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

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

FORWARD-LOOKING STATEMENTS

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

Projects and Exploration Program – Soumber Deposit" in this MD&A) being allowed to share the existing infrastructure with the Ovoot Tolgoi Mine; plans for the progress of mining license application processes; the possibility of the CIC Convertible Debenture and all accrued and unpaid interest becoming immediately due; future coal market conditions in China and the related impact on the Company's margins and liquidity; the outcome of the issues described under the heading "REGULATORY ISSUES AND CONTINGENCIES" in this MD&A; business outlook, including the outlook for 2015; outlook for Mongolian coal exporters; whether coal prices in China will remain under pressure and whether that will continue to affect the Company; the completion of the share purchase transaction between Turquoise Hill Resources Ltd. ("Turquoise Hill") and National United Resources Holdings Limited ("NUR"); the implementation and impact of the Proposed Funding Plan (as defined under the heading "LIQUIDITY AND CAPITAL RESOURCES – Going Concern Considerations" in this MD&A) and actions to be taken under the Proposed Funding Plan; the outcome and results of the TSX's (as defined under the heading "OVERVIEW" in this MD&A) remedial delisting review of the Company; the Company continuing as a going concern and its ability to realize its assets and discharge its liabilities in the normal course of operations as they become due; adjustments to the amounts and classifications of assets and liabilities in the Company's financial statements and the impact thereof; the Company's objectives for 2015 and beyond, including plans regarding the 2015 exploration program; expected production at the Ovoot Tolgoi Mine; the possible impact of the review of the geology type at the Ovoot Tolgoi Mine and the as yet uncompleted revisions to Ovoot Tolgoi mine plan on quantities of measured and/or indicated resources and reserves of the Ovoot Tolgoi project; the impact of the completion of the paved highway; the expected date of commercial operation of the paved highway; the capacity of the paved highway being in excess of 20 million tonnes of coal per year; the impact of amendments to, or the application of the laws of Mongolia and other countries in which the Company carries on business; the expected time frame that the Company's workforce will be on furlough; the impact of the Company's activities on the environment and actions taken for the purpose of mitigation of potential environmental impacts; planned focus on health, safety and environmental performance; planned relationships with stakeholders; expansion of the Company's customer base; greenfield options with the Soumber Deposit and Zag Suuj Deposit (as defined under the heading "PROPERTIES – Development Projects and Exploration Program" in this MD&A); and other statements that are not historical facts. This list is not exhaustive of the factors that may affect any of the Company's forward-looking statements. Except as required by law, the Company undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change. The reader is cautioned not to place undue reliance on forward-looking statements.

TABLE OF CONTENTS

INTRODUCTION

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") of SouthGobi Resources Ltd. (which, together with its subsidiaries, is collectively referred to as the "Company") should be read in conjunction with the condensed consolidated interim financial statements of the Company and the notes thereto for the quarter ended March 31, 2015. The Company's condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board and Interpretations of the IFRS Interpretations Committee.

The functional currency of all of the Company's operations is the U.S. Dollar. All figures in this MD&A are presented in U.S. Dollars unless otherwise stated.

Disclosure of a scientific or technical nature in this MD&A, as derived from the technical report on the Ovoot Tolgoi Deposit dated March 19, 2012 (the "Ovoot Tolgoi Technical Report"), the technical report on the Soumber Deposit dated March 25, 2013 (the "Soumber Technical Report") and the technical report on the Zag Suuj Deposit dated March 25, 2013 (the "Zag Suuj Technical Report"), in respect of the Company's applicable material mineral projects was prepared by or under the supervision of the Qualified Persons (as that term is defined in NI 43 – 101) ("QPs") listed below. Copies of the Ovoot Tolgoi Technical Report, the Soumber Technical Report and the Zag Suuj Technical Report are available on SEDAR at www.sedar.com.

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

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

1. OVERVIEW

The Company is an integrated coal mining, development and exploration company with 348 employees as at March 31, 2015. The Company's Common Shares trade on the Toronto Stock Exchange ("TSX") under the symbol "SGQ" and on the Stock Exchange of Hong Kong ("HKEX") under the stock code symbol "1878".

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

The Ovoot Tolgoi Mine, strategically located approximately 40km from the Shivee Khuren-Ceke crossing at the Mongolia-China border ("Shivee Khuren Border Crossing"), is the Company's flagship asset. The Company commenced mining at the Ovoot Tolgoi Mine in 2008 and the Company sells coal at the mine-gate to Chinese customers. Ceke, at the Chinese side of the Shivee Khuren Border Crossing, is a major Chinese coal distribution terminal with rail connections to key coal markets in China.

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

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

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

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

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

(i) As at March 31, 2015 Reserves and resources estimates have been prepared in compliance with NI 43-101. The measured and indicated coal resources are inclusive of those coal resources modified to produce the coal reserves. Details of the assumptions and parameters used to estimate the reserves and resources and information on data verification are set out in the Annual Information Form dated March 30, 2015 and available on SEDAR at www.sedar.com.

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

The Company and the responsible QPs are currently reviewing the geology and mine plan for Ovoot Tolgoi and changes thereto may impact anticipated production levels, and the quantities of measured and/or indicated resources and reserves of Ovoot Tolgoi. The review of the geology and mine plan for the Ovoot Tolgoi Complex has not yet been completed, nor has a new mine plan been presented to or been approved by the Company's board of directors. As a result of the significant changes in some of the mining planning factors compared to those used for the Ovoot Tolgoi Technical Report, this review may result in material changes to the reserves for the Ovoot Tolgoi Deposit.

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

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

For more information on the risks associated with classification of geology type of coal deposits, refer to the Risk Factor entitled "The Company's coal reserves and resources are estimates based on a number of assumptions and the Company may produce less coal than its current estimates" in the section entitled "Risk Factors" of the December 31, 2014 MD&A available on www.sedar.com.

Significant Events and Highlights

The Company's significant events and highlights for the three months ended March 31, 2015 and subsequent period to May 11, 2015 are as follows:

- The Company continues to operate under difficult market conditions as prices weakened further in China. The impact of these conditions on the Company's operations has been exacerbated given the Company's liquidity constraints.

- During the first quarter of 2015, the Company sold through its existing stockpiles to preserve the Company's liquidity and therefore mining operations were curtailed. On March 30, 2015, the Company resumed mining operations following the receipt of new sales contracts at the end of March, 2015. The Company's production of raw coal in the first quarter of 2015 was therefore negligible (two thousand tonnes compared to 210 thousand tonnes in the fourth quarter of 2014 and 635 thousand tonnes in the first quarter of 2014). Although it cancelled the furlough which affected the majority of its workforce through March 30, 2015, the Company will continue to pace production to meet demand in order to preserve its liquidity.

