SouthGobi Resources Ltd.
Condensed Consolidated Interim Financial Statements

March 31, 2015
(Expressed in U.S. Dollars)
(Unaudited)

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Condensed Consolidated Interim Statements of Comprehensive Income

(Unaudited)

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

	Notes	Three months ended March 31, 2015	Three months ended March 31, 2014
Revenue		**$ 1,587**	$ 5,137
Cost of sales	4	**(17,678)**	(18,366)
Gross loss		**(16,091)**	(13,229)
Other operating income/(expenses)	5	**971**	(1,073)
Administration expenses	6	**(1,425)**	(2,237)
Evaluation and exploration expenses		**(81)**	(172)
Loss from operations		**(16,626)**	(16,711)
Finance costs	7	**(6,648)**	(5,025)
Finance income	7	**8**	1,007
Share of losses of joint venture	11	**(18)**	(26)
Net loss attributable to equity holders of the Company		**(23,284)**	(20,755)
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods			
Change in value of available-for-sale financial asset, net of tax		**-**	(514)
Net comprehensive loss attributable to equity holders of the Company		**$ (23,284)**	$ (21,269)
Basic loss per share		**$ (0.11)**	$ (0.11)
Diluted loss per share		**$ (0.11)**	$ (0.11)

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

SOUTHGOBI RESOURCES LTD.

Condensed Consolidated Interim Statements of Financial Position

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

	Notes	As at March 31, 2015	As at December 31, 2014
Assets			
Current assets			
Cash and cash equivalents		**$ 3,647**	$ 3,789
Trade and other receivables	8	**269**	462
Inventories	9	**29,118**	31,255
Prepaid expenses and deposits		**4,362**	4,192
Total current assets		**37,396**	39,698
Non-current assets			
Property, plant and equipment	10	**338,886**	349,867
Long term investments	11	**26,689**	26,574
Total non-current assets		**365,575**	376,441
Total assets		**$ 402,971**	$ 416,139
Equity and liabilities			
Current liabilities			
Trade and other payables	12	**$ 18,043**	$ 18,124
Deferred revenue		**11,697**	11,898
Interest-bearing borrowings	13	**4,051**	3,945
Current portion of convertible debenture	14	**7,233**	2,301
Total current liabilities		**41,024**	36,268
Non-current liabilities			
Convertible debenture	14	**94,470**	92,886
Decommissioning liability		**2,829**	2,704
Total non-current liabilities		**97,299**	95,590
Total liabilities		**138,323**	131,858
Equity			
Share capital	15	**1,083,936**	1,080,417
Share option reserve		**52,173**	52,041
Accumulated deficit	15	**(871,461)**	(848,177)
Total equity		**264,648**	284,281
Total equity and liabilities		**$ 402,971**	$ 416,139
Net current assets/(liabilities)		**$ (3,628)**	$ 3,430
Total assets less current liabilities		**$ 361,947**	$ 379,871

Corporate information and going concern (Note 1), commitments for expenditure (Note 20) and contingencies (Note 21)

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

APPROVED BY THE BOARD:

"Andre Deepwell" — Director

"Pierre Lebel" — Director

SOUTHGOBI RESOURCES LTD.

Condensed Consolidated Interim Statements of Changes in Equity

(Unaudited)

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

	Number of shares/units		Share capital		Share option reserve		Investment revaluation reserve		Accumulated deficit		Total
Balances, January 1, 2014	187,309	$	1,067,839	$	51,198	$	514	$	(744,494)	$	375,057
Shares issued for:											
Employee share purchase plan	4		4		-		-		-		4
Share-based compensation charged to operations	-		-		152		-		-		152
Net loss for the period	-		-		-		-		(20,755)		(20,755)
Change in value of available-for-sale financial asset, net of tax	-		-		-		(514)		-		(514)
Balances, March 31, 2014	187,313	$	1,067,843	$	51,350	$	-	$	(765,249)	$	353,944
Balances, January 1, 2015	**218,752**	**$**	**1,080,417**	**$**	**52,041**	**$**	**-**	**$**	**(848,177)**	**$**	**284,281**
Shares issued for:											
Employee share purchase plan	**3**		**1**		**-**		**-**		**-**		**1**
Mandatory convertible units issued for:											
Private placement	**10,131**		**3,518**		**-**		**-**		**-**		**3,518**
Share-based compensation charged to operations	**-**		**-**		**132**		**-**		**-**		**132**
Net loss for the period	**-**		**-**		**-**		**-**		**(23,284)**		**(23,284)**
Balances, March 31, 2015	**228,886**	**$**	**1,083,936**	**$**	**52,173**	**$**	**-**	**$**	**(871,461)**	**$**	**264,648**

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

SOUTHGOBI RESOURCES LTD.

Condensed Consolidated Interim Statements of Cash Flows

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

	Notes	Three months ended March 31, 2015	Three months ended March 31, 2014
Operating activities			
Loss before tax		**$ (23,284)**	$ (20,755)
Adjustments for:			
Depreciation and depletion		**12,198**	5,505
Share-based compensation	16	**132**	152
Finance costs	7	**6,648**	5,025
Finance income	7	**(8)**	(1,007)
Share of losses of joint venture	11	**18**	26
Income tax paid		**(1)**	-
Unrealized foreign exchange gain		**(226)**	(780)
Impairment loss on available-for-sale financial asset		**-**	1,766
Impairment of inventories	9	**550**	7,281
Operating cash flows before changes in non-cash working capital items		**(3,973)**	(2,787)
Net change in non-cash working capital items	19	**631**	(5,819)
Cash used in operating activities		**(3,342)**	(8,606)
Investing activities			
Expenditures on property, plant and equipment		**(260)**	(3,243)
Interest received		**1**	3
Net proceeds from maturity or disposal of short and long term investments		**-**	5
Investment in joint venture		**(30)**	-
Cash used in investing activities		**(289)**	(3,235)
Financing activities			
Proceeds from issuance of common shares		**1**	4
Proceeds from issuance of mandatory convertible units		**3,518**	-
Cash generated from financing activities		**3,519**	4
Effect of foreign exchange rate changes on cash		**(30)**	(85)
Decrease in cash		**(142)**	(11,922)
Cash, beginning of period		**3,789**	21,837
Cash, end of period		**$ 3,647**	$ 9,915

