SouthGobi Resources Ltd.

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

September 30, 2014

(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" 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 dates 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 factors include 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 and immediate funding, to meet its obligations under the China Investment Corporation ("CIC") convertible debenture as the same become due, the estimates and assumptions included in the Company's impairment analysis; the ability of the Company to increase its market penetration in the People's Republic of China ("China"); the ability for higher-ash product to be sold as a thermal coal product; the ability to preserve liquidity and continue on a sustainable basis; the Company's expectation that its royalty per tonne calculated under the new "flexible tariff" royalty regime will decrease compared to the prior reference price royalty regime; the ability of the Company to meet the targeted annual capacity of run-of-mine production; the ability of the Company to successfully review the utilization of the wet washing facility and enhance the quality of its coal products through wet washing; the possibility of the CIC convertible debenture and all accrued and unpaid interest becoming immediately due; the continued pressure on the coal prices in China, and the related impact on the Company's margins and liquidity; the outcome of the issues described in the section "Regulatory Issues and Contingencies"; statements regarding the outlook for 2014; the completion of the share purchase transaction between Turquoise Hill Resources Ltd. ("Turquoise Hill") and National United Resources Holdings Limited ("NUR"); statements regarding the Company's objectives for 2014 and beyond; the possible impact of as yet uncompleted revisions to Ovoot Tolgoi mine plan on quantities of measured and/or indicated resources and reserves of the Ovoot Tolgoi project; the statement that the capacity of the paved highway is in excess of 20 million tonnes of coal per year; and other statements that are not historical facts. 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 interim condensed consolidated financial statements of the Company and the notes thereto for the three and nine months ended September 30, 2014. The Company's interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board and Interpretations of the IFRS Interpretations Committee.

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

Disclosure of a scientific or technical nature in this MD&A, as derived from the Ovoot Tolgoi, Soumber, and Zag Suuj Technical Reports, in respect of each of the Company's material mineral projects was prepared by or under the supervision of the Qualified Persons listed below. Copies of the Ovoot Tolgoi Technical Report (dated March 19, 2012), the Soumber Technical Report (dated March 25, 2013) and the Zag Suuj Technical Report (dated March 25, 2013) are available on SEDAR at www.sedar.com:

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

Other disclosures of a scientific or technical nature in this MD&A (other than such information relating to Aspire Mining Limited ("Aspire"), which information was taken from Aspire's public disclosure record) in respect of the Ovoot Tolgoi mine and the Soumber project were prepared by employees of the Company and reviewed by Robert Mackenzie, an employee of RungePincockMinarco, a registered member and Chartered Professional (Mining) of the Australasian Institute of Mining and Metallurgy (Member No 103878) and a Qualified Person, as that term is defined in National Instrument 43-101 of the Canadian Securities Administrators ("NI 43-101"). Robert Mackenzie was the Qualified Person responsible for overall preparation of and the Coal Reserve estimates in the March 2012 Technical Report for Ovoot Tolgoi.

1. OVERVIEW

The Company is an integrated coal mining, development and exploration company. 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's immediate parent company is Turquoise Hill Resources Ltd. ("Turquoise Hill") and at September 30, 2014, Turquoise Hill owned approximately 56% of the outstanding common shares of the Company. Turquoise Hill is controlled by Rio Tinto plc ("Rio Tinto").

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

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

Saleable products from the Ovoot Tolgoi Mine 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.

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

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

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

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

(i) As at September 30, 2014. Reserves and resources estimates have been prepared in compliance with NI 43-101. Coal resources are inclusive of coal reserves. Details of the assumptions and parameters used to estimate the reserves and resources and information on data verification are set out in the Annual Information Form dated March 24, 2014, and available on SEDAR at www.sedar.com.

(ii) The Company is currently reviewing its mine plan for the Ovoot Tolgoi project. Changes to the mine plan may have an impact on the quantities of measured and/or indicated resources and reserves of the Ovoot Tolgoi project. See "Risk Factors – Reserves and Resources".

As at September 30, 2014, the Company owned 17.6%[1] of the outstanding common shares of Aspire, a company listed on the Australian Securities Exchange under the symbol AKM. Aspire's primary focus is its Mongolian coal assets, particularly those pertaining to its Ovoot Coking Coal Project.

As at September 30, 2014, the Company employed 392 employees.

Significant Events and Highlights

The Company's significant events and highlights for the three months ended September 30, 2014 and subsequent period to November 10, 2014 are as follows:

- As at the date hereof, the Company is actively seeking sources of financing in order to be able to pay the interest due under the CIC convertible debenture on November 19, 2014. The Company is also actively seeking additional sources of financing to maintain liquidity to fund its operations and meet its obligations. See section 5 "Liquidity and Capital Resources" and section 11 "Risk Factors". As at November 10, 2014, the Company had cash of $5.7 million.

- The Company continues to operate under difficult market conditions resulting from strong seaborne and domestic supply coupled with soft demand in China. As a result, coal prices in China declined further in the third quarter compared to the second quarter of 2014. Softness in market conditions has been marked by a slower seasonal restocking by purchasers of coal in the third quarter of 2014 compared to the same period in 2013. Although there are signs of stabilization or modest improvements in prices at the beginning of the fourth quarter, the Company's sales volumes and revenues are expected to remain under pressure through the end of 2014.

- Production of raw coal by the Company decreased to 0.17 million tonnes in the third quarter of 2014 from 0.55 million tonnes in the second quarter of 2014. This decrease in production is due to the Company's decision in June, in response to current market conditions, to reduce its production and place approximately half of its workforce on furlough. This furlough is anticipated to remain in place until the end of November 2014, subject to market conditions.

- On July 30, 2014 the Company announced Turquoise Hill entered into an agreement with National United Resources Holdings Limited ("NUR") to sell shares representing 29.95% of the Company's total common shares. The closing of this transaction is subject to certain conditions, including the approval of both the HKEX as well as NUR's shareholders.

- As of August 29, 2014 the Company had drawn down $3.8 million under the $10 million revolving credit facility ("the Turquoise Hill Loan Facility") from Turquoise Hill. The Turquoise Hill Loan Facility matured on August 30, 2014 and is no longer available for further drawdowns by the Company. Subject to certain terms and conditions as announced on August 31, 2014 and filed on SEDAR (www.sedar.com) on September 2, 2014, Turquoise Hill has accepted the deferral of repayments of amounts and obligations due by the Company.

- On September 28, 2014, the Company announced the construction of the paved highway from the Ovoot Tolgoi Complex to the Shivee Khuren Border Crossing had been completed. The completion of the highway was one of the Company's key objectives for 2014. The highway is anticipated to significantly increase the safety of coal transportation, reduce environmental impacts and improve the

[1] Calculation based on number of Aspire common shares outstanding according to their public announcements available at www.aspiremininglimited.com.

efficiency and capacity of coal transportation. Commissioning of the highway is expected by the end of 2014.

- The trial on the tax investigation commenced on August 25, 2014. Following two (2) days of hearing, the panel of three (3) appointed judges ordered the matter be returned to the Prosecutor General for further investigations due to insufficient evidence presented by the prosecutor. On October 7, 2014, the Mongolian investigation authority issued a resolution to order a re-investigation and new investigators to the case were appointed.

- Mr. Vincent H. Kou, the Company's General Counsel and Corporate Secretary, has resigned with an effective date of November 14, 2014. Mr. Kou has accepted a new role with another company.

- On October 31, 2014, the Company sold 51.4% of its stake in Aspire for $1.4 million in net proceeds.

2. OVERVIEW OF OPERATIONAL DATA AND FINANCIAL RESULTS

Summary of Operational Data

	Three months ended Sept 30,		Nine months ended Sept 30,	
	2014	**2013**	**2014**	**2013**
Sales Volumes, Prices and Costs				
Premium semi-soft coking coal				
Coal sales *(millions of tonnes)*	**-**	0.04	**-**	0.33
Average realized selling price *(per tonne)* (i)	**$ -**	$ 37.50	**$ -**	$ 36.01
Standard semi-soft coking coal				
Coal sales *(millions of tonnes)*	**0.31**	0.87	**0.72**	0.87
Average realized selling price *(per tonne)* (i)	**$ 17.41**	$ 21.67	**$ 19.76**	$ 21.67
Thermal coal				
Coal sales *(millions of tonnes)*	**0.34**	0.03	**0.95**	0.34
Average realized selling price *(per tonne)* (i)	**$ 10.66**	$ 13.07	**$ 10.84**	$ 13.72
Total				
Coal sales *(millions of tonnes)*	**0.65**	0.94	**1.67**	1.54
Average realized selling price *(per tonne)* (i)	**$ 13.87**	$ 22.05	**$ 14.70**	$ 23.08
Raw coal production *(millions of tonnes)*	**0.17**	1.13	**1.36**	1.32
Direct cash costs of product sold *(per tonne)* (ii)	**$ 7.38**	$ 9.41	**$ 8.39**	$ 9.96
Mine administration cash costs of product sold *(per tonne)* (ii)	**$ 2.30**	$ 2.20	**$ 2.73**	$ 3.18
Total cash costs of product sold *(per tonne)* (ii)	**$ 9.68**	$ 11.61	**$ 11.12**	$ 13.14
Other Operational Data				
Production waste material moved *(millions of bank cubic meters)*	**0.20**	1.57	**4.92**	4.68
Strip ratio *(bank cubic meters of waste material per tonne of coal produced)*	**1.20**	1.39	**3.65**	3.53
Lost time injury frequency rate (iii)	**0.17**	-	**0.17**	-

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

Overview of Operational Data

The Company continues to operate under difficult market conditions which have affected the Company's results for the third quarter and first nine months of 2014 in respect of sales prices, mix and volumes.

