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

September 30, 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, the future prices of the Company's common shares (the "Common Shares") and ownership thereof;
- the Company's anticipated business activities, planned expenditures and corporate strategies;
- the 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's intention to develop markets for its semi-soft coking coal brands and to pursue long-term supply offtake agreements with end users in the People's Republic of China ("China");
- costs relating to anticipated capital expenditures and the 2015 exploration program;
- the Company's anticipated financing needs, development plans and future production levels;
- expected impacts of the administrative restrictions on certain of the Company's Mongolian assets (including the recent transfer of the Restricted Funds to Mongolian authorities) 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 and impact of the Action (as defined under the heading "REGULATORY ISSUES AND CONTINGENCIES – Contingencies – Class Action Lawsuit" in this Management Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"));
- the ability of the Company to satisfy the Tax Penalty and the possible consequences to the Company of the Tax Verdict and Appeal Verdict (each as defined under the heading "OVERVIEW – *Significant Events and Highlights*" in this MD&A);
- the potential effect of the list of licenses published by the Government of Mongolia covering areas in which exploration and mining is purportedly prohibited on the Company's mining licenses;
- the Company's expectations of sufficient liquidity and capital resources to 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 possible impact of changes to the inputs to valuation model used to value the embedded derivatives in the CIC Convertible Debenture;
- the estimates and assumptions included in the Company's impairment analysis and the possible impact of changes thereof;
- the possible impacts of changes in useful life or depreciation rates on depreciation expenses;
- the potential effects of a difference between future cash flows and profits from estimates;
- estimates of the Company's mineral reserves and resources; 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 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 agreement with Ejin Jinda and payments thereunder;
- 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 future mining operations at the Soumber Deposit (as defined under the heading "PROPERTIES – Development Projects and Exploration Program – Soumber Deposit" in this MD&A) being allowed to share the existing infrastructure with the Ovoot Tolgoi Mine;
- plans for the progress of mining license application processes;
- future coal market conditions in China and the related impact on the Company's margins and liquidity;
- the outcome of the issues described under the heading "REGULATORY ISSUES AND CONTINGENCIES" in this MD&A;
- business outlook, including the outlook for the remainder of 2015 and beyond;
- the implementation and impact of the Funding Plan (as defined under the heading "OVERVIEW – Going Concern" in this MD&A) and actions to be taken under the Funding Plan;
- the Company continuing as a going concern and its ability to realize its assets and discharge its liabilities in the normal course of operations as they become due; adjustments to the amounts and classifications of assets and liabilities in the Company's financial statements and the impact thereof; the Company's objectives for the remainder of 2015 and beyond;
- expected production at the Ovoot Tolgoi Mine;
- the capacity of the paved highway;
- the impact of amendments to, or the application of the laws of Mongolia and other countries in which the Company carries on business;
- the impact of the Company's activities on the environment and actions taken for the purpose of mitigation of potential environmental impacts and planned focus on health, safety and environmental performance;
- the outcome of legal proceedings involving the Company and its former Chief Executive Officer, Mr. Alexander Molyneux;
- the outcome of arbitration proceedings involving the Company and First Concept Logistics Limited with respect a coal supply agreement and payments thereunder;
- greenfield development options with the Soumber Deposit and Zag Suuj Deposit (as defined under the heading "PROPERTIES – Development Projects and Exploration Program" in this MD&A); and
- other statements that are not historical facts.

This list is not exhaustive of the factors that may affect any of the Company's forward-looking statements. Except as required by law, the Company undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change. The reader is cautioned not to place undue reliance on forward-looking statements.

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INTRODUCTION

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") of SouthGobi Resources Ltd. (which, together with its subsidiaries, is collectively referred to as the "Company") should be read in conjunction with the condensed consolidated interim financial statements of the Company and the notes thereto for the three and nine months ended September 30, 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. There has not been any significant update of other disclosures of a scientific or technical nature in this MD&A in the third quarter of 2015.

1. OVERVIEW

The Company is an integrated coal mining, development and exploration company with 355 employees as at September 30, 2015. The 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) 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 will be reviewed as discussed under the heading "Overview" of this MD&A below.

The Company and the qualified persons will review 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. No new mine plan has 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 the 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 September 30, 2015 and subsequent period to November 12, 2015 are as follows:

- ***Operating results*** – The Company continues to operate under difficult market conditions as prices for coal remained weak in China through the third quarter of 2015. The impact of these conditions on the Company's operations continues to be exacerbated given the Company's liquidity constraints. The Company sold 0.49 million tonnes of its coal products during the quarter compared to 0.19 million tonnes in the second quarter of 2015. The production for the third quarter of 2015 was 0.71 million tonnes, allowing the Company to position itself to meet its commitments under existing and expected new coal offtake contracts.

- ***Tax investigation case in Mongolia*** - On October 6, 2015, the Company was informed by the banks (where the $1.2 million deposits with restricted use were placed (the "Restricted Funds")) that they have received an official request from Court Decision Implementing Agency ("CDIA") to transfer the Restricted Funds to CDIA according to the court decision. $1.2 million was transferred to CDIA from the frozen bank accounts subsequently in October and November 2015.

- ***CITIC Merchant and Swiss Life GP private placements*** – On June 22, 2015, the Company announced it had negotiated private placement agreements with sophisticated investors to provide additional capital resources into the Company. The terms of the subscription agreements for the private placements allowed for the issue of approximately 55 million Common Shares.

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

On July 14, 2015, the Company agreed to an extension of the closing date of the private placement agreement between the Company and CITIC Merchant until July 20, 2015. However, the conditions precedent to the agreement were not fulfilled and CITIC Merchant informed the Company that it would not be subscribing for Common Shares pursuant to the signed private placement agreement.

- ***TSX remedial delisting review*** - On October 30, 2015, the Company received confirmation from the Continued Listing Committee of the TSX (the "TSX Committee") that it will further defer its scheduled meeting to consider whether the Company has met the listing requirements of the TSX until November 23, 2015.

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

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

- ***Novel Sunrise Investments Limited ("Novel Sunrise") change in ownership*** - The Company notes the announcement by Novel Sunrise, the largest shareholder of the Company, on July 20, 2015 which reported that China Cinda (HK) Investments Management Company Limited ("Cinda"), a wholly-owned subsidiary of China Cinda Asset Management Corporation Limited, acquired ownership and control of all of the outstanding voting (ordinary) shares of Novel Sunrise through Hope Rosy Limited, a wholly-owned subsidiary of Cinda.

- ***Shareholder loan extension*** - On October 27, 2015, Turquoise Hill Resources Ltd. ("Turquoise Hill") agreed and signed a Deferral Letter Agreement with the Company, in which Turquoise Hill agreed to a limited and circumscribed deferral of repayment of all remaining amounts and obligations now and hereafter owing under the Turquoise Hill Loan Facility to April 22, 2016 (the "Second Limited Deferral Date"). In the event that Turquoise Hill signs a definitive and binding agreement with a third party for the sales by Turquoise Hill to such party of no less than 49.1 million Common Shares and completes all of the transactions thereunder by no later than November 30, 2015, then Turquoise Hill agrees that the Second Limited Deferral Date shall be deferred for a further six months to October 24, 2016, subject to certain conditions and limitations.