- In respect of the ongoing tax investigation case in Mongolia, on January 30, 2015, the panel of appointed judges from the Second District Criminal Court of Justice found the Company's three former employees guilty of tax evasion and gave sentences ranging from 5 years and 6 months to 5 years and 10 months of imprisonment in the correctional facilities of strict regimen in Mongolia. Although SouthGobi Sands LLC ("SGS") was not a party to the criminal proceedings, the court declared it to be financially liable as a "civil defendant" for a penalty of MNT 35.3 billion (approximately US$18.2 million on February 1, 2015). The Company firmly rejects this conclusion. Therefore, SGS filed an appeal of the Second District Criminal Court of Justice's verdict on February 18, 2015. On February 26, 2015 the President of Mongolia issued a decree of pardon to the three former employees who, following the pardon, were released from imprisonment and subsequently departed Mongolia. On March 25, 2015, the hearing of the appeal of the Tax Verdict took place. The Tax Verdict was upheld and the appeal by SGS was dismissed. Following the decision by the Second District Criminal Court of Justice, the Company immediately reasserted its view that there is a complete lack of evidence to support both the Tax Verdict and the Appeal Verdict and, as a consequence, announced its intention to continue to defend itself. Therefore, on April 22, 2015, SGS lodged an appeal with the Supreme Court of Mongolia against the initial verdict and the dismissal of its first appeal. On April 29, 2015 the Second District Criminal Court refused to advance SGS's appeal to the Supreme Court. Following an immediate protest by SGS, the Second District Criminal Court delivered SGS's appeal to the Supreme Court of Mongolia and as at May 11, 2015 the Company awaits confirmation from the Supreme Court as to whether they will hear the case. The Tax Penalty is only payable after a final appeal.

For more information on the risks associated with the Tax Verdict, refer to the Risk Factor entitled "*If the Company is unsuccessful in appealing the Tax Verdict it will likely not have sufficient cash resources to satisfy the penalty imposed thereunder*." in the December 31, 2014 MD&A available on www.sedar.com.

- On February 24, 2015, the Company announced it had entered into a private placement for proceeds of up to US$7.5 million with Novel Sunrise Investments Limited ("Novel Sunrise") as a proposed new significant investor and strategic partner. The completion of the private placement and related transactions was subject to acceptance of notice of the placement by the TSX pursuant to the financial hardship exemption of the TSX Company Manual. As a result of relying on the financial hardship exemption, the Company was placed on remedial delisting review as of February 25, 2015. A meeting of the TSX Continued Listing Committee to consider this matter has been scheduled for May 19, 2015 although the Company is planning on seeking an approval from the TSX for a 30 day extension of the delisting review until June 18, 2015.

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

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

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

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

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

- On April 23, 2015, the Company successfully closed the second and final tranche of the private placement generating approximately $4.0 million in gross proceeds through the issue of approximately 11.6 million Common Shares. In addition, Novel Sunrise converted their previously acquired 10.1 million Mandatory Convertible Units on a one for one basis into Common Shares.

- On May 4, 2015 the Company announced it had been notified of the expiry of the Sale and Purchase agreement ("NUR SPA"), between Turquoise Hill and National United Resources Holdings Limited ("NUR") which provided for the sale of 56.1 million Common Shares in the Company ("Common Shares").

- On May 4, 2015 the Company received confirmation from Turquoise Hill of an extension to the limited deferral of amounts owing under the Turquoise Hill shareholder loan facility, subject to certain conditions and limitations.

- As at the date hereof, the Company, together with its new strategic partner and significant shareholder, Novel Sunrise, has developed a funding plan (the "Proposed Funding Plan") in order to pay the interest due under the CIC Convertible Debenture, meet the Company's obligations as they fall due, achieve its business objectives, in 2015 and beyond. However, there is no guarantee that the Company will be able to implement the Proposed Funding Plan or secure other sources of financing. See section 5 "Liquidity and Capital Resources" and section 12 "Risk Factors" for details. As at May 11, 2015, the Company had cash of $4.9 million.

2. OVERVIEW OF OPERATIONAL DATA AND FINANCIAL RESULTS

Summary of Operational Data

	Three months ended March 31, 2015	Three months ended March 31, 2014
Sales Volumes, Prices and Costs		
Premium semi-soft coking coal		
Coal sales *(millions of tonnes)*	**-**	-
Average realized selling price *(per tonne)* (i)	**$ -**	$ -
Standard semi-soft coking coal		
Coal sales *(millions of tonnes)*	**0.05**	0.29
Average realized selling price *(per tonne)* (i)	**$ 17.95**	$ 22.00
Thermal coal		
Coal sales *(millions of tonnes)*	**0.13**	0.10
Average realized selling price *(per tonne)* (i)	**$ 10.46**	$ 12.07
Total		
Coal sales *(millions of tonnes)*	**0.18**	0.39
Average realized selling price *(per tonne)* (i)	**$ 12.66**	$ 19.54
Raw coal production *(millions of tonnes)*	**-**	0.64
Direct cash costs of product sold *(per tonne)* (ii)	**$ 8.68**	$ 10.43
Mine administration cash costs of product sold *(per tonne)* (ii)	**$ 2.11**	$ 3.80
Total cash costs of product sold *(per tonne)* (ii)	**$ 10.79**	$ 14.23
Other Operational Data		
Production waste material moved *(millions of bank cubic meters)*	**-**	2.55
Strip ratio *(bank cubic meters of waste material per tonne of coal produced)*	**-**	4.02
Lost time injury frequency rate (iii)	**0.25**	0.00

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

Overview of Operational Data

In the first quarter of 2015, market conditions remained difficult and coal prices weakened further in China.

During the first quarter of 2015 the Company sold through its existing stockpiles to preserve the Company's liquidity and therefore mining operations were curtailed. On March 30, 2015 the Company resumed mining operations following the receipt of new sales contracts at the end of March, 2015.

The Company continues to pace production to meet demand and following the receipt of new sales contracts at the end of March the Company has cancelled the furlough and recommenced mining operations on March 30, 2015.

The Company ended the first quarter of 2015 without a lost time injury. As at March 31, 2015, the Company has a lost injury time frequency rate of 0.25 per 200,000 man hours based on a rolling 12 month average.

Summary of Financial Results

$ in thousands, except per share information	Three months ended March 31, 2015	2014
Revenue [(i),(ii)]	**$ 1,587**	$ 5,137
Cost of sales [(ii)]	**(17,678)**	(18,366)
Gross loss excluding idled mine asset costs	**(1,230)**	(10,202)
Gross loss including idled mine asset costs	**(16,091)**	(13,229)
Other operating income/(expense)	**971**	(1,073)
Administration expenses	**(1,425)**	(2,237)
Evaluation and exploration expenses	**(81)**	(172)
Loss from operations	**(16,626)**	(16,711)
Finance costs	**(6,648)**	(5,025)
Finance income	**8**	1,007
Share of losses of joint venture	**(18)**	(26)
Income tax expense	**-**	-
Net loss	**(23,284)**	(20,755)
Basic loss per share	**$ (0.11)**	$ (0.11)
Diluted loss per share	**$ (0.11)**	$ (0.11)

(i) Revenue is presented after deduction of royalties and selling fees.
(ii) Revenue and cost of sales relate to the Company's Ovoot Tolgoi Mine within the Mongolian Coal Division operating segment. Refer to note 3 of the condensed consolidated interim financial statements for further analysis regarding the Company's reportable operating segments.

