108,659**	$ 95,187

On November 27, 2015, the Company issued 11,958 common shares to settle the $4,000 November 19, 2015 share interest payment. The number of common shares was based on the 50-day volume-weighted average share price on November 19, 2015 of CAD$0.45.

20. Convertible debenture continued

20.5 Interest deferral and settlement

On May 20, 2015 under the terms of the CIC Convertible Debenture, CIC confirmed to the Company that subject to certain conditions and limitations, it had agreed to grant a deferral of payment of the approximately $7,900 in cash interest which was due by the Company to CIC on May 19, 2015 ("May 2015 cash interest installment") until July 22, 2015.

On July 27, 2015, CIC confirmed to the Company that, subject to certain conditions and limitations, it had agreed to grant a further deferral of payment of the May 2015 cash interest installment until November 19, 2015 to allow the Company to advance its Funding Plan.

On November 24, 2015, CIC confirmed to the Company that, subject to certain conditions and limitations, it had agreed to grant further deferral of a payment of the May 2015 cash interest installment to be due and repayable as follows:

(i) $1,000 on November 19, 2015 (paid during the year ended December 31, 2015);

(ii) $1,000 on December 19, 2015 (paid during the year ended December 31, 2015);

(iii) $1,000 on January 19, 2016 (paid subsequent to December 31, 2015);

(iv) $1,000 on February 19, 2016 (paid subsequent to December 31, 2015);

(v) $1,000 on March 19, 2016 (paid subsequent to December 31, 2015);

(vi) $1,000 on April 19, 2016; and

(vii) $2,000 on May 18, 2016.

On November 24, 2015 CIC also confirmed that the cash interest payment due on November 19, 2015 shall be due and payable in cash on May 18, 2016.

The mutually agreed upon deferral of the cash interest payment, and subsequent settlement, did not trigger an event of default and all other terms of the convertible debenture remain unchanged.

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

21. Decommissioning liability

At December 31, 2015, the decommissioning liability primarily relates to reclamation and closure costs of the Company's Ovoot Tolgoi Mine.

The Ovoot Tolgoi Mine decommissioning liability is calculated as the net present value of the estimated future reclamation and closure costs, which at December 31, 2015 totaled $7,838 (2014: $7,158). The estimated future reclamation and closure costs are inflated using an estimated inflation rate of 2.2% (2014: 2.0%) and discounted at 9.8% per annum (2014: 9.9% per annum) to determine the year end decommissioning liability. The settlement of the decommissioning liability will occur through to 2037.

The movement in the decommissioning liability during the years ended December 31, 2015 and 2014 were as follows:

	Year ended December 31, 2015	2014
Balance, beginning of year	**$ 2,704**	$ 2,308
Adjustments	**338**	301
Accretion	**107**	95
Balance, end of year	**$ 3,149**	$ 2,704

The increase in balance from December 31, 2014 to December 31, 2015 is mainly related to revised cost estimates in respect of re-vegetation of the Ovoot Tolgoi site.

22. Equity

22.1 Share capital

The Company has authorized an unlimited number of common and preferred shares with no par value. At December 31, 2015, the Company had 257,683 common shares outstanding (2014: 218,752) and no preferred shares outstanding (2014: nil).

During 2015, the Company completed the private placements for the issue of 16,619 common shares for net proceeds of $6,580 and issued 11,958 common shares to settle the $4,000 November 19, 2015 share interest payment (Note 20.4).

During 2015, the Company entered into a private placement with Novel Sunrise. On March 3, 2015 pursuant to the private placement agreement Novel Sunrise subscribed for an initial tranche of 10,131 mandatory convertible units for subscription proceeds of $3,500. Each mandatory convertible unit issued to Novel Sunrise in the initial tranche is convertible on a one for one basis into a Common Share of the Company, resulting in a deemed issue price of CAD$0.432 per Common Share. On April 23, 2015, the mandatory convertible units were converted into 10,131 Common Shares in the Company.

The Company's volume weighted average share price for the year ended December 31, 2015 was CAD$0.49 (2014: CAD$0.64).

22.2 Accumulated deficit and dividends

At December 31, 2015, the Company has accumulated a deficit of $1,034,942 (2014: $848,177). No dividends have been paid or declared by the Company since inception.

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

23. Share-based payments

23.1 Stock option plan

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

For the year ended December 31, 2015, the Company granted 1,139 stock options (2014: 1,924) to officers, employees, directors and other eligible persons at exercise prices ranging from CAD$0.29 to CAD$0.92 (2014: exercise prices ranging from CAD$0.58 to CAD$0.84) and expiry dates ranging from April 1, 2020 to December 14, 2020 (2014: expiry dates ranging from January 13, 2019 to August 13, 2019). The weighted average fair value of the options granted in the year ended December 31, 2015 was estimated at $0.23 (CAD$0.29) (2014: $0.22, CAD$0.25) per option at the grant date using the Black-Scholes option pricing model.

The weighted average assumptions used for the Black-Scholes option pricing model were as follows:

	Year ended December 31,	
	2015	**2014**
Risk free interest rate	**0.71%**	1.36%
Expected life	**3.2 years**	3.3 years
Expected volatility[(i)]	**80%**	56%
Expected dividend per share	**$ nil**	$ nil

(i) Expected volatility has been calculated based on historical volatility of the Company's publicly traded shares over a period equal to the expected life of the options.