- ***Notice of claim*** - On July 2, 2015, the Company announced it had been served with a notice of claim by former President and Chief Executive Officer, Alexander Molyneux. The claim relates to alleged breaches of Mr. Molyneux's employment agreement by the Company and is seeking damages of $1 million. The Company considers the claim has no merit and will vigorously defend the action.

- ***Short-term Bridge loan*** - On October 27, 2015, the Company executed a $10 million bridge loan agreement with an independent Asian based private equity fund. The Company drew down $6.3 million on October 30, 2015 and expects to draw down the remaining $3.7 million by mid November 2015.

- ***Class Action Lawsuit*** – On November 5, 2015, the Ontario Superior Court of Justice (the "Court") rendered its decision on the preliminary motions to seek leave to commence the Ontario class action (the "Action") under the Securities Act (the "Leave Motion"). The Court dismissed the plaintiff's Leave Motion as against each of the former senior officers and former and current directors of the Company named in the Action and granted the preliminary Leave Motion against the Company. The Court refused an award of costs for the Leave Motion and the certification of the Action as a class proceeding (the "Certification Motion") to the plaintiff.

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

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

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

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

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

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

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

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

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

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

- ***Going Concern*** - As at the date hereof, the Company, together with its new strategic partner and significant shareholder, Novel Sunrise, has developed and continues to execute on a funding plan (the "Funding Plan") in order to pay the interest due under the CIC Convertible Debenture, meet the Company's obligations as they fall due and achieve its business objectives in 2015 and beyond. However, there is no guarantee that the Company will be able to continue to implement and execute on the Funding Plan or secure other sources of financing. See section 5 "Liquidity and Capital Resources" and section 12 "Risk Factors" for details. As at November 12, 2015, the Company had cash of $2.0 million.

2. OVERVIEW OF OPERATIONAL DATA AND FINANCIAL RESULTS

Summary of Operational Data

	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
Sales Volumes, Prices and Costs				
Premium semi-soft coking coal				
Coal sales *(millions of tonnes)*	**0.16**	-	**0.18**	-
Average realized selling price *(per tonne)* (i)	**$ 22.32**	$ -	**$ 22.46**	$ -
Standard semi-soft coking coal				
Coal sales *(millions of tonnes)*	**0.31**	0.31	**0.48**	0.72
Average realized selling price *(per tonne)* (i)	**$ 19.10**	$ 17.41	**$ 19.17**	$ 19.76
Thermal coal				
Coal sales *(millions of tonnes)*	**0.02**	0.34	**0.21**	0.95
Average realized selling price *(per tonne)* (i)	**$ 10.48**	$ 10.66	**$ 10.47**	$ 10.84
Total				
Coal sales *(millions of tonnes)*	**0.49**	0.65	**0.87**	1.67
Average realized selling price *(per tonne)* (i)	**$ 19.76**	$ 13.87	**$ 17.77**	$ 14.70
Raw coal production *(millions of tonnes)*	**0.71**	0.17	**1.33**	1.36
Direct cash costs of product sold *(per tonne)* (ii)	**$ 17.46**	$ 7.38	**$ 15.22**	$ 8.39
Mine administration cash costs of product sold *(per tonne)* (ii)	**$ 2.81**	$ 2.30	**$ 3.81**	$ 2.73
Total cash costs of product sold *(per tonne)* (ii)	**$ 20.27**	$ 9.68	**$ 19.03**	$ 11.12
Other Operational Data				
Production waste material moved *(millions of bank cubic meters)*	**2.33**	0.20	**5.94**	4.92
Strip ratio *(bank cubic meters of waste material per tonne of coal produced)*	**3.25**	1.20	**4.46**	3.65
Lost time injury frequency rate (iii)	**0.00**	0.17	**0.00**	0.17

(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

For the three months ended September 30, 2015

Market conditions and prices for coal remained weak in China through the third quarter of 2015. The Company sold 0.49 million tonnes of its coal products during the quarter. The Company is pacing production with current and expected demand, production was 0.71 million tonnes for the quarter as compared to 0.17 million tonnes for the third quarter of 2014.

The cash cost of product sold per tonne was $20.27 for the third quarter of 2015, which has significantly increased compared to $9.68 per tonne for the third quarter of 2014. The reason for the increase is primarily related to less idled mine costs being allocated during the quarter. (Nil for the third quarter of 2015 as compared to $3.2 million for the third quarter of 2014 in which the Company placed approximately half of its workforces on furlough throughout the third quarter of 2014.)

The Company ended the third quarter of 2015 without a lost time injury. As at September 30, 2015, the Company has a lost time injury frequency rate of nil per 200,000 man hours based on a rolling 12 month average.

For the nine months ended September 30, 2015

During the first nine months of 2015, market conditions and prices for coal remained weak in China.

The production in the first nine months of 2015 was comparable to the first nine months of 2014. The Company paced the production with current demand for its coal product after the curtailment of the Company's mining operations through to March 30, 2015. 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 allowing the Company to position itself to meet its commitments under existing and expected new coal offtake contracts.

Total cash costs of product sold were $19.03 per tonne in the first nine months of 2015 compared to $11.12 per tonne in the first nine months of 2014. The reason for the increase is primarily related to the decrease in sales volumes over which the fixed and variable costs are allocated. At a gross level, the mine administration cash costs of product sold in the first nine months of 2015 was $3.3 million compared to $4.6 million in the first nine months of 2014.

Summary of Financial Results

$ in thousands, except per share information	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
Revenue [(i),(ii)]	**$ 8,620**	$ 7,611	**$ 13,157**	$ 19,440
Cost of sales [(ii)]	**(22,108)**	(23,922)	**(51,619)**	(62,375)
Gross loss excluding idled mine asset costs	**(10,642)**	(2,178)	**(16,889)**	(20,877)
Gross loss including idled mine asset costs	**(13,488)**	(16,311)	**(38,462)**	(42,935)
Other operating income/(expenses)	**621**	(2)	**(17,858)**	(2,851)
Administration expenses	**(1,967)**	(2,530)	**(5,355)**	(7,020)
Evaluation and exploration expenses	**(40)**	(122)	**(99)**	(401)
Loss from operations	**(14,874)**	(18,965)	**(61,774)**	(53,207)
Finance costs	**(5,351)**	(5,257)	**(15,677)**	(15,500)
Finance income	**1,984**	135	**722**	1,268
Share of earnings/(losses) of a joint venture	**99**	(32)	**232**	(60)
Current income tax expense	**(1)**	-	**(2)**	(546)
Net loss	**(18,143)**	(24,119)	**(76,499)**	(68,045)
Basic loss per share	**$ (0.07)**	$ (0.13)	**$ (0.32)**	$ (0.36)
Diluted loss per share	**$ (0.07)**	$ (0.13)	**$ (0.32)**	$ (0.36)

(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 initially calculated and paid monthly based on the Government reference price. On a quarterly basis the royalty amount was 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 were 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.

On March 16, 2015, the Government of Mongolia issued an amendment resolution to the "flexible tariff" regime changing the coal classification methodology from which to base the royalty calculation. The resolution is effective from May 1, 2015 and the Government of Mongolia has published reference price classifications subdivided into additional classifications since that date. According to the resolution, Company's coal is mainly divided into 2 classifications depending on coal quality under raw coal type.

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" in the MD&A issued on June 30, 2015 and available on SEDAR at www.sedar.com.

