Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

SOUTHGOBI RESOURCES LTD.

南戈壁資源有限公司*

(a company continued under the laws of British Columbia, Canada with limited liability)

(Stock Code: 1878)

SouthGobi Resources announces fourth quarter and full year 2015 financial and operating results and update on Ovoot Tolgoi resource estimate

HONG KONG – SouthGobi Resources Ltd. (**TSX: SGQ, HK: 1878**) ("SouthGobi" or the "Company"). The Company today announced its financial and operating results for the quarter and the year ended December 31, 2015.

Please see the attached announcement for more details.

By order of the Board
SouthGobi Resources Ltd.
Mr. Ningqiao Li
Chairman

Hong Kong, March 29, 2016

As of the date of this announcement, the executive directors are Messrs. Ningqiao Li, Aminbuhe and Yulan Guo; the independent non-executive directors are Messrs. Pierre Bruno Lebel, Mao Sun and Ms. Jin Lan Quan; the non-executive director is Mr. Huiyi Wang.

* *For identification purposes only*

SouthGobi Resources

March 29, 2016

SOUTHGOBI RESOURCES ANNOUNCES FOURTH QUARTER AND FULL YEAR 2015 FINANCIAL AND OPERATING RESULTS AND UPDATE ON OVOOT TOLGOI RESOURCE ESTIMATE

HONG KONG – SouthGobi Resources Ltd. (**TSX: SGQ, HK: 1878**) ("SouthGobi" or the "Company"). The Company today announced its financial and operating results for the quarter and the year ended December 31, 2015. All figures are in U.S. Dollars unless otherwise stated.

SIGNIFICANT EVENTS AND HIGHLIGHTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

OVERVIEW OF OPERATIONAL DATA AND FINANCIAL RESULTS

Summary of Annual Operational Data [(iv)]

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

(i) Average realized selling price is presented before deduction of royalties and selling fees.

(ii) A non-International Financial Reporting Standards ("IFRS") financial measure, refer to "Non-IFRS Financial Measures" section. Cash costs of product sold exclude idled mine asset cash costs.

(iii) Per 200,000 man hours and calculated based on a rolling 12 month average.

(iv) In reviewing operational data and financial results, readers are advised to note the Company's current mine optimization initiatives for the Ovoot Tolgoi Mine which there can be no assurance that the continuing optimization of the mine plan at the Ovoot Tolgoi Mine will ultimately provide the basis for an updated preliminary feasibility study that will support a new estimate of mineral reserves.

Overview of Annual Operational Data

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

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

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

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

Summary of Annual Financial Results

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

(i) Revenue is presented after deduction of royalties and selling fees.
(ii) Revenue and cost of sales relate to the Company's Ovoot Tolgoi Mine within the Mongolian Coal Division operating segment. Refer to note 2 of the selected information from the notes to the consolidated financial statements for further analysis regarding the Company's reportable operating segments.

Overview of Annual Financial Results

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

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

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

Royalty regime in Mongolia

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

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

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

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

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

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

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

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

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

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

Compared to 2014, the increase in other operating expenses is primarily related to the provision for the court case penalty (refer to “Governmental and Regulatory Investigations” of Regulatory Issues and Contingencies section for details) in 2015.

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

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

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

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

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

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

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

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

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

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

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

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

Summary of Quarterly Operational Data

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

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

Overview of Quarterly Operational Data

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

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

Summary of Quarterly Financial Results

The Company's financial statements are reported under IFRS issued by the International Accounting Standards Board ("IASB"). The following table provides highlights from the Company's financial statements of quarterly results for the past eight quarters.

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

(i) Revenue is presented after deduction of royalties and selling fees.

(ii) Revenue and cost of sales relate to the Company's Ovoot Tolgoi Mine within the Mongolian Coal Division operating segment. Refer to note 2 of the selected information from the notes to the consolidated financial statements for further analysis regarding the Company's reportable operating segments.

Overview of Quarterly Financial Results

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

UPDATED RESOURCE ESTIMATE – OVOOT TOLGOI MINE

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

In the context of current coal market conditions, and in particular, a significant decline in coal prices in China, the Company's principal market, underground mineralization is now assessed by the Company, in the absence of the availability and implementation of more efficient underground mining methods coupled with higher coal prices, as not having reasonable prospects for eventual economic extraction.