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

1. CORPORATE INFORMATION AND GOING CONCERN

SouthGobi Resources Ltd. is a publicly listed company incorporated in Canada with limited liability under the legislation of the Province of British Columbia and its shares are listed on the Toronto Stock Exchange (Symbol: SGQ) and Stock Exchange of Hong Kong (Symbol: 1878). The company, together with its subsidiaries (collectively referred to as the "Company"), is an integrated coal mining, development and exploration company. At March 31, 2015, Turquoise Hill Resources Ltd. ("Turquoise Hill") owned approximately 48% of the outstanding Common Shares of the Company (Note 18). Turquoise Hill is controlled by Rio Tinto plc ("Rio Tinto"). Refer to note 22 subsequent events for details in respect of changes in majority shareholders including Turquoise Hill subsequent to March 31, 2015.

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.

<u>Going concern assumption</u>

Several adverse conditions and material uncertainties cast significant doubt upon the going concern assumption. The Company had limited cash of $3,647 at March 31, 2015 and anticipates that coal prices in the People's Republic of China ("China") will remain under pressure for the remainder of 2015, which will continue to impact the Company's margins and liquidity. Therefore, the Company is actively seeking prepaid coal offtake agreements and other additional sources of financing to continue operating and meet its business objectives, while remaining focused on minimizing uncommitted capital expenditures and preserving the Company's growth options. The Company, together with its new strategic partner and significant shareholder, Novel Sunrise Investments Ltd. ("Novel Sunrise"), has developed a funding plan (the "Proposed Funding Plan') in order to pay the interest due under the CIC convertible debenture, meet its obligations as they fall due, achieve its business objectives in 2015 and beyond. These obligations may include potential penalties as a consequence of the tax case in Mongolia (Refer to Note 21.1 for details). However, there is no guarantee that the Company will be able to implement this Proposed Funding Plan or secure other sources of financing. If it fails to do so, or is unable to secure additional capital or otherwise restructure or refinance its business in order to address its cash requirements through March 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 (approximately $7,900 on May 19, 2015 and approximately $8,000 on November 19, 2015). As a result, the Company may not be able to continue as a going concern.

1. CORPORATE INFORMATION AND GOING CONCERN (CONTINUED)

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 March 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 March 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.

If for any reason, the Company is unable to secure the additional sources of financing and continue as a going concern, then this could result in adjustments to the amounts and classifications of assets and liabilities in the Company's consolidated financial statements and such adjustments could be material.

While the Company intends to secure additional sources of financing as soon as possible, a continued delay in securing additional financing could ultimately result in an event of default of the $250,000 CIC convertible debenture, which if not cured within applicable cure periods in accordance with the terms of such debenture, may result in the principal amount owing and all accrued and unpaid interest becoming immediately due and payable upon notice to the Company by CIC.

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

The Company is planning on seeking an approval from TSX for a 30 day extension of the delisting review until June 18, 2015. The request for an extension is a consequence of the delays in the closing of the Novel SPA and the associated delays in the implementation of the Company's Proposed Funding Plan.

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

2. BASIS OF PREPARATION (CONTINUED)

The condensed consolidated interim financial statements of the Company for the three months ended March 31, 2015 were approved and authorized for issue by the Board of Directors of the Company on May 11, 2015.

2.2 Basis of presentation

These condensed consolidated interim financial statements have been prepared using accounting policies and methods of computation consistent with those applied in the Company's December 31, 2014 consolidated annual financial statements, except for those accounting policies which have changed as a result of the adoption of new and revised standards and interpretations as described below. These condensed consolidated interim financial statements do not include all the information and note disclosures required by IFRS for annual financial statements and therefore should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2014.

The Company's reporting currency and the functional currency of all of its operations is the U.S. Dollar as this is the principal currency of the economic environment in which the Company operates.

2.3 Adoption of new and revised standards and interpretations

The Company has adopted the new and revised standards and interpretations issued by the IASB listed below effective January 1, 2015. These changes were made in accordance with the transitional provisions outlined in the respective standards and interpretations.

Annual Improvements 2010-2012 Cycle. In the 2010-2012 annual improvements cycle, the IASB issued amendments to four standards, including IFRS 8, Operating segments and IAS 24, Related party transactions. The amendments to IAS 24 (i) revise definition of "related party" to include an entity that provides key management personnel services to the reporting entity or its parent, and (ii) clarify related disclosure requirements. The amendments to IFRS 8 require (i) disclosure of judgments made by management in aggregating segments, and (ii) a reconciliation of segment assets to the entity's assets when segment assets are reported. The amendments are effective for years beginning on/after July 1, 2014. These amendments did not have a significant impact on the Company.

Annual Improvements 2011-2013 Cycle. In the 2011-2013 annual improvements cycle, the IASB issued amendments to three standards: IFRS 3, Business combinations, IFRS 13, Fair value measurements, and IAS 40, Investment property. The amendments are effective for years beginning on/after July 1, 2014. These amendments did not have a significant impact on the Company.

Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2015 are not material to the Company.