Royalty regime in Mongolia

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

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

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

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

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

Overview of Financial Results

The Company recorded a $16.6 million loss from operations in the first quarter of 2015 compared to a $16.7 million loss from operations in the first quarter of 2014. The operations for the first quarter of 2015 were impacted by continuing difficult market conditions, including a further weakening of coal prices in China. These conditions led the Company to enter a brief period of production curtailment in order to preserve its liquidity. The deterioration in market conditions and the Company's measures to preserve its liquidity led to lower sales volumes and prices compared to the first quarter of 2014. The resulting reduction in gross revenue for the first quarter of 2015 was nearly all offset by lower royalty expenses, cost of sales and lower administration expenses compared to the first quarter of 2014.

Revenue was $1.6 million in the first quarter of 2015 compared to $5.1 million in the first quarter of 2014. The Company sold 0.18 million tonnes of coal at an average realized selling price of $12.66 per tonne in the first quarter of 2015 compared to sales of 0.39 million tonnes at an average realized selling price of $19.54 per tonne in the first quarter of 2014. The reduction in the average realized selling price resulted from continued difficult market conditions as well as differences in product mix in the first quarter of 2015 compared to the first quarter of 2014. The product mix for the first quarter of 2015 consisted of approximately 28% of Standard semi-soft coking coal and 72% of Thermal coal compared to approximately 74% of Standard semi-soft coking coal and 26% of Thermal coal in the first quarter of 2014.

The Company's revenue is presented after deduction of royalties and selling fees. The Company's effective royalty rate for the first quarter of 2015, based on the Company's average realized selling price of $12.66 per tonne, was 29.0% or $3.67 per tonne compared to 24.6% or $4.81 per tonne based on the average realized selling price of $19.54 per tonne in the first quarter of 2014.

Cost of sales was $17.7 million in the first quarter of 2015 compared to $18.4 million in the first quarter of 2014. Cost of sales comprises operating expenses, share-based compensation expense, equipment depreciation, depletion of mineral properties, coal stockpile inventory impairments and idled mine asset costs. Operating expenses in cost of sales reflect the total cash costs of product sold (a non-IFRS financial measure, see section 3 for further analysis) during the period.

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

Operating expenses in cost of sales were $1.9 million in the first quarter of 2015 compared to $5.6 million in the first quarter of 2014. The overall decrease in operating expenses is the result of both (i) the lower variable costs which are linked to production levels which are down to nil million tonnes for the first quarter of 2015 compared to 0.6 million tonnes for the first quarter of 2014; and (ii) the continued focus on cost saving initiatives. The total cash cost of product sold decreased from $14.23 per tonne for the first quarter of 2014 to $10.80 per tonne for the first quarter of 2015.

Cost of sales in the first quarter of 2015 and 2014 included coal stockpile impairments of $0.6 million and $7.3 million, respectively, to reduce the carrying value of the Company's coal stockpiles to their net realizable value. The coal stockpile impairments recorded in both the first quarter of 2015 and 2014 reflect the challenging coal market conditions and primarily related to the Company's higher-ash products.

Cost of sales related to idled mine asset costs primarily consisted of period costs, which were expensed as incurred and included mainly depreciation expense. Cost of sales related to idled mine assets in the first quarter of 2015 included $11.9 million related to depreciation expenses for idled equipment compared to $3.0 million in the first quarter of 2014.

Other operating income/expense was income of $1.0 million in the first quarter of 2015 compared to expense of $1.1 million in the first quarter of 2014 as follows:

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

The Company recognized an impairment loss of $1.8 million in the first quarter of 2014 related to its investment in Aspire Mining Limited ("Aspire"). The Company disposed all its investment in Aspire during 2014 and did not hold any Aspire shares as at December 31, 2014 or subsequent to that date.

Administration expenses were $1.4 million in the first quarter of 2015 compared to $2.2 million in the first quarter of 2014 as follows:

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

Administration expenses were lower for the first quarter of 2015 compared to the first quarter of 2014 primarily as a result of cost reduction measures.

Evaluation and exploration expenses were $0.1 million in the first quarter of 2015 compared to $0.2 million in the first quarter of 2014. The Company continued to minimize evaluation and exploration expenditures in the first quarter of 2015 in order to preserve the Company's financial resources. Evaluation and exploration activities and expenditures in the first quarter of 2015 were limited to ensuring that the Company met the Mongolian Minerals Law requirements in respect of its mining and exploration licenses.

Finance costs were $6.6 million and $5.0 million respectively in the first quarter of 2015 and the first quarter of 2014. Finance costs primarily consisted of interest expense in respect of the $250.0 million CIC Convertible Debenture ($5.0 million for the first quarter of 2015 and $5.0 million for the first quarter of 2014).

Included within Finance costs for the first quarter of 2015, is $1.5 million in respect of the unrealized fair value loss of the embedded derivative in the CIC Convertible Debenture. In comparison, in the first quarter of 2014, the Company recorded within Finance income an unrealized fair value gain of the embedded derivative in the CIC Convertible Debenture ($1.0 million). The fair value of the embedded derivatives in the CIC Convertible Debenture is driven by many factors including: the Company's Common Share price, U.S. Dollar and Canadian Dollar exchange rates and share price volatility.

Finance income was negligible in the first quarter of 2015 compared to $1.0 million in the first quarter of 2014 which, as described above, consisted of an unrealized gain in respect of the embedded derivative in the CIC Convertible Debenture.

Summary of Quarterly Operational Data

	2015	2014				2013		
Quarter Ended	**31-Mar**	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun
Sales Volumes, Prices and Costs								
Premium semi-soft coking coal								
Coal sales *(millions of tonnes)*	**-**	0.02	-	-	-	0.21	0.04	0.21
Average realized selling price *(per tonne)* (i)	**$ -**	$ 26.77	$ -	$ -	$ -	$ 37.54	$ 37.50	$ 32.46
Standard semi-soft coking coal								
Coal sales *(millions of tonnes)*	**0.05**	0.14	0.31	0.12	0.29	1.40	0.87	-
Average realized selling price *(per tonne)* (i)	**$ 17.95**	$ 18.32	$ 17.41	$ 20.33	$ 22.00	$ 24.49	$ 21.67	$ -
Thermal coal								
Coal sales *(millions of tonnes)*	**0.13**	0.21	0.34	0.51	0.10	0.11	0.03	0.11
Average realized selling price *(per tonne)* (i)	**$ 10.46**	$ 11.69	$ 10.66	$ 10.72	$ 12.07	$ 12.60	$ 13.07	$ 13.98
Total								
Coal sales *(millions of tonnes)*	**0.18**	0.37	0.65	0.63	0.39	1.72	0.94	0.32
Average realized selling price *(per tonne)* (i)	**$ 12.66**	$ 15.04	$ 13.87	$ 12.52	$ 19.54	$ 25.30	$ 22.05	$ 26.26
Raw coal production *(millions of tonnes)*	**-**	0.21	0.17	0.55	0.64	1.73	1.13	0.17
Direct cash costs of product sold *(per tonne)* (ii)	**$ 8.68**	$ 8.09	$ 7.38	$ 8.23	$ 10.43	$ 11.13	$ 9.41	$ 11.49
Mine administration cash costs of product sold *(per tonne)* (ii)	**$ 2.11**	$ 2.44	$ 2.30	$ 2.49	$ 3.80	$ 1.39	$ 2.20	$ 7.14
Total cash costs of product sold (*per tonne*) (ii)	**$ 10.79**	$ 10.53	$ 9.68	$ 10.72	$ 14.23	$ 12.52	$ 11.61	$ 18.63
Other Operational Data								
Production waste material moved *(millions of bank cubic meters)*	**-**	0.55	0.20	2.17	2.55	3.77	1.57	2.71
Strip ratio *(bank cubic meters of waste material per tonne of coal produced)*	**-**	2.61	1.20	3.97	4.02	2.18	1.39	15.55
Lost time injury frequency rate (iii)	**0.25**	0.21	0.17	0.15	0.00	0.00	0.00	0.00