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

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

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

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

The criteria used to limit the resources are:

- Minimum coal thickness = 0.3metres (m) (previous estimates used 0.3m).
- Minimum coal parting = 0.2m (previous estimates used 0.3m).
- Base of weathering = 4m (same as previous estimate).
- Resources are limited to a depth of 350m.
- Volumes are converted to tonnages using laboratory relative density analytical results converted to an estimated in-situ basis.
- Resources are limited to the mining license boundary.
- The Resource estimations contained within are on an in-situ basis (i.e. as an in-situ tonnage and not adjusted for mining losses or recovery).

- Resources depleted by mined out tonnage (as of January 1, 2015). Mined out surfaces are based on survey data from January 27, 2015 for the Sunrise Field and November 19, 2014 for the Sunset Field. No mining activity has taken place since the survey information was collected that would materially affect the resources estimate.

Totals may not add up due to rounding.

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

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

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

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

FINANCIAL POSITION AND LIQUIDITY

Liquidity and Capital Management

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

Novel Sunrise private placement

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

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

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

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

Swiss Life GP private placement

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

Sales and purchase agreement between Novel Sunrise and Turquoise Hill

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

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

Novel Sunrise change in ownership

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

Turquoise Hill Loan Facility

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

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

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

- The Company agreed to effect a partial repayment under the TRQ Loan and a one-time deferral fee of $0.2 million and $50 thousand, respectively, no later than the fifth business day following October 27, 2015, the outstanding amount under the TRQ Loan shall be reduced by $0.4 million upon the receipt of such amount. The Company has made the repayment of $0.2 million and settled the one-time deferral fee of $50 thousand accordingly;

- Interest shall continue to accrue on all outstanding obligations but at the prevailing 12-month US dollar LIBOR rate plus 8%;

- In the event that the Company has the ability and capacity to make one or more further partial repayments between October 27, 2015 and April 22, 2016, then Turquoise Hill agrees to accept such partial repayment up to an aggregate amount of $1 million and the outstanding amount under the TRQ Loan shall be reduced by an amount equal to 200% of the amount so partially repaid up to a maximum aggregate reduction of $2 million;

- In the event that the Company receives any cash proceeds upon closing of any financing or funding transactions by ways of issuance of equity or debt securities or of hybrid equity-debt securities, or any cash proceeds under and sales, offtake or other commercial agreement(s) (whether as a payment, prepayment or otherwise), then immediately following the receipt of such proceeds, the Company shall make a partial repayment to Turquoise Hill in an amount equal to 10% of the aggregate gross proceeds and the outstanding amount under the TRQ Loan shall be reduced by an amount equal to 200% of the amount so repaid;

- In the event that the Company fails to strictly comply with any of the provisions set in the Deferral Letter Agreement shall result in the immediate termination and revocation of the Deferral Letter Agreement and the Company shall immediately be in default of the TRQ Loan.

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

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

Interim Funding Loan Commitment

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

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

Short-term Bridge Loan

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

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

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

Cash Position and Liquidity

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

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

Funding Plan

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

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

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

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

TSX Financial Hardship Exemption Application and Status of Listing on TSX

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

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

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

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

Ovoot Tolgoi Mine Impairment Analysis

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

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

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

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

Key sensitivities in the valuation model are as follows:

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

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

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

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

REGULATORY ISSUES AND CONTINGENCIES

Governmental and Regulatory Investigations

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

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

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

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

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

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

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

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

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

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

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

Internal Investigations

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

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

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

Mongolian IAAC investigation

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

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

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

Class action lawsuit

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

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

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

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

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

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

Toll wash plant agreement with Ejin Jinda

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

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

Mining Prohibition in Specified Areas Law

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

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

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

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

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

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

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

Special Needs Territory in Umnugobi

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

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

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

Commercial arbitration in Hong Kong

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

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

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

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

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

Notice of claim by former Chief Executive Officer

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

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

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

PROCESSING INFRASTRUCTURE

Transportation Infrastructure

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

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

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

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

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

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

The Company has not redeemed, purchased or sold any of its own listed securities during the year ended December 31, 2015, nor have any of its subsidiaries purchased, or sold any of the Company's listed securities during the year ended December 31, 2015.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has, throughout the year ended December 31, 2015, applied the principles and complied with the requirements of its corporate governance practices as defined by the Board of Directors and all applicable statutory, regulatory and stock exchange listings standards.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED COMPANIES

The Company has adopted policies regarding directors' securities transactions in its Corporate Disclosure, Confidentiality and Securities Trading policy that has terms that are no less exacting than those set out in the Model Code of Appendix 10 of the rules governing the listing of securities on the Hong Kong Stock Exchange.

