SouthGobi Resources Ltd.

Management's Discussion and Analysis of Financial Condition and Results of Operations

December 31, 2015

(Expressed in U.S. Dollars)

FORWARD-LOOKING STATEMENTS

Except for statements of fact relating to the Company, certain information contained herein constitutes forward-looking statements. Forward-looking statements are frequently characterized by words such as “plan”, “expect”, “project”, “intend”, “believe”, “anticipate”, "could", "should", "seek", "likely", "estimate" and other similar words or statements that certain events or conditions “may” or “will” occur. Forward-looking statements are based on the opinions and estimates of management at the times the statements are made, and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These statements include, but are not limited to, statements regarding:

- anticipated stock market conditions, the future prices of the Company's common shares (the "Common Shares") and ownership thereof;
- the Company's anticipated business activities, planned expenditures and corporate strategies;
- the Company's intention to develop markets for its semi-soft coking coal brands and to pursue long-term supply offtake agreements with end users in the People’s Republic of China (“China”);
- costs relating to anticipated capital expenditures and the 2016 exploration program;
- the Company's anticipated financing needs, development plans and future production levels;
- expected impacts of the remaining administrative restrictions on certain of the Company's Mongolian assets and the anticipated impact on the Company's activities;
- the results and impact of the Ontario class action (as described under the heading "REGULATORY ISSUES AND CONTINGENCIES – Contingencies – Class Action Lawsuit" in this Management Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"));
- the ability of the Company to satisfy the Tax Penalty (as defined under the heading "OVERVIEW – *Significant Events and Highlights*" in this MD&A);
- the potential effect of the list of licenses published by the Government of Mongolia covering areas in which exploration and mining is purportedly prohibited on the Company's mining licenses;
- the Company’s expectations of sufficient liquidity and capital resources to meets its ongoing obligations and future contractual commitments, including the Company’s ability to secure additional funding and to meet its obligations under each of the China Investment Corporation (“CIC”) convertible debenture (the “CIC Convertible Debenture”) and the Turquoise Hill Resources Ltd. ("Turquoise Hill") shareholder loan (the "TRQ Loan"), as the same become due;
- the possible impact of changes to the inputs to the valuation model used to value the embedded derivatives in the CIC Convertible Debenture;
- the estimates and assumptions included in the Company’s impairment analysis and the possible impact of changes thereof;
- the possible impacts of changes in useful life or depreciation rates on depreciation expenses;
- the potential effects of a difference between future cash flows and profits from estimates;
- the Company's plans to file a technical report for the new mineral resource estimate described herein for the Ovoot Tolgoi Mine and the timing thereof;
- the results of the Company's mine plan optimization efforts in respect of the Ovoot Tolgoi Mine (as defined under the heading "OVERVIEW" in this MD&A) and corresponding mineral reserve evaluation process;
- the ability for higher-ash product to be sold as a thermal coal product and the type of coal products being produced;
- the ability of the Company to successfully review the utilization of the wet washing facility and enhance the quality of its coal products through a beneficiation process based on wet washing;
- the agreement with Ejin Jinda and payments thereunder;

- the future mining operations at the Soumber Deposit (as defined under the heading "PROPERTIES – Development Projects and Exploration Program – Soumber Deposit" in this MD&A) being allowed to share the existing infrastructure with the Ovoot Tolgoi Mine;
- plans for the progress of mining license application processes;
- future coal market conditions in China and the related impact on the Company's margins and liquidity;
- the outcome of the issues described under the heading "REGULATORY ISSUES AND CONTINGENCIES" in this MD&A;
- business outlook, including the outlook for the remainder of 2016 and beyond;
- the implementation and impact of the Funding Plan (as defined under the heading "OVERVIEW – Going Concern" in this MD&A) and actions to be taken under the Funding Plan;
- the Company continuing as a going concern and its ability to realize its assets and discharge its liabilities in the normal course of operations as they become due; adjustments to the amounts and classifications of assets and liabilities in the Company's financial statements and the impact thereof; the Company's objectives for the remainder of 2016 and beyond;
- the capacity and future toll rate of the paved highway;
- the impact of amendments to, or the application of, the laws of Mongolia and other countries in which the Company carries on business;
- the impact of the Company's activities on the environment and actions taken for the purpose of mitigation of potential environmental impacts and planned focus on health, safety and environmental performance;
- the outcome of legal proceedings involving the Company and its former Chief Executive Officer, Mr. Alexander Molyneux;
- the outcome of arbitration proceedings involving the Company and First Concept Logistics Limited with respect a coal supply agreement and payments thereunder;
- greenfield development options with the Soumber Deposit and Zag Suuj Deposit (as defined under the heading "PROPERTIES – Development Projects and Exploration Program" in this MD&A); and
- other statements that are not historical facts.

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

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INTRODUCTION

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

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

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

Property	Qualified Persons	Field of Expertise	Relationship to Company
Ovoot Tolgoi	Brendan Stats	Resources	Independent Consultant
Soumber	Merryl Peterson	Resources	Independent Consultant
Zag Suuj	Merryl Peterson	Resources	Independent Consultant

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

1. OVERVIEW

The Company is an integrated coal mining, development and exploration company with 354 employees as at December 31, 2015. The Company's common shares trade on the Toronto Stock Exchange ("TSX") under the symbol SGQ and on the Hong Kong Stock Exchange ("HKEX") under the stock code symbol 1878.

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

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

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

Significant Events and Highlights

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

<u>Mr. Jeffery Tygesen</u>: Mr. Tygesen resigned as a Non-Executive Director on March 17, 2015.

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

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

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

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

<u>Mr. Zhu Liu and Ms. Jin Lan Quan</u>: 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.

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

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

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

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

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

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

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

2. SELECTED ANNUAL INFORMATION [iv]

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

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

(i) Revenue is presented after deduction of royalties and selling fees.
(ii) Coal sales volumes are from the Ovoot Tolgoi Mine.
(iii) Average realized selling price is presented before deduction of royalties and selling fees.
(iv) In reviewing select annual financial information, readers are advised to note the Company's current mine optimization initiatives for the Ovoot Tolgoi Mine and to review the Risk Factor entitled "There can be no assurance that the continuing optimization of the mine plan at the Ovoot Tolgoi Mine will ultimately provide the basis for an updated preliminary feasibility study that will support a new estimate of mineral reserves".

In order to manage coal inventories and to maintain efficient working capital levels, the Company's mining activities were curtailed from the end of the second quarter of 2012 until operations at the Ovoot Tolgoi Mine recommenced on March 22, 2013. The coal markets in China continued to be challenging in 2013 with certain coal price indices in China reaching four year lows. In 2013, the Company generated $7.6 million of cash from operating activities following the resumption of mining activities at the Ovoot Tolgoi Mine.

Coal markets continued to deteriorate in 2014. Chinese coal markets, the main market of Mongolian producers, suffered from overcapacity coupled with decreasing demand. In the last quarter of 2014, the Company successfully completed a private placement for gross proceeds of $9.0 million.

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

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

3. OVERVIEW OF OPERATIONAL DATA AND FINANCIAL RESULTS

Summary of Annual Operational Data [(iv)]

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

(i) Average realized selling price is presented before deduction of royalties and selling fees.
(ii) A non-IFRS financial measure, see section 4. Cash costs of product sold exclude idled mine asset cash costs.
(iii) Per 200,000 man hours and calculated based on a rolling 12 month average.
(iv) In reviewing summary of annual operation data, readers are advised to note the Company's current mine optimization initiatives for the Ovoot Tolgoi Mine and to review the Risk Factor entitled "There can be no assurance that the continuing optimization of the mine plan at the Ovoot Tolgoi Mine will ultimately provide the basis for an updated preliminary feasibility study that will support a new estimate of mineral reserves".

Overview of Annual Operational Data

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

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

The Company maintained a strong safety record throughout 2015. As at December 31, 2015, the Company has a lost injury time frequency rate of 0.00 per 200,000 man hours based on a rolling 12 month average.

Summary of Annual Financial Results

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

(i) Revenue is presented after deduction of royalties and selling fees.
(ii) Revenue and cost of sales relate to the Company's Ovoot Tolgoi Mine within the Mongolian Coal Division operating segment. Refer to note 4 of the consolidated financial statements for further analysis regarding the Company's reportable operating segments.

Overview of Annual Financial Results

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

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

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

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

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

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

Cost of sales was $63.7 million in 2015 compared to $82.1 million in 2014. Cost of sales comprises operating expenses, share-based compensation expense, equipment depreciation, depletion of mineral properties, coal stockpile inventory impairments and idled mine asset costs. Operating expenses in cost of sales reflect the total cash costs of product sold (a non-IFRS financial measure; see section 4 for further analysis) during the period.

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

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

Cost of sales in 2015 and 2014 included coal stockpile impairments of $14.6 million and $16.3 million, respectively, to reduce the carrying value of the Company's coal stockpiles to their net realizable value. The coal stockpile impairments recorded in both years reflect the challenging coal market conditions and primarily related to the Company's higher-ash products.

Cost of sales related to idled mine asset costs primarily consisted of period costs, which were expensed as incurred and included mainly depreciation expense. Cost of sales related to idled mine assets in 2015 included $22.5 million related to depreciation expenses for idled equipment (2014: $30.3 million).

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

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

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

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

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

In 2014, the Company recognized an impairment loss of $3.4 million related to prepaid toll washing fees under the contract with Ejin Jinda. The impairment charge was a result of the continued delay in starting the commercial operations at the wet washing facility and the continued soft coal market in China.

A gain of $2.2 million was recorded from the disposal of mining licenses in 2014. In the second quarter of 2014, $1.8 million was recorded after the Company completed the sale of the Tsagaan Tolgoi mining license. A further $0.4 million was recorded in the fourth quarter of 2014 after the partial sale of exploration license 9449X.