A share-based compensation expense of $218 for the options granted in the year ended December 31, 2015 (2014: $373) will be amortized over the vesting period, of which $72 was recognized in the year ended December 31, 2015 (2014: $136).

The total share-based compensation expenses for the year ended December 31, 2015 was $254 (2014: $843). Share-based compensation expense of $199 (2014: $590) has been allocated to administration expenses, $13 (2014: $23) has been allocated to evaluation and exploration expenses and $42 (2014: $230) has been allocated to cost of sales.

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

23. Share-based payments continued

23.2 Outstanding stock options

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

	Year ended December 31, 2015			Year ended December, 2014		
	Number of options		Weighted average exercise price (CAD$)	Number of options		Weighted average exercise price (CAD$)
Balance, beginning of year	**3,053**	**$**	**3.63**	2,583	$	8.48
Options granted	**1,139**		**0.59**	1,924		0.60
Options exercised	**(12)**		**0.65**	–		–
Options forfeited	**(953)**		**0.74**	(280)		1.93
Options expired	**(828)**		**9.18**	(1,174)		9.77
Balance, end of year	**2,399**	**$**	**1.43**	3,053	$	3.63

The weighted average share price at the date of exercise for share options exercised during the period was CAD$1 per share (2014: No share options were exercised).

The stock options outstanding and exercisable as at December 31, 2015 are as follows:

	Options Outstanding				Options Exercisable			
Exercise price (CAD$)	Options outstanding		Weighted average exercise price (CAD$)	Weighted average remaining contractual life (years)	Options outstanding and exercisable		Weighted average exercise price (CAD$)	Weighted average remaining contractual life (years)
$0.29 – $1.92	**2,154**	**$**	**0.65**	**3.99**	**998**	**$**	**0.76**	**3.38**
$6.16 – $9.43	**245**		**8.23**	**0.84**	**245**		**8.23**	**0.84**
	2,399	**$**	**1.43**	**3.67**	**1,243**	**$**	**2.23**	**2.88**

24. Reserves

24.1 Share option reserve

The Company's share option reserve relates to stock options granted by the Company to officers, employees, directors and other eligible persons under its stock option plan. Details about the Company's share-based payments are further disclosed in Note 23.

The share option reserve transactions for the years ended December 31, 2015 and 2014 are as follows:

	Year ended December 31,			
		2015		2014
Balance, beginning of year	**$**	**52,041**	$	51,198
Exercise of stock options, net of redemptions		**(3)**		–
Share-based compensation charged to operations		**254**		843
Balance, end of year	**$**	**52,292**	$	52,041

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24. Reserves continued

24.2 Investment revaluation reserve

The Company's investment revaluation reserve represents the cumulative gains and losses arising on the revaluation of available-for-sale financial assets that have been recognized in other comprehensive income.

The investment revaluation reserve transactions for the years ended December 31, 2015 and 2014 are as follows:

	Year ended December 31, 2015	2014
Balance, beginning of year	**$ –**	$ 514
Reclassification upon disposal of available-for-sale financial asset	**–**	(514)
Balance, end of year	**$ –**	$ –

25. Capital risk management

The Company's capital risk management objectives are to safeguard the Company's ability to continue as a going concern in order to support the Company's normal operating requirements, continue the development and exploration of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares, acquire previously issued shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents. In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including capital deployment, results from operations, results from the exploration and development of its properties and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

At December 31, 2015, the Company's capital structure consists of convertible debt (Note 20), interest-bearing borrowings (Note 19) and the equity of the Company (Note 22). The Company is not subject to any externally imposed capital requirements. In order to maximize ongoing development efforts, the Company does not pay dividends.

For the year ended December 31, 2015, there were no significant changes in the processes used by the Company or in the Company's objectives and policies for managing its capital. As at December 31, 2015, the Company had limited cash of $377.

Based on the Company's forecasts for the year ending December 31, 2015, the Company is 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 and future contractual commitments, including cash interest payments due on the CIC Convertible Debenture. Therefore, the Company is actively seeking additional sources of financing to continue operating and meet its objectives (Note 1).

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

26. Financial instruments and fair value measurements

26.1 Categories of financial instruments

The Company's financial assets and financial liabilities are categorized as follows:

	As at December 31, 2015	2014
Financial assets		
Loans-and-receivables		
Cash	**$ 377**	$ 3,789
Trade and other receivables (Note 12)	**8,196**	462
Total financial assets	**$ 8,573**	$ 4,251
Financial liabilities		
Fair value through profit or loss		
Convertible debenture – embedded derivatives (Note 20)	**$ 757**	$ 1,834
Other-financial-liabilities		
Trade and other payables (Note 17)	**30,917**	18,124
Interest-bearing borrowings (Note 19)	**8,905**	3,945
Convertible debenture – debt host (Note 20)	**107,902**	93,353
Total financial liabilities	**$ 148,481**	$ 117,256

26.2 Fair value

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

The fair values of the Company's financial instruments classified as FVTPL or available-for-sale are determined as follows:

- The fair value of financial instruments that are traded on an active liquid market are determined with reference to the quoted market prices
- The fair value of financial instruments that are not traded in an active market are determined using generally accepted valuation models using inputs that are directly (i.e. prices) or indirectly (i.e. derived from prices) observable. The fair value of the embedded derivatives within the convertible debenture (Note 20) is determined using a Monte Carlo simulation. None of the fair value change in the embedded derivatives for the year ended December 31, 2015 is related to a change in the credit risk of the convertible debenture. All of the change in fair value is associated with changes in market conditions.