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these interim condensed consolidated financial statements. None of these is expected to have a significant effect on the interim condensed consolidated financial statements of the Company, except the following set out below:

2. BASIS OF PREPARATION (CONTINUED)

IFRS 9, 'Financial instruments', 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: amortized cost, fair value through OCI and fair value through P&L. There is now 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 1 January 2018. Early adoption is permitted. The Company is yet to assess IFRS 9's full impact.

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, 2017 and earlier application is permitted. Management is assessing the impact of IFRS 15.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

2.4 Significant accounting judgments and estimates

Information about judgments and estimates in applying accounting policies that have the most significant effect on the amounts recognized in the Company's consolidated financial statements are included in Note 3.22 to the Company's December 31, 2014 consolidated annual financial statements. Except for the significant accounting judgments and estimates disclosed below, the significant accounting judgments and estimates remain substantially unchanged from December 31, 2014.

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.

2. BASIS OF PREPARATION (CONTINUED)

Liquidity and the going concern assumption (continued)

Several adverse conditions and material uncertainties cast significant doubt upon the going concern assumption. The Company had limited cash of $3,647 at March 31, 2015 and anticipates that coal prices in China will remain under pressure for the remainder of 2015, which will continue to impact the Company's margins and liquidity. Therefore the Company is actively seeking prepaid coal offtake agreements and other additional sources of financing to continue operating and meet its business objectives, while remaining focused on minimizing uncommitted capital expenditures and preserving the Company's growth options. The Company, together with its new strategic partner and significant shareholder, Novel Sunrise, has developed the Proposed Funding Plan in order to pay the interest due under the CIC convertible debenture, meet its obligations as they fall due, achieve its business objectives in 2015 and beyond. These obligations may include potential penalties as a consequence of the tax case in Mongolia (Refer to Note 21.1 for details). However, there is no guarantee that the Company will be able to implement this Proposed Funding Plan or secure other sources of financing. If it fails to do so, or is unable to secure additional capital or otherwise restructure or refinance its business in order to address its cash requirements through March 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 (approximately $7,900 on May 19, 2015 and approximately $8,000 on November 19, 2015). As a result, the Company may not be able to continue as a going concern.

The Company's consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue operating until at least March 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 March 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.

If for any reason, the Company is unable to secure the additional sources of financing and continue as a going concern, then this could result in adjustments to the amounts and classifications of assets and liabilities in the Company's consolidated financial statements and such adjustments could be material.

While the Company intends to secure additional sources of financing as soon as possible, a continued delay in securing additional financing could ultimately result in an event of default of the $250,000 CIC convertible debenture, which if not cured within applicable cure periods in accordance with the terms of such debenture, may result in the principal amount owing and all accrued and unpaid interest becoming immediately due and payable upon notice to the Company by CIC.

2. BASIS OF PREPARATION (CONTINUED)

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

The Company is planning on seeking an approval from TSX for a 30 day extension of the delisting review until June 18, 2015. The request for an extension is a consequence of the delays in the closing of the Novel SPA and the associated delays in the implementation of the Company's Proposed Funding Plan.

Ovoot Tolgoi Mine cash generating unit

The Company determined that an indicator of impairment existed for its Ovoot Tolgoi Mine cash generating unit as at March 31, 2015. The impairment indicator was the continued weakness in the Company's share price during the three months ended March 31, 2015 and the fact that the market capitalization of the Company, as at March 31, 2015, was less than the carrying value of its net assets.

Therefore, the Company conducted an impairment test whereby the carrying value of the Company's Ovoot Tolgoi Mine cash generating unit was compared to its "value in use" using a discounted future cash flow valuation model. The Company's cash flow valuation model has been updated to take into consideration the latest available information to the Company, including but not limited to, sales price, sales volumes and washing assumptions, operating cost assumptions and life of mine coal production assumptions as at March 31, 2015. The Company's Ovoot Tolgoi Mine cash generating unit carrying value was $344,600 as at March 31, 2015.

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

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

Key sensitivities in the valuation model are as follows:

- For each 1% increase/(decrease) in the long term price estimates, the calculated fair value of the cash generating unit increases/(decreases) by approximately $20,800/($20,800);
- For each 1% increase/(decrease) in the discount rate, the calculated fair value of the cash generating unit (decreases)/increases by approximately ($23,300)/$25,700; 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 ($12,500)/$12,500.

2. BASIS OF PREPARATION (CONTINUED)

The impairment analysis did not result in the identification of an impairment loss and no charge was required as at March 31, 2015. A decline of more than 1% in the long term price estimates, an increase of more than 1% in the pre-tax discount rate or an increase of more than 2% in the cash mining cost estimates may trigger an impairment charge on the cash generating unit. The Company believes that the estimates and assumptions incorporated in the impairment analysis are reasonable; however, the estimates and assumptions are subject to significant uncertainties and judgments.

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

Investment in RDCC LLC

The Company determined that an indicator of impairment existed for its investment in RDCC LLC as at March 31, 2015. The impairment indicator was the continued delay in the commencement of operation of the paved highway from the Company's Ovoot Tolgoi Mine to the Mongolia-China border.

Therefore, the Company conducted an impairment test whereby the carrying value of the Company's investment in RDCC LLC compared to its "value in use" using a discounted future cash flow valuation model. The carrying value was $26,689 as at March 31, 2015.

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

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

Key sensitivities in the valuation model are as follows:

- For each 1% increase/(decrease) in the toll fee estimates or traffic volume, the calculated fair value of the carrying unit increases/(decreases) by approximately $300/($300); and
- For each 1% increase/(decrease) in the discount rate, the calculated fair value of the carrying unit (decreases)/increases by approximately ($1,700)/$1,900.

The impairment analysis did not result in the identification of an impairment loss and no charge was required as at March 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.