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

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

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

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

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

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

Finance income was $1.3 million in 2015 compared to $1.6 million in 2014, primarily relating to unrealized gains on the change in fair value of the embedded derivatives in the CIC Convertible Debenture ($1.1 million and $1.6 million respectively for 2015 and 2014). The fair value of the embedded derivatives in the CIC Convertible Debenture is driven by many factors including: the Company's common share price, U.S. Dollar and Canadian Dollar exchange rates and share price volatility.

Income tax expense was negligible in 2015 compared to an expense of $0.6 million in 2014. In 2014, $0.5 million relate to taxes paid in respect of the sale of the Tsagaan Tolgoi mining license.

Summary of Quarterly Operational Data

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

(i) Average realized selling price is presented before deduction of royalties and selling fees.
(ii) A non-IFRS financial measure, see section 4. Cash costs of product sold exclude idled mine asset cash costs.
(iii) Per 200,000 man hours and calculated based on a rolling 12 month average.

Overview of Quarterly Operational Data

Due to difficult market conditions, the Company has paced production with existing and expected demand for its coal products. The coal market remained challenging in the fourth quarter of 2015. As a result the Company operated significantly below capacity during the quarter and its production decreased slightly from 0.71 million tonnes in the third quarter of 2015 to 0.62 million tonnes in the fourth quarter of 2015.

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

Summary of Quarterly Financial Results

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

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

(i) Revenue is presented after deduction of royalties and selling fees.
(ii) Revenue and cost of sales relate to the Company's Ovoot Tolgoi Mine within the Mongolian Coal Division operating segment. Refer to note 4 of the consolidated financial statements for further analysis regarding the Company's reportable operating segments.

Overview of Quarterly Financial Results

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

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

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

Cost of sales was $12.1 million in the fourth quarter of 2015 compared to $19.8 million in the fourth quarter of 2014. Cost of sales comprises operating expenses, share-based compensation expense, equipment depreciation, depletion of mineral properties, coal stockpile inventory impairments and idled mine asset costs. Operating expenses in cost of sales reflect the total cash costs of product sold (a non-IFRS financial measure. See section 4 for further analysis) during the period.

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

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

Cost of sales in the fourth quarter of 2015 and the fourth quarter of 2014 included coal stockpile impairments of $5.5 million and $1.0 million, respectively, to reduce the carrying value of the Company's coal stockpiles to their net realizable value. The coal stockpile impairments recorded in both 2015 and 2014 reflect the challenging coal market conditions.

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

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

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

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

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

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

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

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

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

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

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

Finance income was $0.6 million in the fourth quarter of 2015 compared to $0.3 million in the fourth quarter of 2014 and primarily consisted of unrealized gains on the fair value change of the embedded derivatives in the CIC Convertible Debenture ($0.4 million in the fourth quarter of 2015 and $0.3 million in the fourth quarter of 2014). The fair value of the embedded derivatives in the CIC Convertible Debenture is driven by many factors including: the Company's common share price, U.S. Dollar and Canadian Dollar exchange rates and share price volatility.

4. NON-IFRS FINANCIAL MEASURES

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

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

Cash Costs

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

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

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

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

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

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

5. PROPERTIES

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

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

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

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

Operating Mines

Ovoot Tolgoi Mine

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

Saleable products from the Ovoot Tolgoi Mine primarily include the Standard and Premium semi-soft coking coal products. The Company's raw semi-soft products together with raw higher-ash coals are suitable for washing and blending in order to be sold as a 1/3 coking coal in the Chinese market. Some higher-ash product is sold as a thermal coal product as and when the market allows. The Company intends to continue to develop markets for both its Premium and Standard semi-soft coking coal brands and to pursue long-term supply offtake with end users in China to complement its existing customer base and to gain best value of the Company's coal in the Chinese market. The Company is committed to further enhancing the quality of its coal products through wet washing and increasing its market penetration in China.

Resources

Updated Resource Estimate – Ovoot Tolgoi Mine

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

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

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

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

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

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

The criteria used to limit the resources are:

- Minimum coal thickness = 0.3metres (m) (previous estimates used 0.3m).
- Minimum coal parting = 0.2m (previous estimates used 0.3m).
- Base of weathering = 4m (same as previous estimate).
- Resources are limited to a depth of 350m.
- Volumes are converted to tonnages using laboratory relative density analytical results converted to an estimated in-situ basis.

- Resources are limited to the mining license boundary.
- The Resource estimations contained within are on an in-situ basis (i.e. as an in-situ tonnage and not adjusted for mining losses or recovery).
- Resources depleted by mined out tonnage (as of January 1, 2015). Mined out surfaces are based on survey data from January 27, 2015 for the Sunrise Field and November 19, 2014 for the Sunset Field. No mining activity has taken place since the survey information was collected that would materially affect the resources estimate.

Totals may not add up due to rounding.

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

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

The Company is engaged in a comprehensive review of the mine plan's design parameters, mine design and project development schedule in order to reflect an updated production plan and current market conditions. The objective of this exercise is to optimize the Company's mine plan having regard to the change in circumstances since the 2012 preliminary feasibility study was prepared. Factors such as the decline in coal prices in China, decreased mining quantities resulting from smaller pit dimensions as a result of changed mining parameters and coal prices and the exclusion of coal identified in the previous studies as marginally economic due to coal price reductions can be expected to exert downward pressure on reserve quantities. These may be offset to some degree by an upgrading of some resources from the inferred category to the indicated category in the Sunset Pit area, a change to mine design with steeper pit walls resulting in less waste and a lower strip ratio and improved mining cash costs, simplified and lower cost coal processing and product marketing, and general cost reductions. However, there can be no assurance that the continuing optimization of the mine plan at the Ovoot Tolgoi Mine will ultimately provide the basis for an updated preliminary feasibility study that will support a new estimate of mineral reserves.

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

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

Operational Data and Financial Results

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

Transportation Infrastructure

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

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

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

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

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

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

Mining Equipment

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

Workforce

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

Development Projects and Exploration Program

Soumber Deposit

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

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

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

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

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

On July 6, 2011, the Company announced that MRAM issued the Company a mining license pertaining to the Soumber Deposit. The 10,993ha mining license was granted for an initial term of 30 years with an option for two 20 year extensions. In addition to the existing mining license, the Company also holds two exploration licenses (9443X and 9449X) pertaining to certain areas associated with the Soumber Deposit for which PMAs have been issued. In January 2016, these two exploration licenses were being converted to mining licenses (MV-025436 and MV-020451) by MRAM.

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

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

Zag Suuj Deposit

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

Based on the exploration results to date, the coal occurrence at the Zag Suuj Deposit can be divided into four major seam groups. Each of the seam groups split into a number of coal plies of highly variable thickness, separated by stone partings. Interburden between the seams is mainly sandstone and conglomerate, whilst partings within the seams tend to be dominated by mudstone and carbonaceous mudstone. Correlation of the coal seams at the Zag Suuj Deposit with the Ovoot Tolgoi Mine 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 2016 will meet the requisite requirements under the Mongolian Minerals Law.

Ovoot Tolgoi Underground Deposit

The Ovoot Tolgoi Underground Deposit is contiguous to, and located directly below, the Ovoot Tolgoi Mine. In the context of current coal market conditions, and in particular, a significant decline in coal prices in China, the Company's principal market, underground mineralization is now assessed by the Company as not having reasonable prospects for eventual economic extraction.

Exploration Program

The Company continued to minimize evaluation and exploration expenditures during 2015 in order to preserve the Company's financial resources. The 2016 exploration program will be limited to ensuring that the Company meets the Mongolian Minerals Law requirements in respect of its mining and exploration licenses including those related to the Soumber Deposit.

6. LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Capital Management

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

Novel Sunrise private placement

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

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

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

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

Swiss Life GP private placement

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

Sales and purchase agreement between Novel Sunrise and Turquoise Hill

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

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

Novel Sunrise change in ownership

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

Turquoise Hill Loan Facility

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

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

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

- The Company agreed to effect a partial repayment under the TRQ Loan and a one-time deferral fee of $0.2 million and $50 thousand, respectively, no later than the fifth business day following October 27, 2015. The outstanding amount under the TRQ Loan shall be reduced by $0.4 million upon the receipt of such amount. The Company has made the repayment of $0.2 million and settled the one-time deferral fee of $50 thousand accordingly;
- Interest shall continue to accrue on all outstanding obligations but at the prevailing 12-month US dollar LIBOR rate plus 8%;
- In the event that the Company has the ability and capacity to make one or more further partial repayments between October 27, 2015 and April 22, 2016, then Turquoise Hill agrees to accept such partial repayment up to an aggregate amount of $1 million and the outstanding amount under the TRQ Loan shall be reduced by an amount equal to 200% of the amount so partially repaid up to a maximum aggregate reduction of $2 million;
- In the event that the Company receives any cash proceeds upon closing of any financing or funding transactions by ways of issuance of equity or debt securities or of hybrid equity-debt securities, or any cash proceeds under and sales, offtake or other commercial agreement(s) (whether as a payment, prepayment or otherwise), then immediately following the receipt of such proceeds, the Company shall make a partial repayment to Turquoise Hill in an amount equal to 10% of the aggregate gross proceeds and the outstanding amount under the TRQ Loan shall be reduced by an amount equal to 200% of the amount so repaid; and
- In the event that the Company fails to strictly comply with any of the provisions set in the Deferral Letter Agreement shall result in the immediate termination and revocation of the Deferral Letter Agreement and the Company shall immediately be in default of the TRQ Loan.

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

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

Interim Funding Loan Commitment

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

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

Short-term Bridge Loan

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

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

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

Funding Plan

The Company, together with its strategic partner and significant shareholder, Novel Sunrise, continues to advance a funding plan (the ‘Funding Plan”), with the intention of improving cash flow for the Company and support its business strategy and operations in a difficult market, with the goal of positioning the Company with a strong future as a coal producer.

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

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

While it is the Company's intention to continue to advance the Funding Plan, the Funding Plan is dynamic and subject to change based on a number of factors beyond its control. Such factors include but not limited to, China’s economic growth and coal demand growth, market prices of coal, the availability of credit and market interest rates, and exchange rates of currencies of countries where the Company operates. There can be no assurance that the Company will be able to continue to execute the Funding Plan or to continue as a going concern.