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

Summary of Quarterly Financial Results

$ in thousands, except per share information	2015	2014				2013		
Quarter Ended	**31-Mar**	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun
Financial Results								
Revenue (i), (ii)	**$ 1,587**	$ 5,054	$ 7,611	$ 6,691	$ 5,137	$ 32,457	$ 15,652	$ 6,129
Cost of sales (ii)	**(17,678)**	(19,757)	(23,922)	(20,086)	(18,366)	(40,359)	(33,486)	(17,477)
Gross loss excluding idled mine asset costs	**(1,230)**	(821)	(2,178)	(8,497)	(10,202)	(4,141)	(13,323)	(5,593)
Gross loss including idled mine asset costs	**(16,091)**	(14,703)	(16,311)	(13,395)	(13,229)	(7,900)	(17,834)	(11,348)
Other operating income/(expenses)	**971**	(11,989)	(2)	(1,776)	(1,073)	(109,682)	(1,003)	(14,925)
Administration expenses	**(1,425)**	(1,924)	(2,530)	(2,253)	(2,237)	(3,668)	(4,204)	(4,024)
Evaluation and exploration expenses	**(81)**	(911)	(122)	(107)	(172)	(489)	(186)	(221)
Loss from operations	**(16,626)**	(29,527)	(18,965)	(17,531)	(16,711)	(121,740)	(23,227)	(30,518)
Finance costs	**(6,648)**	(6,351)	(5,257)	(5,215)	(5,025)	(5,167)	(5,382)	(5,617)
Finance income	**8**	317	135	127	1,007	1,301	124	3,366
Share of earnings/(losses) of joint venture	**(18)**	(40)	(32)	(3)	(26)	(15)	(66)	44
Income tax expense	**-**	(40)	-	(546)	-	(13,109)	(13,377)	(416)
Net loss	**(23,284)**	(35,641)	(24,119)	(23,168)	(20,755)	(138,730)	(41,928)	(33,141)
Basic loss per share	**$ (0.11)**	$ (0.19)	$ (0.13)	$ (0.12)	$ (0.11)	$ (0.75)	$ (0.23)	$ (0.18)
Diluted loss per share	**$ (0.11)**	$ (0.19)	$ (0.13)	$ (0.12)	$ (0.11)	$ (0.75)	$ (0.23)	$ (0.18)

(i) *Revenue is presented after deduction of royalties and selling fees.*
(ii) *Revenue and cost of sales relate to the Company's Ovoot Tolgoi Mine within the Mongolian Coal Division operating segment. Refer to note 3 of the condensed consolidated interim financial statements for further analysis regarding the Company's reportable operating segments.*

3. NON-IFRS FINANCIAL MEASURES

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

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

Cash Costs

The Company uses cash costs to describe its cash production costs. Cash costs incorporate all production costs, which include direct and indirect costs of production, with the exception of idled mine asset costs and non-cash expenses which are excluded. Non-cash expenses include share-based compensation expense, impairments of coal stockpile inventories, depreciation and depletion of mineral properties.

The Company uses this performance measure to monitor its operating cash costs internally and believes this measure provides investors and analysts with useful information about the Company's underlying cash costs of operations. The Company believes that conventional measures of performance prepared in accordance with IFRS do not fully illustrate the ability of its mining operations to generate cash flows. The Company reports cash costs on a sales basis. This performance measure is commonly utilized in the mining industry.

The cash costs of product sold presented below may differ from cash costs of product produced depending on the timing of coal stockpile inventory turnover and impairments of coal stockpile inventories from prior periods.

	Three months ended March 31,	
$ in thousands, except per tonne information	**2015**	**2014**
Cash costs		
Cost of sales determined in accordance with IFRS	**$ 17,678**	$ 18,366
Less non-cash expenses	**(888)**	(9,775)
Less non-cash idled mine asset costs	**(11,888)**	(2,989)
Total cash costs	**4,902**	5,602
Less idled mine asset cash costs	**(2,972)**	(38)
Total cash costs excluding idled mine asset cash costs	**1,930**	5,564
Coal sales *(millions of tonnes)*	**0.18**	0.39
Total cash costs of product sold *(per tonne)*	**$ 10.80**	$ 14.23

	Three months ended March 31,	
$ in thousands, except per tonne information	**2015**	**2014**
Cash costs		
Direct cash costs of product sold *(per tonne)*	**$ 8.68**	$ 10.43
Mine administration cash costs of product sold *(per tonne)*	**2.11**	3.80
Total cash costs of product sold *(per tonne)*	**$ 10.79**	$ 14.23

4. PROPERTIES

The Company currently holds two mining licenses and four exploration licenses in Mongolia, which in total cover an area of approximately 98,000 hectares ("ha"). The decrease in hectares followed the completion of a partial sale of exploration license 9449X. The mining licenses pertain to the Ovoot Tolgoi Complex (12726A) and the Soumber Deposit (MV-016869).

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

Operating Mines

Ovoot Tolgoi Mine

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

Saleable products from the Ovoot Tolgoi Mine primarily include the Standard and Premium semi-soft coking coal products. The Company's raw semi-soft products together with raw higher-ash coals are suitable for washing and blending in order to be sold as a 1/3 coking coal in the Chinese market. Some higher-ash product is sold as a thermal coal product as and when the market allows. The Company intends to continue to develop markets for both its Premium and Standard semi-soft coking coal brands and to pursue long-term supply offtake with end users in China to complement its existing customer base and to gain best value of the Company's coal in the Chinese market. The Company is committed to further enhancing the quality of its coal products through wet washing and increasing its market penetration in China, and as part of this strategy is cooperating with Ejin Jinda to study the utilization of the Ejin Jinda wet washing facility (refer to "Processing Infrastructure – Wet Washing Facility" section below).

Reserves and Resources

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

The Company and the responsible QPs are currently reviewing the geology and mine plan for Ovoot Tolgoi and changes thereto may impact anticipated production levels, the quantities of measured and/or indicated resources and reserves of Ovoot Tolgoi. The review of the geology and mine plan for the Ovoot Tolgoi Complex has not yet been completed, nor has a new mine plan been presented to or been approved by the Company's board of directors. As a result of the significant changes in some of the mining planning factors compared to those used for the Ovoot Tolgoi Technical Report, this review may result in material changes to the reserves for the Ovoot Tolgoi Deposit.