Overview of Financial Results

For the three months ended September 30, 2015

The Company recorded a $14.9 million loss from operations in the third quarter of 2015 compared to a $19.0 million loss from operations in the third quarter of 2014. The operations for the three months ended September 30, 2015 were impacted by continuing difficult market conditions and weak coal prices in China.

Revenue was $8.6 million in the third quarter of 2015 compared to $7.6 million in the third quarter of 2014. The Company sold 0.49 million tonnes of coal at an average realized selling price of $19.76 per tonne in the third quarter of 2015 compared to sales of 0.65 million tonnes at an average realized selling price of $13.87 per tonne in the third quarter of 2014. Despite the continued difficult market conditions, there was an increase in the average realized selling price which is attributed to a change in sales mix. The product mix for the third quarter of 2015 consisted of approximately 96% of Premium and Standard semi-soft coking coal and 4% of Thermal coal compared to approximately 48% of Premium and Standard semi-soft coking coal and 52% of Thermal coal in the third quarter of 2014.

The Company's revenue is presented after deduction of royalties and selling fees. The Company's effective royalty rate for the third quarter of 2015, based on the Company's average realized selling price of $19.76 per tonne, was 9.3% or $1.83 per tonne compared to 8.9% or $1.23 per tonne based on the average realized selling price of $13.87 per tonne in the third quarter of 2014.

Cost of sales was $22.1 million in the third quarter of 2015 compared to $23.9 million in the third 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.

	Three months ended September 30,	
$ in thousands	**2015**	**2014**
Operating expenses	**$ 9,988**	$ 6,259
Share-based compensation expense	**1**	90
Depreciation and depletion	**3,273**	1,742
Impairment of coal stockpile inventories	**6,000**	1,698
Cost of sales from mine operations	**19,262**	9,789
Cost of sales related to idled mine assets	**2,846**	14,133
Cost of sales	**$ 22,108**	$ 23,922

Operating expenses in cost of sales were $10.0 million in the third quarter of 2015 compared to $6.3 million in the third quarter of 2014. The overall increase in operating expenses is primarily the result of higher variable costs which are linked to the production level which are up to 0.71 million tonnes in the third quarter of 2015 compared to 0.17 million tonnes in the third quarter of 2014.

Cost of sales in the third quarter of 2015 and 2014 included coal stockpile impairments of $6.0 million and $1.7 million, respectively, to reduce the carrying value of the Company's coal stockpiles to their net realizable value. The coal stockpile impairments recorded in both the third quarter of 2015 and 2014 reflected 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 third quarter of 2015 included $2.8 million of depreciation expenses for idled equipment compared to $14.1 million in the third quarter of 2014.

Other operating income was $0.1 million in the third quarter of 2015 compared to nil in the third quarter of 2014 as follows:

	Three months ended September 30,	
$ in thousands	**2015**	**2014**
Foreign exchange gain	**$ (679)**	$ (80)
Other	**58**	82
Other operating expenses/(income)	**$ (621)**	$ 2

Administration expenses were $2.0 million in the third quarter of 2015 compared to $2.5 million in the third quarter of 2014 as follows:

	Three months ended September 30,	
$ in thousands	**2015**	**2014**
Corporate administration	**$ 508**	$ 544
Professional fees	**771**	971
Salaries and benefits	**620**	627
Share-based compensation expense	**39**	355
Depreciation	**29**	33
Administration expenses	**$ 1,967**	$ 2,530

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

Evaluation and exploration expenses were negligible in the third quarter of 2015 compared to $0.1 million in the third quarter of 2014. The Company continued to minimize evaluation and exploration expenditures in the third quarter of 2015 in order to preserve the Company's financial resources. Evaluation and exploration activities and expenditures in the third 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 $5.4 million and $5.3 million respectively in the third quarter of 2015 and the third quarter of 2014. Finance costs primarily consisted of interest expense in respect of the $250.0 million CIC Convertible Debenture ($5.2 million for the third quarter of 2015 and $5.1 million for the third quarter of 2014).

Finance income was $2.0 million in the third quarter of 2015 compared to $0.1 million in the third quarter of 2014 which, primarily consists of an unrealized gain in respect of the embedded derivative in the CIC Convertible Debenture.

For the nine months ended September 30, 2015

The Company recorded a $61.8 million loss from operations in the first nine months of 2015 compared to a $53.2 million loss from operations in the first nine months of 2014. The operations for the nine months ended September 30, 2015 were impacted by continuing difficult market conditions and weak coal prices in China. The results for the first nine months of 2015 were primarily impacted as a consequence of the tax investigation case in Mongolia which a provision of $18.0 million was recorded in respect of the tax penalty during the three months ended June 30, 2015.

Revenue was $13.2 million in the first nine months of 2015 compared to $19.4 million in the first nine months of 2014. The Company sold 0.87 million tonnes of coal at an average realized selling price of $17.77 per tonne in the first nine months of 2015 compared to sales of 1.67 million tonnes at an average realized selling price of $14.70 per tonne in the first nine months of 2014. The impact on revenue from the drop in tonnage was partially offset by the improved product mix for the first nine months of 2015 when compared to the first nine months of 2014. The product mix for the first nine months of 2015 consisted of approximately 76% of Premium and Standard semi-soft coking coal and 24% of Thermal coal compared to approximately 43% of Premium and Standard semi-soft coking coal and 57% of Thermal coal in the first nine months of 2014.

The Company's revenue is presented net of royalties and selling fees. With the changes affecting the royalty regime in Mongolia, the Company's effective royalty rate for the first nine months of 2015, based on the Company's average realized selling price of $17.77 per tonne, was 12.5% or $2.22 per tonne compared to 13.5% or $1.99 per tonne based on the average realized selling price of $14.70 per tonne in the first nine months of 2014.

Cost of sales was $51.6 million in the first nine months of 2015 compared to $62.4 million in the first nine months 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.

	Nine months ended September 30,	
$ in thousands	**2015**	**2014**
Operating expenses	**$ 16,486**	$ 18,576
Share-based compensation expense	**34**	232
Depreciation and depletion	**4,415**	6,283
Impairment of coal stockpile inventories	**9,111**	15,226
Cost of sales from mine operations	**30,046**	40,317
Cost of sales related to idled mine assets	**21,573**	22,058
Cost of sales	**$ 51,619**	$ 62,375

Operating expenses in cost of sales were $16.5 million in the first nine months of 2015 compared to $18.6 million in the first nine months of 2014. The overall decrease in operating expenses is the result of both (i) different production profiles, in the first nine months of 2015 there was a period of curtailment until March 30, 2015 whilst in the first nine months of 2014 production was impacted by a decision by the Company in June 2014 in response to market conditions to reduce production and place approximately half of its workforce on furlough; and (ii) a greater increase in coal stockpiles during the first nine months of 2015 when compared to the first nine months of 2014.

Cost of sales in the first nine months of 2015 and the first nine months of 2014 included coal stockpile impairments of $9.1 million and $15.2 million, respectively, to reduce the carrying value of the Company's coal stockpiles to their net realizable value. The coal stockpile impairments recorded in both 2015 and 2014 reflect the challenging coal market conditions 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 primarily included depreciation expense. Cost of sales related to idled mine assets in the first nine months of 2015 included $18.6 million related to depreciation expenses for idled equipment (2014: $18.7 million).