Going concern considerations

The Company's consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue operating until at least December 31, 2016 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. However, in order to continue as a going concern, the Company must generate sufficient operating cash flows, secure additional capital or otherwise pursue a strategic restructuring, refinancing or other transaction to provide it with additional liquidity. If it fails to do so, or is unable to secure additional capital or otherwise restructure or refinance its business in order to address its cash requirements through December 31, 2016, then the Company is unlikely to have sufficient capital resources or cash flows from mining operations in order to satisfy its ongoing obligations and future contractual commitments, including cash interest payments due on the CIC Convertible Debenture and TRQ Loan. As a result, it may not be able to continue as a going concern. Therefore the Company is actively seeking prepaid coal offtake agreements and other additional sources of financing to continue operating and meet its business objectives, while remaining focused on minimizing uncommitted capital expenditures and preserving the Company's growth options.

Several adverse conditions and material uncertainties cast significant doubt upon the going concern assumption. The Company had limited cash of $0.4 million at December 31, 2015 and anticipates that coal prices in China will remain under pressure in 2016, which will continue to impact the Company's margins and liquidity. Therefore, the Company is actively seeking prepaid coal offtake agreements and other additional sources of financing to continue operating and meet its business objectives, while remaining focused on minimizing uncommitted capital expenditures and preserving the Company's growth options.

The Company, together with Novel Sunrise continues to advance the Funding Plan in order to pay the interest due under the CIC Convertible Debenture and the TRQ Loan, meet its obligations as they fall due and achieve its business objectives in 2016. These obligations include the tax penalty due to the Government of Mongolia (Refer to "Governmental and Regulatory Investigations" of Section 7 for details). However, there is no guarantee that the Company will be able to continue to advance the Funding Plan or secure other sources of financing. If it fails to do so, or is unable to secure additional capital or otherwise restructure or refinance its business in order to address its cash requirements through December 31, 2016, then the Company is unlikely to have sufficient capital resources or cash flows from mining operations in order to satisfy its ongoing obligations and future contractual commitments, including cash interest payments due on the TRQ Loan and the CIC Convertible Debenture (subsequent to December 31, 2015 the Company paid the required cash interest payments under the debenture for January, February and March 2016 of $1.0 million each) and the $1.0 million on April 19, 2016, $10.1 million on May 18, 2016, $8.0 million on May 19, 2016 and $8.1 million on November 19, 2016 remain outstanding to date. As a result, the Company may not be able to continue as a going concern.

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

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

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

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

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

TSX Financial Hardship Exemption Application and Status of Listing on TSX

Prior to completing the Novel Sunrise Private Placement, the TSX advised the Company that it took the view that the placement and the Novel SPA would be aggregated and considered as one transaction, having a material effect on control of the Company, which normally would require the approval of a majority of disinterested shareholders under the provisions of the TSX Company Manual.

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

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

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

CIC Convertible Debenture

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

On March 29, 2010, the Company exercised its right to call for the conversion of up to $250.0 million of the CIC Convertible Debenture into approximately 21.5 million shares at a conversion price of $11.64 (CAD$11.88). As at December 31, 2015, the CIC owned, through its indirect wholly owned subsidiary, approximately 19.4% of the issued and outstanding common shares of the Company.

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

Cash Flow Highlights

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

Cash used in Operating Activities

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

In 2015, there was a decrease in non-cash working capital of $3.6 million compared to an increase of $0.8 million in 2014. In 2015, there has been an increase in the trade and other receivables of $8.2 million and inventories of $2.8 million while the trade and other payables was increased by $13.7 million. In 2014, the Company reduced the level of trade and other payables by $13.5 million which was funded in part through the increase in deferred revenues from prepaid coal sales ($10.9 million).

Cash used in Investing Activities

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

Cash generated from Financing Activities

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

Contractual Obligations and Guarantees

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

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

Ovoot Tolgoi Mine Impairment Analysis

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

Therefore, the Company conducted an impairment test whereby the carrying value of the Company's Ovoot Tolgoi Mine cash generating unit was compared to its "fair value less costs of disposal" ("FVLCTD") using a discounted future cash flow valuation model. The Company's cash flow valuation model takes into consideration the latest available information to the Company, including but not limited to, sales price, sales volumes, operating cost and life of mine coal production assumptions as at December 31, 2015. The resulting FVLCTD was $217.4 million as at December 31, 2015.

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

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

Key sensitivities in the valuation model are as follows:

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

The impairment analysis resulted in the identification of an impairment loss and $76.7 million was charged to other operating expense as at December 31, 2015. The Company believes that the estimates and assumptions incorporated in the impairment analysis are reasonable; however, the estimates and assumptions are subject to significant uncertainties and judgments. The Company also recorded impairments to specific assets, prior to the impairment test, in the amount of $16.0 million during the year ended December 31, 2015.

The Company is engaged in a comprehensive review of the Ovoot Tolgoi mine plan's design parameters, mine design and project development schedule in order to reflect an updated production plan and current market conditions. The objective of this exercise is to optimize the Company's mine plan having regard to the change in circumstances since the 2012 preliminary feasibility study was prepared. Factors such as the decline in coal prices in China, decreased mining quantities resulting from smaller pit dimensions as a result of changed mining parameters and coal prices and the exclusion of coal identified in the previous studies as marginally economic due to coal price reductions can be expected to exert downward pressure on reserve quantities. These may be offset to some degree by an upgrading of some resources from the inferred category to the indicated category in the Sunset Pit area, a change to mine design with steeper pit walls resulting in less waste and a lower strip ratio and improved mining cash costs, simplified and lower cost coal processing and product marketing, and general cost reductions. However, there can be no assurance that the continuing optimization of the mine plan at the Ovoot Tolgoi Mine will ultimately provide the basis for an updated preliminary feasibility study that will support a new estimate of mineral reserves.

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

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

Investment in RDCC LLC Impairment Analysis

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

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

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

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

Key sensitivities in the valuation model are as follows:

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

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

The impairment analysis did not result in the identification of an impairment loss and no charge was required as at December 31, 2015. A decline of more than 15% in the toll fee estimates or traffic volume or an increase of more than 1% in the post-tax discount rate may trigger an impairment charge on the investment in RDCC LLC. The Company believes that the estimates and assumptions incorporated in the impairment analysis are reasonable; however, the estimates and assumptions are subject to significant uncertainties and judgments.

Financial Instruments

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

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

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

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

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

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

7. REGULATORY ISSUES AND CONTINGENCIES

Governmental and Regulatory Investigations

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

While the IAAC has not made any formal accusations against any current or former employee of the Company or the Company under the Anti-Corruption Case, administrative penalties were imposed on certain of the Company's Mongolian assets in connection with the investigation, including the Restricted Funds held in bank accounts in Mongolia. The Company has been informed that the Anti-Corruption Case has been suspended; however, it has not received formal notice that the investigation is completed.

With respect to the Tax Evasion Case, on December 30, 2014, the Capital City Prosecutor's Office (Ulaanbaatar, Mongolia) dismissed the allegations of money laundering as not having been proven during the investigation; however, proceedings in respect of tax evasion by former employees of the Company proceeded and culminated in February 2015, when the Company received the written verdict (the "Tax Verdict") of Mongolian Second District Criminal Court. The Tax Verdict pronounced the three former employees of SGS guilty and declared SGS to be financially liable as a "civil defendant" for a penalty (the "Tax Penalty") of MNT35.3 billion (approximately $18.2 million on February 1, 2015).

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

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

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

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

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

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

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

While the Company had various additional legal avenues available to it to continue defending itself, it has decided to and is currently seeking to resolve amicably the dispute giving rise to the Tax Verdict in a manner that is both appropriate having regard to the Company's limited financial resources and supportive of a positive environment for foreign investment in Mongolia. There can be no assurance, however, that any such resolution can be successfully negotiated by the Company either at all or on favourable terms, or that the terms of any resolution to which the Government would be prepared to agree would not be materially adverse to the Company. In such case, this may result in an event of default under each of the CIC Convertible Debenture and the TRQ Loan and CIC and Turquoise Hill would each have the right to declare the full principal and accrued interest owing to such party immediately due and payable. Such an event of default under the CIC Convertible Debenture, the TRQ Loan, or the Company's inability to pay the Tax Penalty could result in voluntary or involuntary proceedings involving the Company (including bankruptcy). For further information see the Risk Factor entitled "If the Tax Verdict is enforceable against SGS and the Tax Penalty is immediately payable the Company will likely not have sufficient cash resources to satisfy the penalty imposed thereunder" in this MD&A.

Internal Investigations

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

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

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

Mongolian IAAC investigation

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

The orders related to certain items of operating equipment and infrastructure and the Company's Mongolian bank accounts. The orders related to the operating equipment and infrastructure restricts the sale of these items; however, the orders do not restrict the use of these items in the Company's mining activities. The orders related to the Company's Mongolian bank accounts restricted the use of in-country funds but did not have any material impact on the Company's activities. The Restricted Funds were transferred to the CDIA as partial payment of the Tax Verdict in October and November 2015. See "*Governmental and Regulatory Investigations" above.*

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

Class action lawsuit

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

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

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

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

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

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

Toll wash plant agreement with Ejin Jinda

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

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

Mining Prohibition in Specified Areas Law

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

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

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

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

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

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

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

Special Needs Territory in Umnugobi

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

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

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

Commercial arbitration in Hong Kong

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

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

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

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

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 CIC Convertible Debenture and CIC would have the right to declare the full principal and accrued interest owing thereunder immediately due and payable. Such an event of default under the CIC Convertible Debenture or the Company's inability to re-pay the sum of $11.5 million to First Concept could result in voluntary or involuntary proceedings involving the Company.