For the three months ended September 30, 2014

The Company is pacing production with current demand for its coal products. As a result, the Company operated significantly below its operating capacity in the third quarter of 2014. Since Mid-June 2014 following a review of operations, the Company further reduced its production and placed approximately half of its workforce on furlough which continued throughout the third quarter of 2014. The furlough is expected to last until the end of November 2014, subject to market conditions.

The Company has maintained a strong safety record and completed the third quarter of 2014 without a lost time injury. As at September 30, 2014, the Company has a lost injury time frequency rate of 0.17 per 200,000 man hours based on a rolling 12 month average.

For the nine months ended September 30, 2014

During the first nine months of 2014, the Company sold 1.67 million tonnes of coal compared to 1.54 million tonnes for the first nine months of 2013. Both the current and comparative periods were subject to challenging coal market conditions with the Company's sales trending downwards for the first nine months of 2014.

The Company's production in the first nine months of 2014 was slightly higher than the first nine months of 2013, with 1.36 million tonnes compared to 1.32 million tonnes. The Company has paced its production to market demand and focused on reducing its stockpiles.

Summary of Financial Results

	Three months ended Sept 30,		Nine months ended Sept 30,	
$ in thousands, except per share information	**2014**	**2013**	**2014**	**2013**
Revenue [i],[ii]	**$ 7,611**	$ 15,652	**$ 19,440**	$ 26,179
Cost of sales [ii]	**(23,922)**	(33,486)	**(62,375)**	(72,268)
Gross loss excluding idled mine asset costs	**(2,178)**	(13,323)	**(20,877)**	(19,411)
Gross loss including idled mine asset costs	**(16,311)**	(17,834)	**(42,935)**	(46,089)
Other operating expenses	**(2)**	(1,003)	**(2,851)**	(16,358)
Administration expenses	**(2,530)**	(4,204)	**(7,020)**	(11,958)
Evaluation and exploration expenses	**(122)**	(186)	**(401)**	(680)
Loss from operations	**(18,965)**	(23,227)	**(53,207)**	(75,085)
Finance costs	**(5,257)**	(5,382)	**(15,500)**	(15,991)
Finance income	**135**	124	**1,268**	4,259
Share of losses of joint venture	**(32)**	(66)	**(60)**	(39)
Income tax expense	**-**	(13,377)	**(546)**	(11,876)
Net loss	**(24,119)**	(41,928)	**(68,045)**	(98,733)
Basic loss per share	**$ (0.13)**	$ (0.23)	**$ (0.36)**	$ (0.54)
Diluted loss per share	**$ (0.13)**	$ (0.23)	**$ (0.36)**	$ (0.54)

(i) Revenue is presented net 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 condensed consolidated interim financial statements for further analysis regarding the Company's reportable operating segments.

Royalty regime in Mongolia

During a trial period from October 1, 2012 to March 31, 2013, the royalty imposed on coal sales was determined using the actual contracted sales price per tonne. The Government of Mongolia changed the royalty regime effective April 1, 2013. From April 1, 2013 to March 31, 2014, the royalty on all coal sales exported out of Mongolia was based on a set reference price per tonne published monthly by the Government of Mongolia.

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

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

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

Overview of Financial Results

For the three months ended September 30, 2014

The Company recorded a $19.0 million loss from operations in the third quarter of 2014 compared to a $23.2 million loss from operations in the third quarter of 2013. The third quarter of 2014 was impacted by continuing difficult market conditions which resulted in lower sales prices and volumes compared to the third quarter of 2013. This reduction in prices and volumes was offset by a lower royalty rate and lower administrative and other operating costs in the third quarter of 2014 compared to the third quarter of 2013.

Revenue was $7.6 million in the third quarter of 2014 compared to $15.7 million in the third quarter of 2013. The Company sold 0.65 million tonnes of coal at an average realized selling price of $13.87 per tonne in the third quarter of 2014 compared to sales of 0.94 million tonnes at an average realized selling price of $22.05 per tonne in the third quarter of 2013. Revenue decreased in the third quarter of 2014 compared to the third quarter of 2013 as a result of the combination of lower sales volumes and lower sales prices. The average realized selling price in the third quarter of 2014 compared to the third quarter of 2013 was also impacted by differences in product mix. The product mix in the third quarter of 2014 was split nearly evenly between Standard semi-soft coking coal and Thermal coal while the majority of sales in the third quarter of 2013 was from Standard semi-soft coking coal.

The Company's revenue is presented net of royalties and selling fees. Following the change in the Mongolia's royalty regime starting April 1, 2014, the Company's effective royalty rate for the third quarter of 2014, based on the Company's average realized selling price of $13.87 per tonne, was 8.9% or $1.23 per tonne. In the third quarter of 2013, the Company was subject to an average 7% royalty based on a weighted average reference price of $71.17 per tonne. As a result, the Company's effective royalty rate was 22.6% or $4.99 per tonne based on the average realized selling price of $22.05 per tonne in the third quarter of 2013.

Cost of sales was $23.9 million in the third quarter of 2014 compared to $33.5 million in the third quarter of 2013. Cost of sales comprises operating expenses, share-based compensation expense, equipment depreciation, depletion of mineral properties, coal stockpile inventory impairments and idled mine asset costs. Operating expenses in cost of sales reflect the total cash costs of product sold (a non-IFRS financial measure, see section 3 for further analysis) during the period.

	Three months ended September 30,		Nine months ended September 30,	
$ in thousands	**2014**	**2013**	**2014**	**2013**
Operating expenses	**$ 6,259**	$ 10,927	**$ 18,576**	$ 20,207
Share-based compensation expense	**90**	(167)	**232**	(320)
Depreciation and depletion	**1,742**	7,389	**6,283**	9,905
Impairment of coal stockpile inventories	**1,698**	10,826	**15,226**	15,797
Cost of sales from mine operations	**9,789**	28,975	**40,317**	45,589
Cost of sales related to idled mine assets	**14,133**	4,511	**22,058**	26,679
Cost of sales	**$ 23,922**	$ 33,486	**$ 62,375**	$ 72,268

Operating expenses included in cost of sales were $6.3 million in the third quarter of 2014 compared to $10.9 million in the third quarter of 2013. The overall decrease in operating expenses is the result of the lower variable costs which are linked to production levels which are down to 0.17 million tonnes in the third quarter of 2014 compared to 1.13 million tonnes in the third quarter of 2013 and the continued focus on cost saving initiatives, including the furlough which commenced in Mid-June. The total cash cost of product sold decreased from $11.61 per tonne in the third quarter of 2013 to $9.68 per tonne in the third quarter of 2014.

Cost of sales in the third quarter of 2014 and the third quarter of 2013 included coal stockpile impairments of $1.7 million and $10.8 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 2014 and 2013 reflect the challenging coal market conditions and primarily related to the Company's higher-ash products.

Idled mine asset costs included in cost of sales increased in the third quarter of 2014 compared to the third quarter of 2013 as a result of the mining operations' slowdown which commenced in June 2014. Idled mine asset costs in the third quarter of 2014 included $14.1 million related to depreciation expense for idled mine equipment (2013: $4.5 million).

Other operating expenses were nil in the third quarter of 2014 (2013: $1.0 million).

	Three months ended September 30,		Nine months ended September 30,	
	2014	**2013**	**2014**	**2013**
Public infrastructure	**$ -**	$ -	**$ -**	$ 6
Sustainability and community relations	**82**	37	**211**	118
Foreign exchange loss/(gain)	**(80)**	637	**(990)**	1,028
Mark-to-market loss on available-for-sale financial asset	**-**	-	**1,766**	3,067
Loss on disposal of property, plant and equipment	**-**	329	**-**	895
Impairment of property, plant and equipment	**-**	-	**277**	4,299
Impairment of prepaid expenses and deposits	**-**	-	**3,405**	-
Impairment of materials and supplies inventories	**-**	-	**-**	6,930
Proceeds from disposal of mining license	**-**	-	**(1,818)**	-
Other	**-**	-	**-**	15
Other operating expenses	**$ 2**	$ 1,003	**$ 2,851**	$ 16,358

The Company's other operating expenses decreased in the third quarter of 2014 compared to the third quarter of 2013 as a result of no loss being recorded in respect of the disposal of property, plant and equipment during the period and a foreign exchange gain of $0.1 million in the third quarter of 2014 compared to a loss of $0.6 million in the third quarter of 2013.

The Company's investment in Aspire is accounted for as an available-for-sale financial asset and carried at its fair value. In both the third quarter of 2014 and the third quarter of 2013, Aspire's market capitalization increased with gains for the Company being recorded in other comprehensive income.

Administration expenses were $2.5 million in the third quarter of 2014 compared to $4.2 million in the third quarter of 2013.

	Three months ended September 30,		Nine months ended September 30,	
	2014	**2013**	**2014**	**2013**
Corporate administration	**$ 544**	$ 857	**$ 1,727**	$ 2,980
Professional fees	**971**	2,338	**2,437**	5,968
Salaries and benefits	**627**	807	**2,180**	2,414
Share-based compensation expense	**355**	167	**580**	440
Depreciation	**33**	35	**96**	156
Administration expenses	**$ 2,530**	$ 4,204	**$ 7,020**	$ 11,958

Administration expenses decreased in the third quarter of 2014 compared to the third quarter of 2013 due to lower professional fees and overhead cost reduction initiatives. Professional fees in the third quarter of 2013 included $1.2 million of fees related to the internal investigations led by a tripartite committee referred to in section 6 "Regulatory Issues and Contingencies". The tripartite committee substantially completed the investigative phase of its activities during 2013. Therefore, additional professional fees were not incurred in the third quarter of 2014.