Other operating expenses were $17.9 million in the first nine months of 2015 compared to $2.9 million in the first nine months of 2014.

	Nine months ended September 30,	
$ in thousands	**2015**	**2014**
Foreign exchange gain	**$ (541)**	$ (990)
Mark-to-market loss on available-for-sale financial asset	**-**	1,766
Impairment of prepaid expenses and deposits	**-**	3,405
Impairment of property, plant and equipment	**-**	277
Proceeds on disposal of mining license	**-**	(1,818)
Provision for doubtful trade and other receivables	**157**	-
Provision for court case penalty	**18,049**	-
Other	**193**	211
Other operating expenses	**$ 17,858**	$ 2,851

The Company recognized an expense of $18.0 million for the provision of the tax penalty in respect of the tax investigation case in Mongolia. For further detail refer to section 6. "Regulatory Issues and Contingencies" under the heading "Governmental and Regulatory Investigations".

The Company recognized an impairment loss of $3.4 million in the first nine months of 2014 related to prepaid toll washing fees under the contract with Ejinaqi Jinda Coal Industry Co. Ltd. ("Ejin Jinda"). The impairment charge was the result of the continued delay in starting the commercial operations at the wet washing facility and the continued soft coal market in China. No corresponding impairment charge was required in the first nine months of 2015.

In the first nine months of 2014, the Company completed the sale of the Tsagaan Tolgoi mining license. The gross proceeds of the sale were $2.0 million, indirect taxes and costs totaled $0.2 million and a withholding tax totaling $0.5 million was incurred. The net proceeds generated for the Company after taxes and costs were $1.3 million.

The Company's previous investment in Aspire Mining Limited ("Aspire") was accounted for as an available-for-sale financial asset and carried at its fair value. In the first nine months of 2014, Aspire's market capitalization fluctuated. The market capitalization decreased and an impairment charge of $1.8 million was initially recorded in the first quarter of 2014. In the second quarter of 2014, a gain of $0.4 million was recorded in other comprehensive income. The Company disposed of its entire investment in Aspire during 2014 and did not hold any Aspire shares as at December 31, 2014 or September 30, 2015.

Administration expenses were $5.4 million in the first nine months of 2015 compared to $7.0 million in the first nine months of 2014.

	Nine months ended September 30,	
$ in thousands	**2015**	**2014**
Corporate administration	**$ 1,465**	$ 1,727
Professional fees	**2,135**	2,437
Salaries and benefits	**1,473**	2,180
Share-based compensation expense	**187**	580
Depreciation	**95**	96
Administration expenses	**$ 5,355**	$ 7,020

Administration expenses were lower in the first nine months of 2015 compared to the first nine months of 2014 reflecting the continued cost-cutting initiatives.

Evaluation and exploration expenses were $0.1 million in the first nine months of 2015 compared to $0.4 million in the first nine months of 2014. The Company continued to minimize evaluation and exploration expenditures in the first nine months of 2015 in order to preserve the Company's financial resources. Evaluation and exploration activities and expenditures in the first nine months 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 $15.7 million and $15.5 million in the first nine months of 2015 and 2014 respectively. This primarily consisted of interest expense on the CIC Convertible Debenture ($15.3 million for the first nine months of 2015 and $15.1 million for the first nine months of 2014).

Finance income for the first nine months of 2015 include $0.7 million in respect of the unrealized fair value gain of the embedded derivatives in the CIC Convertible Debenture as compare to $1.3 million in 2014. The fair value of the embedded derivatives in the CIC Convertible Debenture is driven by many factors including: the Common Share price, U.S. Dollar and Canadian Dollar exchange rates and share price volatility.

Income tax expense was negligible in the first nine months of 2015 compared to an expense of $0.5 million in the first nine months of 2014. The $0.5 million recognized in the first nine months of 2014 relates to taxes paid in respect of the sale of the Tsagaan Tolgoi mining license.

Summary of Quarterly Operational Data

	2015			2014				2013
Quarter Ended	**30-Sep**	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec
Sales Volumes, Prices and Costs								
Premium semi-soft coking coal								
Coal sales *(millions of tonnes)*	**0.16**	0.02	-	0.02	-	-	-	0.21
Average realized selling price *(per tonne)* (i)	**$ 22.32**	$ 23.37	$ -	$ 26.77	$ -	$ -	$ -	$ 37.54
Standard semi-soft coking coal								
Coal sales *(millions of tonnes)*	**0.31**	0.11	0.05	0.14	0.31	0.12	0.29	1.40
Average realized selling price *(per tonne)* (i)	**$ 19.10**	$ 19.97	$ 17.95	$ 18.32	$ 17.41	$ 20.33	$ 22.00	$ 24.49
Thermal coal								
Coal sales *(millions of tonnes)*	**0.02**	0.06	0.13	0.21	0.34	0.51	0.10	0.11
Average realized selling price *(per tonne)* (i)	**$ 10.48**	$ 10.47	$ 10.46	$ 11.69	$ 10.66	$ 10.72	$ 12.07	$ 12.60
Total								
Coal sales *(millions of tonnes)*	**0.49**	0.19	0.18	0.37	0.65	0.63	0.39	1.72
Average realized selling price *(per tonne)* (i)	**$ 19.76**	$ 17.42	$ 12.66	$ 15.04	$ 13.87	$ 12.52	$ 19.54	$ 25.30
Raw coal production *(millions of tonnes)*	**0.71**	0.62	-	0.21	0.17	0.55	0.64	1.73
Direct cash costs of product sold *(per tonne)* (ii)	**$ 17.46**	$ 15.57	$ 8.68	$ 8.09	$ 7.38	$ 8.23	$ 10.43	$ 11.13
Mine administration cash costs of product sold *(per tonne)* (ii)	**$ 2.81**	$ 7.90	$ 2.11	$ 2.44	$ 2.30	$ 2.49	$ 3.80	$ 1.39
Total cash costs of product sold *(per tonne)* (ii)	**$ 20.27**	$ 23.47	$ 10.79	$ 10.53	$ 9.68	$ 10.72	$ 14.23	$ 12.52
Other Operational Data								
Production waste material moved *(millions of bank cubic meters)*	**2.33**	3.62	-	0.55	0.20	2.17	2.55	3.77
Strip ratio *(bank cubic meters of waste material per tonne of coal produced)*	**3.25**	5.87	-	2.61	1.20	3.97	4.02	2.18
Lost time injury frequency rate (iii)	**0.00**	0.00	0.25	0.21	0.17	0.15	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	**30-Sep**	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec
Financial Results								
Revenue (i), (ii)	**$ 8,620**	$ 2,951	$ 1,587	$ 5,054	$ 7,611	$ 6,691	$ 5,137	$ 32,457
Cost of sales (ii)	**(22,108)**	(11,835)	(17,678)	(19,757)	(23,922)	(20,086)	(18,366)	(40,359)
Gross loss excluding idled mine asset costs	**(10,642)**	(5,017)	(1,230)	(821)	(2,178)	(8,497)	(10,202)	(4,141)
Gross loss including idled mine asset costs	**(13,488)**	(8,884)	(16,091)	(14,703)	(16,311)	(13,395)	(13,229)	(7,900)
Other operating income/(expenses)	**621**	(19,450)	971	(11,989)	(2)	(1,776)	(1,073)	(109,682)
Administration expenses	**(1,967)**	(1,961)	(1,425)	(1,924)	(2,530)	(2,253)	(2,237)	(3,668)
Evaluation and exploration expenses	**(40)**	22	(81)	(911)	(122)	(107)	(172)	(489)
Loss from operations	**(14,874)**	(30,273)	(16,626)	(29,527)	(18,965)	(17,531)	(16,711)	(121,740)
Finance costs	**(5,351)**	(5,222)	(6,648)	(6,351)	(5,257)	(5,215)	(5,025)	(5,167)
Finance income	**1,984**	273	8	317	135	127	1,007	1,301
Share of earnings/(losses) of a joint venture	**99**	151	(18)	(40)	(32)	(3)	(26)	(15)
Income tax expense	**(1)**	(1)	-	(40)	-	(546)	-	(13,109)
Net loss	**(18,143)**	(35,072)	(23,284)	(35,641)	(24,119)	(23,168)	(20,755)	(138,730)
Basic loss per share	**$ (0.07)**	$ (0.15)	$ (0.11)	$ (0.19)	$ (0.13)	$ (0.12)	$ (0.11)	$ (0.75)
Diluted loss per share	**$ (0.07)**	$ (0.15)	$ (0.11)	$ (0.19)	$ (0.13)	$ (0.12)	$ (0.11)	$ (0.75)