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26. Financial instruments and fair value measurements continued

26.2 Fair value continued

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.

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

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

	As at December 31, 2015			
Recurring measurements	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial liabilities at fair value				
Convertible debenture – embedded derivatives	**$ –**	**$ 757**	**$ –**	**$ 757**
Total financial liabilities at fair value	**$ –**	**$ 757**	**$ –**	**$ 757**

	As at December 31, 2014			
	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value				
Convertible debenture – embedded derivatives	$ –	$ 1,834	$ –	$ 1,834
Total financial liabilities at fair value	$ –	$ 1,834	$ –	$ 1,834

There were no transfers between Level 1, 2 and 3 for the year ended December 31, 2015.

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

26. Financial instruments and fair value measurements continued

26.3 Financial risk management objectives and policies

The financial risk arising from the Company's operations are currency risk, interest rate risk, credit risk, liquidity risk and commodity price risk. These risks arise from the normal course of operations and all transactions undertaken are to support the Company's ability to continue as a going concern. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management of the Company manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

The Company is exposed to foreign currency risk on its sales or purchases in currencies other than the U.S. Dollar. The Company manages this risk by matching receipts and payments in the same currency.

The sensitivity of the Company's comprehensive loss due to changes in the carrying values of monetary assets and liabilities denominated in foreign currencies is as follows. A positive number indicates a decrease in comprehensive loss, whereas a negative number indicates an increase in comprehensive loss.

	As at December 31, 2015	2014
Increase/decrease in foreign exchange rate		
+5%	**$ 14**	$ 66
–5%	**$ (14)**	$ (66)

Interest rate risk

The Company is exposed to interest rate risk on the variable rate of interest earned on its cash. However, the rate of interest earned on these instruments is below 3%; therefore, the interest rate risk is not significant.

Except for the interest-bearing borrowing from the Turquoise Hill Loan Facility (Note 19), the Company's short-term bridge loan (Note 19) and convertible debenture (Note 20) accrue interests at fixed rates where the Company is not exposed to interest rate risk. The Company has not entered into any derivative instruments to manage interest rate fluctuations, however, management closely monitors interest rate exposure and the risk exposure is limited.

The sensitivity of the Company's comprehensive loss due to 100 basis points increase in the interest rate of the interest-bearing loan with variable interest rate is as follows. A positive number indicates a decrease in the loss for the year, whereas a negative number indicates an increase in the loss for the year.

	As at December 31, 2015	2014
Increase in		
Loss for the year	**$ (4)**	$ (3)

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26. Financial instruments and fair value measurements continued

26.3 Financial risk management objectives and policies continued

Credit risk

The Company is exposed to credit risk associated with its cash and trade and other receivables. The Company's maximum exposure to credit risk is equal to the carrying amount of these instruments.

The Company's credit risk on cash arises from default of the counterparty. The Company limits its exposure to counterparty credit risk on cash by only dealing with financial institutions with high credit ratings.

The Company seeks to manage its credit risk on trade and other receivables by trading with third party customers it considers to be creditworthy. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, the trade and other receivables balances are monitored on an ongoing basis and, if appropriate, the Company records provisions for uncollectible trade and other receivables.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to settle or manage its obligations associated with financial liabilities. Based on the Company's forecasts for the year ended December 31, 2015, the Company is 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 and future contractual commitments, including cash interest payments due on the CIC Convertible Debenture. Therefore, the Company is actively seeking additional sources of financing to continue operating and meet its objectives (Note 1).

The Company's current and expected remaining contractual maturities for its financial liabilities with agreed repayment periods are as follows. The table includes the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to satisfy the liabilities.

	0 to 6 months	6 to 12 months	Total
As at December 31, 2015			
Trade and other payables	**$ 30,917**	**$ –**	**$ 30,917**
Interest-bearing borrowings[i]	**687**	**9,079**	**9,766**
Convertible debenture – cash interest[i]	**22,182**	**8,000**	**30,182**
	$ 53,786	**$ 17,079**	**$ 70,865**
As at December 31, 2014			
Trade and other payables	$ 18,124	$ –	$ 18,124
Interest-bearing borrowings	1,972	1,973	3,945
Convertible debenture – cash interest	8,000	8,000	16,000
	$ 28,096	$ 9,973	$ 38,069

(i) The expected undiscounted cash flows of the above noted financial liabilities include the cash interest payment on the interest-bearing borrowings and convertible debenture for the year ended December 31, 2015. Refer to Note 19 and Note 20 for the terms of the interest-bearing borrowings and convertible debenture, respectively.

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

26. Financial instruments and fair value measurements continued

26.3 Financial risk management objectives and policies continued

Commodity price risk

The Company is exposed to the risk of fluctuations in prevailing market prices for its coal products. Coal prices are affected by numerous factors such as interest rates, exchange rates, inflation or deflation and global and regional supply and demand.

The Company enters into sales contracts with its customers to manage the risk of off-take of coal at prevailing market prices by, in most cases, entering into short term coal contracts which fix the quantity and price of the Company's coal. The Company has not entered into any coal hedging instruments to manage its exposure to fluctuations in coal prices. As coal sales are the only source of revenue for the Company, a 5% increase or decrease in coal prices will result in a corresponding increase or decrease in revenue.