Notice of claim by former Chief Executive Officer

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

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

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

8. ENVIRONMENT

The Company is subject to the Environmental Protection Law of Mongolia ("EPL") and has the following duties with respect to environmental protection:

- To comply with the EPL and the decisions of the government, local self-governing organizations, local governors and Mongolian state inspectors;
- To comply with environmental standards, limits, legislation and procedures and to supervise their implementation within the organization;
- To keep records on toxic substances, adverse impacts, and waste discharged into the environment; and
- To report on measures taken to reduce or eliminate toxic chemicals, adverse impacts, and waste.

In addition to those duties imposed on them by the EPL, mining license holders are required to prepare an initial environmental impact assessment analysis before the mine comes into production. The mining license holders must also annually develop and implement an environmental management plan (including reclamation measures) in co-operation with the Ministry of Environment, Green Development and Tourism, which should take into account the results of the environmental impact assessment. The Company received approval of its detailed Environmental Impact Assessment and Environmental Management Plan from the Mongolian Ministry of Environment for the mining operation at the Ovoot Tolgoi Mine in 2007 and renewed in 2013.

The Company has implemented a number of internal policies to embrace responsibility for the impact of its business activities on the environment. By conducting studies, carefully designing mine plans, implementing pollution control recommendations from internal and external sources, monitoring the effects of mining on mining areas and carefully designing mine closure plans, the Company seeks to minimize the impact of its activities on the environment.

The Company established an environmental policy in 2008. The environmental policy affirms the Company's commitment to environmental protection. The Company monitors its operations to ensure that it complies with all applicable environmental requirements, and takes actions to prevent and correct problems if needed. In accordance with new provisions specified in Mongolian laws and regulations, in 2014 the Company developed a protection strategy jointly with professional organization. This strategic plan can serve as a policy document directed to protection of biological diversity, ecosystem balance and its preservation; and support species dwelling nearby the Ovoot Tolgoi mine area.

The Board maintains a Health, Environment, Safety and Social Responsibility Committee. The Committee is composed of independent and executive directors. The primary objective of the Health, Environment, Safety and Social Responsibility Committee is to review and oversee the Company's established health, environmental, safety and social responsibility policies and procedures at the Company's project sites. The Committee also reviews any incidents that may occur and provides guidance on how to prevent any recurrences.

9. RELATED PARTY TRANSACTIONS

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

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

- Rio Tinto – Prior to the completion of the Novel SPA and private placement with Novel Sunrise on April 23, 2015, Rio Tinto was the Company's ultimate parent company. The Company recovers administration and other costs incurred on behalf of Rio Tinto on a cost-recovery basis. Rio Tinto recovers from the Company the costs of salaries and benefits of employees assigned to work for the Company and recovers legal and professional fees from the Company in respect of the internal and tripartite committees.
- Turquoise Hill Resources Singapore Pte. Ltd. ("Turquoise Hill Singapore") – Turquoise Hill Singapore is a private company 100% owned by Turquoise Hill. Turquoise Hill Singapore provides information technology and other related services to the Company on a cost-recovery basis.

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

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

	Year ended December 31,	
	2015	**2014**
Turquoise Hill	**$ 409**	$ 513
Rio Tinto	**261**	1,391
Turquoise Hill Singapore	**418**	614
Related party expenses	**$ 1,088**	$ 2,518

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

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

As at December 31, 2015, the Company had accounts payable of $8.6 million (2014: $8.5 million) and interest-bearing borrowings totaling $4.0 million (2014: $3.9 million) with related parties. Included in the $12.6 million accounts payable as at December 31, 2015 are $5.3 million of legal and professional fees payable to Rio Tinto in respect of the internal and tripartite committees referred to in section 7 "Regulatory Issues and Contingencies".

Emolument Policy

The emolument policy of the executives of the Company is administered by the Compensation and Benefits Committee on the basis of merit, qualifications and competence and approved by the Board. The emolument policy for the rest of the employees is determined on a department by department basis with the executive in charge of each department determining the emoluments for senior employees and managers in the department and the emoluments for non-senior employees being determined by an appropriately designated manager. The emolument policy for non-executives is administered in conjunction with the human resources department and is done on the basis of merit, qualifications and competence.

The emolument policy for the directors of the Company is administered by the Compensation and Benefits Committee and approved by the Board, having regard to comparable market statistics.

The Company has also adopted an equity incentive plan to incentivize directors and eligible employees. Details of the plan are set out in note 23 of the Company's consolidated financial statements for the year ended December 31, 2015.

10. OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares without par value and an unlimited number of preferred shares without par value. As at March 29, 2016, 257.7 million common shares were issued and outstanding. There are also incentive share options outstanding to acquire 2.1 million unissued common shares with exercise prices ranging from CAD$0.29 to CAD$9.43. There are no preferred shares outstanding.

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

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

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

11. DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING ("ICFR")

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

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. As of December 31, 2015, Chief Executive Officer and Chief Financial Officer have each concluded that the Company's disclosure controls and procedures, as defined in NI 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings, are effective to achieve the purpose for which they have been designed.

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. Management is also responsible for the design of the Company's internal control over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The Company's internal controls over financial reporting include policies and procedures that: pertain to the maintenance of records that, in reasonable detail accurately and fairly reflect the transactions and disposition of assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with IFRS and that receipts and expenditures are being made only in accordance with authorization of management and directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements.

Because of their inherent limitations, internal controls over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of internal control over financial reporting using the Internal Control – Updated Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2015.

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

12. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

A detailed summary of all of the Company's significant accounting policies is included in note 3 to the Company's consolidated financial statements for the year ended December 31, 2015. Information about judgments and estimates in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

Liquidity and Going Concern Assumption

In the determination of the Company's ability to meet its ongoing obligations and future contractual commitments, management relies on the Company's planning, budgeting and forecasting process to help determine the funds required to support the Company's normal operations on an ongoing basis and its expansionary plans. The key inputs used by the Company in this process include forecasted capital deployment, results from operations, results from the exploration and development of its properties and general industry conditions.

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

Several adverse conditions and material uncertainties cast significant doubt upon the going concern assumption. The Company had limited cash of $0.4 million at December 31, 2015 and anticipates that coal prices in China will remain under pressure in 2016, which will continue to impact the Company's margins and liquidity. Therefore the Company is actively seeking prepaid coal offtake agreements and other additional sources of financing to continue operating and meet its business objectives, while remaining focused on minimizing uncommitted capital expenditures and preserving the Company's growth options.

The Company, together with Novel Sunrise, continues to advance the Funding Plan in order to pay the interest due under the CIC Convertible Debenture and the TRQ Loan, meet its obligations as they fall due and achieve its business objectives in 2016. These obligations include the tax penalty due to the Government of Mongolia (Refer to "Governmental and Regulatory Investigations" of Section 7 for details). However, there is no guarantee that the Company will be able to continue to advance the Funding Plan or secure other sources of financing. If it fails to do so, or is unable to secure additional capital or otherwise restructure or refinance its business in order to address its cash requirements through December 31, 2016, then the Company is unlikely to have sufficient capital resources or cash flows from mining operations in order to satisfy its ongoing obligations and future contractual commitments, including cash interest payments due on the TRQ Loan and CIC Convertible Debenture (subsequent to December 31, 2015 the Company paid the required cash interest payments for January, February and March 2016 of $1.0 million each) and the $1.0 million on April 19, 2016, $10.1 million on May 18, 2016, $8.0 million on May 19, 2016 and $8.1 million on November 19, 2016 remain outstanding to date. As a result, the Company may not be able to continue as a going concern.

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

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

Valuation of Embedded Derivatives

The embedded derivatives in the CIC Convertible Debenture are valued using a Monte Carlo simulation valuation model. A Monte Carlo simulation model is a valuation model that relies on random sampling and is often used when modeling systems with a large number of inputs and where there is significant uncertainty in the future value of inputs and where the movement of the inputs can be independent of each other. The key inputs used by the Company in its Monte Carlo simulation are further disclosed in note 20.2 and note 20.3 of the Company's consolidated financial statements for the year ended December 31, 2015. Changes in the inputs to the valuation model could impact the carrying value of the embedded derivatives in the CIC Convertible Debenture and the amount of unrealized gains or losses were recognized in profit or loss.

Review of Carrying Value of Assets and Impairment Charges

In the determination of carrying values and impairment charges, management of the Company reviews the recoverable amount (the higher of the fair value less costs to sell or the value in use) in the case of non-financial assets and objective evidence indicating impairment in the case of financial assets. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period. Changes in these assumptions may alter the results of non-financial asset and financial asset impairment testing, impairment charges recognized in profit or loss and the resulting carrying amounts of assets.

Ovoot Tolgoi Mine Cash Generating Unit

Refer to section 6 "Liquidity and Capital Resources – Ovoot Tolgoi Mine Impairment Analysis" for further analysis of the impairment test performed as at December 31, 2015.

Investment in RDCC LLC

Refer to section 6 "Liquidity and Capital Resources – Investment in RDCC LLC Impairment Analysis" for further analysis of the impairment test performed as at December 31, 2015.

Estimated resources

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

Useful Lives and Depreciation Rates for Property, Plant and Equipment

Depreciation expense is allocated based on estimated property, plant and equipment useful lives and depreciation rates. Therefore, changes in the useful life or depreciation rates from the initial estimate could impact the carrying value of property, plant and equipment and an adjustment would be recognized in profit or loss.

13. RECENT ACCOUNTING PRONOUNCEMENTS

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

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

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

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

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

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

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

14. RISK FACTORS

There are certain risks involved in the Company's operations, some of which are beyond its control. These risks can be broadly categorized into: (i) risks relating to the Company's ability to continue as a going concern; (ii) risks relating to the economic operation of the Company's Ovoot Tolgoi Mine; (iii) risks relating to the Company's other projects in Mongolia; and (iv) risks relating to its business and industry. Additional risks and uncertainties not presently known, or not expressed or implied below, or that are presently deemed immaterial, could also harm the Company's business, financial condition and operating results. Some of the following statements are forward-looking and actual results may differ materially from the results anticipated in these forward-looking statements.