Evaluation and exploration expenses were $0.1 million in the third quarter of 2014 compared to $0.2 million in the third quarter of 2013. The Company continued to minimize evaluation and exploration expenditures in the third quarter of 2014 in order to preserve the Company's financial resources. Evaluation and exploration activities and expenditures in the third quarter of 2014 were limited to ensuring that the Company met the Mongolian Minerals Law requirements in respect of its mining and exploration licenses.

Finance costs were $5.3 million and $5.4 million in the third quarter of 2014 and 2013 which primarily consisted of interest expense on the $250.0 million CIC convertible debenture.

Finance income was $0.1 million in both the third quarter of 2014 and the third quarter of 2013 and primarily consisting of unrealized gains on the fair value change of the embedded derivatives in the CIC convertible debenture ($0.1 million in both the third quarter of 2014 and third quarter of 2013). 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 nil in the third quarter of 2014 compared to an expense of $13.4 million in the third quarter of 2013. The $13.4 million expense in the third quarter of 2013 related to deductible temporary differences and adjustments to the amount of loss carry-forwards being recognized. No corresponding amounts were recorded in the third quarter of 2014.

For the nine months ended September 30, 2014

The Company recorded a $53.2 million loss from operations in the first nine months of 2014 compared to a $75.1 million loss from operations in the first nine months of 2013. The first nine months of 2014 were impacted by continuing difficult market conditions which resulted in lower sales volumes and prices compared to the first nine months of 2013. This reduction in prices was offset by lower royalty expenses and lower impairment losses in the first nine months of 2014.

Revenue was $19.4 million in the first nine months of 2014 compared to $26.2 million in the first nine months of 2013. The Company sold 1.67 million tonnes of coal at an average realized selling price of $14.70 per tonne in the first nine months of 2014 compared to sales of 1.54 million tonnes at an average realized selling price of $23.08 per tonne in the first nine months of 2013. The average realized selling price was impacted by differences in product mix in the first nine months of 2014 compared to the first nine months of 2013. The first nine months of 2014 product mix consisted of approximately 40% of Standard semi-soft coking coal with no sales of Premium semi-soft coking coal compared to approximately 78% of sales consisting of either Premium or Standard semi-soft coking coal in the first nine months of 2013.

The Company's revenue is presented net of royalties and selling fees. Following the change in the royalty regime in Mongolia, the Company's effective royalty rate for the first nine months of 2014, based on the Company's average realized selling price of $14.70 per tonne, was 13.5% or $1.99 per tonne compared to 24.4% or $5.62 per tonne based on the average realized selling price of $23.08 per tonne in the first nine months of 2013.

Cost of sales was $62.4 million in the first nine months of 2014 compared to $72.3 million in the first nine months of 2013. Cost of sales comprises operating expenses, share-based compensation expense, equipment depreciation, depletion of mineral properties, coal stockpile inventory impairments and idled mine asset costs. Operating expenses in cost of sales reflect the total cash costs of product sold (a non-IFRS financial measure, see section 3 for further analysis) during the period.

Operating expenses in cost of sales were $18.6 million in the first nine months of 2014 compared to $20.2 million in the first nine months of 2013. This reduction in operating expenses of $1.6 million has been achieved as a result of the continued focus on cost saving initiatives including the furlough which commenced in Mid-June. The total cash cost of product sold decreased from $13.14 per tonne for the nine months ended September 30, 2013 to $11.12 per tonne for the nine months ended September 30, 2014.

Cost of sales in the first nine months of 2014 and the first nine months of 2013 included coal stockpile impairments of $15.2 million and $15.8 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 2014 and 2013 reflect the challenging coal market conditions and primarily related to the Company's higher-ash products.

Cost of sales related to idled mine asset costs primarily consisted of period costs, which were expensed as incurred and primarily included depreciation expense. Cost of sales related to idled mine assets in the first nine months of 2014 included $18.7 million related to depreciation expenses for idled equipment (2013: $21.3 million).

Other operating expenses were $2.9 million in the first nine months of 2014 compared to $16.4 million in the first nine months of 2013. Compared to the same period in 2013, the decrease in other operating expenses is primarily related to lower impairment charges and the proceeds of the sale of the Tsagaan Tolgoi mining license recorded in the second quarter of 2014.

The Company's investment in Aspire is accounted for as an available-for-sale financial asset and carried at its fair value. In the first nine months of 2014, Aspire's market capitalization fluctuated. In the first quarter of 2014, the market capitalization decreased and an impairment charge of $1.8 million was recorded in other operating expenses. In the second and third quarters of 2014, the market capitalization increased and a total gain of $1.5 million was recorded in other comprehensive income. This compares to an impairment loss of $3.1 million recognized in other operating expenses in the first six months of 2013 as a result of a decrease in Aspire's market capitalization during that period, and a gain of $1.3 million being recorded in other comprehensive income in the third quarter of 2013.

In the first nine months of 2014, the Company recognized an impairment loss of $3.4 million related to prepaid toll washing fees under the Ejin Jinda contract. The impairment charge, which was recorded in the second quarter of 2014, 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. The Company also recognized in the first nine months of 2014 an impairment charge of $0.3 million in respect of surplus construction materials. In comparison, in the first nine months of 2013, the Company recognized a total of $11.2 million in impairment in respect of material and supplies inventory ($6.9 million) and property, plant and equipment ($4.3 million). No impairment charge was recorded in the third quarters of 2014 or 2013, respectively.

In the second quarter of 2014, the Company completed the sale of the Tsagaan Tolgoi mining license. The gross proceeds of the sale were $2.0 million. The Company incurred indirect taxes and costs of disposal of $0.2 million and a withholding tax of $0.5 million. The net proceeds generated by the Company were $1.3 million.

Administration expenses were $7.0 million in the first nine months of 2014 compared to $12.0 million in the first nine months of 2013.

Administration expenses were lower in the first nine months of 2014 compared to the first nine months of 2013 primarily due to lower professional fees over the period. Professional fees in the first nine months of 2013 included $3.7 million of fees related to the internal investigations led by a tripartite committee referred to in section 6 "Regulatory Issues and Contingencies". The tripartite committee substantially completed the investigative phase of its activities during 2013; therefore no additional professional fees were incurred in the second quarter and third quarter of 2014.

Corporate administration costs were also lower in the first nine months of 2014 compared to the first nine months of 2013 reflecting the Company's cost reduction initiatives.

Evaluation and exploration expenses were $0.4 million in the first nine months of 2014 compared to $0.7 million in the first nine months of 2013. The Company continued to minimize evaluation and exploration expenditures in the first nine months of 2014 in order to preserve the Company's financial resources. Evaluation and exploration activities and expenditures in the first nine months of 2014 were limited to ensuring that the Company met the Mongolian Minerals Law requirements in respect of its mining and exploration licenses.

Finance costs were $15.5 million and $16.0 million in the first nine months of 2014 and 2013 respectively which primarily consisted of interest expense on the $250.0 million CIC convertible debenture.

Finance income was $1.3 million in the first nine months of 2014 compared to $4.3 million in the first nine months of 2013 primarily relating to unrealized gains on the change in fair value of the embedded derivatives in the CIC convertible debenture ($1.3 million and $4.2 million respectively for the first nine months of 2014 and the first nine months of 2013). 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 $0.5 million in the first nine months of 2014 compared to an expense of $11.9 million in the first nine months of 2013. The $0.5 million recognized in the first six months of 2014 relates to taxes paid in respect of the sale of the Tsagaan Tolgoi mining license. The $11.9 million expense for the first nine months of 2013 related to deductible temporary differences and adjustments to the amount of loss carry-forwards recognized. No corresponding amounts were recorded in the first nine months of 2014.

<u>Summary of Quarterly Operational Data</u>

	2014			2013				2012
Quarter Ended	**30-Sep**	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec
Sales Volumes, Prices and Costs								
Premium semi-soft coking coal								
Coal sales *(millions of tonnes)*	**-**	-	-	0.21	0.04	0.21	0.08	0.03
Average realized selling price *(per tonne)* (i)	**$ -**	$ -	$ -	$ 37.54	$ 37.50	$ 32.46	$ 45.81	$ 47.86
Standard semi-soft coking coal								
Coal sales *(millions of tonnes)*	**0.31**	0.12	0.29	1.40	0.87	-	-	-
Average realized selling price *(per tonne)* (i)	**$ 17.41**	$ 20.33	$ 22.00	$ 24.49	$ 21.67	$ -	$ -	$ -
Thermal coal								
Coal sales *(millions of tonnes)*	**0.34**	0.51	0.10	0.11	0.03	0.11	0.20	-
Average realized selling price *(per tonne)* (i)	**$ 10.66**	$ 10.72	$ 12.07	$ 12.60	$ 13.07	$ 13.98	$ 13.67	$ -
Total								
Coal sales *(millions of tonnes)*	**0.65**	0.63	0.39	1.72	0.94	0.32	0.28	0.03
Average realized selling price *(per tonne)* (i)	**$ 13.87**	$ 12.52	$ 19.54	$ 25.30	$ 22.05	$ 26.26	$ 22.75	$ 47.86
Raw coal production *(millions of tonnes)*	**0.17**	0.55	0.64	1.73	1.13	0.17	0.02	-
Direct cash costs of product sold *(per tonne)* (ii)	**$ 7.38**	$ 8.23	$ 10.43	$ 11.13	$ 9.41	$ 11.49	$ 10.22	$ 11.67
Mine administration cash costs of product sold *(per tonne)* (ii)	**$ 2.30**	$ 2.49	$ 3.80	$ 1.39	$ 2.20	$ 7.14	$ 1.46	$ 5.08
Total cash costs of product sold *(per tonne)* (ii)	**$ 9.68**	$ 10.72	$ 14.23	$ 12.52	$ 11.61	$ 18.63	$ 11.68	$ 16.75
Other Operational Data								
Production waste material moved *(millions of bank cubic meters)*	**0.20**	2.17	2.55	3.77	1.57	2.71	0.40	-
Strip ratio *(bank cubic meters of waste material per tonne of coal produced)*	**1.20**	3.97	4.02	2.18	1.39	15.55	26.21	-
Lost time injury frequency rate (iii)	**0.17**	0.15	-	-	-	-	-	0.1