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

	Three months ended September 30,		**Nine months ended September 30,**	
$ in thousands, except per tonne information	**2015**	**2014**	**2015**	**2014**
Cash costs				
Cost of sales determined in accordance with IFRS	**$ 22,108**	$ 23,922	**$ 51,619**	$ 62,375
Less non-cash expenses	**(9,274)**	(3,530)	**(13,560)**	(21,741)
Less non-cash idled mine asset costs	**(2,846)**	(10,891)	**(18,601)**	(18,741)
Total cash costs	**9,988**	9,501	**19,458**	21,893
Less idled mine asset cash costs	**-**	(3,241)	**(2,972)**	(3,317)
Total cash costs excluding idled mine asset cash costs	**9,988**	6,260	**16,486**	18,576
Coal sales *(millions of tonnes)*	**0.49**	0.65	**0.87**	1.67
Total cash costs of product sold *(per tonne)*	**$ 20.27**	$ 9.68	**$ 19.03**	$ 11.12

	Three months ended September 30,		**Nine months ended September 30,**	
$ in thousands, except per tonne information	**2015**	**2014**	**2015**	**2014**
Cash costs				
Direct cash costs of product sold *(per tonne)*	**$ 17.46**	$ 7.38	**$ 15.22**	$ 8.39
Mine administration cash costs of product sold *(per tonne)*	**2.81**	2.30	**3.81**	2.73
Total cash costs of product sold *(per tonne)*	**$ 20.27**	$ 9.68	**$ 19.03**	$ 11.12

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 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.

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 contained 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 qualified persons will review 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. No new mine plan has 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 the 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.

Transportation Infrastructure

On August 2, 2011, the State Property Committee of Mongolia awarded the tender to construct a paved highway from the Ovoot Tolgoi Complex to the Shivee Khuren Border Crossing (the "Paved Highway") to consortium partners NTB LLC and SouthGobi Sands LLC ("SGS"), the Company's wholly-owned subsidiary, (together referred to as "RDCC LLC"). The Company has an indirect 40% shareholding in RDCC LLC through its Mongolian subsidiary SGS.

On October 26, 2011, RDCC LLC signed a concession agreement with the State Property Committee of Mongolia. RDCC LLC has the right to conclude a 17 year build, operate and transfer agreement under the Mongolian Law on Concessions.

On May 8, 2015, the commercial operation of the Paved Highway commenced and subsequently the unpaved highway which was previously used to transport coal through the Shivee Khuren Border Crossing was closed. The Paved Highway is expected to significantly increase the safety of coal transportation, reduce environmental impacts and improve efficiency and capacity of coal transportation. For the three and nine months ended September 30, 2015, RDCC LLC recognized toll fee revenue of $1.0 million and $1.5 million, respectively (2014: nil).

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

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

Mining Equipment

The key elements of the currently commissioned mining fleet includes: two Liebherr 996 ($33m^3$ & $36m^3$) hydraulic excavators, three Liebherr R9250 ($15m^3$) hydraulic excavators, 23 MT4400AC (218 tonne capacity) haul trucks and three Terex TR100 (91 tonne capacity) haul trucks, together with various pieces of ancillary equipment.

Workforce

As at September 30, 2015, SGS employed 343 employees in Mongolia. Of the 343 employees, 43 are employed in the Ulaanbaatar office, 4 in outlying offices and 296 at the Ovoot Tolgoi Mine site. Of the 343 employees based in Mongolia, 338 (99%) are Mongolian nationals and of those, 158 (46%) 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 coal from the Zag Suuj Deposit can be washed to produce a coking coal product or a coking coal blend product. Limited exploration activities are planned for the Zag Suuj Deposit in 2015. Exploration activities in 2015 will meet the requisite requirements under the Mongolian Minerals Law.

Ovoot Tolgoi Underground Deposit

The Ovoot Tolgoi Underground Deposit is contiguous to, and located directly below, the Ovoot Tolgoi Mine. 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 contained 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 nine 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.

Swiss Life GP private placement

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

Novel Sunrise change in ownership

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

Interim Funding Loan Commitment

On June 17, 2015, the Company negotiated an interim loan ("Interim Loan") for up to $8 million from Mr. Wilson Chen (a former principal of Novel Sunrise), with immediate availability, intended to address funding obligations pending the closing of the private placements between the Company and CITIC Merchant and Swiss Life GP. In accordance with the terms of the agreement the advances will be in a minimum amount of $2 million, with interest at LIBOR + 12% per annum, payable in cash on a quarterly basis in arrears, and maturing on June 18, 2016. The loan is unsecured and is subject to mandatory repayment upon completion of $30 million of equity or other debt financing.

As at September 30, 2015, the Company had not drawn down any funds under the Interim Loan. The Company has requested a funding drawdown on the Interim Loan multiple times; however, to date the funding has not been received by the Company.

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; refer below for details);
- 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 May 4, 2015, following the expiry of the Sale and Purchase agreement between Turquoise Hill and National United Resources Holdings Limited 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.

On September 2, 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 September 11, 2015; and

(ii) $1.9 million in principal and all interest that has accrued on and under the Turquoise Hill Loan Facility from September 11, 2015 up to and including November 30, 2015 shall become due and payable on November 30, 2015.