2. BASIS OF PREPARATION (CONTINUED)

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. As at May 11, 2015, discussions are ongoing with respect to the pricing levels beyond the initial trial period and in respect to how RDCC LLC will be reimbursed for any difference between the actual rate per tonne charged and the rate per tonne as stated in the concession agreement. It is our expectation that the Company is reimbursed or compensated for the reduced pricing levels however, should the Government of Mongolia not honor the pricing as per the concession agreement or provide sufficient compensation to the Company for the reduced rate, this may lead to an impairment.

3. SEGMENTED INFORMATION

The Company's one reportable operating segment is its Mongolian Coal Division. The Company's Executive Director (chief operating decision maker) reviews the Mongolian 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 three months ended March 31, 2015, the Mongolian Coal Division had 5 active customers with the largest customer accounting for 84% of revenues and the other customers accounting for the remaining 16% of revenue.

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

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

3. SEGMENTED INFORMATION (CONTINUED)

	Mongolian Coal Division	Unallocated (i)	Consolidated Total
Segment assets			
As at March 31, 2015	**$ 398,403**	**$ 4,568**	**$ 402,971**
As at December 31, 2014	411,816	4,323	416,139
Segment liabilities			
As at March 31, 2015	**$ 22,367**	**$ 115,956**	**$ 138,323**
As at December 31, 2014	22,770	109,088	131,858
Segment loss			
For the three months ended March 31, 2015	**$ (15,690)**	**$ (7,594)**	**$ (23,284)**
For the three months ended March 31, 2014	(13,218)	(7,537)	(20,755)
Segment revenues			
For the three months ended March 31, 2015	**$ 1,587**	**$ -**	**$ 1,587**
For the three months ended March 31, 2014	5,137	-	5,137
Impairment charge on assets (ii) (iii)			
For the three months ended March 31, 2015	**$ 550**	**$ -**	**$ 550**
For the three months ended March 31, 2014	7,281	1,766	9,047

(i) The unallocated amount contains all amounts associated with the Corporate Division.
(ii) The impairment charge on assets for the three months ended March 31, 2015 relates to inventories (Note 9).
(iii) The impairment charges on assets for the three months ended March 31, 2014 relates to inventories (Note 9) and investments.

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

	Mongolia	Hong Kong	Canada	Consolidated Total
Revenues				
For the three months ended March 31, 2015	**$ 1,587**	**$ -**	**$ -**	**$ 1,587**
For the three months ended March 31, 2014	5,137	-	-	5,137
Non-current assets				
As at March 31, 2015	**$ 364,733**	**$ 2**	**$ 840**	**$ 365,575**
As at December 31, 2014	375,588	13	840	376,441

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

4. COST OF SALES

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

	Three months ended March 31, 2015	Three months ended March 31, 2014
Operating expenses	**$ 1,929**	$ 5,564
Share-based compensation expense (Note 16)	**28**	15
Depreciation and depletion	**310**	2,479
Impairment of coal stockpile inventories (Note 9)	**550**	7,281
Cost of sales from mine operations	**2,817**	15,339
Cost of sales related to idled mine assets (i)	**14,861**	3,027
Cost of sales	**$ 17,678**	$ 18,366

(i) Cost of sales related to idled mine assets for the three months ended March 31, 2015 includes $11,888 of depreciation expense (2014: includes $2,989 of depreciation expenses). The depreciation expense relates to the Company's idled plant and equipment.

5. OTHER OPERATING EXPENSE/(INCOME)

The Company's other operating expense/(income) consist of the following amounts:

	Three months ended March 31, 2015	Three months ended March 31, 2014
Foreign exchange gain	**$ (1,058)**	$ (764)
Mark-to-market loss on available-for-sale financial asset	**-**	1,766
Other	**87**	71
Other operating expense/(income)	**$ (971)**	$ 1,073

6. ADMINISTRATION EXPENSES

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

	Three months ended March 31, 2015	Three months ended March 31, 2014
Corporate administration	**$ 446**	$ 659
Professional fees	**473**	686
Salaries and benefits	**380**	729
Share-based compensation expense (Note 16)	**100**	131
Depreciation	**26**	32
Administration expenses	**$ 1,425**	$ 2,237

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

7. FINANCE COSTS AND INCOME

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

	Three months ended, March 31, 2015	Three months ended, March 31, 2014
Interest expense on convertible debenture (Note 14)	**$ 4,972**	$ 4,965
Unrealized loss on embedded derivatives in convertible debenture (Note 14)	**1,544**	-
Unrealized loss on FVTPL investments [(i)]	**-**	40
Interest expense on borrowing (Note 13)	**106**	-
Accretion of decommissioning liability	**26**	20
Finance costs	**$ 6,648**	$ 5,025

(i) FVTPL is defined as "fair value through profit or loss".

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

	Three months ended, March 31, 2015	Three months ended, March 31, 2014
Unrealized gain on embedded derivatives in convertible debenture (Note 14)	**$ -**	$ 1,000
Interest income	**8**	7
Finance income	**$ 8**	$ 1,007

8. TRADE AND OTHER RECEIVABLES

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

	As at March 31, 2015	As at December 31, 2014
Trade receivables	**$ 157**	$ -
Other receivables	**112**	462
Total trade and other receivables	**$ 269**	$ 462

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

	As at March 31, 2015	As at December 31, 2014
Less than 1 month	**$ 65**	$ 305
1 to 3 months	**176**	123
3 to 6 months	**7**	34
Over 6 months	**21**	-
Total trade and other receivables	**$ 269**	$ 462

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

8. TRADE AND OTHER RECEIVABLES (CONTINUED)

Trade receivables are normally due within 30 days from the date of billing. Customers with balances that are more than 30 days past due are normally requested to settle all outstanding balances before any further credit is granted.