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

Summary of Quarterly Financial Results

$ in thousands, except per share information	**2014**			2013				2012
Quarter Ended	**30-Sep**	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec
Financial Results								
Revenue [(i), (ii)]	**7,611**	6,691	$ 5,137	$ 32,457	$ 15,652	$ 6,129	$ 4,398	$ 1,186
Cost of sales [(ii)]	**(23,922)**	(20,086)	(18,366)	(40,359)	(33,486)	(17,477)	(21,305)	(32,229)
Gross loss excluding idled mine asset costs	**(2,178)**	(8,497)	(10,202)	(4,141)	(13,323)	(5,593)	(494)	(12,601)
Gross loss including idled mine asset costs	**(16,311)**	(13,395)	(13,229)	(7,900)	(17,834)	(11,348)	(16,907)	(31,043)
Other operating expenses	**(2)**	(1,776)	(1,073)	(109,682)	(1,003)	(14,925)	(431)	(19,282)
Administration expenses	**(2,530)**	(2,253)	(2,237)	(3,668)	(4,204)	(4,024)	(3,733)	(6,080)
Evaluation and exploration expenses	**(122)**	(107)	(172)	(489)	(186)	(221)	(273)	(508)
Loss from operations	**(18,965)**	(17,531)	(16,711)	(121,740)	(23,227)	(30,518)	(21,344)	(56,913)
Finance costs	**(5,257)**	(5,215)	(5,025)	(5,167)	(5,382)	(5,617)	(4,996)	(4,718)
Finance income	**135**	127	1,007	1,301	124	3,366	775	(116)
Share of earnings/(losses) of joint venture	**(32)**	(3)	(26)	(15)	(66)	44	(17)	144
Income tax recovery/(expense)	**-**	(546)	-	(13,109)	(13,377)	(416)	1,916	5,040
Net loss	**(24,119)**	(23,168)	(20,755)	(138,730)	(41,928)	(33,141)	(23,666)	(56,564)
Basic loss per share	**$ (0.13)**	$ (0.12)	$ (0.11)	$ (0.75)	$ (0.23)	$ (0.18)	$ (0.13)	$ (0.31)
Diluted loss per share	**$ (0.13)**	$ (0.12)	$ (0.11)	$ (0.75)	$ (0.23)	$ (0.18)	$ (0.13)	$ (0.31)

(i) *Revenue is presented net 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 condensed consolidated interim financial statements for further analysis regarding the Company's reportable operating segments.*

3. NON-IFRS FINANCIAL MEASURES

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

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

Cash Costs

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

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

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

	Three months ended September 30,		Nine months ended September 30,	
$ in thousands, except per tonne information	**2014**	**2013**	**2014**	**2013**
Cash costs				
Cost of sales determined in accordance with IFRS	**23,922**	$ 33,486	**62,375**	$ 72,268
Less non-cash expenses	**(3,530)**	(18,049)	**(21,741)**	(25,381)
Less non-cash idled mine asset costs	**(10,891)**	(4,460)	**(18,741)**	(21,332)
Total cash costs	**9,501**	10,977	**21,893**	25,555
Less idled mine asset cash costs	**(3,241)**	(51)	**(3,317)**	(5,347)
Total cash costs excluding idled mine asset cash costs	**6,260**	10,926	**18,576**	20,208
Coal sales *(millions of tonnes)*	**0.65**	0.94	**1.67**	1.54
Total cash costs of product sold *(per tonne)*	**$ 9.68**	$ 11.61	**$ 11.12**	$ 13.14

	Three months ended September 30,		Nine months ended September 30,	
$ in thousands, except per tonne information	**2014**	**2013**	**2014**	**2013**
Cash costs				
Direct cash costs of product sold *(per tonne)*	**$ 7.38**	$ 9.41	**$ 8.39**	$ 9.96
Mine administration cash costs of product sold *(per tonne)*	**2.30**	2.20	**2.73**	3.18
Total cash costs of product sold *(per tonne)*	**$ 9.68**	$ 11.61	**$ 11.12**	$ 13.14

4. PROPERTIES

The Company currently holds two mining licenses and four exploration licenses in Mongolia, which in total cover an area of approximately 223,000 hectares ("ha"). The mining licenses pertain to the Ovoot Tolgoi Complex (12726A) and the Soumber Deposit (MV-016869).

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

Operating Mines

Ovoot Tolgoi Mine

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

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

Reserves and Resources

On March 19, 2012, the Company announced an updated NI 43-101 compliant independent resource estimate prepared by RungePincockMinarco ("RPM"). RPM estimated that the Ovoot Tolgoi Mine contains 175.7 million tonnes of proven and probable surface coal reserves, 133.3 million tonnes of measured coal resources, 59.9 million tonnes of indicated coal resources and 24.0 million tonnes of inferred coal resources as at October 31, 2011. All of these resources are located above 300m and are amenable to surface mining. The Measured and Indicated Mineral Resources are inclusive of those Mineral Resources modified to produce the Mineral Reserves. Details of the assumptions and parameters used to calculate the reserves, resources and coal quality estimates and information on data verification are set out in the Annual Information Form dated March 24, 2014, and available on SEDAR at www.sedar.com.

The Company is currently reviewing its mine plan for Ovoot Tolgoi and changes thereto may impact the quantities of measured and/or indicated resources and reserves of Ovoot Tolgoi. See "Risk Factors – Reserves and Resources".

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

Operational Data and Financial Results

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

Processing Infrastructure

Dry Coal Processing

Following an extensive review that commenced in the fourth quarter of 2013, the Company concluded in the first quarter of 2014 that it does not plan to either complete or use the dry coal handling facility ("DCHF") at the Ovoot Tolgoi Mine in the foreseeable future. As a result of the review and subsequent impairment assessment, the Company recorded a $66.9 million non-cash impairment charge in the fourth quarter of 2013 to reduce the carrying value of the DCHF to its recoverable amount. The DCHF had a carrying value of $11.2 million at September 30, 2014. The Company continues to use mobile screens for initial dry processing of its higher-ash coals. The use of mobile screens at stockpile areas closer to the pits has enabled the Company to realize a cost benefit compared to hauling the coal to the central DCHF and operating the rotary breaker. This provides a lower cost solution without adversely impacting the coal quality of the coal planned to be mined over the next year.

When coal markets improve and production from the Ovoot Tolgoi Mine increases in line with its anticipated annual capacity of 9 million tonnes run-of-mine production, the Company will review the use of the DCHF as part of its existing assets and continue developing beneficiation capabilities to maximize value from its product.

Wet Washing Facility

In 2011, the Company entered into an agreement with Ejin Jinda, a subsidiary of China Mongolia Coal Co. Ltd. to toll-wash coals from the Ovoot Tolgoi Mine. The agreement has a duration of five years from commencement of the contract and provides for an annual wet washing capacity of approximately 3.5 million tonnes of input coal. The facility is located approximately 10km inside China from the Shivee Khuren Border Crossing, approximately 50km from the Ovoot Tolgoi Mine. Ejin Jinda is expected to charge the Company a single toll washing fee which is expected to cover their expenses, capital recovery and profit. Ejin Jinda is expected to also transport coal from the Ovoot Tolgoi Mine to the wet washing facility under a separate transportation agreement.

To date, commercial operations at the wet washing facility have not commenced. The Company identified the results of a trial sample from the wet washing facility and the delay in starting the commercial operations at the wet washing facility as indicators of impairment for the prepaid toll washing fees which are part of the contract with Ejin Jinda. Based on updated estimates and assumptions related to wash yields from the facility and potential fees to early cancel the contract (refer to Section 5 "Liquidity and Capital Resources – Contractual Obligations and Guarantees" section below), a $30.2 million impairment loss on the $33.6 million of prepaid toll washing fees was recorded in other operating expenses during the year ended December 31, 2013. During the quarter ended June 30, 2014, the Company recorded an additional impairment of $3.4 million against the prepaid toll washing fees to fully impair the deposit due to the continued delay in starting the commercial operations at the wet washing facility and the continued soft coal market in China. Subject to financing availability for the Company, further trial samples are required to be performed ahead of the wet washing facility being ready for commercial operation.

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

Transportation Infrastructure

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

On October 26, 2011, RDCC LLC signed a concession agreement with the State Property Committee of Mongolia. RDCC LLC has the right to conclude a 17 year build, operate and transfer agreement under the Mongolian Law on Concessions. The construction of the paved highway was substantially complete by the end of 2013. The 2014 construction program commenced in the second quarter of 2014 and the Company announced on September 28, 2014 the construction of the paved highway had been fully completed. The highway is expected to be commissioned by the end of 2014. On July 24, 2014 the Ministry of Economic Development of Mongolia confirmed that RDCC LLC's request to postpone the July 2014 deadline for commissioning of the paved highway until December 30, 2014 had been approved.