On September 11, 2015, Turquoise Hill agreed to another 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 the earlier of (A) October 9, 2015, and (B) the date on which it is announced or is decided that the Company is delisted from the TSX (such earlier of the dates referred to in the foregoing clauses (A) and (B) being referred to as the "First Limited Deferral Date"); and

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

On October 27, 2015, Turquoise Hill agreed to and signed a Deferral Letter Agreement with the Company, in which Turquoise Hill agreed to a limited and circumscribed deferral of repayment all remaining amounts and obligations now and hereafter owing under the Turquoise Hill Loan Facility to the Second Limited Deferral Date. In the event that Turquoise Hill signs a definitive and binding agreement with a third party for the sales by Turquoise Hill to such party of no less than 49.1 million Common Shares and completes all of the transactions thereunder by no later than November 30, 2015, then Turquoise Hill agrees that the Second Limited Deferral Date shall be deferred for a further six months to October 24, 2016. The key terms and conditions are as follows:

- The Company agreed to effect a partial repayment under the Turquoise Hill Loan Facility and a one-time deferral fee of $0.2 million and $50 thousand, respectively, no later than the fifth business day following October 27, 2015, the outstanding amount under the Turquoise Hill Loan Facility shall be reduced by $0.4 million upon the receipt of such amount. The Company has made the repayment of $0.2 million and settled the one-time deferral fee of $50 thousand accordingly;
- Interest shall continue to accrue on all outstanding obligations but at the prevailing 12-month US dollar LIBOR rate plus 8%;
- In the event that the Company has the ability and capacity to make one or more further partial repayments between October 27, 2015 and the Second Limited Deferral Date, then Turquoise Hill agrees to accept such partial repayment up to an aggregate amount of $1 million and the outstanding amount under the Turquoise Hill Loan Facility shall be reduced by an amount equal to 200% of the amount so partially repaid up to a maximum aggregate reduction of $2 million;
- In the event that the Company receives any cash proceeds upon closing of any financing or funding transactions by ways of issuance of equity or debt securities or of hybrid equity-debt securities, or any cash proceeds under and sales, offtake or other commercial agreement(s) (whether as a payment, prepayment or otherwise), then immediately following the receipt of such proceeds, the Company shall make a partial repayment to Turquoise Hill in an amount equal to 10% of the aggregate gross proceeds and the outstanding amount under the Turquoise Hill Loan Facility shall be reduced by an amount equal to 200% of the amount so repaid;
- In the event that the Company fails to strictly comply with any of the provisions set in the Deferral Letter Agreement shall result in the immediate termination and revocation of the Deferral Letter Agreement and the Company shall immediately be in default of the Turquoise Hill Loan Facility.

At September 30, 2015 in addition to the principal of $3.8 million, the Company owed accrued interest of $0.5 million under this facility (December 31, 2014 the Company had drawn $3.8 million and owed accrued interest of $0.1 million).

Short-term Bridge loan

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

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

The Company drew down $6.3 million on October 30, 2015 and expects to draw down the remaining $3.7 million by mid November 2015.

Funding Plan

The Company has commenced the implementation and execution of the Funding Plan, with the intention of improving cash flow for the Company and support its business strategy and operations in a difficult market, with the goal of positioning the Company with a strong future as a coal producer.

On June 22, 2015, the Company announced a progress update with respect to the Funding Plan. This included the Swiss Life GP private placement, the Interim Loan, the Revolving Loan all of which are described above and an offtake agreement with a China-based buyer for the sale of 1.8 million tonnes of coal from July 2015 to July 2016. No sales have been made under this offtake agreement as at November 12, 2015.

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

At present the Company has decided to pursue the Funding Plan described above rather than additional equity placements.

While it is the Company's intention to continue to implement and execute the Funding Plan, the Funding Plan is dynamic and subject to change based on a number of factors beyond its control. Such factors include but not limited to, China's economic growth and coal demand growth, market prices of coal, the availability of credit and market interest rates, and exchange rates of currencies of countries where the Company operates. There can be no assurance that the Company will be able to continue to execute the Funding Plan, or that it will be able to do so in sufficient time to satisfy the TSX's delisting review or 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 (including bankruptcy) 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.

Going concern considerations

Notwithstanding the provision of the completed private placement, the coal prepayments received from customers, the Turquoise Hill Loan Facility and the Short-term Bridge Loan, 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 and early 2016, which will continue to impact the Company's margins and liquidity. Therefore the Company is actively seeking prepaid coal offtake agreements and other additional sources of financing to continue operating and meet its business objectives, while 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 and continues to execute on the 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 include the remaining amounts under the tax penalty (refer to section 6 "Regulatory Issues and Contingencies" for details). However, there is no guarantee that the Company will be able to continue to implement and execute on 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 September 30, 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 $16.3 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 September 30, 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 September 30, 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 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 may result in the delisting of the Common Shares from the TSX which may 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 September 30, 2015, the Company had cash of $1.4 million compared to cash of $3.8 million at December 31, 2014. Working capital (excess current assets over current liabilities) was negative $34.1 million at September 30, 2015 compared to positive $3.4 million at December 31, 2014. At November 12, 2015, the Company had cash of $2.0 million.

At September 30, 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 September 30, 2015, the Company is not subject to any externally imposed capital requirements.

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.

On October 30, 2015, following extension requests by the Company to address delays in full execution of its Funding Plan, a meeting of the TSX Committee has been deferred until November 23, 2015 to consider whether the Company has met the listing requirements of the exchange or delist the Common Shares.

The Company believes the extension will provide sufficient time for the implementation of the next stage of the Funding Plan, which 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 Funding Plan will be successfully executed or to the outcome of the remedial delisting review when it occurs and the 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 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 Common 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 Common Shares at a conversion price of $11.64 (Cdn$11.88) per Common Share. As at September 30, 2015, CIC owned, through its indirect wholly owned subsidiary, approximately 15.4% of the issued and outstanding Common Shares.

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 and were continued to be enforced by the Mongolian State Investigation Office (the "SIA"). The restrictions on the assets were reaffirmed in the Tax Verdict and form part of the tax penalty payable by the Company.

The orders 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.

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

Cash Flow Highlights

	Nine months ended September 30,	
$ in thousands	**2015**	**2014**
Cash used in operating activities	**$ (7,151)**	$ (16,485)
Cash used in investing activities	**(5,367)**	(4,282)
Cash generated from financing activities	**10,198**	3,809
Effect of foreign exchange rate changes on cash	**(29)**	(111)
Decrease in cash for the period	**(2,349)**	(17,069)
Cash balance, beginning of period	**3,789**	21,837
Cash balance, end of period	**$ 1,440**	$ 4,768

Cash used in Operating Activities

The Company used $7.2 million of cash in operating activities in the first nine months of 2015 compared to cash used in operating activities of $16.5 million in the first nine months of 2014. The primary reason for the decrease in cash used in operating activities for the first nine months of 2015 compared to the first nine months of 2014 is due to the timing of the CIC Convertible Debenture interest. In May 2014 approximately $7.9 million was paid whereas the May 2015 Interest Installment has been deferred and is now due on November 19, 2015.

Cash used in Investing Activities

In the first nine months of 2015, the Company used $5.4 million of cash in investing activities compared to $4.3 million in the first nine months of 2014. The cash used in investing activities primarily related to capitalized deferred stripping expenditure included within property, plant and equipment being $5.3 million in the first nine months of 2015 compared to a total of $3.6 million being spent on property, plant and equipment in the first nine months of 2014. In the first nine months of 2014, a net proceeds of $1.3 million from the sale of the Tsagaan Tolgoi mining license was received.