9. INVENTORIES

The Company's inventories consist of the following amounts:

	As at	
	March 31, 2015	**December 31, 2014**
Coal stockpiles	**$ 1,481**	$ 3,765
Materials and supplies	**27,637**	27,490
Total inventories	**$ 29,118**	$ 31,255

Cost of sales for the three months ended March 31, 2015 includes an impairment loss of $550 related to the Company's coal stockpile inventories (2014: $7,281). As at March 31, 2015, $1,458 of the Company's coal stockpile inventories are carried at their net realizable value (December 31, 2014: $1,220).

10. 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 December 31, 2014	$ 366,427	$ 28,615	$ 72,194	$ 133,486	$ 6,268	$ 606,990
Additions	**1,061**	**-**	**-**	**-**	**-**	**1,061**
Reclassifications	**2,189**	**-**	**-**	**-**	**(2,189)**	**-**
As at March 31, 2015	**$ 369,677**	**$ 28,615**	**$ 72,194**	**$ 133,486**	**$ 4,079**	**$ 608,051**
Accumulated depreciation and impairment charges						
As at December 31, 2014	$ (188,175)	$ (19,834)	$ (33,052)	$ (15,785)	$ (277)	$ (257,123)
Charge for the period	**(10,082)**	**(620)**	**(1,339)**	**(1)**	**-**	**(12,042)**
As at March 31, 2015	**$ (198,257)**	**$ (20,454)**	**$ (34,391)**	**$ (15,786)**	**$ (277)**	**$ (269,165)**
Carrying amount						
As at December 31, 2014	$ 178,252	$ 8,781	$ 39,142	$ 117,701	$ 5,991	$ 349,867
As at March 31, 2015	**$ 171,420**	**$ 8,161**	**$ 37,803**	**$ 117,700**	**$ 3,802**	**$ 338,886**

As at March 31, 2015, the cost of the Company's property, plant and equipment includes $24,983 of prepayments to vendors (December 31, 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/units in thousands, unless otherwise indicated)

11. LONG TERM INVESTMENTS

The Company's investments consist of the following amounts:

	As at	
	March 31, 2015	December 31, 2014
Non-current investment in joint venture		
Investment in RDCC LLC	**$ 26,689**	$ 26,574
Total investments	**$ 26,689**	$ 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. The concession agreement is 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.

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

	Three months ended March 31,	
	2015	2014
Balance, beginning of period	**$ 26,574**	$ 24,205
Funds advanced	**133**	338
Share of losses of joint venture	**(18)**	(26)
Balance, end of period	**$ 26,689**	$ 24,517

For the three months ended March 31, 2014 and 2013, RDCC LLC recognized construction revenue of $nil with a profit margin of $nil related to the construction of the Paved Highway. For the three months ended March 31, 2015, RDCC LLC had a net loss of $45 (2014: net loss of $65).

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

12. 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 is as follows:

	As at	
	March 31, 2015	December 31, 2014
Less than 1 month	**$ 5,816**	$ 6,706
1 to 3 months	**1,414**	1,703
3 to 6 months	**1,645**	2,705
Over 6 months	**9,168**	7,010
Total trade and other payables	**$ 18,043**	$ 18,124

Included in trade and other payables are amounts due to related parties which are further disclosed in Note 18.

13. INTEREST-BEARING BORROWING

On May 25, 2014, the Company announced it has obtained a $10,000 revolving credit facility from Turquoise Hill to meet its short term working capital requirements (the "Turquoise Hill Loan Facility"). The key commercial terms of the facility were as follows:

- Original maturity date of August 30, 2014 (subsequently extended);
- Interest rate of one month US dollar LIBOR Rate in effect plus 11% margin per annum;
- Commitment fee of 35% of interest rate payable quarterly in arrears on undrawn principal amount of facility;
- Front end fee of $100;
- Draws subject to customary closing conditions and the Company's cash requirements in the ordinary course of business;
- Facility is subject to certain mandatory prepayment and termination provisions; and
- The Company to continue to seek other funding alternatives.

On August 30, 2014, subject to certain conditions and limitations, Turquoise Hill agreed to grant a deferral of payment of $3,800 plus accrued interest thereon owing by the Company under the Turquoise Hill Loan Facility and reduced the revolving credit facility to the same $3,800. This deferral of payment and repayment was granted to the Company without prejudice to Turquoise Hill's right and ability to assert and re-assert at any point in time to demand payment and repayment of all amounts owing to Turquoise Hill under the Turquoise Hill Loan Facility.

13. INTEREST-BEARING BORROWING (CONTINUED)

On May 4, 2015 following the expiry of the Sale and Purchase agreement ("NUR SPA"), between Turquoise Hill and National United Resources Holdings Limited ("NUR") on April 30, 2015, Turquoise Hill agreed to a further limited deferral of repayment, subject to certain conditions and limitations, on the $3,800 principal and accrued interest owing on the Turquoise Hill Loan Facility as follows:

(i) $1,900 in principal and all interest that has accrued on and under the Turquoise Hill Loan Facility up to and including August 31, 2015 shall become due and payable on August 31, 2015; and

(ii) $1,900 in principal and all interest that has accrued on and under the Turquoise Hill Loan Facility from September 1, 2015 up to and including November 30, 2015 shall become due and payable on November 30, 2015.

At March 31, 2015 in addition to the principal of $3,800 the Company owed accrued interest of $251 under this facility (December 31, 2014 the Company had drawn $3,800 and owed accrued interest of $145).

14. CONVERTIBLE DEBENTURE

14.1 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 21.3). 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 March 31, 2015.

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 convertible debenture, default on other indebtedness and certain adverse judgments.