The Board of Directors confirms that all of the Directors of the Company have complied with the required policies in the Company's Corporate Disclosure, Confidentiality and Securities Trading policy throughout the year ended December 31, 2015.

EMPHASIS OF MATTER – GOING CONCERN ASSUMPTION

Without qualifying their opinion, the auditors' report is likely to include a paragraph to draw the attention of the Company's shareholders to notes to the consolidated financial statements which indicate that several adverse conditions and material uncertainties cast significant doubt upon the going concern assumption. The Company's consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue operating until at least December 31, 2016 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. However, in order to continue as a going concern, the Company must generate sufficient operating cash flows, secure additional capital or otherwise pursue a strategic restructuring, refinancing or other transaction to provide it with additional liquidity. If it fails to do so, or is unable to secure additional capital or otherwise restructure or refinance its business in order to address its cash requirements through December 31, 2016, then the Company is unlikely to have sufficient capital resources or cash flows from mining operations in order to satisfy its ongoing obligations and future contractual commitments, including cash interest payments due on the CIC Convertible Debenture. As a result, it may not be able to continue as a going concern.

OUTLOOK

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

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

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

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

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

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

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

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

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

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

Objectives

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

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

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

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

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

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

NON-IFRS FINANCIAL MEASURES

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 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.

Summarized Comprehensive Income Information
(Expressed in thousands of U.S. Dollars, except for share and per share amounts)

	Year ended December 31, 2015	2014
Revenue	**$ 16,030**	$ 24,494
Cost of sales	**(63,691)**	(82,132)
Gross loss	**(47,661)**	(57,638)
Other operating expenses	**(18,951)**	(5,960)
Administration expenses	**(7,509)**	(8,944)
Evaluation and exploration expenses	**(145)**	(1,312)
Impairment of property, plant and equipment	**(92,651)**	(8,880)
Loss from operations	**(166,917)**	(82,734)
Finance costs	**(21,371)**	(21,848)
Finance income	**1,302**	1,586
Share of earnings/(losses) of a joint venture	**225**	(101)
Loss before tax	**(186,761)**	(103,097)
Current income tax expense	**(4)**	(586)
Net loss attributable to equity holders of the Company	**(186,765)**	(103,683)
Other comprehensive loss to be reclassified to profit or loss in subsequent periods		
Change in value of available-for-sale financial asset, net of tax	**–**	(514)
Exchange differences on translation of foreign operations	**(1,275)**	–
Net comprehensive loss attributable to equity holders of the Company	**$ (188,040)**	$ (104,197)
Basic loss per share	**$ (0.79)**	$ (0.55)
Diluted loss per share	**$ (0.79)**	$ (0.55)

Summarized Financial Position Information
(Expressed in thousands of U.S. Dollars)

	As at December 31, 2015	2014
ASSETS		
Current assets		
Cash and cash equivalents	**$ 377**	$ 3,789
Trade and other receivables	**8,196**	462
Inventories	**32,262**	31,255
Prepaid expenses and deposits	**1,487**	4,192
Total current assets	**42,322**	39,698
Non-current assets		
Property, plant and equipment	**222,485**	349,867
Long term investment	**25,667**	26,574
Total non-current assets	**248,152**	376,441
Total assets	**$ 290,474**	$ 416,139
EQUITY AND LIABILITIES		
Current liabilities		
Trade and other payables	**$ 30,917**	$ 18,124
Provision for court case penalty	**16,468**	–
Deferred revenue	**11,683**	11,898
Interest-bearing borrowings	**8,905**	3,945
Current portion of convertible debenture	**16,671**	2,301
Total current liabilities	**84,644**	36,268
Non-current liabilities		
Convertible debenture	**91,988**	92,886
Decommissioning liability	**3,149**	2,704
Total non-current liabilities	**95,137**	95,590
Total liabilities	**179,781**	131,858
Equity		
Common shares	**1,094,618**	1,080,417
Share option reserve	**52,292**	52,041
Exchange reserve	**(1,275)**	–
Accumulated deficit	**(1,034,942)**	(848,177)
Total equity	**110,693**	284,281
Total equity and liabilities	**$ 290,474**	$ 416,139
Net current assets/(liabilities)	**$ (42,322)**	$ 3,430
Total assets less current liabilities	**$ 205,830**	$ 379,871

SELECTED INFORMATION FROM THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Additional information required by the Hong Kong Stock Exchange and not disclosed elsewhere in this announcement is as follows. All amounts are expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated.