27. Related party transactions

The consolidated financial statements include the financial statements of SouthGobi Resources Ltd. and its significant subsidiaries listed in the following table:

		% equity interest As at December 31,	
Name	Country of incorporation	2015	2014
SouthGobi Resources (Hong Kong) Limited	Hong Kong	**100%**	100%
SGS	Mongolia	**100%**	100%
SGQ Coal Investment Pte. Ltd.	Singapore	**100%**	100%
SouthGobi Trading (Beijing) Co., Ltd.*	China	**100%**	–

* SouthGobi Trading (Beijing) Co., Ltd. was newly established during year ended December 31, 2015. It is registered as a wholly-foreign-owned enterprise under law of China.

During the year ended December 31, 2015 and 2014, the Company had related party transactions with the following companies related by way of directors or shareholders in common:

- Turquoise Hill – Prior the completion of the Novel SPA and private placement with Novel Sunrise on April 23, 2015, Turquoise Hill was the Company's immediate parent company. Turquoise Hill's shareholding at April 1, 2015 was approximately 48% which declined to 20% at December 31, 2015 of the outstanding Common Shares following the completion of the Novel SPA. Turquoise Hill provides various administrative services to the Company on commercial terms.

- Rio Tinto – Prior to the completion of the Novel SPA and private placement with Novel Sunrise on April 23, 2015, Rio Tinto was the Company's ultimate parent company. 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.

- 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.

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27. Related party transactions continued

27.1 Related party expenses

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

	Year ended December 31, 2015	2014
Corporate administration	$ 463	$ 711
Salaries and benefits	216	1,392
Finance costs	409	415
Related party expenses	**$ 1,088**	$ 2,518

The Company's related party expenses relate to the following related parties:

	Year ended December 31, 2015	2014
Turquoise Hill	$ 409	$ 513
Rio Tinto	261	1,391
Turquoise Hill Singapore	418	614
Related party expenses	**$ 1,088**	$ 2,518

27.2 Related party liabilities

The liabilities of the Company include the following amounts due to related parties:

	As at December 31, 2015	2014
Amounts payable to Rio Tinto	$ 8,044	$ 8,047
Accounts payable to Turquoise Hill Singapore	567	278
Accounts payable to Turquoise Hill	3,968	4,151
Total liabilities due to related parties	**$ 12,579**	$ 12,476

27.3 Key management personnel compensation

The remuneration of the Company's directors and other members of key management, who have the authority and responsibility for planning, directing and controlling the activities of the Company, consists of the following amounts:

	Year ended December 31, 2015	2014
Salaries, fees and other benefits	$ 1,434	$ 2,695
Share-based compensation	166	232
Total remuneration	**$ 1,600**	$ 2,927

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

28. Supplemental cash flow information

28.1 Non-cash financing and investing activities

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

	Year ended December 31, 2015	2014
Convertible debenture interest settlement in shares	**$ 4,000**	$ 4,000
Gain on waiver of loan from Turquoise Hill (note 19)	**200**	–
Total non-cash financing and investing activities	**$ 4,200**	$ 4,000

28.2 Net change in non-cash working capital items

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

	Year ended December 31, 2015	2014
Increase in inventories	**$ (2,758)**	$ (871)
Decrease/(increase) in trade and other receivables	**(8,204)**	1,741
Decrease in prepaid expenses and deposits	**2,705**	863
Decrease in provision for court case penalty	**(1,580)**	–
Increase/(decrease) in trade and other payables	**13,651**	(13,479)
Increase/(decrease) in deferred revenue	**(215)**	10,900
Net change in non-cash working capital items	**$ 3,599**	$ (846)

29. Commitments for expenditure

The Company's commitments for expenditure that have not been disclosed elsewhere in the consolidated financial statements are as follows:

	Within 1 year	2-3 years	Over 3 years	Total
As at December 31, 2015				
Capital expenditure commitments	**$ 7,328**	**$ 7,308**	**$ –**	**$ 14,636**
Operating expenditure commitments	**8,530**	**1,287**	**645**	**10,462**
Commitments	**$ 15,858**	**$ 8,595**	**$ 645**	**$ 25,098**
As at December 31, 2014				
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

30. Contingencies

30.1 Governmental and regulatory investigations

The Company was subject to investigations by the Mongolia's Independent Authority against Corruption (the "IAAC") regarding allegations of breaches of Mongolia's anti-corruption laws (the "Anti-Corruption Case"), and tax evasion and money laundering (the "Tax Evasion Case").

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 the Restricted Funds held in bank accounts 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.

With respect to the Tax Evasion Case, 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; however, proceedings in respect of tax evasion by former employees of the Company proceeded and culminated in February 2015, when the Company received the written verdict (the "Tax Verdict") of Mongolian Second District Criminal Court. The Tax Verdict pronounced the three former employees of SGS guilty and declared SGS to be financially liable as a "civil defendant" for a penalty (the "Tax Penalty") of MNT35.3 billion (approximately $18,200 on February 1, 2015).

On February 18, 2015, the Company appealed the Tax Verdict 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 appeal by the 10th Appeal Court for Criminal Case of Mongolia (the "Court of Appeal") took place on March 25, 2015 and a panel of three appointed judges upheld the Tax Verdict and dismissed the appeal by the Company (the "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 received the written version Appeal Verdict on April 10, 2015. The Company lodged a final appeal with the Supreme Court of Mongolia on April 22, 2015. In accordance with Mongolia's criminal procedure law, SGS filed the appeal with the Supreme Court of Mongolia through the Second District Criminal Court of Justice.