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

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

Several adverse conditions and material uncertainties cast significant doubt upon the going concern assumption contained in the Company's financial statements. The Company had limited cash of $0.4 million at December 31, 2015 and anticipates that coal prices in China will remain under pressure in 2016, which will continue to impact the Company's margins and liquidity. The Company's consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue operating until at least December 31, 2016 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. While the Company is actively seeking prepaid coal offtake agreements and other additional sources of financing to continue operating and meet its objectives, there can be no assurance that such financing options will be available on terms acceptable to the Company. Moreover, the Company's ability to successfully implement, and the cost of, any such transaction will depend on numerous factors, including the demand and prices for its coal products, general economic conditions, the strength of the credit and capital markets, its ability to successfully execute its funding plan and meet its operating and financial targets, its ability to remain in compliance with the CIC Convertible Debenture, the operational synergies created by its association with Novel Sunrise and advancement of the Funding Plan, its ability to maintain relationships with its suppliers, customers, employees, stockholders and other third parties, and market and investor confidence as to its ability to continue as a going concern.

The Company continues to experience negative impacts on its margins and liquidity. Therefore, there can be no assurance that the Company will have sufficient funding to be able to continue as a going concern, including the interest payment on the CIC Convertible Debenture, which is approximately $1 million on April 19, 2016, $10.1 million on May 18, 2016, $8.0 million on May 19, 2016 and $8.1 million on November 19, 2016.

In addition to advancing the Funding Plan, the Company has in place planning, budgeting and forecasting processes to help determine the funds required to support the Company's normal operations on an ongoing basis and its expansionary plans. Assuming successful advancement of the Funding Plan (see "risk factor described in "RISK FACTORS – Risk Relating to the Company's Ability to Continue As A Going Concern - "The Funding Plan may not be successfully advanced" in this MD&A) and based the projections from these processes for the year ending December 31, 2016, the Company is still unlikely to have sufficient capital resources and does not expect to generate sufficient cash flows from mining operations in order to satisfy its ongoing obligations, future contractual commitments, including cash interest payments due on the CIC Convertible Debenture and TRQ Loan, and monetary penalty imposed in respect of the Tax Penalty.

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

If for any reason, the Company is unable to secure the additional sources of financing and continue as a going concern, then this could result in adjustments to the amounts and classifications of assets and liabilities in the Company's consolidated financial statements and such adjustments could be material. If the Company is unable to continue as a going concern, it would likely need to seek relief under applicable bankruptcy and insolvency legislation, which may negatively affect the price and volatility of the Common Shares and any investment in such shares could suffer a significant decline or total loss in value.

The Funding Plan may not be successfully advanced.

While it is the Company's intention to continue to advance the Funding Plan, the success of such plan is dependent on a number of factors beyond its control, including but not limited to, the China's economic growth and coal demand growth, market prices of coal, the availability of credit and market interest rates, and exchange rates of currencies of countries where the Company operates. In particular, the Company anticipates that coal prices in China will remain under pressure in 2016, which will continue to impact the Company's margins and liquidity. If the Funding Plan is unsuccessful, the Company would not likely be able to continue as a going concern and would likely need to seek relief under applicable bankruptcy and insolvency legislation, which may negatively affect the price and volatility of the Common Shares and any investment in such shares could suffer a significant decline or total loss in value. For more information on the Funding Plan, refer to "LIQUIDITY AND CAPITAL RESOURCES – Liquidity and Capital Management – *Funding Plan*" in this MD&A.

If the Tax Verdict shall become immediately payable and enforceable, the Company will likely not have sufficient cash resources to satisfy the penalty imposed thereunder.

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

If the Tax Verdict is enforceable against SGS and the remaining amounts owing under the Tax Penalty become immediately payable, neither SGS nor the Company on its behalf is likely to have sufficient cash resources to satisfy such penalty. In such circumstances, all of the assets of SGS may become subject of seizure by Mongolian authorities in the enforcement of the Tax Penalty. Any enforcement of the Tax Penalty would likely impair the Company's ability to continue as a going concern and the Company would likely need to seek relief under applicable bankruptcy and insolvency legislation, which may negatively affect the price and volatility of the Common Shares and any investment in such shares could suffer a significant decline or total loss in value.

For a description of the Tax Penalty, Tax Verdict, the Appeal Verdict and Former Employees and matters relating thereto, refer to "REGULATORY ISSUES AND CONTINGENCIES – Regulatory Issues – *Governmental and Regulatory Issues*" in this MD&A.

Due to the inherent uncertainties of litigation, it is not possible to predict the final outcome of the Class Action or determine the amount of any potential losses, if any.

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

The Company disputes and will vigorously defend itself against these claims through independent Canadian litigation counsel retained by the Company and the other defendants for this purpose. Due to the inherent uncertainties of litigation, it is not possible to predict the final outcome of the Class Action or determine the amount of any potential losses, if any.

In the event the Company incurs any liability in connection with the Class Action, it maintains insurance with respect thereto. While the Company believes that such insurance coverage is in an amount that would be sufficient to cover any amounts the Company may be required or determines to pay with respect thereto, there can be no assurance that such coverage will be adequate to do so, and, if so, any amounts not so covered would be required to be paid by the Company. The Company's ability to continue as a going concern will be impacted to the extent it is required to pay any amounts in connection with the Class Action.

If an event of default occurs under the CIC Convertible Debenture, CIC has the right to accelerate amounts owing thereunder.

With the exception of an insolvency event, if an event of default occurs under the CIC Convertible Debenture, and such event of default has not been cured or waived, the principal amount owing and all accrued and unpaid interest will become immediately due and payable upon notice to the Company by CIC which would have a material adverse effect on the business and operations of the Company.

If an insolvency event occurs under the CIC Convertible Debenture, the principal amount owing and all accrued and unpaid interest will become immediately due and payable without the necessity for notice to the Company by CIC, which would have a material adverse effect on the business and operations of the Company.

If the Company is unable to continue as a going concern it may be forced to seek relief under applicable bankruptcy and insolvency legislation.

If the Company seeks relief under applicable bankruptcy and insolvency legislation, its business and operations will be subject to certain risks, including but not limited to, the following:

- An insolvency filing by or against the Company will cause an event of default under the CIC Convertible Debenture (see Risk Factor above entitled "*If an event of default occurs under the CIC Convertible Debenture, CIC has the right to accelerate amounts owing thereunder*" in this MD&A);
- An insolvency filing by or against the Company may adversely affect its business prospects, including its ability to continue to obtain and maintain the contracts necessary to operate its business on competitive terms;
- There can be no assurance as to the Company's ability to maintain or obtain sufficient financing sources for operations or to fund any reorganization plan and meet future obligations;
- There can be no assurance that the Company will be able to successfully develop, prosecute, confirm and consummate one or more plans of reorganization that are acceptable to the applicable courts and its creditors, equity holders and other parties in interest; and
- The value of the Common Shares could be reduced to zero as result of an insolvency filing.

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

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

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

The Company is engaged in a comprehensive review of the mine plan's design parameters, mine design and project development schedule in order to reflect an updated production plan and current market conditions. The objective of this exercise is to optimize the Company's mine plan having regard to the change in circumstances since the 2012 preliminary feasibility study was prepared. Factors such as the decline in coal prices in China, decreased mining quantities resulting from smaller pit dimensions as a result of changed mining parameters and coal prices and the exclusion of coal identified in the previous studies as marginally economic due to coal price reductions can be expected to exert downward pressure on reserve quantities. These may be offset to some degree by an upgrading of some resources from the inferred category to the indicated category in the Sunset Pit area, a change to mine design with steeper pit walls resulting in less waste and a lower strip ratio and improved mining cash costs, simplified and lower cost coal processing and product marketing, and general cost reductions. However, there can be no assurance that the continuing optimization of the mine plan at the Ovoot Tolgoi Mine will ultimately provide the basis for an updated preliminary feasibility study that will support a new estimate of mineral reserves.

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

Risks Relating to the Company's Projects in Mongolia

In addition to the Tax Verdict, the Company is subject to continuing governmental, regulatory and internal investigations, the outcome of which is unclear at this time but could have a material adverse effect on the Company.

In addition to the Tax Verdict, the Company is subject to certain investigations referred to under the heading "REGULATORY ISSUES AND CONTINGENCIES – Regulatory Issues – *Governmental and Regulatory Issues*" in this MD&A, which could result in one or more of the Mongolian, Canadian, United States or other governmental or regulatory agencies taking civil or criminal action against the Company, its affiliates or its current or former employees. The likelihood or consequences of such investigative actions are unclear at this time but could include financial or other penalties, which could be material, and which could have a material adverse effect on the Company and the value of the Common Shares.

For a description of the Tax Verdict and the Appeal Verdict refer to "REGULATORY ISSUES AND CONTINGENCIES – Regulatory Issues – *Governmental and Regulatory Issues*" in this MD&A.

Legislation in Mongolia may be subject to conflicting interpretations, which may have adverse consequences on the Company's business.

The Mongolian legal system shares several of the qualitative characteristics typically found in a developing country and many of its laws, particularly with respect to matters of taxation, are still evolving. A transaction or business structure that would likely be regarded under a more established legal system as appropriate and relatively straightforward might be regarded in Mongolia as outside the scope of existing Mongolian law or regulation. As a result, certain business arrangements or structures and certain tax planning mechanisms may carry significant risks. In particular, when business objectives and practicalities dictate the use of arrangements and structures that, while not necessarily contrary to settled Mongolian law, are sufficiently novel within a Mongolian legal context, it is possible that such arrangements may be challenged resulting in their invalidation.