Cash generated from Financing Activities

The cash generated from financing activities in the first nine months of 2015 primarily related to the proceeds from the private placements with Novel Sunrise and Swiss Life GP for net proceeds of $7.3 million and $2.9 million, respectively. The cash generated from financing activities in the first nine months of 2014 primarily related to the revolving credit facility from Turquoise Hill of $3.8 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 September 30, 2015, the Company's operating and capital commitments were:

	As at September 30, 2015			
	Within 1 year	2-3 years	Over 3 years	Total
Capital expenditure commitments	$ 9,529	$ 7,919	$ -	$ 17,448
Operating expenditure commitments	9,120	927	710	10,757
Commitments	**$ 18,649**	**$ 8,846**	**$ 710**	**$ 28,205**

Ovoot Tolgoi Mine Impairment Analysis

Unchanged from the assessment made in several prior quarters, the Company has determined that an indicator of impairment existed for its Ovoot Tolgoi Mine cash generating unit as at September 30, 2015. The impairment indicator was the continued weakness in the Company's share price during the third quarter of 2015 and the fact that the market capitalization of the Company, as at September 30, 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 "fair value less cost of disposal" 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 September 30, 2015. The Company's Ovoot Tolgoi Mine cash generating unit carrying value was $321.6 million as at September 30, 2015.

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

- Long term price estimates with reference to an independent market consulting firm;
- Forecasted sales volumes in line with production levels as per the mine plan;
- Updated life-of-mine coal production, strip ratio, capital costs and operating costs;
- A post-tax discount rate of 12.9% 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 recoverable amount of the cash generating unit increases/(decreases) by approximately $20.1/($20.1) million;
- For each 1% increase/(decrease) in the discount rate, the calculated recoverable amount of the cash generating unit (decreases)/increases by approximately ($23.1)/$25.5 million; and

- For each 1% increase/(decrease) in the cash mining cost estimates, the calculated recoverable amount of the cash generating unit (decreases)/increases by approximately ($12.0)/$12.0 million.

The impairment analysis did not result in the identification of an impairment loss and no charge was required as at September 30, 2015. A decline of more than 1% in the long term price estimates, an increase of more than 1% in the post-tax discount rate or an increase of more than 1% 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 and the qualified persons will review 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 September 30, 2015. The impairment indicator was the current toll rate to be lower than the rate per the concession agreement.

Therefore, the Company conducted an impairment test whereby the carrying value of the Company's investment in RDCC LLC compared to its "fair value less cost of disposal" using a discounted future cash flow valuation model. The carrying value was $26.9 million as at September 30, 2015.

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

- Toll fee estimates reference to the concession agreement and amendment to the concession agreement;
- Traffic volume;
- Repair, maintenance and operating cost; and
- A post-tax discount rate of 12.9% 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 recoverable amount 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 recoverable amount of the carrying unit (decreases)/increases by approximately ($2.6)/$3.0 million.

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

The impairment analysis did not result in the identification of an impairment loss and no charge was required as at September 30, 2015. A decline of more than 5% in the toll fee estimates or an increase of more than 1% in the post-tax discount rate may trigger an impairment charge on investment in RDCC. The Company believes that the estimates and assumptions incorporated in the impairment analysis are reasonable; however, the estimates and assumptions are subject to significant uncertainties and judgments.

Financial Instruments

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

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

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 of its entire investments in Aspire and Kangaroo during 2014 and did not hold any Aspire or Kangaroo shares as at December 31, 2014 or September 30, 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	**September 30, 2015**	**December 31, 2014**
Financial assets		
Loans-and-receivables		
Cash	**$ 1,440**	$ 3,789
Trade and other receivables	**8,106**	462
Total financial assets	**$ 9,546**	$ 4,251

$ in thousands	As at September 30, 2015	As at December 31, 2014
Financial liabilities		
Fair value through profit or loss		
Convertible debenture - embedded derivatives	**$ 1,136**	$ 1,834
Other-financial-liabilities		
Trade and other payables	**28,367**	18,124
Provision for court case penalty	**17,653**	-
Interest-bearing borrowings	**4,266**	3,945
Convertible debenture - debt host	**108,630**	93,353
Total financial liabilities	**$ 160,052**	$ 117,256

The net loss in the third quarter and first nine months 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:

$ in thousands	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
Unrealized loss on FVTPL investments	**$ -**	$ 6	**$ -**	$ 57
Unrealized gain on embedded derivatives in CIC convertible debenture	**(1,977)**	(133)	**(698)**	(1,253)

The Company recorded an unrealized gain of $1.1 million in other comprehensive income in the third quarter of 2014 related to the investment in Aspire. For the nine months ended September 30, 2014, the Company recorded an impairment loss of $1.8 million in other operating expense and an unrealized gain, net of tax, of $1.5 million in other comprehensive income. The Company disposed of its entire investment in Aspire during 2014 and did not hold any Aspire shares as at December 31, 2014 or September 30, 2015.

6. REGULATORY ISSUES AND CONTINGENCIES

Governmental and Regulatory Investigations

The Company was subject to investigations by the 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 the Restricted Funds held in bank accounts in Mongolia. The Company has been informed that the Anti-Corruption Case has been suspended; however, it has not received formal notice that the investigation is completed 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 (MNT 35.3 billion as declared by the Tax Verdict).

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 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" the tax penalty of MNT35.3 billion (approximately $17.7 million on September 30, 2015), the corresponding balance was provided for in the second quarter of 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 10, 2015. The Company lodged a final appeal with the Supreme Court of Mongolia on April 22, 2015. In accordance with Mongolia's criminal procedure law, SGS filed the appeal with the Supreme Court of Mongolia through the Second District Criminal Court of Justice.

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

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

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

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

With the refusal by the Supreme Court to hear the case on appeal, the Tax Verdict has entered into force. The Tax Verdict is, however, not immediately payable and enforceable against SGS absent further actions prescribed by the laws of Mongolia. In particular, SGS has not received a copy of the bailiff's resolution on execution of the Tax Verdict, as required under the Law of Mongolia on Execution of Court Decisions in order for any judgment execution process to happen. However, the Company made a corresponding provision for the court case penalty of $17.7 million as at September 30, 2015 given the Tax Verdict has entered into force.

The Company continues to believe that there is a lack of evidence to support the Tax Verdict and that the Tax Verdict and the subsequent decisions of the higher courts on appeal were substantively and procedurally in error under the laws of Mongolia.

On October 6, 2015, the Company was informed by the banks (where the Restricted Funds were placed) that they have received an official request from Court Decision Implementing Agency ("CDIA") to transfer the Restricted Funds to CDIA according to the court decision. $1.2 million was transferred to CDIA from the frozen bank accounts subsequently in October and November 2015.

While the Company had various additional legal avenues available to it to continue defending itself, it has decided to and is currently seeking to resolve amicably the dispute giving rise to the Tax Verdict in a manner that is both appropriate having regard to the Company's limited financial resources and supportive of a positive environment for foreign investment in Mongolia. There can be no assurance, however, that any such resolution can be successfully negotiated by the Company either at all or on favourable terms, or that the terms of any resolution to which the Government would be prepared to agree would not be materially adverse to the Company. In such case, this may result in an event of default under the Debenture held by CIC and CIC would have the right to declare the full principal and accrued interest owing thereunder immediately due and payable. Such an event of default under the Debenture or the Company's inability to pay the penalty could result in voluntary or involuntary proceedings involving the Company (including bankruptcy) as discussed under the heading Risk Factors in the MD&A issued on March 30, 2015 and available on SEDAR at www.sedar.com. However, with the Presiding Justice having upheld the decision to refuse to hear the case on appeal, this exhausts the legal appeals available to the Company in Mongolia.