The completion of the highway was one of the Company's key objectives for 2014 and will significantly increase the safety of coal transportation, reduce environmental impacts and improve the efficiency and capacity of coal transportation.

The highway will have an intended carrying capacity upon completion in excess of 20 million tonnes of coal per year.

Mining Equipment

The key elements of the currently commissioned mining fleet includes: two Liebherr 996 ($34m^3$) hydraulic excavators, three Liebherr R9250 ($15m^3$) hydraulic excavators, 22 Terex MT4400 (218 tonne capacity) haul trucks and two Terex TR100 (91 tonne capacity) haul trucks, together with various pieces of ancillary equipment. The first nine months of 2014 production plan did not fully utilize the Company's existing mining fleet.

Workforce

As at September 30, 2014, SouthGobi Sands LLC employed 384 employees in Mongolia. Of the 384 employees, 54 are employed in the Ulaanbaatar office, 2 in outlying offices and 328 at the Ovoot Tolgoi Mine site. Of the 384 employees based in Mongolia, 378 (98%) are Mongolian nationals and of those, 169 (44%) 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 dated March 24, 2014, and 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 benches exhibit potential coking coal characteristics.

On July 6, 2011, the Company announced that the Mineral Resources Authority of Mongolia ("MRAM") issued the Company a mining license pertaining to the Soumber Deposit. The 10,993ha mining license was granted for an initial term of 30 years with an option for two 20 year extensions. In addition to the existing mining license, the Company also holds two exploration licenses pertaining to certain areas associated with the Soumber Deposit for which PMAs have been issued. The Company has applied for a mining license on the area covered by the PMA issued on January 18, 2013. The Company plans to progress to the mining license application process for the PMA issued on August 14, 2013.

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 Complex 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 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 dated March 24, 2014, and available on SEDAR at www.sedar.com.

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

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

It is anticipated that coals from the Zag Suuj Deposit can be washed to produce a coking coal product or a coking coal blend product. Limited exploration activities are planned for the Zag Suuj Deposit for the remainder of 2014. Exploration activities in 2014 ensure the Company meets the requirements under the Mongolian Minerals Law.

Ovoot Tolgoi Underground Deposit

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

On March 19, 2012, the Company announced an updated NI 43-101 compliant independent resource estimate prepared by RPM. RPM estimated that the Ovoot Tolgoi Underground Deposit contains measured coal resources of 65.8 million tonnes, indicated coal resources of 43.3 million tonnes and inferred coal resources of 62.0 million tonnes as at October 31, 2011. Details of the assumptions and parameters used to calculate the resources and coal quality estimates and information on data verification are set out in the Annual Information Form dated March 24, 2014, and available on SEDAR at www.sedar.com.

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

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

Aspire

As at September 30, 2014, the Company owned 17.6% of Aspire, a company listed on the Australian Securities Exchange under the symbol AKM. Aspire's primary focus is its Mongolian coal assets, particularly those pertaining to the Ovoot Coking Coal Project. On July 31, 2013, Aspire announced an upgraded Australian JORC code reserve and resource estimate of 255.0 million tonnes of probable coal reserves, 197.0 million tonnes of measured coal resources, 72.3 million tonnes of indicated coal resources and 11.8 million tonnes of inferred coal resources. Reported coal resources are inclusive of coal reserves[2].

On June 13, 2014, Aspire announced that it entered into a binding agreement to acquire the Xanadu Mines Limited 50% interest in the Ekhgoviin Chuluu Joint Venture ("ECJV") with the Noble Group retaining its 50% ownership. The ECJV currently has a 60% interest in the Nuurstei Coking Coal Project in Northern Mongolia.

On September 19, 2014, Aspire completed a placement to sophisticated investors and issued shares to directors totaling 44,100,000 ordinary shares raising a total of $2.2 million. This increase in the total number of ordinary shares on issue in Aspire reduced the Company's ownership interest from 18.8% to 17.6% as at September 30, 2014.

On October 31, 2014, the Company sold 63,498,316 shares or 51.4 % of its shareholding in Aspire for net proceeds totaling $1.4 million.

As at November 10, 2014, the Company owned 60,000,000 shares or 8.5% of Aspire's issued and outstanding shares. The Company's interest in Aspire on November 10, 2014 has a market value of $2.3 million.

Exploration Program

The Company continued to minimize evaluation and exploration expenditures in the third quarter of 2014 in order to preserve the Company's financial resources. The 2014 exploration program for the fourth quarter of 2014 will continue to be focused on further defining the Soumber Deposit. Other exploration activities and expenditures will be limited to ensuring that the Company meets the Mongolian Minerals Law requirements in respect of its mining and exploration licenses including those related to the Soumber Deposit.

5. LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Capital Management

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

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

- maturity date of August 30, 2014;

[2] For more information on the Aspire resource and reserve estimates, refer to Aspire's press release dated July 31, 2013 and available at www.aspiremininglimited.com.

- interest rate of one month US dollar LIBOR Rate in effect plus 11% margin per annum;
- commitment fee of 35% of interest rate payable quarterly in arrears on undrawn principal amount of facility;
- front end fee of $0.1 million;
- draws subject to customary closing conditions and the Company's cash requirements in the ordinary course of business;
- facility is subject to certain mandatory prepayment and termination provisions; and
- the Company to continue to seek other funding alternatives.

The Turquoise Hill Loan Facility matured on August 30, 2014. As a result, subject to certain conditions and limitations, Turquoise Hill agreed to grant a deferral of payment and repayment of all amounts and obligations owing by the Company under the Turquoise Hill Loan Facility and it will not enforce its rights under the Turquoise Hill Loan Facility to demand such payment and repayment upon the maturity date of August 30, 2014. This deferral of payment and repayment is granted to the Company without prejudice to Turquoise Hill's right and ability to assert and re-assert at any point in time to demand payment and repayment of all amounts owing to Turquoise Hill under the Turquoise Hill Loan Facility.

As at August 29, 2014 the Company had drawn down $3.8 million under this facility and the Company is not eligible to draw down any further amounts under the Turquoise Hill Loan Facility.

Turquoise Hill has confirmed that subject to certain conditions and limitations, it agrees to grant deferral of payment and repayment of all amounts and obligations owing by the Company under the Turquoise Hill Loan Facility and it will not enforce its rights under the Turquoise Hill Loan Facility to demand such payment and repayment upon the maturity date of August 30, 2014. However, if (i) the Sale and Purchase Agreement entered into between Turquoise Hill and National United Resources Holdings Limited ("NUR") as announced on July 30, 2014 (the "NUR SPA") is terminated by any party thereto for any reason, (ii) the transaction contemplated by the NUR SPA shall not have been completed by November 30, 2014 or (iii) NUR is in breach of any of its obligations, covenants or undertakings under the NUR SPA, Turquoise Hill shall be immediately and automatically entitled to enforce its rights under the Turquoise Hill Loan Facility to demand payment and repayment of all amounts and obligations owing by the Company. This deferral of payment and repayment is granted to the Company without prejudice to Turquoise Hill's right and ability to assert and re-assert at any point in time to demand payment and repayment of all amounts owing to Turquoise Hill under the Turquoise Hill Loan Facility.

In addition, Turquoise Hill has also agreed that in the event the transaction contemplated the NUR SPA shall have been completed by November 30, 2014 strictly in accordance with the terms and conditions of the NUR SPA, Turquoise Hill would agree to defer repayment of amounts and obligations due by the Company under the Turquoise Hill Loan Facility as follows:

(i) US$1.9 million in principal and all interest that has accrued on and under the Turquoise Hill Loan Facility up to and including December 31, 2014 shall become due and payable on December 31, 2014; and

(ii) US$1.9 million in principal and all interest that has accrued on and under the Turquoise Hill Loan Facility from January 1, 2015 up to and including March 31, 2015 shall become due and payable on March 31, 2015.

Notwithstanding the provision of the Turquoise Hill Loan Facility and coal prepayments received from customers, the Company continues to experience negative impacts on its margins and liquidity and there can be no assurance that the Company will have sufficient funding for the remainder of 2014 to be able to continue as a going concern. The Company anticipates that coal prices in China will remain under pressure through the end of 2014 and the beginning of 2015, which will continue to impact the Company's margins and liquidity. Therefore the Company is actively seeking additional sources of financing to continue operating and meet its objectives, while continuing to be focused on minimizing uncommitted capital expenditures and preserving the Company's growth options. The Company is in discussions with various parties regarding potential funding solutions. However, there is no guarantee that an agreement will be reached. If it does not do so, or if it fails to secure additional capital or further prepayments from customers or otherwise restructure or refinance its business in order to address its cash requirements through September 30, 2015, 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, the Company may not be able to continue as a going concern. Refer to section 11 "Risk Factors". Therefore, the Company is actively seeking additional sources of financing to continue operating and meet its objectives.

Several adverse conditions and material uncertainties cast significant doubt upon the going concern assumption. The Company had cash of $4.8 million and working capital (excess current assets over current liabilities) of $3.6 million at September 30, 2014. The Company's consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue operating until at least September 30, 2015 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 the Company fails to generate sufficient operating cash flows, secure additional capital or otherwise restructure or refinance its business in order to pay the upcoming interest due under the CIC convertible debenture on November 19, 2014, or if it fails to generate sufficient operating cash flows, secure additional capital or otherwise restructure or refinance its business in order to address its cash requirements through September 30, 2015, it will not have adequate liquidity to fund its operations and meet its obligations (including its debt payment obligations), it may not be able to continue as a going concern. Refer to section 11 "Risk Factors". 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 the $250.0 million CIC convertible debenture which, if not cured within applicable cure periods in accordance with the terms of such debenture, may result in the principal amount owing and all accrued and unpaid interest becoming immediately due and payable upon notice to the Company by CIC.