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;

14. CONVERTIBLE DEBENTURE (CONTINUED)

- 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 21.3).Conversion price - The conversion price is set as the lower of Cdn$11.88 or the 50-day VWAP at the date of conversion, with a floor price of Cdn$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 Cdn$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 nine 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;
- 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; and
- 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.

14.2 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 Cdn$ and U.S. Dollar) and spot foreign exchange rates.

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

14. CONVERTIBLE DEBENTURE (CONTINUED)

14.3 Valuation assumptions

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

	As at	
	March 31, 2015	**December 31, 2014**
Floor conversion price	**Cdn$8.88**	Cdn$8.88
Ceiling conversion price	**Cdn$11.88**	Cdn$11.88
Common share price	**Cdn$0.90**	Cdn$0.50
Historical volatility	**71%**	69%
Risk free rate of return	**1.81%**	2.24%
Foreign exchange spot rate (Cdn$ to U.S. Dollar)	**0.79**	0.86
Forward foreign exchange rate curve (Cdn$ to U.S. Dollar)	**0.79 - 0.80**	0.85 - 0.86

14.4 Presentation

Based on the Company's valuation as at March 31, 2015, the fair value of the embedded derivatives increased by $1,544 compared to December 31, 2014. The increase was recorded as finance expense for the three months ended March 31, 2015.

For the three months ended March 31, 2014, the Company recorded interest expense of $4,972 related to the convertible debenture as a finance cost (2014: $4,965). The interest expense consists of the interest at the contract rate and the accretion of the debt host component of the convertible debenture. To calculate the accretion expense, the Company uses the contract life of 30 years and an effective interest rate of 22.2%.

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

	Three months ended March 31,	
	2015	**2014**
Balance, beginning of period	**$ 95,187**	$ 96,603
Interest expense on convertible debenture	**4,972**	4,965
Increase/(decrease) in fair value of embedded derivatives	**1,544**	(1,000)
Balance, end of period	**$ 101,703**	$ 100,568

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

14. CONVERTIBLE DEBENTURE (CONTINUED)

The convertible debenture balance consists of the following amounts:

	As at	
	March 31, 2015	**December 31, 2014**
Current convertible debenture		
Interest payable	**$ 7,233**	$ 2,301
Non-current convertible debenture		
Debt host	**91,092**	91,052
Fair value of embedded derivatives	**3,378**	1,834
	94,470	92,886
Total convertible debenture	**$ 101,703**	$ 95,187

15. EQUITY

15.1 Share Capital

The Company’s share capital consists of the following amounts:

	As at	
	March 31, 2015	**December 31, 2014**
Common shares	**$ 1,080,418**	$ 1,080,417
Mandatory convertible units	**3,518**	-
Total share capital	**$ 1,083,936**	$ 1,080,417

The number of Common Shares and mandatory convertible units are as follows:

	As at	
	March 31, 2015	**December 31, 2014**
Common shares	**218,755**	218,752
Mandatory convertible units	**10,131**	-
Total share capital	**228,886**	218,752

15.2 Common Shares

The Company has authorized an unlimited number of common and preferred shares with no par value. At March 31, 2015, the Company had 218,755 Common Shares outstanding (December 31, 2014: 218,752) and no preferred shares outstanding (December 31, 2014: nil).

The Company’s volume weighted average share price for the three months ended March 31, 2015 was Cdn$0.72 (2014: Cdn$0.75).

15. EQUITY (CONTINUED)

15.3 Mandatory convertible units

On February 24, 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.

Subsequently on April 23, 2015, the mandatory convertible units were converted into 10,131 Common Shares in the company. Refer to Note 22 subsequent events for further detail.

15.4 Accumulated deficit and dividends

At March 31, 2015, the Company has accumulated a deficit of $871,808 (December 31, 2014: $848,177). No dividends have been paid or declared by the Company since inception.

16. SHARE-BASED PAYMENTS

16.1 Stock option plan

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

For the three months ended March 31, 2015, the Company granted no stock options (2014: 482) to officers, employees, directors and other eligible persons. For the three months ended March 31, 2014, exercise prices ranged from Cdn$0.65 to Cdn$0.84 and expiry dates ranged from January 13, 2019 to March 26, 2019. The weighted average fair value of the options granted in the three months ended March 31, 2014 was estimated at $0.29 (Cdn$0.32) per option at the grant date using the Black-Scholes option pricing model.

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

16. SHARE-BASED PAYMENTS (CONTINUED)

The weighted average assumptions used for the Black-Scholes option pricing model were as follows:

	Three months ended March 31, 2015	Three months ended March 31, 2014
Risk free interest rate	**n/a**	1.43%
Expected life	**n/a**	3.5 years
Expected volatility (i)	**n/a**	56%
Expected dividend per share	**n/a**	$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 $17 for the options granted in the three months ended March 31, 2014 will be amortized over the vesting period, of which $2 was recognized in the three months ended March 31, 2014. No options were issued in the three months ended March 31, 2015.

The total share-based compensation expenses for the three months ended March 31, 2015 was $132 (2014: share-based compensation expense of $152). Share-based compensation expense of $97 (2014: $131) has been allocated to administration expenses, $2 (2014: $6) has been allocated to evaluation and exploration expenses and $33 (2014: $15) has been allocated to cost of sales.