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

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

For more information on the risks associated with classification of geology type of coal deposits, refer to the Risk Factor entitled "The Company's coal reserves and resources are estimates based on a number of assumptions and the Company may produce less coal than its current estimates" in the section entitled "Risk Factors" of the December 31, 2014 MD&A available on www.sedar.com.

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

Operational Data and Financial Results

Refer to section 2 for an overview of the operational data and financial results of the Ovoot Tolgoi Mine.

Processing Infrastructure

Dry Coal Processing

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

Assuming the Proposed Funding Plan is successfully implemented, coal markets improve and the mine plan review does not materially impact the existing mine plan, the Company expects to increase production from the Ovoot Tolgoi Mine in line with its anticipated annual capacity of 9 million tonnes run-of-mine production. At such time the Company will review the use of the DCHF as part of its existing assets and continue developing beneficiation capabilities to maximize value from its product.

Wet Washing Facility

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

In 2011, the Company made an initial payment of $33.6 million in respect of prepaid toll washing fees. The Company recorded a $30.2 million impairment loss on the $33.6 million of prepaid toll washing fees during the year ended December 31, 2013 and in the quarter ended June 30, 2014, the Company recorded an additional impairment of $3.4 million to fully impair the deposit. As at March 31, 2015 the Company has reassessed the carrying value of this prepayment and continues to believe it is appropriate for the balance to be fully impaired. This impairment continues to be recognized due to the continued delay in starting the commercial operations at the wet washing facility and the continued soft coal market in China.

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

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

Transportation Infrastructure

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

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

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

Mining Equipment

The key elements of the currently commissioned mining fleet includes: two Liebherr 996 ($33m^3$ & $36m^3$) hydraulic excavators, three Liebherr R9250 ($15m^3$) hydraulic excavators, 22 MT4400AC (218 tonne capacity) haul trucks and two Terex TR100 (91 tonne capacity) haul trucks, together with various pieces of ancillary equipment.

Workforce

As at March 31, 2015, SouthGobi Sands LLC employed 340 employees in Mongolia. Of the 340 employees, 43 are employed in the Ulaanbaatar office, 3 in outlying offices and 294 at the Ovoot Tolgoi Mine site. Of the 340 employees based in Mongolia, 335 (99%) are Mongolian nationals and of those, 152 (45%) are residents of the local Gurvantes, Dalanzadgad, Sevrei and Noyon Soums.

Development Projects and Exploration Program

Soumber Deposit

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

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

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

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

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

On July 6, 2011, the Company announced that the Mineral Resources Authority of Mongolia ("MRAM") issued the Company a mining license pertaining to the Soumber Deposit. The 10,993ha mining license was granted for an initial term of 30 years with an option for two 20 year extensions. In addition to the existing mining license, the Company also holds two exploration licenses pertaining to certain areas

associated with the Soumber Deposit for which PMAs have been issued. The Company plans to progress to the mining license application process for the PMA issued on August 14, 2013.
A territory fully covering the Soumber Deposit mining license area was designated by the provincial authorities as a special protected area (refer to section 6 "Regulatory Issues and Contingencies" for details of the status of the Soumber Deposit in respect of the latest decision by the provincial authorities).

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

Zag Suuj Deposit

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

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

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

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

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

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

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

Ovoot Tolgoi Underground Deposit

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

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

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

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

Exploration Program

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

5. LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Capital Management

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

Turquoise Hill Loan Facility

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

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

On August 30, 2014 and December 4, 2014, subject to certain conditions and limitations, Turquoise Hill agreed to grant deferrals of the payment of $3.8 million plus accrued interest thereon owing by the Company under the Turquoise Hill Loan Facility on the reduced revolving credit facility of $3.8 million. These deferrals of payment and repayment were granted to the Company without prejudice to Turquoise Hill's right and ability to assert and re-assert at any point in time to demand payment and repayment of all amounts owing to Turquoise Hill under the Turquoise Hill Loan Facility.

On May 4, 2015 following the expiry of the NUR SPA on April 30, 2015, Turquoise Hill agreed to a further limited deferral of repayment, subject to certain conditions and limitations, on the $3.8 million principal and accrued interest owing on the Turquoise Hill Loan Facility as follows:

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

(ii) $1.9 million in principal and all interest that has accrued on and under the Turquoise Hill Loan Facility from September 1, 2015 up to and including November 30, 2015 shall become due and payable on November 30, 2015.

At March 31, 2015 in addition to the principal of $3.8 million the Company owed accrued interest of $0.3 million under this facility (December 31, 2014 the Company had drawn $3.8 million and owed accrued interest of $0.1 million).

Novel Sunrise private placement

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

The initial tranche of the private placement consisting of approximately $3.5 million of Mandatory Convertible Units closed on March 3, 2015 having been subject to regulatory approvals and other customary closing conditions. On completion of the Novel SPA each Mandatory Convertible Unit was converted on a one for one basis into Common Shares of the Company.

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

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

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

In accordance with the terms of the private placement:

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

- Following the closure of the second and final tranche of the private placement, Novel Sunrise holds the right to nominate two directors, (in addition to Mr. Chan), to the Company's board of directors. Novel Sunrise has advised the Company that it plans to exercise this right at a later date.

<u>Novel SPA</u>

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

Going concern considerations

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

The Company anticipates that coal prices in China will remain under pressure in 2015, which will continue to impact the Company's margins and liquidity. Therefore the Company is actively seeking prepaid coal offtake agreements and other additional sources of financing to continue operating and meet its business objectives, while continuing to be focused on minimizing uncommitted capital expenditures and preserving the Company's growth options. The Company, together with its new strategic partner, Novel Sunrise, has developed the Proposed Funding Plan in order to pay the interest due under the CIC Convertible Debenture, meet its obligations as they fall due, achieve its business objectives in 2015 and beyond. These obligations may include potential penalties as a consequence of the tax case in Mongolia (refer to section 6 "Regulatory Issues and Contingencies" for details). However, there is no guarantee that the Company will be able to implement this funding plan or secure other sources of financing. If it fails to do so, or is unable to secure additional capital or otherwise restructure or refinance its business in order to address its cash requirements through March 31, 2016, then the Company is unlikely to have sufficient capital resources or cash flows from mining operations in order to satisfy its ongoing obligations and future contractual commitments, including cash interest payments due on the CIC Convertible Debenture (approximately $7.9 million on May 19, 2015 and approximately $8.0 million on November 19, 2015). Refer to section 11 "Risk Factors". Therefore, the Company is actively seeking additional sources of financing to continue operating and meet its objectives.