On April 29, 2015 the Second District Criminal Court refused to advance SGS's appeal to the Supreme Court. Following an immediate protest by SGS, the Second District Criminal Court delivered SGS's appeal to the Supreme Court of Mongolia.

On May 20, 2015, SGS was informed that the Supreme Court had refused to hear the appeal and had returned the appeal to the Second District Criminal Court of Justice. The Supreme Court based its decision on a restrictive reading of Article 342 of the Criminal Procedure Law of Mongolia which stipulates that "the defendant, person acquitted, the victim, and their respective defense counsel have the right to lodge a complaint to the Supreme Court". The Supreme Court concluded that the omission of a specific reference to a civil defendant in Article 342, in and of itself denies SGS, in such capacity, the right to lodge an appeal to the Supreme Court.

In its decision, the Supreme Court did not address other provisions of the Criminal Procedure Law and the Law on Courts of Mongolia, which provide that civil defendants have standing to appeal to the Supreme Court and that no judicial proceedings or decisions in Mongolia are outside of the scope of supervision by the Supreme Court.

30. Contingencies continued

30.1 Governmental and regulatory investigations continued

On May 21, 2015, SGS sent an official letter of protest to the Presiding Justice of the Criminal Chamber of the Supreme Court (the "Presiding Justice"), challenging the decision to refuse to hear the tax case on appeal. On June 2, 2015, SGS received a formal response from the Presiding Justice, confirming the Supreme Court's refusal to hear the tax case. In the letter, the Presiding Justice reaffirmed the restrictive interpretation of Article 342 of the Criminal Procedure Law.

With the refusal by the Supreme Court to hear the case on appeal, the Tax Verdict has entered into force. The Tax Verdict is, however, not immediately payable and enforceable against SGS absent further actions prescribed by the laws of Mongolia. In particular, SGS has not received a copy of the bailiff's resolution on execution of the Tax Verdict, as required under the Law of Mongolia on Execution of Court Decisions in order for any judgment execution process to happen. However, the Company made a corresponding provision for the court case penalty of $18,049 in the second quarter of 2015 given the Tax Verdict has entered into force.

On October 6, 2015, the Company was informed by the Mongolian banks (where the Restricted Funds were held) that they had received an official request from Court Decision Implementing Agency ("CDIA") to transfer the Restricted Funds to CDIA according to the court decision. $1,200 was transferred to CDIA from the frozen bank accounts in October and November 2015.

While the Company had various additional legal avenues available to it to continue defending itself, it has decided to and is currently seeking to resolve amicably the dispute giving rise to the Tax Verdict in a manner that is both appropriate having regard to the Company's limited financial resources and supportive of a positive environment for foreign investment in Mongolia. There can be no assurance, however, that any such resolution can be successfully negotiated by the Company either at all or on favourable terms, or that the terms of any resolution to which the Government would be prepared to agree would not be materially adverse to the Company. In such case, this may result in an event of default under each of the CIC Convertible Debenture and the TRQ Loan by Turquoise Hill and each of CIC and Turquoise Hill would have the respective right to declare the full principal and accrued interest owing to such party immediately due and payable. Such an event of default under the Debenture, the TRQ Loan or the Company's inability to pay the penalty could result in voluntary or involuntary proceedings involving the Company (including bankruptcy).

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30. Contingencies continued

30.2 Internal investigations

Through its Audit Committee (comprised solely of independent directors), the Company conducted an internal investigation into possible breaches of law, internal corporate policies and codes of conduct arising from allegations raised in the context of investigations by Mongolian authorities. The former Chair of the Audit Committee also participated in a tripartite committee, comprised of the Audit Committee Chairs of the Company and Turquoise Hill and a representative of Rio Tinto, focused on the investigation of a number of those allegations, including possible violations of anti-corruption laws. The tripartite committee substantially completed the investigative stage 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 investigation 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, the outcome of which is unclear at this time but could have a material adverse effect on the Company.

In the opinion of management of the Company, at December 31, 2015 a provision for this matter is not required.

30.3 Mongolian IAAC investigation

In the first quarter of 2013, the Company was subject to orders imposed by 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 as described above under "Governmental and Regulatory Investigations" and continued to be enforced by the Mongolian State Investigation Office (the "SIA"). The restrictions on the assets were reaffirmed in the Tax Verdict and form part of the Tax Penalty payable by the Company (Note 30.1).

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 restricted the use of in-country funds but did not have any material impact on the Company's activities. The Restricted Funds were transferred to the CDIA as partial payment of the Tax Verdict in October and November 2015.

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

30. Contingencies continued

30.4 Class action lawsuit

In January, 2014, Siskinds LLP, a Canadian law firm, filed a proposed securities class action (the "Class 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.

For more details in respect of the class action lawsuit, 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 "Regulatory Issues and Contingencies".

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

The Ontario Court dismissed the plaintiff's leave motion as against each of the former senior officers and former and current directors of the Company named in the Class Action on the basis that the "large volume of compelling evidence" proved the defence of reasonable investigation on the balance of probabilities and provided the basis for dismissing the Leave Motion as against them.

The Ontario Court granted the Certification Motion against the Company on the basis that, at this stage, the plaintiff met the low legal standard of "reasonable possibility of success". In granting leave, however, the Court acknowledged the "... compelling evidence of the defendant company... that may prevail at trial...". The Ontario Court refused an award of costs for the Certification Motion to the plaintiff. The Company is seeking leave to appeal this decision. The plaintiff has also appealed this decision. The appeal by the plaintiff and, if leave to appeal is granted, the appeal by the Company, are scheduled to be heard in June 2016. Rulings are expected by the end of September 2016.