16.2 Outstanding stock options

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

	Three months ended March 31, 2015			Three months ended March 31, 2014		
	Number of options		Weighted average exercise price (Cdn$)	Number of options		Weighted average exercise price (Cdn$)
Balance, beginning of period	**3,052**	**$**	**3.63**	2,583	$	8.48
Options granted	**-**		**-**	482		0.68
Options forfeited	**(739)**		**0.70**	(17)		5.46
Options expired	**(414)**		**7.77**	(681)		11.36
Balance, end of period	**1,899**	**$**	**3.86**	2,367	$	6.09

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

16. SHARE-BASED PAYMENTS (CONTINUED)

The stock options outstanding and exercisable as at March 31, 2015 are as follows:

	Options Outstanding				Options Exercisable			
Exercise price (Cdn$)	Options outstanding		Weighted average exercise price (Cdn$)	Weighted average remaining contractual life (years)	Options outstanding and exercisable		Weighted average exercise price (Cdn$)	Weighted average remaining contractual life (years)
0.58 to 1.92	**1,294**	**$**	**0.77**	**4.09**	**193**	**$**	**1.50**	**3.11**
6.16 to 9.43	**294**		**8.21**	**1.60**	**294**		**8.21**	**1.60**
12.58	**311**		**12.58**	**0.37**	**311**		**12.58**	**0.37**
	1,899	**$**	**3.86**	**3.09**	**798**	**$**	**8.30**	**1.48**

17. FAIR VALUE MEASUREMENTS

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

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

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

	As at March 31, 2015			
Recurring measurements	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial liabilities at fair value				
Convertible debenture - embedded derivatives	**$ -**	**$ 3,378**	**$ -**	**$ 3,378**
Total financial liabilities at fair value	**$ -**	**$ 3,378**	**$ -**	**$ 3,378**

	As at December 31, 2014			
Recurring measurements	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial iabilities at fair value				
Convertible debenture - embedded derivatives	**$ -**	**$ 1,834**	**$ -**	**$ 1,834**
Total financial liabilities at fair value	**$ -**	**$ 1,834**	**$ -**	**$ 1,834**

At March 31, 2015, certain coal stockpile inventories were written down to their net realizable value of $1,458 (December 31, 2014: $1,220). The net realizable value has become the carrying value and will not be revalued. Certain assumptions used in the calculation of the net realizable value are categorized as Level 3 in the fair value hierarchy. There were no transfers between Level 1, 2 and 3 for the three months ended March 31, 2015.

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

18. RELATED PARTY TRANSACTIONS

During the three months ended March 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 TRQ SPA and private placement with Novel Sunrise, Turquoise Hill was the Company’s immediate parent company and at March 31, 2015 owned approximately 48% of the outstanding Common Shares. Turquoise Hill provides various administrative services to the Company on a cost-recovery basis;
- Rio Tinto – Prior to the completion of the TRQ SPA and private placement with Novel Sunrise, Rio Tinto is the Company’s ultimate parent company and at March 31, 2015 Rio Tinto controlled Turquoise Hill. The Company recovers administration and other costs incurred on behalf of Rio Tinto on a cost-recovery basis. Rio Tinto recovers from the Company the costs of salaries and benefits of employees assigned to work for the Company and recovers legal and professional fees from the Company in respect of the internal and tripartite committees referred to in Note 21.2;
- 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.

18.1 Related party expenses

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

	Three months ended March 31, 2015	2014
Corporate administration	**$ 81**	$ 212
Salaries and benefits	**(60)**	550
Finance costs	**106**	-
Related party expenses	**$ 127**	$ 762

The Company’s related party expenses relate to the following related parties:

	Three months ended March 31, 2015	2014
Turquoise Hill	**$ 106**	$ 14
Rio Tinto	**(60)**	553
Turquoise Hill Singapore	**81**	195
Related party expenses	**$ 127**	$ 762

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

18. RELATED PARTY TRANSACTIONS (CONTINUED)

18.2 Related party liabilities

The liabilities of the Company include the following amounts due to related parties:

	As at	
	March 31, 2015	December 31, 2014
Amounts payable to Rio Tinto	**$ 7,811**	$ 8,047
Accounts payable to Turquoise Hill Singapore	**300**	278
Accounts payable to Turquoise Hill	**4,224**	4,151
Total liabilities due to related parties	**$ 12,335**	$ 12,476

19. SUPPLEMENTAL CASH FLOW INFORMATION

19.1 Net change in non-cash working capital items

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

	Three months ended March 31,	
	2015	2014
Decrease/(increase) in inventories	**$ 1,412**	$ (2,338)
Decrease in trade and other receivables	**85**	1,282
Decrease/(increase) in prepaid expenses and deposits	**(170)**	1,424
Decrease in trade and other payables	**(600)**	(6,130)
Increase in interest-bearing borrowings	**106**	-
Decrease in deferred revenue	**(202)**	(57)
Net change in non-cash working capital items	**$ 631**	$ (5,819)

20. COMMITMENTS FOR EXPENDITURE

As at March 31, 2015, the Company's commitments for expenditure that have not been disclosed elsewhere in the consolidated financial statements are as follows:

	As at March 31, 2015			
	Within 1 year	2-3 years	Over 3 years	Total
Capital expenditure commitments	**$ 2,339**	**$ 15,513**	**$ -**	**$ 17,852**
Operating expenditure commitments	**11,851**	**355**	**355**	**12,561**
Commitments	**$ 14,190**	**$ 15,868**	**$ 355**	**$ 30,413**

21. CONTINGENCIES

21.1 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"). On March 18, 2013 the Prosecutor's Office decided to split the Tax Evasion Case from the Anti-Corruption Case and on April 12, 2013, the Public Prosecutor of Capital city Prosecutor's Office issued a resolution that the jurisdiction to conduct the investigation on Tax Evasion Case was with the Mongolian State Investigation Office (the "SIA") and not the IAAC, and the Tax Evasion Case was transferred to SIA.