The Company's consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue operating until at least March 31, 2016 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due; however, in order to continue as a going concern, the Company must generate sufficient operating cash flows, secure additional capital or otherwise pursue a strategic restructuring, refinancing or other transaction to provide it with additional liquidity. If it fails to do so, or is unable to secure additional capital or otherwise restructure or refinance its business in order to address its cash requirements through March 31, 2016, then the Company is unlikely to have sufficient capital resources or cash flows from mining operations in order to satisfy its ongoing obligations and future contractual commitments, including cash interest payments due on the CIC Convertible Debenture, it may not be able to continue as a going concern.

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

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

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

Factors that impact the Company's liquidity are being closely monitored and include, but are not limited to, Chinese economic growth, market prices of coal, production levels, operating cash costs, capital costs, exchange rates of currencies of countries where the Company operates and exploration and discretionary expenditures.

At March 31, 2015, the Company had cash of $3.6 million compared to cash of $3.8 million at December 31, 2014. Working capital (excess current assets over current liabilities) was negative $3.6 million at March 31, 2015 compared to positive $3.4 million at December 31, 2014. At May 11, 2015, the Company had cash of $4.9 million.

At March 31, 2015, the Company's gearing ratio was 0.24 (December 31, 2014: 0.23), which was calculated based on the Company's long term liabilities to total assets. At March 31, 2015, the Company is not subject to any externally imposed capital requirements.

Proposed Funding Plan

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

While it is the Company's intention to proceed to implement the Proposed Funding Plan with Novel Sunrise's assistance as soon as possible, the Proposed Funding Plan is indicative only and the Company's ability to implement it successfully is dependent on a number of factors beyond its control, including but not limited to, China's economic growth and coal demand growth, market prices of coal, the availability of credit and market interest rates, and exchange rates of currencies of countries where the Company operates, and there can be no assurance that the Company will be able to do so, or that it will be able to do so in sufficient time to continue as a going concern. In such event, the Company is likely to be unable to meet its obligations, which could result in voluntary or involuntary insolvency proceedings involving the Company as discussed under the heading "Risk Factors" in the December 31, 2014 MD&A issued on March 30, 2015 and available on SEDAR at www.sedar.com.

TSX Financial Hardship Exemption Application and Status of Listing on TSX

On February 25, 2015, the TSX confirmed that the Company had been placed on remedial delisting review in connection with its reliance on the financial hardship exemption from approval by its shareholders of the private placement with Novel Sunrise. A delisting review is customary practice under TSX policies when a listed company relies on the financial hardship exemption; refer to the Company's MD&A for the year ended December 31, 2014 available on SEDAR at www.sedar.com for additional detail. The Company currently has until May 26, 2015 to comply with all requirements of the TSX for continued listing and a meeting of the TSX Continued Listing Committee to consider this matter has been scheduled for May 19, 2015.

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

The Company believes the proceeds of the private placement and the implementation of the Company's Proposed Funding Plan will allow it to meet its short term financing needs and that it will be compliant with the continued listing requirements of the TSX; however, no assurance can be provided that the TSX will grant the Company the requested extension nor can any assurance be provided as to the outcome of the remedial delisting review when it occurs and the Company's Common Shares may become subject to delisting from the TSX.

CIC Convertible Debenture

In November 2009, the Company entered into a financing agreement with a wholly owned subsidiary of the CIC for $500 million in the form of a secured, Convertible Debenture bearing interest at 8.0% (6.4% payable semi-annually in cash and 1.6% payable annually in the Company's shares) with a maximum term of 30 years. The CIC Convertible Debenture is secured by a charge over the Company's assets and certain subsidiaries. The financing was required primarily to support the accelerated investment program in Mongolia and up to $120 million of the financing could also be used for working capital, repayment of debt due on funding, general and administrative expenses and other general corporate purposes. The Company's actual use of financing has been in accordance with the above.

On March 29, 2010, the Company exercised its right to call for the conversion of up to $250.0 million of the CIC Convertible Debenture into approximately 21.5 million shares at a conversion price of $11.64 (Cdn$11.88). As at March 31, 2015, the CIC owned, through its indirect wholly owned subsidiary, approximately 17.3% of the issued and outstanding Common Shares of the Company.

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

Mongolian IAAC Investigation

In the first quarter of 2013, the Company was subject to orders imposed by Mongolia's Independent Authority against Corruption (the "IAAC") which placed restrictions on certain of the Company's Mongolian assets. The orders were imposed on the Company in connection with the IAAC's investigation of the Company. The Mongolian State Investigation Office (the "SIA") also continues to enforce the orders on the Company. The restrictions on the assets were reaffirmed in the tax case verdict and form part of the tax penalty payable by the Company.

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

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

Cash Flow Highlights

$ in thousands	Three months ended March 31, 2015	2014
Cash used in operating activities	**$ (3,342)**	$ (8,606)
Cash used in investing activities	**(289)**	(3,235)
Cash generated from financing activities	**3,519**	4
Effect of foreign exchange rate changes on cash	**(30)**	(85)
Decrease in cash for the period	**(142)**	(11,922)
Cash balance, beginning of period	**3,789**	21,837
Cash balance, end of period	**$ 3,647**	$ 9,915

Cash used in Operating Activities

The Company used $3.3 million of cash in operating activities in the first quarter of 2015 compared to cash used in operating activities of $8.6 million in the first quarter of 2014.

In the first quarter of 2015, there was an decrease in non-cash working capital of $0.6 million compared to an increase of $5.8 million in the first quarter of 2014. In the first quarter of 2015, the Company benefited from the continued reduction of its inventory stockpile reducing inventory by $1.4 million compared to an increase in the first quarter of 2014 of $2.3 million. Furthermore, trade and other payables decreased less in the first quarter of 2015 compared to the first quarter of 2014 ($0.6 million compared to $6.1 million, respectively).

Cash used in Investing Activities

In the first quarter of 2015, the Company used $0.3 million of cash in investing activities compared to $3.2 million in the first quarter of 2014. The cash used in investing activities primarily related to expenditures on property, plant and equipment being $0.3 million in the first quarter of 2015 and $3.2 million in the first quarter of 2014. This reduction is consistent with the Company's approach to preserving its liquidity.

Cash generated from Financing Activities

The cash generated from financing activities in the first quarter of 2015 primarily related to the proceeds from the mandatory convertible units issued as part of the private placement with Novel Sunrise for proceeds of $3.5 million.

Contractual Obligations and Guarantees

Day-to-day mining, expansionary and sustaining capital expenditures as well as administrative operations give rise to commitments for future minimum payments. As at March 31, 2015, the Company's operating and capital commitments were:

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

Ovoot Tolgoi Mine Impairment Analysis

Unchanged from the assessment made as at each quarter end in 2014, the Company determined that an indicator of impairment existed for its Ovoot Tolgoi Mine cash generating unit as at March 31, 2015. The impairment indicator was the continued weakness in the Company's share price during the first quarter of 2015 and the fact that the market capitalization of the Company, as at March 31, 2015, was less than the carrying value of its net assets.

Therefore, the Company conducted an impairment test whereby the carrying value of the Company's Ovoot Tolgoi Mine cash generating unit was compared to its "value in use" using a discounted future cash flow valuation model. The Company's cash flow valuation model has been updated to take into consideration the latest available information to the Company, including but not limited to, sales price, sales volumes and washing assumptions, operating cost assumptions and life of mine coal production assumptions as at March 31, 2015. The Company's Ovoot Tolgoi Mine cash generating unit carrying value was $344.6 million as at March 31, 2015.