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 September 30, 2014, the Company had cash of $4.8 million compared to cash of $21.8 million as at December 31, 2013. Working capital (excess current assets over current liabilities) was $3.6 million as at September 30, 2014 compared to $41.7 million as at December 31, 2013. As at November 10, 2014, the Company had cash of $5.7 million.

As at September 30, 2014, the Company's gearing ratio was 0.21 (December 31, 2013: 0.19), which was calculated based on the Company's long term liabilities to total assets. As at September 30, 2014, the Company is not subject to any externally imposed capital 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 (Cdn$11.88). As at September 30, 2014, the CIC owned, through its indirect wholly owned subsidiary, approximately 16% 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 convertible debenture, default on other indebtedness and certain adverse judgments.

Mongolian IAAC Investigation

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

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

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

Cash Flow Highlights

	Nine months ended September 30,	
$ in thousands	**2014**	**2013**
Cash used in operating activities	**$ (16,485)**	$ (3,275)
Cash used in investing activities	**(4,282)**	(418)
Cash generated from financing activities	**3,809**	111
Effect of foreign exchange rate changes on cash	**(111)**	(22)
Decrease in cash for the period	**(17,070)**	(3,604)
Cash balance, beginning of period	**21,837**	19,674
Cash balance, end of period	**$ 4,768**	$ 16,070

Cash used in Operating Activities

The Company used $16.5 million of cash in operating activities for the nine months ended September 30, 2014 compared to $3.3 million for the nine months ended September 30, 2013. The Company reduced the level of cash used in operating activities excluding non-cash working capital movements to $15.7 million in the nine months ended September 30, 2014 from $26.2 million for the nine months ended September 30, 2013. However, this improvement in cash used in operating activities has been offset by non-cash working capital movements resulting in the utilization of more cash in operating activities for the nine months ended September 30, 2014 when compared to the months ended September 30, 2013.

In the nine months ended September 30, 2014, there was an increase in non-cash working capital of $0.8 million compared to a reduction of $23.0 million over the same period in 2013. In the first nine months of 2014, the Company reduced the level of trade and other payables by $15.2 million which was funded in part through the increase in deferred revenues from prepaid coal sales ($12.7 million) and the reduction in prepaid expenses and deposits ($1.1 million). The reduction in prepaid expenses and deposits in the nine months ended September 30, 2014 includes the impact of the reclassification of restricted cash of $1.5 million from cash to prepaid expenses and deposits in the third quarter of 2014.

Over the same period in 2013, the Company reduced its prepaid expenses and deposits by $11.3 million and increased its trade and other payables ($10.5 million) following the ramp-up in operating activities in 2013 compared to the end of 2012.

Cash used in Investing Activities

For the nine months ended September 30, 2014, the Company used $4.3 million of cash in investing activities compared to $0.4 million for the nine months ended September 30, 2013. In the first nine months of 2014, expenditures on property, plant and equipment (including capitalized deferred stripping activities) totaled $3.6 million and investments in RDCC LLC were $2.0 million. These expenditures were partially offset by net proceeds of $1.3 million generated from the sale of the Tsagaan Tolgoi mining license which was completed in the second quarter of 2014. In comparison, for the first nine months of 2013, expenditures on plant, property and equipment (including capitalized deferred stripping activities) of $10.9 million and investments in RDCC LLC of $6.1 million were partially offset by proceeds from maturing investments of $15.4 million.

Cash generated from Financing Activities

The cash generated from financing activities in the nine months ended September 30, 2014 primarily related to the revolving credit facility obtained from Turquoise Hill. At September 30, 2014 the Company had drawn down $3.8 million under this facility and is no longer eligible to make further withdrawals.

Contractual Obligations and Guarantees

Day-to-day mining, expansionary and sustaining capital expenditures as well as administrative operations give rise to commitments for future minimum payments. As at September 30, 2014, the Company's operating and capital commitments were:

	As at September 30, 2014			
	Within 1 year	2-3 years	Over 3 years	Total
Capital expenditure commitments	$ 16,147	$ 7,971	$ -	$ 24,118
Operating expenditure commitments [(i)]	22,236	102	406	22,744
Commitments	**$ 38,383**	**$ 8,073**	**$ 406**	**$ 46,862**

(i) Operating expenditure commitments include $17.6 million of fees related to the Company's toll wash plant agreement with Ejin Jinda. This amount reflects the minimum expenditure due under this agreement.

Ovoot Tolgoi Mine Impairment Analysis

Unchanged from the assessment made as at December 31, 2013, March 31, 2014 and June 30, 2014 respectively, the Company determined that an indicator of impairment existed for its Ovoot Tolgoi Mine cash generating unit as at September 30, 2014. The impairment indicator was the continued weakness in the Company's share price during the third quarter of 2014 and the fact that the market capitalization of the Company, as at September 30, 2014, was less than the carrying value of its net assets.

Therefore, the Company conducted an impairment test whereby the carrying value of the Company's Ovoot Tolgoi Mine cash generating unit was compared to its "value in use" using a discounted future cash flow valuation model. The Company's cash flow valuation model has been updated to take into consideration the latest available information to the Company, including but not limited to, sales price and washing assumptions, operating cost assumptions and life of mine coal production assumptions as at September 30, 2014. The Company's Ovoot Tolgoi Mine cash generating unit carrying value was $383.7 million as at September 30, 2014.

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

- long term real selling price of $103 per tonne for semi-soft coking coal FOB Australia;
- updated life-of-mine coal production and operating costs; and
- a pre-tax discount rate of 15.3% based on an analysis of market, country and company specific factors.

Key sensitivities in the valuation model are as follows:

- for each 1% increase/(decrease) in the long term real selling price of semi-soft coking coal FOB Australia, the calculated value of the cash generating unit increases/(decreases) by approximately $21.1/($21.1) million; and
- for each 1% increase/ (decrease) in the pre-tax discount rate, the calculated value of the cash generating unit (decreases)/increases by approximately ($28.1)/$31.1 million.

The impairment analysis did not result in the identification of an impairment loss and no charge was required as at September 30, 2014. A decline of more than 2% in the long term real selling price of semi soft coking coal or an increase of more than 2% in the pre-tax discount rate may trigger an impairment charge on the cash generating unit. The Company believes that the estimates and assumptions incorporated in the impairment analysis are reasonable. However, these estimates and assumptions are subject to significant uncertainties and judgments.

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

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 financial instruments that are traded on an active liquid market are determined with reference to the quoted market prices. The fair value of the Company's investment in the shares of Kangaroo Resources Limited ("Kangaroo") and Aspire are determined using this methodology. The Company's investment in the shares of Kangaroo and its money market investments are classified as fair value through profit or loss ("FVTPL"). The Company's investment in the shares of Aspire is classified as available-for-sale.

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	
$ in thousands	**September 30, 2014**	**December 31, 2013**
Financial assets		
Loans-and-receivables		
Cash	**$ 4,768**	$ 21,837
Trade and other receivables	**724**	2,578
Available-for-sale		
Investment in Aspire	**5,395**	6,175
Fair value through profit or loss		
Investment in Kangaroo	**28**	222
Total financial assets	**$ 10,915**	$ 30,812

$ in thousands	As at September 30, 2014	As at December 31, 2013
Financial liabilities		
Fair value through profit or loss		
Convertible debenture - embedded derivatives	**$ 2,141**	$ 3,395
Other-financial-liabilities		
Trade and other payables	**17,503**	31,241
Convertible debenture - debt host	**100,338**	93,208
Total financial liabilities	**$ 119,982**	$ 127,844

The Company's net loss in the third quarter of 2014 and in the third quarter of 2013 included the following amounts of unrealized losses/(gains) from the fair value adjustments to certain financial instruments which are classified as FVTPL:

$ in thousands	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Unrealized loss on FVTPL investments	**$ 6**	$ 128	**$ 57**	$ 596
Unrealized gain on embedded derivatives in CIC convertible debenture	**133**	(113)	**1,253**	(4,204)

For the three months ended September 30, 2014, the Company recognized an unrealized gain, net of tax, of $1.1 million in other comprehensive income (2013: unrealized gain of $1.3 million). For the nine months ended September 30, 2014, the Company recognized an impairment loss of $1.8 million in other operating expenses and an unrealized gain, net of tax, of $1.5 million in other comprehensive income (2013: impairment loss of $3.1 million recognized in other operating expenses and an unrealized gain, net of tax, of $1.3 million in other comprehensive income).

6. REGULATORY ISSUES AND CONTINGENCIES

Regulatory Issues

Governmental and Regulatory Investigations

The Company is subject to investigations by the IAAC and the SIA regarding allegations against the Company and some of its former employees. The IAAC investigation concerns possible breaches of Mongolia's anti-corruption laws, while the SIA investigation concerns possible breaches of Mongolia's money laundering and taxation laws.

While the IAAC investigation into allegations of possible breaches of Mongolian anti-corruption laws has been suspended, the Company has not received formal notice that the IAAC investigation is completed. The IAAC has not formally accused any current or former Company employees of breach of Mongolia's anti-corruption laws.

A report issued by the experts appointed by the SIA on June 30, 2013 and again in January 2014 has recommended that the accusations of money laundering as alleged against the Company's three (3) former employees be withdrawn. However, to date, the Company has not received notice or legal document confirming such withdrawal as recommended by the experts appointed by the SIA.