While the IAAC has not made any formal accusations against any current or former employee of the Company or the Company under the Anti-Corruption Case, administrative penalties were imposed on certain of the Company's Mongolian assets in connection with the investigation, including a restriction of the use of US$1,200 (the "Restricted Funds") held in bank accounts in Mongolia to spending in Mongolia. The Company has been informed that the Anti-Corruption Case has been suspended; however, it has not received formal notice that the investigation is completed and the restriction on the Restricted Funds remains in place. The Restricted Funds are included within the prepaid expenses and deposits balance in the Company's financial statements. This restriction may have a material impact on the Company's activities in light of the Tax Penalty.

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

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

21. CONTINGENCIES (CONTINUED)

The Tax Verdict declared SGS to be financially liable as a “civil defendant” for a penalty (the “Tax Penalty”) of MNT35.3 billion (approximately US$18,200 on February 1, 2015). The Company firmly rejects this conclusion.

On February 18, 2015, the Company appealed the Tax Verdict (the “Tax Verdict Appeal”) on the grounds that it has prepared its financial statements, including those of SGS, in compliance with IFRS, and lodged all its tax returns in the required format under Mongolian tax law. The hearing of the Tax Penalty Appeal took place on March 25, 2015 at the 10th Appeal Court for Criminal Case of Mongolia (the “Court of Appeal”) and a panel of three appointed judges decided to uphold the Tax Verdict and dismissed the Tax Verdict Appeal by the Company. 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 of the Appeal Court’s verdict (“Appeal Verdict”) on April 10th, 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 and as at May 11, 2015 the Company awaits confirmation from the Supreme Court as to whether they will hear the case.

There is no assurance that the Supreme Court of Mongolia will agree to hear the appeal or rule in favor of the Company. The Supreme Court’s review will be limited to the matters of serious violations of the Criminal Procedure Law and misapplication of the Criminal Code of Mongolia by the lower courts. If the Supreme Court upon reviewing the Company’s appeal rules to uphold the decision of the lower courts, then the Company will have the right to file a complaint addressed to the Chief Justice within 30 days from the date it receives the written judgment of the Supreme Court seeking a review of its case by the full bench of the Supreme Court. The Tax Penalty would only payable after a final appeal. The Company will continue to defend itself through all available legal means.

The consequences for the Company of the Tax Verdict and the Appeal Verdict are uncertain. If the Tax Verdict is not reversed on final appeal, or if the amount of the Tax Penalty is not reduced upon exhaustion of the foregoing appeal process, the Company may not be able to pay the Tax Penalty or the final assessed amount, which could result in voluntary or involuntary insolvency proceedings involving the Company.

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

21. CONTINGENCIES (CONTINUED)

21.2 Internal investigations

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

The investigations referred to above could result in one or more Mongolian, Canadian, United States or other governmental or regulatory agencies taking civil or criminal action against the Company, its affiliates or its current or former employees. The likelihood or consequences of such an outcome are unclear at this time but could include financial or other penalties, which could be material, and which could have a material adverse effect on the Company.

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

21.3 Mongolian IAAC investigation

In the first quarter of 2013, the Company was subject to orders imposed by the IAAC placed restrictions on certain of the Company's Mongolian assets. The orders were imposed on the Company in connection with the IAAC's investigation of the Company. The SIA also continues to enforce the orders on the Company.

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

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

21.4 Class action lawsuit

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

21. CONTINGENCIES (CONTINUED)

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

The Company disputes and will vigorously defend itself against these claims through independent Canadian litigation counsel retained by the Company and the other defendants for this purpose. Due to the inherent uncertainties of litigation, it is not possible to predict the final outcome of the Ontario Action or determine the amount of any potential losses, if any. However, the Company has judged a provision for this matter at March 31, 2015 is not required.

21.5 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. To date, commercial operations at the wet washing facility have not commenced.

In 2011, the Company made an initial payment of $33,556 in respect of prepaid toll washing fees. The Company recorded a $30,152 impairment loss on the $33,556 of prepaid toll washing fees during the year ended December 31, 2013 and in the quarter ended June 30, 2014, the Company recorded an additional impairment of $3,405 to fully impair the deposit. As at March 31, 2015 the Company has reassessed the carrying value of this prepayment and continues to believe it is appropriate for the balance to be fully impaired. This impairment continues to be recognized due to the continued delay in starting the commercial operations at the wet washing facility and the continued soft coal market in China.

Under the original agreement 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. The Company assesses on a continuous basis the agreement with Ejin Jinda and has determined it is not probable that the $18,500 will be required to be paid.

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

21.6 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.

21. CONTINGENCIES (CONTINUED)

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

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

As of March 31, 2015 and December 31, 2014, management has assessed that recognition of a provision for uncertain tax position is not necessary.

22. SUBSEQUENT EVENTS

On April 23, 2015 the Company was advised by Turquoise Hill and Novel Sunrise that their Sale and Purchase Agreement ("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 48,700 Common Shares from Turquoise Hill.

As announced on February 24, 2015 the Company entered into a private placement with Novel Sunrise for the issue of up to 21,750 Common Shares in the Company for gross proceeds of approximately $7,500. On March 3, 2015 the Company successfully closed the initial tranche of the private placement raising $3,500 for the issue of 10,131 mandatory convertible units of the Company.

On April 23, 2015 the Company successfully closed the second and final tranche of the private placement generating $4,000 in gross proceeds through the issue of approximately 11,600 Common Shares in the Company. In addition, Novel Sunrise converted their previously acquired 10,131 mandatory convertible units on a one for one basis into Common Shares of the Company and has received their full entitlement to Common Shares under the private placement agreement.

On May 11, 2015, Novel Sunrise hold a total of 70,455 Common Shares in the Company or 29.3 percent of the total Common Shares issued by the Company. Turquoise Hill's shareholding has been reduced to 56,102 Common Shares in the Company or 23.3 percent of the total Common Shares issued by the Company.