The Company disputes and is vigorously defending 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 Action or determine the amount of any potential losses, if any. However, the Company has judged a provision for this matter at December 31, 2015 is not required.

30. Contingencies continued

30.5 Toll wash plant agreement with Ejin Jinda

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

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

30.6 Mining prohibition in Specified Areas Law

In July 2009, Mongolia promulgated the Law on Prohibiting Mineral Exploration and Extraction Near Water Sources, Protected Areas and Forests (the "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.

In order to address the issues facing its implementation, in February, 2015 the Parliament of Mongolia adopted an amendment to the Law on Implementation of the Mining Prohibition in Specified Areas Law (the "Amended Law on Implementation"). The Amended Law on Implementation provides an opportunity for license holders covered within the scope of application of the Mining Prohibition in 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 will be adopted by the Government. The license holders must also apply within 3 months after the amendment to the Law on Implementation comes into effect for permission to the Mineral Resource Authority of Mongolia ("MRAM") to resume activities. The Company submitted its application with respect to its mining licenses before the deadline set on June 16, 2015 but has not yet received any communication from MRAM on the status of its application.

Pursuant to the Mongolian Law "To prohibit mineral exploration and mining operations at headwaters of rivers, water protection zones and forested areas", the government administrative agency has notified the Company that special license area 12726A is partly overlapping with a water reservoir. The Company has inspected the area together with the Cadastral Division of the Mineral Resource Authority as well as through the cadastral registration system of the Ministry of Environment, it is determined that 29 hectares of Sukhait Bulag is partly overlapping with a water reservoir, of which has been partly handed over. (Resolution No.6/7522 issued on September 29, 2015 by the Head of Cadastral Division of the Mineral Resource Authority)

30. Contingencies continued

30.6 Mining prohibition in Specified Areas Law continued

In accordance with Article 22.3 of Law of Mongolia on Water, 5,602.96 hectares of land, including Sukhaityn Bulag, Uvur Zadgai, and Zuun Shand pertaining to exploration license 9443X, is overlapping with protected area boundary. It has been officially handed over to the local administration. (Resolution No.688 issued on September 24, 2015 by the Head of Cadastral Division of the Mineral Resource Authority)

In connection with the nullification of Annex 2 of the government order No.194 “On determining boundary” issued on June 5, 2012, area around the water reservoir located at MV-016869 license area and Soumber mining license 9449X has been annulled from the Specified Area Law.

Therefore, mining license 12726A, MV-016869 and exploration licenses 9443X, 9449X were removed from the list of licenses that is overlapping with the prohibited areas described in the law.

The potential impact of the Mining Prohibition in Specified Areas Law on the mineral exploration licenses 13779X and 5267X is unclear pending the adoption by the Government of the relevant regulations pursuant to the Amended Law on implementation. The Company will continue to monitor the developments and ensure that it follows the necessary steps in the Amended Law on Implementation to secure its operations and licenses and is fully compliant with Mongolian law.

30.7 Special Needs Territory in Umnugobi

On February 13, 2015, the whole of the Soumber mining license and a portion of SGS’ exploration license No.9443X (the “License Areas”) were included into a special protected area (to be further referred as Special Needs Territory “SNT”) newly set up by the Umnugobi Aimag’s Civil Representatives Khural (the “CRKh”) to establish a strict regime on the protection of natural environment and prohibit mining activities in the territory of the SNT.

In March 2015, SGS filed a complaint with the 12th Court for Administrative Cases of First Instance (the “Administrative Court”) seeking the annulment of CRKh’s decision to the extent it impacted the License Areas. In parallel, SGS initiated negotiations with the CRKh in order to reach an acceptable solution.

On July 8, 2015, SGS and the Chairman of the CRKh, in his capacity as the respondent’s representative, reached an agreement (the “Amicable Resolution Agreement”) to exclude the License Areas from the territory of the SNT in full, subject to confirmation of the Amicable Resolution Agreement by the session of the CRKh. The parties formally submitted the Amicable Resolution Agreement to the appointed judge of the Administrative Court for her approval and requested a dismissal of the case in accordance with the Law of Mongolia on Administrative Court Procedure. On July 10, 2015, the judge issued her order approving the Amicable Resolution Agreement and dismissing the case, while reaffirming the obligation of CRKh to take necessary actions at its next session to exclude the License Areas from the SNT and register the new map of the SNT with the relevant authorities. The Company has not yet received any indication on the timing of the next session of the CRKh.

30. Contingencies continued

30.8 Commercial arbitration in Hong Kong

On June 24, 2015, First Concept served a notice of arbitration (the "Notice") on SGS in respect of a coal supply agreement dated May 19, 2014 as amended on June 27, 2014 (the "Coal Supply Agreement"). The arbitral proceedings (the "Arbitration") are deemed to have commenced on June 24, 2015, as the date when the respondent received the Notice.

According to the Notice, First Concept: alleged, inter alia, (i) that SGS had failed and/or wrongfully refused to sell any coal to First Concept; (ii) expressed its wish to have the dispute settled in an arbitration to be administered by the Hong Kong International Arbitration Centre; and (iii) sought the repayment of the prepayment, in the sum of $11,500, it made to SGS under the Coal Supply Agreement, as well as any and all damages that may be due to it.