The legal system in Mongolia has inherent uncertainties that could limit the legal protections available to the Company, which include: (i) inconsistencies between laws; (ii) limited judicial and administrative guidance on interpreting Mongolian legislation; (iii) substantial gaps in the regulatory structure due to delay or absence of implementing regulations; (iv) the lack of established interpretations of new principles of Mongolian legislation, particularly those relating to business, corporate and securities laws; (v) a lack of judicial independence from political, social and commercial forces; and (vi) bankruptcy procedures that are not well developed and are subject to abuse. The Mongolian judicial system has relatively little experience in enforcing the laws and regulations that currently exist, leading to a degree of uncertainty as to the outcome of any litigation; it may be difficult to obtain swift and equitable enforcement, or to obtain enforcement of a judgment by a court of another jurisdiction.

In addition, while legislation has been enacted to protect private property against expropriation and nationalization, due to the lack of experience in enforcing these provisions and political factors, these protections may not be enforced in the event of an attempted expropriation or nationalization. Expropriation or nationalization of any of the Company’s assets, or portions thereof, potentially without adequate compensation, could materially and adversely affect its business and results of operations.

Application of and amendments to legislation could adversely affect the Company’s mining rights in its projects or make it more difficult or expensive to develop its projects and carry out mining.

The 2006 Minerals Law (as defined under the heading "DEFINTIONS AND OTHER INFORMATION – Defined Terms and Abbreviations" in the Annual Information Form), which preserves to a limited extent some of the substance of the former 1997 minerals legislation, was drafted with the assistance of legal experts in the area of mining legislation and was widely regarded as progressive, internally consistent and effective legislation. However, the 2006 Minerals Law has been subsequently amended and the potential for political interference has increased and the rights and security of title holders of mineral tenures in Mongolia has been weakened. Certain provisions of the 2006 Minerals Law are ambiguous and it is unclear how they will be interpreted and applied in practice. Examples of such provisions include those relating to the designation of a mineral deposit as a Mineral Deposit of Strategic Importance (as defined under the heading "DEFINTIONS AND OTHER INFORMATION – Defined Terms and Abbreviations" in the Annual Information Form). Refer to Risk Factor entitled “The Government of Mongolia could determine that any one or more of the Company’s projects in Mongolia is a Mineral Deposit of Strategic Importance.”

In addition, the introduction of new Mongolian laws and regulations and the interpretation of existing ones may be subject to policy changes reflecting domestic political or social changes. For example, on July 16, 2009, the Parliament of Mongolia enacted the Mining Prohibition in Specified Areas Law (the "Specified Areas Law") that prohibits minerals exploration and mining in areas such as headwaters of rivers and lakes, forest areas as defined in the Law of Forests of Mongolia of May 17, 2012, as amended, and areas adjacent to rivers and lakes as defined in the Law of Mongolia on Water enacted on May 17, 2012, as amended.

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

Portions of the mining licence in respect of the Ovoot Tolgoi Mine and the exploration licences pertaining to the Zag Suuj Deposit and the South Biluut and Jargalant Fields within the Soumber Deposit are included on the list of specified areas described in the Specified Areas Law.

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

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

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

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

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

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

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

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

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

There can be no assurance that future political and economic conditions in Mongolia will not result in the Government of Mongolia adopting different policies in relation to foreign development and ownership of mineral resources. Any such changes in government or policy may result in changes in laws affecting ownership of assets, environmental protection, labour relations, repatriation of income, return of capital, investment agreements, income tax laws, royalty regulation, government incentive and other areas, each of which may materially and adversely affect the Company’s ability to undertake exploration and development activities in the manner currently contemplated. Any restrictions imposed or charges levied or raised (including royalty fees) under Mongolian law for the export of coal could harm the Company’s competitiveness.

The Company's ability to carry on business in Mongolia is subject to political risk.

The Company's ability to efficiently conduct its exploration and development activities is subject to changes in government policy or shifts in political attitudes within Mongolia that are beyond the Company's control.

Government policy may change to discourage foreign investment, nationalization of mining industries may occur or other government limitations, restrictions or requirements not currently foreseen may be implemented. There is no assurance that the Company's assets will not be subject to nationalization, requisition or confiscation, whether legitimate or not, by any authority or body. The provisions under Mongolian law for compensation and reimbursement of losses to investors under such circumstances may not be effective to restore the value of the Company's original investment.

In addition, Mongolia may experience political instability. Such instability could have a material adverse effect on economic or social conditions in Mongolia and may result in outbreaks of civil unrest, which could materially and adversely affect the Company's business and results of operations.

The Government of Mongolia could determine that any one or more of the Company's projects in Mongolia is a Mineral Deposit of Strategic Importance.

Under the 2006 Minerals Law, the State Great Khural of Mongolia (the "Parliament of Mongolia") has wide discretion to designate mineral deposits to be Mineral Deposits of Strategic Importance. The Government of Mongolia is empowered to participate on an equity basis with the licence holder in the exploitation and/or mining of each Mineral Deposit of Strategic Importance on terms to be negotiated between the Government of Mongolia and such licence holder. Details of any minerals reserves must be filed by the relevant licence holder with the Government of Mongolia, and those deposits on the Strategic Deposits List represent most of the largest and highest profile deposits in Mongolia. In addition to deposits currently on the Strategic Deposits List and the additional Tier 2 Deposits List, the Parliament of Mongolia may at any time designate other deposits not yet currently on such Lists to be Mineral Deposits of Strategic Importance, add such deposits to either the Strategic Deposits List or the Tier 2 Deposits List and, in the former case, commence negotiations with the relevant licence holder with respect to the terms under which the Government of Mongolia will take an interest in such deposit. While the Government of Mongolia is in the process of adding the exact location and coordinates for each Mineral Deposit of Strategic Importance, a number of deposits on the Strategic Deposits List are identified by name only with no indication of the latitude and longitude coordinates for the deposit, and it is therefore not always possible to precisely determine the intended geographic area covered by each designated Mineral Deposit of Strategic Importance or to accurately determine whether or not any given licence area is within, or overlaps, a Mineral Deposit of Strategic Importance.

Under the 2006 Minerals Law, the size of the Government of Mongolia's participation is determined largely by the level of state funding which has been provided for the exploration and development of any deposit, with the Government of Mongolia entitled to participate up to 50% in the event that there has been state funding of such deposit and up to 34% if there has not. However, the 2006 Minerals Law is very vague as to the details and method by which the Government of Mongolia will take its interest and the final arrangements in respect of the Government of Mongolia's interest in each Mineral Deposit of Strategic Importance, including the amount of compensation to be paid to the licence holder and the actual form of the Government of Mongolia's interest are subject to negotiation between the Government of Mongolia and the licence holder. In 2015, the Parliament of Mongolia adopted an amendment to the 2006 Minerals Law providing for the possibility for the Government to collect a special royalty on Mineral Deposits of Strategic Importance in lieu of holding an equity stake in such deposit. It stipulates that the parties can agree to transfer to the licence holder the state's share in the Mineral Deposit of Strategic Importance upon the approval of an authorized Government body, with the licence holder agreeing to pay a special royalty at a percentage (not to exceed 5%) to be approved by the Government.

The 2006 Minerals Law also contains provisions requiring any company which holds a Mineral Deposit of Strategic Importance to list no less than 10% of its shares on the Mongolian Stock Exchange. This particular provision of the 2006 Minerals Law has not yet been enforced and it is not clear how it will work in practice.

In recent years there have been a number of proposed amendments to the 2006 Minerals Law suggested by various parties, many of which have centered on amending the 2006 Minerals Law to increase the Government of Mongolia's participating interest in excess of 50%. While the 2006 Minerals Law provides that the interest of the Government of Mongolia should take the form of an equity interest, based on past practice, and depending on the results of individual negotiations, the interest may be in the form of production or profit sharing or some other arrangement negotiated between the licence holder and the Government of Mongolia. There can be no assurance that legislation will not be enacted which further strengthens the Government of Mongolia's right to participate in privately held mineral resources in Mongolia.

None of the deposits covered by the Company's existing mining licences or exploration licences are currently designated as Mineral Deposits of Strategic Importance. However, there can be no assurance that any one or more of these deposits will not be so designated in the future, in which case the Company's business and results of operations may be materially and adversely affected.

The Application of the new Foreign Investment Law of Mongolia approved by the Parliament of Mongolia is uncertain.

Prior to October 3, 2013, the Company was subject to the Foreign Investment Law of Mongolia ("FIL") described in the Company's Management's Discussion and Analysis of Financial Condition and Results of Operation for the period ended December 31, 2012. The Company considers that this Risk Factor has been substantially mitigated following the repeal of the FIL and introduction of the Investment Law on October 3, 2013, which appears to provide greater certainty for foreign investment in Mongolia. However, that certainty remains subject to the inherent uncertainties of the legal system in Mongolia as described in the Risk Factor entitled the "Legislation in Mongolia may be subject to conflicting interpretations, which may have adverse consequences on the Company's business".

<u>Risks relating to the Company's business and industry</u>

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

The Company's business strategy has historically depended largely on expanding its production capacity at the Ovoot Tolgoi Mine and further developing its other coal projects into commercially viable mines. However, the economic viability of the Ovoot Tolgoi Mine is subject to reassessment in connection with the mine plan optimization review currently underway. The Company's long term intention to re-establish reserves at the Ovoot Tolgoi Mine and to develop mines at the Soumber Deposit and the Zag Suuj Deposit in the future is based on geological, engineering, environmental and mine planning evaluations. The feasibility of mining at these projects may not be established. If the Company is unable to establish the economic viability of any of these projects, its business, financial condition and results of operations will be materially and adversely affected.

Whether a mineral deposit will be commercially viable depends on a number of factors, including: (i) the particular attributes of the deposit, such as size, grade and proximity to infrastructure; (ii) commodity prices, which are highly cyclical; and (iii) government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of mineral resources and environmental protection.

The Company's projects are subject to both (i) technical risk in that they may not perform as designed, or (ii) operational redesign or modification as a result of the current evaluation of the projects (such as the current mine plan review in respect of the Ovoot Tolgoi Project). Increased development costs, lower output or higher operating costs may all combine to make a project less profitable than expected at the time of the development decision. This would have a negative impact on the Company's business and results of operations. No assurance can be given that the Company would be adequately compensated by third party project design and construction companies (if not performed by the Company) in the event that a project did not meet its expected design specification.