Internal Investigations

Commencing in September 2012, 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 former Chair of the Audit Committee of the Company, the Chair of the Audit Committee of Turquoise Hill and a representative of Rio Tinto have participated in a tripartite committee, 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

In July 2009, Mongolia promulgated the Law on Prohibiting Mineral Exploration and Extraction Near Water Sources, Protected Areas and Forests (the "Mining Prohibition in Specified Areas Law"). Pursuant to the Mining Prohibition in Specified Areas Law, the Government of Mongolia has defined the boundaries of certain areas in which exploration and mining is purportedly prohibited. A list of licenses has been prepared that overlap with the prohibited areas described in the law based on information submitted by water authority agencies, forest authority agencies and local authorities for submission to the Government of Mongolia.

In order to address the issues facing its implementation, in February, 2015 the Parliament of Mongolia adopted an amendment to the Law on Implementation of the Mining Prohibition in Specified Areas Law (the "Amended Law on Implementation"). The Amended Law on Implementation provides an opportunity for license holders covered within the scope of application of the Mining Prohibition in Specified Areas Law to continue their mining operations subject to advance placement of funds to cover 100% of the future environmental rehabilitation costs. A model contract and a specific Government regulation on this requirement will be adopted by the Government. The license holders must also apply within 3 months after the amendment to the Law on Implementation comes into effect for permission to the Mineral Resource Authority of Mongolia (the "MRAM") to resume activities. The Company submitted its application with respect to its mining licenses before the deadline set on June 16, 2015 and hasn't yet received any communication from the MRAM on the status of its application.

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

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

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

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

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

Special Needs Territory in Umnugobi

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

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

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

Commercial arbitration in Hong Kong

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

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

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

Concept that SGS "wrongfully refused" to sell the coal, SGS has repeatedly advised First Concept of its willingness, ability and readiness to make available the coal for collection at its stockpile. In fact, SGS, at all times during the term of the Coal Supply Agreement, had more than sufficient coal at its stockpile to meet its obligations.

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

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

Class Action Lawsuit

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

For more details in respect of the class action lawsuit, refer to the Company's Management Discussion and Analysis for the quarter ended March 31, 2014 available on SEDAR at www.sedar.com, and, in particular, the sub-section on "Contingencies – Class Action Lawsuit" of the "Regulatory Issues and Contingencies".

To commence and proceed with the Action, the plaintiff was required to bring preliminary motions to the Leave Motion and the Certification Motion. The Court rendered its decision on the Leave Motion on November 5, 2015.

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

The Court granted the preliminary Leave Motion against the Company on the basis that, at this stage, the plaintiff met the low legal standard of "reasonable possibility of success". In granting leave, however, the Court acknowledged the "… compelling evidence of the defendant company … that may prevail at trial …". The Court refused an award of costs for both the Leave and Certification Motions to the plaintiff.

The Company disputes and is vigorously defending itself against these claims through independent Canadian litigation counsel retained by the Company and the other defendants for this purpose. Due to the inherent uncertainties of litigation, it is not possible to predict the outcome of the Motions, the final outcome of the Action, or determine the amount of any potential losses, if any. However, the Company has judged a provision for this matter at September 30, 2015 is not required.

Notice of claim by former Chief Executive Officer

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

Mr. Molyneux acted as the Company's President (from April 2009) and Chief Executive Officer (from October 2009) until September 2012, when the Company terminated his employment.
Mr. Molyneux is seeking damages in excess of $1 million in his Notice of Claim. The Company considers the action is without merit. SouthGobi intends to vigorously defend the action and reserves its right to pursue all legal rights and remedies available to it in connection with the proceedings.

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 Novel SPA and private placement with Novel Sunrise on April 23, 2015, Turquoise Hill was the Company's immediate parent company. TRQ's shareholding at April 1, 2015 was approximately 48% which declined to 22% at September 30, 2015 of the outstanding Common Shares following the completion of the Novel SPA. Turquoise Hill provides various administrative services to the Company on a cost-recovery basis.
- Rio Tinto – Prior to the completion of the Novel SPA and private placement with Novel Sunrise on April 23, 2015, Rio Tinto was the Company's ultimate parent company. The Company recovers administration and other costs incurred on behalf of Rio Tinto on a cost-recovery basis. Rio Tinto recovers from the Company the costs of salaries and benefits of employees assigned to work for the Company and recovers legal and professional fees from the Company in respect of the internal and tripartite committees 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.
- Mr. Wilson Chen – Mr. Chen is the former principal of Novel Sunrise. He was a related party for the period March 3, 2015 until July 16, 2015 and during this period the Interim Loan agreement was entered into, refer to section 5. "Liquidity and Capital Management" under the heading "Interim Funding Loan Commitment" for further details.

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

	Three months ended September 30,				Nine months ended September 30,			
	2015		2014		2015		2014	
Corporate administration	**$**	**202**	$	263	**$**	**413**	$	636
Salaries and benefits		**75**		235		**220**		1,135
Finance costs		**108**		148		**321**		305
Related party expenses	**$**	**385**	$	646	**$**	**954**	$	2,076

	Three months ended September 30,				Nine months ended September 30,			
	2015		2014		2015		2014	
Turquoise Hill	**$**	**108**	$	224	**$**	**321**	$	465
Rio Tinto		**71**		223		**263**		1,133
Turquoise Hill Singapore		**206**		199		**370**		478
Related party expenses	**$**	**385**	$	646	**$**	**954**	$	2,076

	Three months ended September 30,				Nine months ended September 30,			
	2015		2014		2015		2014	
Corporate administration	**$**	**-**	$	-	**$**	**-**	$	17

	Three months ended September 30,				Nine months ended September 30,			
	2015		2014		2015		2014	
Turquoise Hill	**$**	**-**	$	-	**$**	**-**	$	17
Related party expense recovery	**$**	**-**	$	-	**$**	**-**	$	17

As at September 30, 2015, the Company had payables totaling $13.0 million (December 31, 2014: $12.5 million) including amounts classified as interest-bearing borrowings totaling $4.3 million as at September 30, 2015 (December 31, 2014: $3.9 million) with related parties. Included in the accounts payable balance as at September 30, 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 November 12, 2015, 245.7 million Common Shares were issued and outstanding. There are also incentive share options outstanding to acquire 1.8 million unissued Common Shares with exercise prices ranging from Cdn$0.58 to Cdn$9.43. There are no preferred shares outstanding.

As at November 12, 2015, Novel Sunrise holds a total of approximately 72.1 million Common Shares representing approximately 29.4% of the issued and outstanding Common Shares.

As at November 12, 2015, Turquoise Hill directly owned approximately 52.0 million Common Shares representing approximately 21.2% of the issued and outstanding Common Shares.

As at November 12, 2015, CIC holds a total of 37.9 million Common Shares representing approximately 15.4% 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 and the Company's MD&A for the quarters ended March 31, 2015 and June 30, 2015, which are available at www.sedar.com.

12. OUTLOOK

The outlook for Mongolian coal exports remains dependent on the Chinese economy. Market conditions and prices for coal remained weak in China during the nine months of 2015.

The Company anticipates that coal prices in China will remain under pressure through the remainder of 2015 and early 2016, 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 the 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 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 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 September 30, 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 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 Funding Plan and there are no material changes to the Company's mine plan resulting from the mine plan review, 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.

November 12, 2015