SouthGobi Resources Ltd.
Consolidated Financial Statements

December 31, 2015
(Expressed in U.S. Dollars)

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 statements of financial position as at December 31, 2015 and December 31, 2014 and the consolidated statements 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

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SOUTHGOBI RESOURCES LTD.

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	Year ended December 31, 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.

SOUTHGOBI RESOURCES LTD.

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"	***"Pierre Lebel"***
Director	Director

SOUTHGOBI RESOURCES LTD.

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.

SOUTHGOBI RESOURCES LTD.

Consolidated Statement of Cash Flows

(Expressed in thousands of U.S. Dollars)

	Notes	Year ended December 31, 2015	Year ended December 31, 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.

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)

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.

(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.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Upon disposal, reclassification to 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.

3.6 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

3.9 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

<u>Share-based payment transactions</u>

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.

<u>Equity-settled transactions</u>

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

3.12 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

3.13 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

3.15 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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.

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 amounts owing and all accrued and unpaid interest becoming immediately due and payable upon notice to the Company by CIC and Turquoise Hill, respectively.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 $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 Mine 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 the 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.

<u>Estimated resources</u>

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.

<u>Useful lives and depreciation rates for property, plant and equipment</u>

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.

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

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).

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

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

5. COST OF SALES

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

	Year ended December 31, 2015	Year ended December 31, 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	Year ended December 31, 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

7. ADMINISTRATION EXPENSES

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

	Year ended December 31, 2015	Year ended December 31, 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

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

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

(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 carryforwards	**$ 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

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

10. TAXES (CONTINUED)

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

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

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

12. TRADE AND OTHER RECEIVABLES (CONTINUED)

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.

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.

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

14. PREPAID EXPENSES AND DEPOSITS

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

	As at December 31, 2015	As at December 31, 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.

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**

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

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

		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.

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 significantly less than the carrying value of its net assets. As a result of the impairment assessment, the Company recorded a $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 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 DCHF 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.

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

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

- 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 Mine 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 the 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.

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

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

16. LONG TERM INVESTMENT (CONTINUED)

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 had 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 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)

- 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 $1,000 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; and
- 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.
- 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.

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

20. CONVERTIBLE DEBENTURE (CONTINUED)

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.

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	**Cdn$8.88**	Cdn$8.88
Ceiling conversion price	**Cdn$11.88**	Cdn$11.88
Common share price	**Cdn$0.39**	Cdn$0.50
Historical volatility	**74%**	69%
Risk free rate of return	**2.03%**	2.24%
Foreign exchange spot rate (Cdn$ to U.S. Dollar)	**0.72**	0.86
Forward foreign exchange rate curve (Cdn$ 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.

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

20. CONVERTIBLE DEBENTURE (CONTINUED)

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.

20.5 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.

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

20. CONVERTIBLE DEBENTURE (CONTINUED)

On November 24, 2015 and by way of subsequent amendments, 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 of $8,000 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.

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 the 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.

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.

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

23. SHARE-BASED PAYMENTS (CONTINUED)

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

	Year ended December 31, 2015	Year ended December 31, 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.

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).

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

23. SHARE-BASED PAYMENTS (CONTINUED)

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

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, 2016, 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.

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

26. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS (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 iabilities at fair value				
Convertible debenture - embedded derivatives	**$ -**	**$ 757**	**$ -**	**$ 757**
Total financial liabilities at fair value	**$ -**	**$ 757**	**$ -**	**$ 757**

	As at December 31, 2014			
Recurring measurements	**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.

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.

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

26. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

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 loss for the year, whereas a negative number indicates an increase in comprehensive loss for the year.

	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)

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.

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

26. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

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.

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.

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

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:

Name	Country of incorporation	% equity interest As at December 31, 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 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.

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

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

27. RELATED PARTY TRANSACTIONS (CONTINUED)

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	Year ended December 31, 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	Year ended December 31, 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 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 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.

30. CONTINGENCIES (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 $18,000 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 the CDIA to transfer the Restricted Funds to the CDIA as partial payment of the Tax Verdict. $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 and CIC and Turquoise Hill would each have the 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 Tax Penalty could result in voluntary or involuntary proceedings involving the Company (including bankruptcy).

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.

30. CONTINGENCIES (CONTINUED)

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 investigations 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 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.

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.

30.4 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 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.

30. CONTINGENCIES (CONTINUED)

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.

30.5 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.

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.

30. CONTINGENCIES (CONTINUED)

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.

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 the 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 $11.5 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.

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.

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.

30. CONTINGENCIES (CONTINUED)

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.

(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	Year ended December 31, 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	Year ended December 31, 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	**$ 662**	$ 1,648

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

A2. DIRECTOR AND EMPLOYEE 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.

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

A2. DIRECTOR AND EMPLOYEE EMOLUMENTS (CONTINUED)

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.

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	Year ended December 31, 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

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

A2. DIRECTOR AND EMPLOYEE EMOLUMENTS (CONTINUED)

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

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