As with all exploration properties or projects taken on by mining companies, there is a risk that exploration projects will not be converted to commercially viable mines, in part because actual costs from capital projects may exceed the original budgets. As a result of project delays, cost overruns, changes in project scientific or technical information, changes in market circumstances or other reasons, the Company may not be able to achieve the intended economic benefits or demonstrate the commercial feasibility of these projects, which in turn may materially and adversely affect the Company's business, results of operations and growth projects.

The Company's results of operations are subject, to a significant extent, to economic, political and legal developments in China.

The Company expects that a majority if not all of the coal sales from the Ovoot Tolgoi Mine will be made to customers based in China. Accordingly, the economic, political and social conditions, as well as government policies, of China may affect its business. The Chinese economy differs from the economies of most developed countries in many respects, including: (i) structure; (ii) level of government involvement; (iii) level of development; (iv) growth rate; (v) control of foreign exchange; and (vi) allocation of resources. The Chinese economy has been transitioning from a planned economy to a more market-oriented economy. For the past two decades, the Chinese government has implemented economic reform measures emphasizing the utilization of market forces in the development of the Chinese economy. Changes in the Chinese's political, economic and social conditions, laws, regulations and policies could materially and adversely affect the Company's business and results of operations.

In addition, the Chinese government indirectly influences coal prices through its regulation of power tariffs and its control over allocation of the transportation capacity of the national rail system. Any significant downturn in the prices in China could materially and adversely affect the Company's business and results of operations. Additionally, the Chinese government could adopt new policies that could shift demand away from coal to other energy sources. Any significant decline in demand for, or over-supply of, coal could materially and adversely affect the Company's revenues from coal export sales.

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

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

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

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

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

Shares, respectively. The interests of each of these stakeholders may conflict with the interests of other Shareholders and there is no assurance that any of these stakeholders will vote its Common Shares in a way that benefits minority Shareholders. While no Shareholder has the ability to elect a majority of the Board unilaterally, both Novel Sunrise and CIC have been granted contractual director appointment rights. In addition, the Company believes that third parties may be discouraged from making a tender offer or bid to acquire the Company because of this concentration of ownership of Common Shares among these parties.

Tax legislation in Mongolia is subject to varying interpretations and changes which may have a significant impact on the Company's financial position.

Mongolian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. The interpretation by the Company's management of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant authorities.

The Mongolian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged by tax authorities. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

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

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

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

The Company does not insure against all risks to which it may be subject in planned operations and insurance coverage could prove inadequate to satisfy potential claims.

For certain aspects of the Company's business operations, insurance coverage, in particular business interruption insurance, is restricted or prohibitively expensive. The Company currently holds its primary insurance policies through Canadian insurance providers to insure its properties. The Company has taken out insurance for risks including commercial general liability, and aviation premises liability. The Company maintains mining property insurance for all of its mining assets wherever located, property insurance on its office premises and liability insurance for its directors and officers. However, no assurance can be given that the Company will elect or be able to obtain such insurance coverage at economically reasonable premiums (or at all), or that any coverage it obtains will be adequate to cover the extent of any claims brought against it.

Exploration, development and production operations on mineral properties involve numerous risks, including environmental risks, such as unexpected or unusual geological operating conditions, rock bursts or slides, fires, floods, earthquakes or other environmental occurrences, and political and social instability. The Company does not maintain insurance against any environmental or political risks. Should any liabilities arise for which it is not insured or insurance coverage is inadequate to cover the entire liability, they could reduce or eliminate the Company's actual or prospective profitability, result in increasing costs and a decline in the value of the Common Shares and could materially and adversely affect the Company's business and results of operations.

Licences and permits are subject to renewal and various uncertainties and the Company may only renew its exploration licences a limited number of times for a limited period of time.

In Mongolia, the Company's mineral exploration licenses ("MELs") are subject to periodic renewal and may only be renewed a limited number of times for a limited period of time. There is no assurance that such renewals will be given as a matter of course and there is no assurance that new conditions will not be imposed in connection therewith. Although the Mongolian Government may have renewed the Company's licences and permits in the past, the Mongolian Government may retroactively revoke such renewals which could potentially result in the loss of the Company's MELs, pre-mining agreements ("PMAs") or mining licences. The Company's business objectives may also be impeded by the costs of holding and/or renewing the MELs in Mongolia. Licence fees for MELs increase substantially upon the passage of time from the original issuance of each individual MEL. The Company needs to continually assess the mineral potential of each MEL, particularly at the time of renewal, to determine if the costs of maintaining the MELs are justified by the exploration results to date, and may elect to let some of its MELs lapse. A moratorium on transfers of MELs has been imposed on two separate occasions and there is a risk that a similar moratorium could be imposed such that letting the MELs lapse may be the only practical option in some circumstances. Furthermore, the Company will require mining licences and permits to mine in order to conduct mining operations in Mongolia. There can be no assurance; however, that such licences and permits will be obtained on terms favourable to it or at all for the Company's future intended mining and/or exploration targets in Mongolia.

In April 2012, MRAM announced the suspension of exploration and mining activity on certain of the Company's licences including the licence pertaining to the Ovoot Tolgoi Mine. Although the Company did not receive official notification of a suspension of licences and had no reason to believe its licences were not in good standing, this announcement caused a significant disruption in the Company's business which ultimately lead to the curtailment of operations at the Ovoot Tolgoi Mine. Although the Company received a letter from MRAM on September 6, 2012 confirming that all MELs and mining licences were in good standing there is still a risk that its licences could be revoked.

In addition, certain provisions of the Law on Land of Mongolia enacted on June 7, 2002, as amended (the "Land Law of Mongolia") and the 2006 Minerals Law provide for the revocation of previously granted land use rights, MELs or mining licences on the grounds that the affected area of land has been designated as "special needs" territory ("SNT"). The Land Law of Mongolia grants the discretion to declare an area of land for special needs purposes to local governing authorities and identifies various broad categories which qualify as special needs. The 2006 Minerals Law requires the local governing authority that designates an area of land as a special needs territory to compensate within one year the licence holder whose rights or licence status are affected. The failure to pay the compensation within the one year period would allow the licence holder to resume its operations. If any of the Company's land use rights, MELs or mining licences in Mongolia are revoked because the underlying land is declared as special needs territory, there is no assurance that the Company will receive adequate compensation and its business and results of operation might be adversely and materially affected.

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

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

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

The Company is confident of a positive outcome in its challenge of this new CRKh resolution; however, there is no assurance that the Company will receive adequate compensation and its business and results of operation might be adversely and materially affected.

Prolonged periods of severe weather conditions could materially and adversely affect the Company's business and results of operations.

Severe weather conditions may require the Company to evacuate personnel or curtail operations and may cause damages to the project site, equipment or facilities, which could result in the temporary suspension of operations or generally reduce the Company's productivity. Severe weather conditions have not caused any delay or damages to the Company's operations to date. However, there can be no assurance that severe weather will not occur. Any damages to the Company's projects or delays in its operations caused by prolonged periods of severe weather could materially and adversely affect its business and results of operations.

The Company's business and results of operations are susceptible to the cyclical nature of coal markets and are vulnerable to fluctuations in prices for coal.

The Company expects to derive substantially all of its revenue and cash flow from the sale of coal. Therefore, the market price of the Common Shares, the Company's ability to raise additional financing and maintain ongoing operations and its financial condition and results of operations will be directly related to the demand for, and price of, coal and coal-related products. Coal demand and price are determined by numerous factors beyond the Company's control, including the international demand for steel and steel products, the availability of competitive coal supplies, international exchange rates, political and economic conditions in Mongolia, China and elsewhere in the world, milder or more severe than normal weather conditions, and production costs in major coal producing regions. The Chinese and international coal markets are cyclical and have in the past exhibited significant fluctuations in supply, demand and prices from year to year. There has been significant price volatility on the coal spot market. An oversupply of coal in China or a general downturn in the economies of any significant markets for the Company's coal and coal-related products could materially and adversely affect its business and results of operations. In addition, the Company's dependence on Asian markets may result in instability in its operations due to political and economic factors in those Asian jurisdictions which are beyond the Company's control. The combined effects of any or all of these factors on coal prices or volumes are impossible for the Company to predict.

If realized coal prices are below the full cost of production of any of the Company's future mining operations and remain at such a level for any sustained period, the Company could experience increased losses and may decide to discontinue operations, which could require the Company to incur closure costs and result in further reduced revenues.

The Company's coal mining activities are subject to operational risks, including equipment breakdown.

The Company's coal mining operations are subject to a number of operational risks, some of which are beyond its control, which could delay the production and delivery of coal. These risks include unexpected maintenance or technical problems, periodic interruptions to its mining operations due to inclement or hazardous weather conditions and natural disasters, industrial accidents, power or fuel supply interruptions and critical equipment failure, including malfunction and breakdown of its shovels, upon which its coal mining operations are heavily reliant and which would require considerable time to replace. These risks and hazards may result in personal injury, damage to, or destruction of, properties or production facilities, environmental damage, business interruption and damage to its business reputation. In addition, breakdowns of equipment, difficulties or delays in obtaining replacement shovels and other equipment, natural disasters, industrial accidents or other causes could temporarily disrupt the Company's operations, which in turn may also materially and adversely affect its business, prospects, financial condition and results of operations.

The unavailability or shortage of reliable and sufficient coal transportation capacity that meets Mongolian authority regulations will reduce the Company's coal revenue by causing it to reduce its production volume or impairing its ability to supply coal to its customers.

The Company anticipates that the majority of its coal production from the projects in Mongolia will be exported to China. Inadequate transportation infrastructure is likely to affect the pricing terms on which it can sell the coal to customers and the willingness and ability of such customers to purchase coal from it. Customers are likely to factor in any delays and the costs and availability of transportation in determining the price they are prepared to pay to purchase the Company's coal. Therefore, its mining operations are anticipated to be highly dependent on road and rail services in Mongolia and China.