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

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

Key sensitivities in the valuation model are as follows:

- For each 1% increase/(decrease) in the long term price estimates, the calculated fair value of the cash generating unit increases/(decreases) by approximately $20.8/($20.8) million;
- For each 1% increase/(decrease) in the discount rate, the calculated fair value of the cash generating unit (decreases)/increases by approximately ($23.3)/$25.7 million; and
- For each 1% increase/(decrease) in the cash mining cost estimates, the calculated fair value of the cash generating unit (decreases)/increases by approximately ($12.5)/$12.5 million.

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

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

Investment in RDCC LLC Impairment Analysis

The Company determined that an indicator of impairment existed for its investment in RDCC LLC as at March 31, 2015. The impairment indicator was the continued delay in the commencement of operation.

Therefore, the Company conducted an impairment test whereby the carrying value of the Company's investment in RDCC LLC compared to its "value in use" using a discounted future cash flow valuation model. The carrying value was $26.7 million as at March 31, 2015.

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

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

Key sensitivities in the valuation model are as follows:

- For each 1% increase/(decrease) in the toll fee estimates or traffic volume, the calculated fair value of the carrying unit increases/(decreases) by approximately $0.3/($0.3) million; and
- For each 1% increase/(decrease) in the discount rate, the calculated fair value of the carrying unit (decreases)/increases by approximately ($1.7)/$1.9 million.

The impairment analysis did not result in the identification of an impairment loss and no charge was required as at March 31, 2015. The Company believes that the estimates and assumptions incorporated in the impairment analysis are reasonable; however, the estimates and assumptions are subject to significant uncertainties and judgments.

On April 30, 2015, in response to Order no. 115 of Mongolia's Ministry of Road and Transportation dated April 29, 2015, a working group was established to assist in the commencement of commercial operations of the paved highway from the Ovoot Tolgoi Complex to the Shivee Khuren border crossing ("Paved Highway"). Subsequently, on May 8, 2015 a three month trial period of operation in respect of the Paved Highway commenced. This trial period imposes a nine hundred (900) MNT charge per tonne of coal hauled on the Paved Highway in the Nariinsukhait-Shiveekhuren direction. This charge is lower than the fifteen hundred (1500) MNT charge per tonne stated in the signed concession agreement between RDCC LLC and the State Property Committee of Mongolia which formed the basis for the Company's investment decision. As at May 11, 2015, discussions are ongoing with respect to the pricing levels beyond the initial trial period and in respect to how RDCC LLC will be reimbursed for any difference between the actual rate per tonne charged and the rate per tonne as stated in the concession agreement. RDCC has notified the Company that it expects to be reimbursed or compensated for the reduced pricing levels. However should the Government of Mongolia not honor the pricing as per the concession agreement or provide sufficient compensation to the Company for the reduced rate, this may lead to an impairment of the Company's investment in RDCC LLC.

Financial Instruments

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

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

The fair values of financial instruments that are traded on an active liquid market are determined with reference to the quoted market prices. Historically, the fair value of the Company's investment in the shares of Kangaroo Resources Limited ("Kangaroo") and Aspire was determined using this methodology. The Company's investment in the shares of Kangaroo and its money market investments were classified as fair value through profit or loss ("FVTPL"). The Company's investment in the shares of Aspire was classified as available-for-sale. The Company disposed all its investment in Aspire and Kangaroo during 2014 and did not hold any Aspire or Kangaroo shares as at December 31, 2014 or March 31, 2015.

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

	As at	
$ in thousands	**March 31, 2015**	**December 31, 2014**
Financial assets		
Loans-and-receivables		
Cash	**$ 3,647**	$ 3,789
Trade and other receivables	**269**	462
Total financial assets	**$ 3,916**	$ 4,251

	As at	
$ in thousands	**March 31, 2015**	**December 31, 2014**
Financial liabilities		
Fair value through profit or loss		
Convertible debenture - embedded derivatives	**$ 3,378**	$ 1,834
Other-financial-liabilities		
Trade and other payables	**18,043**	18,124
Interest-bearing borrowing	**4,051**	3,945
Convertible debenture - debt host	**98,325**	93,353
Total financial liabilities	**$ 123,797**	$ 117,256

The net loss in the first quarter of 2015 and 2014 respectively included the following amounts of unrealized losses/(gains) from the fair value adjustments to certain financial instruments which are classified as FVTPL:

	Three months ended March 31,	
$ in thousands	2015	2014
Unrealized loss on FVTPL investments	**$ -**	$ 40
Unrealized loss/(gain) on embedded derivatives in CIC convertible debenture	**1,544**	(1,000)

The Company recognized impairment losses of nil and $1.8 million in other operating expenses in 2015 and 2014 related to the investment in Aspire, respectively.

6. REGULATORY ISSUES AND CONTINGENCIES

Regulatory Issues

Governmental and Regulatory Investigations

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

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

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

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

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

On February 18, 2015, the Company appealed the Tax Verdict (the "Tax Verdict Appeal") on the grounds that it has prepared its financial statements, including those of SGS, in compliance with IFRS, and lodged all its tax returns in the required format under Mongolian tax law. The hearing of the Tax Penalty Appeal took place on March 25, 2015 at the 10th Appeal Court for Criminal Case of Mongolia (the "Court of Appeal") and a panel of three appointed judges decided to uphold the Tax Verdict and dismissed the Tax Verdict Appeal by the Company. It is the view of the Company that there is a lack of evidence to support both the Tax Verdict and the Appeal Verdict. The Company received the written version of the Appeal Court's verdict ("Appeal Verdict") on April 10th, 2015. The Company lodged a final appeal with the Supreme Court of Mongolia on April 22, 2015. In accordance with Mongolia's criminal procedure law, SGS filed the appeal with the Supreme Court of Mongolia through the Second District Criminal Court of Justice.

On April 29, 2015 the Second District Criminal Court refused to advance SGS's appeal to the Supreme Court. Following an immediate protest by SGS, the Second District Criminal Court delivered SGS's appeal to the Supreme Court of Mongolia and as at May 11, 2015 the Company awaits confirmation from the Supreme Court as to whether they will hear the case.

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

The consequences for the Company of the Tax Verdict and the Appeal Verdict are uncertain. If the Tax Verdict is not reversed on final appeal, or if the amount of the Tax Penalty is not reduced upon exhaustion of the foregoing appeal process, the Company may not be able to pay the Tax Penalty or the final assessed amount, which could result in voluntary or involuntary insolvency proceedings involving the Company. For further information see the Risk Factor entitled "If the Company is unsuccessful in appealing the Tax Verdict it will likely not have sufficient cash resources to satisfy the penalty imposed thereunder" in the Company's MD&A for the year ended December 31, 2014, which is available at www.sedar.com.