A third investigation ordered by the SIA and conducted by the National Forensic Center ("NFC") into alleged violations of Mongolian taxation law was concluded at the end of January 2014. The report with conclusions of the investigations by the NFC has been provided to the Prosecutor General of Mongolia. The Prosecutor General has issued criminal charges against the three (3) former employees and the Company's Mongolian subsidiary SouthGobi Sands LLC may be held liable as "civil defendant" for alleged violations of Mongolian taxation law. The case was transferred to a Court of Justice for review by a judge in April 2014. On May 12, 2014, the Company was advised that the appointed judge has concluded that the investigation on the case was incomplete and has ordered to return the case to the General Prosecutor for additional investigation. As announced by the Company on June 24, 2014, the Company has been informed that the additional investigation had been completed and the case was transferred back to the First Instance Second District Court which set the trial date to June 30, 2014. Following the initial appearances before the court by all concerned parties, the trial date for the case was deferred until August 25, 2014.

The trial commenced on August 25, 2014 and following two (2) days of hearing, the panel of three (3) appointed judges ordered the matter be returned to the Prosecutor General for further investigations. The Court's decision is mainly based on the following findings during the hearing:

(i) lack of clarity as to the nature and scope of which the three (3) former employees are being accused;

(ii) insufficient evidence with respect to the accusations;

(iii) significant variations in the conclusions reached by the different investigations during the investigative period over the same allegations against the three (3) former employees and SouthGobi Sands LLC; and

(iv) the investigators failed to review and consider all the information and documents provided by SouthGobi Sands LLC to the investigators.

On October 7, 2014 the Mongolian investigation authority issued a resolution to order a re-investigation and new investigators to the case were appointed under that resolution.

As the case has been returned for further investigations, the likelihood or consequences of an outcome or any action taken against SouthGobi Sands LLC as "civil defendant" are uncertain and unclear at this time but could include financial or other penalties, which could be material, and which could have a material adverse effect on the Company.

The Company, including its Mongolian subsidiary SouthGobi Sands LLC, has prepared its financial statements in compliance with IFRS, and lodged all its tax returns in the required format under Mongolian tax law. During the investigative period, which has been ongoing since May 2012, the Company devoted considerable internal resources in reviewing and responding to the allegations raised through the investigations by the relevant authorities. The Company views these accusations as unfounded. It disputes these accusations and the procedures and conclusions of the investigations that led to these accusations and will vigorously defend itself and its former three (3) employees against these charges.

At this point, the three (3) former employees continue to be subject to a travel ban. SouthGobi Sands LLC is designated as a "civil defendant" in connection with the tax evasion allegations, and may potentially be held financially liable for the alleged criminal misconduct of its former employees under Mongolian Law.

The SIA also continues to enforce administrative restrictions, which were initially imposed by the IAAC investigation, on certain of the Company's Mongolian assets, including $1.5 million held in local bank accounts, in connection with its continuing investigation of these allegations. This $1.5 million is included within the prepaid expenses and deposits balance in the Company's financial statements. While the orders restrict the use of in-country funds pending the outcome of the investigation, they are not expected to have a material impact on the Company's activities in the short term, although they could create potential difficulties for the Company in the medium to long term. The Company will continue to take all appropriate steps to protect its ability to conduct its business activities in the ordinary course.

Internal Investigations

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

The investigations referred to above could result in one or more Mongolian, Canadian, United States or other governmental or regulatory agencies taking civil or criminal action against the Company, its affiliates or its current or former employees. The likelihood or consequences of such an outcome are unclear at this time but could include financial or other penalties, which could be material, and which could have a material adverse effect on the Company. Refer to the Company's MD&A for the year ended December 31, 2013, which is available on SEDAR at www.sedar.com, section 14 risk factors, "the Company is subject to continuing governmental, regulatory and internal investigations, the outcome of which is unclear at this time but could have a material adverse effect on the Company".

Mining Prohibition in Specified Areas Law

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

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

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

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

The Company understands that the status of the Mining Prohibition in Specified Areas Law is unclear and it has not been enforced to date. Reports from Mongolia suggest that the law may be amended. The

Company will continue to monitor developments and will ensure that it is fully compliant with Mongolian law.

Contingencies

Class Action Lawsuit

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

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

The Company disputes and will vigorously defend itself against these claims through independent Canadian litigation counsel retained by the Company and the other defendants for this purpose. Due to the inherent uncertainties of litigation, it is not possible to predict the final outcome of the Ontario Action or determine the amount of any potential losses, if any. However, the Company has judged a provision for this matter at September 30, 2014 is not required.

7. RELATED PARTY TRANSACTIONS

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

- Turquoise Hill – Turquoise Hill is the Company's immediate parent company and at September 30, 2014 owned approximately 56% of the outstanding common shares of the Company. Turquoise Hill provides various administrative services to the Company on a cost-recovery basis.
- Rio Tinto – Rio Tinto is the Company's ultimate parent company and at September 30, 2014 Rio Tinto controlled Turquoise Hill. The Company recovers administration and other costs incurred on behalf of Rio Tinto on a cost-recovery basis. Rio Tinto recovers from the Company the costs of salaries and benefits of employees assigned to work for the Company and recovers legal and professional fees from the Company in respect of the internal and tripartite committees referred to in section 6 "Regulatory Issues and Contingencies".
- Global Mining Management ("GMM") – On October 31, 2013, the Company and Turquoise Hill ceased being shareholders of GMM, a private company. GMM was owned equally by seven companies, two of which included the Company and Turquoise Hill. GMM provided administration, accounting and other office services to the Company on a cost-recovery basis. The provision of these services ceased on October 31, 2013.
- Turquoise Hill Resources Singapore Pte. Ltd. ("Turquoise Hill Singapore") – Turquoise Hill Singapore (formerly I2MS.NET Pte. Ltd.) is a private company 100% owned by Turquoise Hill. Turquoise Hill Singapore provides information technology and other related services to the Company on a cost-recovery basis.

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

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Corporate administration	**$ 263**	$ 214	**$ 636**	$ 595
Salaries and benefits	**235**	685	**1,135**	1,167
Finance cost	**148**	-	**305**	-
Related party expenses	**$ 646**	$ 899	**$ 2,076**	$ 1,762

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
GMM	**$ -**	$ 2	**$ -**	$ 59
Turquoise Hill	**224**	93	**465**	192
Rio Tinto	**223**	611	**1,133**	1,001
Turquoise Hill Singapore	**199**	193	**478**	510
Related party expenses	**$ 646**	$ 899	**$ 2,076**	$ 1,762

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Corporate administration	**$ -**	$ 7	**$ 17**	$ 14

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Turquoise Hill	**$ -**	$ -	**$ 17**	$ -
Rio Tinto	**-**	7	**-**	14
Related party expense recovery	**$ -**	$ 7	**$ 17**	$ 14

As at September 30, 2014, the Company had accounts receivable of nil (December 31, 2013: $0.1 million), accounts payable of $8.2 million (December 31, 2013: $1.4 million) and amounts classified as interest bearing loans and borrowings totaling $3.8 million as at September 30, 2014, (December 31, 2013: nil) with related parties. Included in the $8.2 million accounts payable as at September 30, 2014 are $5.3 million of legal and professional fees payable to Rio Tinto in respect of the internal and tripartite committees referred to in section 6 "Regulatory Issues and Contingencies".

8. OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares without par value and an unlimited number of preferred shares without par value. As at November 11, 2014, 187,322,387 common shares were issued and outstanding. There are also incentive share options outstanding to acquire 3.1 million unissued common shares with exercise prices ranging from Cdn$0.58 to Cdn$12.58. There are no preferred shares outstanding.

As at November 10, 2014, Turquoise Hill directly owned 104,807,155 common shares representing approximately 56% of the issued and outstanding common shares of the Company.

As announced on July 30, 2014, upon closing of the transaction on the sale of 56,102,000 shares between Turquoise Hill and NUR, the number of shares held by Turquoise Hill is expected to reduce to 48,705,155. The transfer represents a 29.95% stake in the Company leaving Turquoise Hill with an approximate stake in the Company of 26.00%.

9. INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

10. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

A detailed summary of all of the Company's significant accounting policies is included in note 3 to the Company's consolidated financial statements for the year ended December 31, 2013. Please refer to note 3.22 of the Company's December 31, 2013 consolidated financial statements for information regarding the accounting judgments and estimates that have the most significant effect on the amounts recognized in the Company's consolidated financial statements. There have been no significant changes to the significant accounting judgments and estimates since December 31, 2013.

11. RISK FACTORS

There are certain risks involved in the Company's operations, some of which are beyond its control. Material risks and uncertainties affecting the Company, their potential impact and the Company's principal risk management strategies are, other than as described below, substantially unchanged from those disclosed in the Company's MD&A for the year ended December 31, 2013, which is available on SEDAR at www.sedar.com.

Reserves and Resources

The Company is currently reviewing its mine plan for the Ovoot Tolgoi project as a result of the significant changes in the local and global coal market conditions since March 2012 when the Coal Reserve estimates and the Ovoot Tolgoi Technical Report were completed. This review is part of the normal re-optimization process generally adopted by mining companies experiencing significant changes in their economic environment. The review of the mine plan by the Company includes updates of the cash costs and cost profile of the operations, project development and production sequencing and forecasts. In addition, the Company is reviewing and updating its mine design parameters, mine designs and project development schedule in order to reflect its production plan and the market conditions.