In Mongolia, a bottleneck in the transportation of coal from the Ovoot Tolgoi Mine to customers in China may arise if the road connecting the Ovoot Tolgoi Mine to the Shivee Khuren Border Crossing does not have sufficient capacity to support the increased amount of cargo traffic, is affected by external factors such as disruptions caused by bad weather or is closed for repair, such as was the case during 2012, when the road connecting the Ovoot Tolgoi Mine to the Shivee Khuren Border Crossing was closed for over four weeks for repair.

On May 8, 2015, the commercial operation of the Paved Highway commenced and subsequently the unpaved highway which was previously used to transport coal through the Shivee Khuren Border Crossing was closed. The Paved Highway is expected to significantly increase the safety of coal transportation, reduce environmental impacts and improve efficiency and capacity of coal transportation. The paved highway is expected to have a carrying capacity in excess of 20 million tonnes of coal per year.

The opening hours of the Shivee Khuren Border Crossing also affect the Company's ability to expedite the movement of its coal shipments. There can be no assurance that there would be any other cost effective means of transporting the coal to the Company's primary market in China. As a result, the Company may experience difficulty expediting the movement of its coal shipments and/or significant cost escalation for the transportation services, which could affect its production and reduce its profitability.

In China, rail and road infrastructure and capacity has in the past been affected by extreme weather conditions, earthquakes, delays caused by major rail accidents, the diversion of rolling stock needed to deliver emergency food relief and seasonal congestion during public holidays. There can be no assurance that these problems will not recur or that new problems will not occur. In any of these circumstances, the customers may not be able to take delivery of the Company's coal, which may lead to delays in payment, or refusal to pay, for the Company's coal and, as a result, the Company's business and results of operations could be materially and adversely affected.

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

Recruiting, retaining and training qualified personnel is critical to the Company's success. The number of persons skilled in the acquisition, exploration and development of mining properties is limited and competition within the mining industry for such persons is intense, in particular, Mongolian law requires that at least 90% of a mining company's employees be of Mongolian nationality. This provision of the law, coupled with the large number of active mining projects in Mongolia, further limits the number of available personnel and increases competition for skilled personnel. The reputation and capability to operate continuously over the longer term are key factors in also attracting key personnel to its business. The Company is reinforcing its core values of ethical behavior in dealing with all its stakeholders from senior management down in order to ensure the Company attracts the right people to its business. As the Company's business activity grows, it will require additional key financial, administrative, mining, marketing and public relations personnel as well as additional operations staff. If the Company is not successful in attracting such key personnel, or retaining existing key personnel, its business and results of operations could be materially and adversely affected.

In addition, the Company's ability to train operating and maintenance personnel is a key factor for the success of its business activities. If the Company is not successful in recruiting, training and retaining such personnel, its business and results of operations could be materially and adversely affected.

Competition in the coal industry may hinder development plans and adversely affect the Company's coal sales if it is not able to compete effectively.

Continued growth in mining and mineral exploration activities in Mongolia could create an increasing demand for mining equipment and related services. Shortages of, or higher costs for, equipment and services could restrict the Company's ability to carry out the exploration, development and production activities, increase its costs of operations and adversely affect its future plans.

The Company intends to sell a majority of the coal it produces in China. Competition in the Chinese coal industry is based on many factors, including, among others, price, production capacity, coal quality and characteristics, transportation capability and costs, blending capability and brand name. The Company's coal business will most likely compete in China with other large Chinese and international coal mining companies. Due to location, some of the Company's Chinese competitors may have lower transportation costs than the Company does. The Chinese coal market is highly fragmented and the Company faces price competition from some small local coal producers that produce coal for significantly lower costs than the Company due to various factors, including their lower expenditure on safety and regulatory compliance. Some of the Company's international competitors, including the Mongolian coal producers, may have greater coal production capacity as well as greater financial, marketing, distribution and other resources than the Company does, and may benefit from more established brand names in international markets. The Company's future success will depend on its ability to respond in an effective and timely manner to competitive pressure.

There are a number of risks associated with dependence on a limited number of customers and inability to attract additional customers.

Depending on the ultimate success of the Funding Plan (of which there can be no assurance), the Company will continue to depend on a relatively small number of customers. The incremental cost of transporting coal products from the Ovoot Tolgoi Mine and its other coal projects over long distances effectively limits the Company's potential customer base to a relatively proximate geographical area. This market has also been price sensitive and significant price volatility impacts contract performance.

Additionally, the Company has been selling its coal products since 2008. The Company had five active customers with the largest customer representing approximately 56%, the second largest customer representing approximately 37%, the third largest customer representing approximately 4% and the remaining customers accounting for 3% of the Company's total sales for the year ended December 31, 2015. In order to mitigate this risk, the Company developed the Funding Plan collaboratively with Novel Sunrise in order to expand its existing customer base.

The Company still expects to sell the majority of the coal from its Mongolian mining operations to customers in China. Chinese law requires specific authorization to be obtained by entities responsible for the import of coal into China. In the event that the Company's customers, or the agents of such customers who are responsible for importing coal into China on their behalf, fail to obtain and retain the necessary authorizations, their ability to import coal into China may be affected, which could materially and adversely affect the Company's business and results of operations.

The Company's operations are exposed to risks in relation to environmental protection and rehabilitation.

The operations of coal mines involve substantial environmental risks and hazards and the Company's operations are subject to laws and regulations relating to the environment, health and safety and other regulatory matters in Mongolia.

The risk of environmental liability is inherent in the operation of the Company's business. Environmental hazards may occur in connection with the Company's operations as a result of human negligence, force majeure, or otherwise. Claims may be asserted against the Company arising out of its operations in the normal course of business, including claims relating to land use, safety, health and environmental matters. The Company is not insured against environmental liabilities and there can be no assurance that environmental liabilities would not materially and adversely affect its business and results of operations.

In addition, the Company is subject to reclamation requirements. The Company's mine will eventually close. The key tasks in relation to the closure of the mines involves (i) long-term management of permanent engineered structures (for example, spillways, roads, waste dumps); (ii) achievement of environmental closure standards; (iii) orderly retrenchment of employees and contractors; and (iv) relinquishment of the site with associated permanent structures and community development infrastructure and programs to new owners. The successful completion of these tasks is dependent on the Company's ability to successfully implement negotiated agreements with the relevant government, community and employees. The consequences of a difficult closure range from increased closure costs and handover delays to ongoing environmental impacts and corporate reputation damage if desired outcomes cannot be achieved, which could materially and adversely affect the Company's business and results of operations.

Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. The Company may experience increased costs of production arising from compliance with environmental laws and regulations. Should the Company fail to comply with current or future environmental laws and regulations, the Company may be required to pay penalties or take corrective actions, any of which may have a material adverse effect on its results of operations and financial condition.

Foreign currency fluctuations could affect expenses and any future earnings.

The Company is exposed to foreign exchange fluctuations with respect to the MNT, Chinese Renminbi, Hong Kong, and Canadian dollars. The Company's financial results are reported in United States dollars. The salaries for local laborers in Mongolia are paid in local currency. Sales of coal into China have been and may continue to be settled in United States dollars and Renminbi. The Company has a subsidiary in Hong Kong where some expenses are incurred in Hong Kong dollars. Since the Company's headquarters is in Canada, a minor portion of its expenses are in Canadian dollars and the Company holds a portion of its cash in Canadian dollars. As a result, its financial position and results are impacted by the exchange rate fluctuations between the aforementioned currencies and the United States dollar.

Future issuances or sales, or perceived possible issuances or sales, of substantial amounts of Common Shares in the public market could materially and adversely affect the prevailing market price of the Common Shares and the Company's ability to raise capital in the future.

The market price of the Common Shares could decline as a result of future sales of substantial amounts of the Common Shares or other securities relating to the Common Shares in the public market, including sales by its substantial Shareholders, or the issuance of new Common Shares, or the perception that such sales or issuances may occur. Future sales, or perceived possible sales, of substantial amounts of the Common Shares could also materially and adversely affect the Company's ability to raise capital in the future at a time and at a price favourable to it, and Shareholders may experience dilution in their holdings upon issuance or sale of additional Common Shares or other securities in the future.

Future stock market conditions may change.

There are risks involved with any equity investment. The market price of Common Shares may rise or fall depending upon a range of factors and stock market conditions, which are unrelated to the Company's future financial performance. Movements on international stock markets, local interest rates and exchange rates, domestic and international economic and political conditions, as well as government, taxation and other policy changes may affect the stock market. As the Company is a listed company on the TSX and the HKEX, its Common Share price will also be subject to numerous influences including broad trends in the stock market and the share prices of individual companies or sectors.

Information in this document regarding future plans reflects current intentions and is subject to change.

Whether the Company ultimately implements the business strategies described in this document will depend on a number of factors including, but not limited to: the political situation in Mongolia and China; the availability and cost of capital; current and projected coal prices; coal markets; costs and availability of drilling services, costs and availability of heavy equipment, supplies and personnel; success or failure of activities in similar areas to those in which the Company's projects are situated; and changes in estimates of project completion costs. The Company will continue to gather information about its projects, and it is possible that additional information will cause it to alter its schedule or determine that a project should not be pursued at all. Accordingly, the Company's plans and objectives may change from those described in this document.

15. OUTLOOK

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

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

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

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

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

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

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

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

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

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

Objectives

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

- Expand customer base with enhanced product mix – The Company aims to strengthen the sales and logistics capabilities to expand the customer base further inland in China and to beneficiate the coal by washing.

- Optimize cost structure – The Company is focused on further cost reduction by improving productivity and operational efficiency while maintaining product quality and the sustainability of production.

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

- Diversify the risk profile of the Company – The Company is evaluating various business opportunities besides coal mining and coal trading in Mongolia, including but not limited to power generation, contract mining and real estate. The Company aims to bridge into the new era of Mongolia prosperity committed to contribute to the long term development of Mongolia.

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

March 29, 2016