Internal Investigations

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

The investigations referred to above could result in one or more Mongolian, Canadian, United States or other governmental or regulatory agencies taking civil or criminal action against the Company, its affiliates or its current or former employees. The likelihood or consequences of such an outcome are unclear at this time but could include financial or other penalties, which could be material, and which could have a material adverse effect on the Company. Refer to the Company's MD&A for the year ended December 31, 2014, which is available on SEDAR at www.sedar.com, section 14 risk factors, "the Company is subject to continuing governmental, regulatory and internal investigations, the outcome of which is unclear at this time but could have a material adverse effect on the Company".

Mining Prohibition in Specified Areas Law

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

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

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

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

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

On February 18, 2015 the Parliament of Mongolia adopted an amendment to the Law on Implementation of the Mining Prohibition in Specified Areas Law (the "Law on Implementation"). The amendment 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 licence 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 (the "MRAM") to resume activities.

The amendment to the Law on Implementation introduces new Articles 3 and 4, and revises Articles 1 and 2, of the Mining Prohibition in Specified Areas Law, respectively. For the purpose of enforcing the amendment to the Law on Implementation, a new Article 56.1.8 was also added to the Minerals Law. Accordingly, a breach of the contract on advance placement of rehabilitation funds concluded in accordance with the amendment and violation of the provisions of the Law on Implementation are included among the grounds to revoke a license as contained in the Minerals Law.

The status of the Mining Prohibition in Specified Areas Law and its potential impact on the Company's licenses is unclear. The Company will continue to monitor developments and will ensure that it follows the necessary steps in the Law on Implementation to secure its operations and licenses and is fully compliant with Mongolian law.

The Company understands that as such the amendment became effective as of March 17, 2015.

Special Needs Territory in Umnugobi

On February 13, 2015, the whole of the Soumber Deposit and a portion of the Company's exploration license No.9443 X were encompassed by a new special protected area (to be further referred as Special Needs Territory "SNT"). The new SNT was established by the Umnugobi Aimag's Civil Representatives Khural (CRKh) under resolution 8/2. Similar resolutions adopted by the Umnugobi aimag authorities purporting to take the areas covered by various licences of the Company into provincial SNT have been successfully challenged by the Company through administrative court processes. Court verdicts invalidating the relevant resolutions were obtained in 2012 and 2014.

The Company filed its claim with the 12th Court for Administrative Cases of First Instance (the "Administrative Court") in Dalanzadgad on March 27th, 2015 and the case is not expected to be heard until June 2015.

Contingencies

Class Action Lawsuit

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

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

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

7. RELATED PARTY TRANSACTIONS

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

- Turquoise Hill – Prior the completion of the TRQ SPA and private placement with Novel Sunrise, Turquoise Hill was the Company's immediate parent company and at March 31, 2015 owned approximately 48% of the outstanding Common Shares. Turquoise Hill provides various administrative services to the Company on a cost-recovery basis.
- Rio Tinto – Prior to the completion of the TRQ SPA and private placement with Novel Sunrise, Rio Tinto was the Company's ultimate parent company and at March 31, 2015 Rio Tinto controlled Turquoise Hill. The Company recovers administration and other costs incurred on behalf of Rio Tinto on a cost-recovery basis. Rio Tinto recovers from the Company the costs of salaries and benefits of employees assigned to work for the Company and recovers legal and professional fees from the Company in respect of the internal and tripartite committees referred to in section 6 "Regulatory Issues and Contingencies".
- Turquoise Hill Resources Singapore Pte. Ltd. ("Turquoise Hill Singapore") – Turquoise Hill Singapore (formerly I2MS.NET Pte. Ltd.) is a private company 100% owned by Turquoise Hill. Turquoise Hill Singapore provides information technology and other related services to the Company on a cost-recovery basis.

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

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

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

As at March 31, 2015, the Company had payables totaling $12.3 million (December 31, 2014: $12.5 million) including amounts classified as interest-bearing borrowings totaling $4.1 million as at March 31, 2015, (December 31, 2014: $3.9 million) with related parties. Included in the accounts payable balance as at March 31, 2015 and at December 31, 2014 are $5.3 million of legal and professional fees payable to Rio Tinto in respect of the internal and tripartite committees referred to in section 6 "Regulatory Issues and Contingencies".

8. OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of Common Shares without par value and an unlimited number of preferred shares without par value. As at May 11, 2015, 240.5 million Common Shares were issued and outstanding. There are also incentive share options outstanding to acquire 2.4 million unissued Common Shares with exercise prices ranging from Cdn$0.58 to Cdn$12.58. There are no preferred shares outstanding.

As at May 11, 2015 Novel Sunrise holds a total of approximately 70.5 million Common Shares representing approximately 29.3% of the issued and outstanding Common Shares.

As at May 11, 2015, Turquoise Hill directly owned approximately 56.1 million Common Shares representing approximately 23.3% of the issued and outstanding Common Shares.

As at May 11, 2015 CIC holds a total of 37.9 million Common Shares representing approximately 15.8% of the issued and outstanding Common Shares.

9. INTERNAL CONTROLS OVER FINANCIAL REPORTING

There has been no significant change in the Company's internal controls over financial reporting that occurred during the most recently completed quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

10. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with IFRS requires the Company to establish accounting policies and to make estimates and judgments that affect both the amount and timing of the recording of assets, liabilities, revenues and expenses.

A detailed summary of all of the Company's significant accounting policies is included in note 3 to the Company's consolidated financial statements for the year ended December 31, 2014. Please refer to note 3.22 of the Company's December 31, 2014 consolidated financial statements for information regarding the accounting judgments and estimates that have the most significant effect on the amounts recognized in the Company's consolidated financial statements. These significant accounting judgments and estimates remain unchanged from December 31, 2014.

11. RISK FACTORS

There are certain risks involved in the Company's operations, some of which are beyond its control. Material risks and uncertainties affecting the Company, their potential impact and the Company's principal risk management strategies are, except as updated by this MD&A, substantially unchanged from those disclosed in the Company's MD&A for the year ended December 31, 2014, which is available at www.sedar.com.

12. OUTLOOK

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

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

The Company's consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue operating until at least March 31, 2016 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. While the Company is actively seeking additional sources of financing to continue operating and meet its objectives, there can be no assurance that such financing will be available on terms acceptable to the Company. If for any reason, the Company is unable to implement the funding plan it has developed with Novel Sunrise or is not able to secure additional sources of financing to continue as a going concern, adjustments to the amounts and classifications of assets and liabilities in the Company's consolidated financial statements may be required and such adjustments could be material.

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

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

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

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

- **Several growth options** – Assuming the Company is able to manage its liquidity issues, successfully implement the Proposed Funding Plan and there are no material changes to the Company's mine plan resulting from the mine plan review currently underway, the Company has several potential growth options, including an anticipated increase to 9 million tonnes annual run-of-mine capacity at the Ovoot Tolgoi Mine as well as greenfield options with the Soumber Deposit and Zag Suuj Deposit, located approximately 20km east and approximately 150km east of the Ovoot Tolgoi Mine, respectively.

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

Objectives

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

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

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

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

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

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

May 11, 2015