Under the Coal Supply Agreement, SGS agreed to sell coal to First Concept between May 22, 2014 and May 31, 2015 for a total consideration of $11,500. It was also agreed that that First Concept would pre-pay the $11,500. While First Concept fulfilled its payment obligation under the contract, it totally failed to fulfill its obligation to collect and transport the coal. Pursuant to the Coal Supply Agreement that obligation fell squarely on First Concept, while SGS was only obliged to make the coal available at its stockpile. The sole reason for the lack of coal sales to First Concept was the continued failure of First Concept to complete the necessary legal requirements for collection and transportation of coal and to provide a pickup schedule in accordance with industry practice. Contrary to the allegation by First Concept that SGS "wrongfully refused" to sell the coal, SGS has repeatedly advised First Concept of its willingness, ability and readiness to make available the coal for collection at its stockpile. In fact, SGS, at all times during the term of the Coal Supply Agreement, had more than sufficient coal at its stockpile to meet its obligations.

The Company, therefore, firmly rejects the allegations of First Concept in the Notice as lacking any merit. On October 26, 2015, the Company received the Statement of Claim from First Concept and will vigorously defend itself in the Arbitration, including claiming the relevant fees and damages from First Concept. The trial dates of the Arbitration are scheduled to be held in the fourth quarter of 2016.

There can be no assurance, however, that the Company will prevail in the Arbitration. Should SGS be unsuccessful in the Arbitration, the Company may not be able to re-pay the sum of $11,500. In such case, this may result in an event of default under the CIC Convertible Debenture and CIC would have the right to declare the full principal and accrued interest owing thereunder immediately due and payable. Such an event of default under the Debenture or the Company's inability to re-pay the sum of $11,500 to First Concept could result in voluntary or involuntary proceedings involving the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)

30. Contingencies continued

30.9 Notice of claim by former Chief Executive Officer

On June 30, 2015, the Company was served with a Notice of Civil Claim filed by the Company's former President and Chief Executive Officer, Alexander Molyneux, in the British Columbia Supreme Court. The claim relates to alleged breaches of Mr. Molyneux's employment agreement by the Company. In addition to the Company, Turquoise Hill, the Company's largest shareholder at the time of Mr. Molyneux's employment, was also named in the claim.

Mr. Molyneux acted as the Company's President (from April 2009) and Chief Executive Officer (from October 2009) until September 2012, when the Company terminated his employment.

Mr. Molyneux is seeking damages in excess of $1,000 in his Notice of Claim. The Company considers the action is without merit. SouthGobi intends to vigorously defend the action and reserves its right to pursue all legal rights and remedies available to it in connection with the proceedings. The Company filed a response to Civil Claim and Counterclaim in September 2015. A trial date has not yet been set.

30.10 Tax legislation

Mongolian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant authorities. The Mongolian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged by tax authorities. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

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

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

As of December 31, 2015 and 2014, management has assessed that recognition of a provision for uncertain tax position is not necessary.

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

ADDITIONAL STOCK EXCHANGE INFORMATION

Additional information required by the Hong Kong Stock Exchange and not shown elsewhere in this report is as follows:

A1. Loss for the year

Loss for the year has been arrived at after charging the following items:

	Year ended December 31, 2015	2014
Auditor's remuneration	**$ 373**	$ 427
Depreciation and depletion		
Depreciation included in administration expenses	**$ 122**	$ 128
Depreciation included in evaluation and exploration expenses	**6**	22
Depreciation and depletion included in cost of sales	**27,823**	37,540
Total depreciation and depletion	**$ 27,951**	$ 37,690
Staff costs		
Directors' emoluments – executive directors (Note A2)	**$ 278**	$ 1,110
Directors' emoluments – non-executive directors (Note A2)	**384**	538
Other staff costs	**1,692**	1,897
Staff costs included in administration expenses	**2,354**	3,545
Staff costs included in evaluation and exploration expenses	**12**	11
Total staff costs	**$ 2,366**	$ 3,556

A2. Director and employee emoluments

Directors' emoluments

The Company's directors' emoluments consist of the following amounts:

	Year ended December 31, 2015	2014
Directors' fees	**$ 377**	$ 373
Other emoluments for executive and non-executive directors		
Salaries and other benefits	**207**	1,110
Share-based compensation	**78**	165
Directors' emoluments	**$ 622**	$ 1,648

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

A2. Director and employee emoluments continued

Directors' emoluments continued

Year ended December 31, 2015 Name of director	Directors' fees	Salaries and other benefits	Share-based compensation	Total
Executive directors				
Ningqiao Li (i)	$ 23	$ –	$ 13	$ 36
Aminbuhe (i)	3	110	13	126
Yulan Guo (i)	6	97	13	116
	$ 32	$ 207	$ 39	$ 278
Non-executive directors				
Zhu Liu (i)	$ 12	$ –	$ 13	$ 25
Jin Lan Quan (i)	10	–	13	23
Mao Sun (i)	8	–	13	21
Pierre Lebel	87	–	–	87
Huiyi Wang (ii)	–	–	–	–
Ted Chan (i) (iii)	35	–	–	35
W. Gordon Lancaster (iii)	91	–	–	91
André Deepwell (iii)	53	–	–	53
Kelly Sanders (iii)	30	–	–	30
Bold Baatar (iii)	10	–	–	10
Jeffery Tygesen (iii)	9	–	–	9
	$ 345	$ –	$ 39	$ 384
Directors' emoluments	$ 377	$ 207	$ 78	$ 662

(i) Appointed to the Board of Directors during the year ended December 31, 2015.