The review of the mine plan has not yet been completed, nor has a new mine plan been presented to or been approved by the Company's Board of Directors. As a result of the significant changes in some of the mining planning factors compared to those used for the March 2012 independent technical report (see "Introduction"), this review may result in material changes to the reserves for the Ovoot Tolgoi project. Some of these changes, such as an upgrading of some resources from the inferred category to the measured and indicated category at the Surface-Sunrise 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 achieved by the Company in recent times, may result in an increase in reserves. However, other changes, 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, may result in a decrease in reserves.

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

The Company's Financial Situation

If the Company fails to generate sufficient operating cash flows, secure additional capital or otherwise restructure or refinance its business in order to address its cash requirements through September 30, 2015, the Company will not have adequate liquidity to fund its operations and meet its obligations (including its debt payment obligations), it may not be able to continue as a going concern and may be forced to seek relief under applicable legislation (or an involuntary petition for bankruptcy relief or similar creditor action may be filed or taken against it). Therefore, the Company is actively seeking additional sources of financing to continue operating and meet its objectives.

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 in order to pay the upcoming interest due under the CIC convertible debenture on November 19, 2014, and it must secure additional funding in order to address its cash requirements through September 30, 2015, to provide it with additional liquidity. The urgency of the Company's liquidity constraints may require the Company to pursue such a transaction on unfavorable terms. Moreover, the Company's ability to successfully implement, and the cost of, any such transaction will depend on numerous factors, including:

- demand and prices for its coal products;
- general economic conditions;
- strength of the credit and capital markets;
- its ability to successfully execute its operational strategies, and its operating and financial performance;
- its ability to remain in compliance with the CIC convertible debenture;
- its ability to maintain relationships with its suppliers, customers, employees, stockholders and other third parties; and
- market uncertainty in connection with its ability to continue as a going concern as well as investor confidence.

The Company is focused on addressing its liquidity and leverage issues. The Turquoise Hill Loan Facility has matured on August 30, 2014. Subject to certain conditions and limitations, Turquoise Hill will continue to support the Company by deferring payment and repayment of all amounts due by the Company under the Turquoise Hill Loan Facility. As of August 29, 2014, the Company has drawn down US$3.8 million under the Turquoise Hill Loan Facility. The Company is not eligible to drawn down any further amounts under the Turquoise Hill Loan Facility.

Notwithstanding the Turquoise Hill Loan Facility and coal prepayments received from customers, the Company continues to experience negative impacts on its margins and liquidity and there can be no assurance that the Company will have sufficient funding for the balance of 2014 to be able to continue as a going concern, including the interest payment on the CIC convertible debenture, which is approximately $8 million due on November 19, 2014. If the Company fails to secure additional funding or further coal prepayments from customers, the failure to make such payment to CIC, if not cured within three business days, would result in an event of default under the CIC convertible debenture and CIC would have the right to declare the principal and accrued interest owing thereunder immediately due and payable. If the

Company fails to pay such interest, or to restructure or refinance its current outstanding indebtedness, or to secure additional funding to address its cash requirements through September 30, 2015, it may not have adequate liquidity to fund its operations and meet its obligations (including debt payment obligations), it may not be able to continue as a going concern and may be forced to seek relief under applicable legislation (or an involuntary petition for bankruptcy relief or similar creditor action may be filed or taken against it).

If the Company seeks relief under applicable 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 CIC convertible debenture;
- 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 Company's common shares could be reduced to zero as result of an insolvency filing.

In order to address the Company's liquidity constraints and in addition to its ongoing efforts to secure additional capital or otherwise pursue a strategic restructuring, refinancing or other transaction to provide it with additional liquidity, the Company continues its cash management strategy to enhance and preserve as much liquidity as possible.

The Company cannot provide any assurance that it will be successful in accomplishing any of these plans or that any of these actions can be effected on a timely basis, on satisfactory terms or maintained once initiated. Furthermore, the Company's cash management strategy, if successful, may limit certain of its operational and strategic initiatives designed to grow its business over the long term.

The significant uncertainties faced by the Company relating to its ability to generate sufficient cash flows from operations and to continue to operate its business, may affect the price and volatility of the Company's common shares and any investment in such shares could suffer a significant decline or total loss in value. This volatility may adversely affect the price of the Company's common shares regardless of the Company's operating performance.

12. OUTLOOK

Difficult market conditions are expected to continue through the end of 2014. After a further decline in the third quarter, coal prices have shown signs of stabilization at the end of September 2014. The slight increase in thermal coal prices in September is partially due to winter restocking and the response from major Chinese coal producers to the government of China's call to help stabilize domestic markets. Further, the introduction by the Chinese authorities of an import duty ranging from 3% to 6% on coal imports on with an effective date of October 15, 2014 appears to have led at the beginning of the fourth quarter of 2014 to a modest increase in domestic coal prices with some regional variations across China. Since Mongolia does not currently have a free trade agreement with China, the effect from the import duty on demand for Mongolian coal is uncertain and coal producers in Mongolia may not fully benefit from any resulting price increase in China.

Sales volumes of the Company's Semi-soft coking coal product increased slightly in the third quarter of 2014 compared to the second quarter of 2014 (0.3 million tonnes and 0.1 million tonnes, respectively). However, these volumes remain well below the comparative period of 2013 (0.9 million tonnes sold in total in the second and third quarters of 2013). Sales of higher ash thermal product were 0.3 million tonnes in the third quarter of 2014 and demand for this product has remained steady at these levels. The Company anticipated continuous softness in China's coal markets and as a result reduced its production and placed approximately half of its workforce on furlough in June 2014. This furlough has been extended and is now expected to remain in place until the end of November 2014 subject to the improvement in market conditions. The Company has been able to meet its contracted sales volumes from a one shift per day operations and from running down its existing coal stockpile. The Company however is well positioned to rapidly remobilize and ramp up its capacity should market conditions improve.

The Company continues to reduce its operating and administration costs and delay expenditures in order to protect its cash position. Further, the Company expects to benefit from the improvement in infrastructure conditions and the reduction in the cost of transportation for coal between the Ovoot Tolgoi Mine and the Chinese border through the recent completion of the RDCC LLC paved highway project. The paved highway is expected to be commissioned before the end of 2014.

While demand is anticipated to improve with signs of restocking at utility companies at the beginning of the fourth quarter, the Company forecasts that coal prices in China will remain at current levels with modest upside through to the end of 2014. This will continue to impact the Company's margins and liquidity. As at the date hereof, the Company is actively seeking additional sources of financing to be able to pay the $8 million cash interest on the CIC convertible debenture on November 19, 2014. In the event a loan or other financing arrangement is not secured by November 19, 2014, and even if such loan is secured, if the Company does not secure additional funding to address its cash requirements through September 30, 2015, the Company is unlikely to have sufficient capital resources and does not expect to generate sufficient cash flows from mining operations in order to satisfy its ongoing obligations and future contractual commitments. Therefore, the Company is actively seeking additional sources of financing to continue operating and meet its objectives.

The Company's consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue operating until at least September 30, 2015 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 the Company fails to generate sufficient operating cash flows, secure additional capital or otherwise restructure or refinance its business as described above, it will not have adequate liquidity to fund its operations and meet its obligations (including its debt payment obligations) and it may not be able to continue as a going concern. See section 5 "Liquidity and Capital Resources" and section 11 "Risk Factors". While the Company intends to secure additional sources of financing as soon as possible, a continued delay in securing additional financing could ultimately result in an event of default of the $250.0 million CIC convertible debenture, which if not cured within applicable cure periods in accordance with the terms of such debenture, may result in the principal amount owing and all accrued and unpaid interest becoming immediately due and payable upon notice to the Company by CIC.

Longer term and assuming the Company's immediate liquidity challenges are resolved, the Company remains well positioned, with a number of key competitive strengths, including:

- **Strategic location** – The Ovoot Tolgoi Mine is located approximately 40km from China, which represents the main coal market. The Company has an infrastructure advantage, being approximately

50km from a major Chinese coal distribution terminal with rail connections to key coal markets in China.

- **Large resource base** – The Company's aggregate coal resources (including reserves) include measured and indicated resources of 497 million tonnes and inferred resources of 293 million tonnes (See "Risk Factors – Reserves and Resources").

- **Several growth options** – The Company has several growth options including an anticipated increase to 9 million tonnes annual run-of-mine capacity at the Ovoot Tolgoi Mine as well as greenfield options with the Soumber Deposit and Zag Suuj Deposit, located approximately 20km east and approximately 150km east of the Ovoot Tolgoi Mine, respectively.

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

Objectives

The construction of the paved highway from the Ovoot Tolgoi Mine to the Shivee Khuren Border Crossing as part of the RDCC LLC consortium was completed in September 2014. The project commissioning is expected by the end of 2014. The completion of the highway, which will serve for the transport of coal to the border, was one of the Company's key objectives for 2014.

The Company's remaining objectives for 2014 and the medium term are as follows.

- Secure additional and immediate sources of financing – The Company is focused on securing additional and immediate sources of financing and continues to minimize uncommitted capital expenditures while preserving the Company's growth options.

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

- Deliver value through marketing by improving the Company's access to market and end customers and the overall quality of its product – Subject to available financial resources, implement an effective business structure and beneficiation process based on wet washing that is capable of delivering a sustainable and profitable product mix to the Chinese market and expand the Company's customer base further inland in China.

- 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.

- Operating in a socially responsible manner – The Company is focused on maintaining its vigilance on health, safety and environmental performance.

- Re-establish the Company's reputation – The Company's vision is to be a respected and profitable Mongolian coal company. To achieve this, the Company will continue to work on re-establishing good working relationships with all external stakeholders.

November 10, 2014