(ii) Appointed to the Board of Directors on February 18, 2016.

(iii) Resigned from the Board of Directors during the year ended December 31, 2015.

Year ended December 31, 2014 Name of director	Directors' fees	Salaries and other benefits	Share-based compensation	Total
Executive directors				
K.Ross Tromans (i)	$ –	$ 1,110	$ –	$ 1,110
Non-executive directors				
Kay Priestly (i)	$ 67	$ –	$ –	$ 67
Sean Hinton (i)	28	–	–	28
Kelly Sanders	41	–	–	41
Lindsay Dove (i)	22	–	–	22
Pierre Lebel	70	–	55	125
André Deepwell	62	–	55	117
W. Gordon Lancaster	58	–	55	113
Bold Baatar	23	–	–	23
Jeffery Tygesen (ii)	2	–	–	2
	$ 373	$ –	$ 165	$ 538
Directors' emoluments	$ 373	$ 1,110	$ 165	$ 1,648

(i) Resigned from the Board of Directors during the year ended December 31, 2014.

(ii) Resigned from the Board of Directors on March 18, 2015.

Salaries and other benefits paid to Ross Tromans during the year ended December 31, 2014 includes a bonus of $156 paid in accordance with the Company's annual incentive plans.

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

A2. Director and employee emoluments continued

Five highest paid individuals

The five highest paid individuals included one director of the Company for the years ended December 31, 2015 and 2014. The emoluments of the five highest paid individuals are as follows:

	Year ended December 31, 2015	2014
Salaries and other benefits	$ 1,119	$ 2,540
Share-based compensation	88	68
Compensation for loss of office	135	–
Total emoluments	$ 1,342	$ 2,608

The emoluments for the five highest paid individuals were within the following bands:

	Year ended December 31, 2015	2014
HK$1,000,001 to HK$1,500,000	2	–
HK$1,500,001 to HK$2,000,000	2	2
HK$2,000,001 to HK$2,500,000	–	1
HK$4,500,001 to HK$5,000,000	1	–
HK$6,000,001 to HK$6,500,000	–	1
HK$8,500,001 to HK$9,000,000	–	1
	5	5

A3. Five year summary

The following table contains a five year summary of the Company's results, assets and liabilities:

	Year ended December 31, 2015	2014	2013	2012	2011
Revenue	$ 16,030	$ 24,494	$ 58,636	$ 78,061	$ 130,756
Gross profit/(loss)	(47,661)	(57,638)	(53,991)	(49,346)	38,578
Net comprehensive income/(loss) attributable to equity holders of the Company	$ (188,040)	$ (104,197)	$ (236,950)	$ (114,061)	$ 37,350
Basic income/(loss) per share from continuing and discontinued operations	$ (0.79)	$ (0.55)	$ (1.30)	$ (0.54)	$ 0.27
Diluted loss per share from continuing and discontinued operations	$ (0.79)	$ (0.55)	$ (1.30)	$ (0.60)	$ (0.24)

	As at December 31, 2015	2014	2013	2012	2011
Total assets	$ 290,474	$ 416,139	$ 506,206	$ 732,452	$ 918,680
Less: total liabilities	(179,781)	(131,858)	(131,149)	(128,469)	(213,113)
Total net assets	$ 110,693	$ 284,281	$ 375,057	$ 603,983	$ 705,567

APPENDIX TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

A4. Cash

The Company's cash is denominated in the following currencies:

	As at December 31, 2015	2014
Denominated in U.S. Dollars	**$ 21**	$ 2,553
Denominated in Chinese Renminbi	**94**	587
Denominated in Mongolian Tugriks	**182**	77
Denominated in Canadian Dollars	**20**	333
Denominated in Hong Kong Dollars	**60**	239
Cash	**$ 377**	$ 3,789

CORPORATE INFORMATION

Directors

Executive Directors:

Mr. Ningqiao Li (Executive Chairman)
Mr. Aminbuhe
Mr. Yulan Guo

Independent Non-Executive Directors:

Mr. Pierre Lebel (Lead Director)
Mr. Zhu Liu
Ms. Jin Lan Quan
Mr. Mao Sun

Non-Executive Director:

Mr. Huiyi Wang

Audit Committee

Mr. Mao Sun (Chair)
Mr. Pierre Lebel
Ms. Jin Lan Quan

Nominating and Corporate Governance Committee

Mr. Pierre Lebel (Chair)
Mr. Zhu Liu
Ms. Jin Lan Quan
Mr. Mao Sun

Compensation and Benefits Committee

Mr. Zhu Liu (Chair)
Mr. Pierre Lebel
Mr. Mao Sun

Health, Environment, Safety and Social Responsibility Committee

Mr. Aminbuhe (Chair)
Mr. Yulan Guo
Mr. Zhu Liu

Company Secretary

Ms. Allison Snetsinger

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Principal Place of Business in Mongolia

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Principal Bankers

Canada:

BMO Bank of Montreal

Hong Kong:

Standard Chartered Bank (Hong Kong) Limited

Principal Share Registrar

CST Trust Company
Suite 1600 – 1066 West Hastings Street, Vancouver, British Columbia Canada V6E 3X1

Branch Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712 – 1716, 17/F, Hopewell Centre 183 Queen's Road East Wan Chai, Hong Kong

Independent Auditor

PricewaterhouseCoopers LLP

Website address

www.southgobi.com