1. BASIS OF PREPARATION

1.1 Corporate information and liquidity

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

Several adverse conditions and material uncertainties cast significant doubt upon the going concern assumption. The Company had limited cash of $377 at December 31, 2015 and anticipates that coal prices in China will remain under pressure in 2016, which will continue to impact the Company's margins and liquidity. Therefore, the Company is actively seeking prepaid coal offtake agreements and other additional sources of financing to continue operating and meet its business objectives, while remaining focused on minimizing uncommitted capital expenditures and preserving the Company's growth options.

The Company, together with Novel Sunrise, continues to advance the Funding Plan in order to pay the interest due under the CIC Convertible Debenture and TRQ Loan, meet its obligations as they fall due and achieve its business objectives in 2016. These obligations include the tax penalty due to the Government of Mongolia. However, there is no guarantee that the Company will be able to continue to advance the Funding Plan or secure other sources of financing. If it fails to do so, or is unable to secure additional capital or otherwise restructure or refinance its business in order to address its cash requirements through December 31, 2016, then the Company is unlikely to have sufficient capital resources or cash flows from mining operations in order to satisfy its ongoing obligations and future contractual commitments, including cash interest payments due on the TRQ Loan and the CIC Convertible Debenture (subsequent to December 31, 2015 the Company paid the required cash interest payments under the debenture for January, February and March 2016 of $1,000 each) and the $1,000 on April 19, 2016, $10,100 on May 18, 2016, $8,000 on May 19, 2016 and $8,100 on November 19, 2016 remain outstanding to date. As a result, the Company may not be able to continue as a going concern.

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

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

1.2 Statement of compliance

The consolidated financial statements, including comparatives, have been prepared in accordance with and using accounting policies in compliance with the IFRS as issued by the IASB.

The consolidated financial statements of the Company for the year ended December 31, 2015 were approved and authorized for issue by the Board of Directors of the Company on March 29, 2016.

1.3 Basis of presentation

The consolidated financial statements have been prepared on a historical cost basis except for certain financial assets and financial liabilities which are measured at fair value.

2. SEGMENTED INFORMATION

The Company's one reportable operating segment is its Mongolian Coal Division. The Company's Corporate Division does not earn revenues and therefore does not meet the definition of an operating segment.

The carrying amounts of the Company's assets, liabilities, reported income or loss and revenues analyzed by operating segment are as follows:

		Coal Division		Unallocated(i)		Consolidated Total
Segment assets						
As at December 31, 2015	**$**	**288,974**	**$**	**1,500**	**$**	**290,474**
As at December 31, 2014		411,816		4,323		416,139
Segment liabilities						
As at December 31, 2015	**$**	**51,404**	**$**	**128,377**	**$**	**179,781**
As at December 31, 2014		22,770		109,088		131,858
Segment loss						
For the year ended December 31, 2015	**$**	**(162,534)**	**$**	**(24,231)**	**$**	**(186,765)**
For the year ended December 31, 2014		(76,515)		(27,168)		(103,683)
Segment revenues						
For the year ended December 31, 2015	**$**	**16,030**	**$**	**–**	**$**	**16,030**
For the year ended December 31, 2014		24,494		–		24,494
Impairment charge on assets(ii)						
For the year ended December 31, 2015	**$**	**108,075**	**$**	**–**	**$**	**108,075**
For the year ended December 31, 2014		32,464		1,766		34,230

(i) The unallocated amount contains all amounts associated with the Corporate Division.

(ii) The impairment charge on assets for the year ended December 31, 2015 and year ended December 31, 2014 relates to trade and other receivables, inventories, prepaid expenses and deposits, property, plant and equipment and investments.

3. COST OF SALES

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

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

(i) Cost of sales related to idled mine assets for the year ended December 31, 2015 includes $22,462 of depreciation expense (2014: includes $30,305 of depreciation expenses). The depreciation expense relates to the Company's idled plant and equipment.

4. OTHER OPERATING EXPENSES

The Company's other operating expenses consist of the following amounts:

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

5. ADMINISTRATION EXPENSES

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

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

6. EVALUATION AND EXPLORATION EXPENSES

The Company's evaluation and exploration expenses consist of the following amounts:

	Year ended December 31, **2015**	2014
Direct expenses	**$ 27**	$ 818
License fees	**53**	6
Share-based compensation expense	**13**	23
Overhead and other	**52**	465
Evaluation and exploration expenses	**$ 145**	$ 1,312

7. FINANCE COSTS AND INCOME

The Company's finance costs consist of the following amounts:

	Year ended December 31, **2015**	2014
Interest expense on convertible debenture	**$ 20,549**	$ 20,165
Interest expense on borrowings	**475**	242
Commitment fee and front end fee	**50**	187
Loan arrangement fee	**190**	–
Realized loss on disposal of available-for-sale financial asset	**–**	1,104
Realized loss on disposal of FVTPL investments	**–**	55
Accretion of decommissioning liability	**107**	95
Finance costs	**$ 21,371**	$ 21,848

The Company's finance income consists of the following amounts:

	Year ended December 31, **2015**	2014
Unrealized gain on embedded derivatives in convertible debenture	**$ 1,077**	$ 1,560
Gain on waiver of loan from Turquoise Hill	**200**	–
Interest income	**25**	26
Finance income	**$ 1,302**	$ 1,586

8. TAXES

8.1 Income tax recognized in profit or loss

The Canadian statutory tax rate was 26% (2014: 26%). A reconciliation between the Company's tax expense and the product of the Company's loss before tax multiplied by the Company's domestic tax rate is as follows:

	Year ended December 31, 2015	2014
Loss before tax	**$ (186,761)**	$ (103,097)
Statutory tax rate	**26.00%**	26.00%
Income tax recovery based on combined Canadian federal and provincial statutory rates	**(48,558)**	(26,805)
Deduct:		
Lower effective tax rate in foreign jurisdictions	**13,604**	920
Tax effect of tax losses and temporary differences not recognized	**5,553**	18,199
Non-deductible expenses	**29,405**	8,272
Income tax expenses	**$ 4**	$ 586

8.2 Deferred tax balances

The Company's deferred tax assets/(liabilities) consist of the following amounts:

	As at December 31, 2015	2014
Tax loss carry forwards	**$ 11,558**	$ 11,860
Property, plant and equipment and other assets	**(11,558)**	(11,860)
Total deferred tax balances	**$ –**	$ –

8.3 Unrecognized deductible temporary differences and unused tax losses

The Company's deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

	As at December 31, 2015	2014
Non-capital losses	**$ 133,756**	$ 140,694
Capital losses	**30,049**	50,964
Deductible temporary differences	**300,197**	276,791
Total unrecognized amounts	**$ 464,002**	$ 468,449

8.4 Expiry dates

The expiry dates of the Company's unused tax losses are as follows:

	As at December 31, 2015 U.S. Dollar Equivalent	Expiry dates
Non-capital losses		
Canada	$ 116,012	2033 – 2035
Mongolia	17,446	2017 – 2019
China	298	2020
	$ 133,756	
Capital losses		
Canada	$ 30,049	indefinite

9. LOSS PER SHARE

The calculation of basic loss and diluted loss per share is based on the following data:

	Year ended December 31, **2015**	2014
Net loss	**$ (186,765)**	$ (103,683)
Weighted average number of shares	**237,560**	190,132
Basic and diluted loss per share	**$ (0.79)**	$ (0.55)

Potentially dilutive items not included in the calculation of diluted loss per share for the year ended December 31, 2015 include the convertible debenture and stock options that were anti-dilutive.

10. TRADE AND OTHER RECEIVABLES

The Company's trade and other receivables consist of the following amounts:

	As at December 31, **2015**	2014
Trade receivables	**$ 7,800**	$ –
Other receivables	**396**	462
Total trade and other receivables	**$ 8,196**	$ 462

The aging of the Company's trade and other receivables, based on invoice date and net of provisions, is as follows:

	As at December 31,	
	2015	2014
Less than 1 month	**$ 4,399**	$ 305
1 to 3 months	**167**	123
3 to 6 months	**3,597**	34
Over 6 months	**33**	–
Total trade and other receivables	**$ 8,196**	$ 462

Trade receivables are normally paid within 30 days from the date of billing. Overdue balances are reviewed regularly by senior management. The Company does not hold any collateral or other credit enhancements over its trade and other receivable balances.

For the year ended December 31, 2015, the Company recorded a $161 loss provision on its trade and other receivables in other operating expenses (2014: $567). The Company anticipates full recovery of its remaining outstanding trade and other receivables; therefore, no further loss provisions have been recorded in respect of the Company's trade and other receivables.

11. TRADE AND OTHER PAYABLES

Trade and other payables of the Company primarily consists of amounts outstanding for trade purchases relating to coal mining, development and exploration activities and mining royalties payable. The usual credit period taken for trade purchases is between 30 to 90 days.

The aging of the Company's trade and other payables is as follows:

	As at December 31,	
	2015	**2014**
Less than 1 month	**$ 9,465**	$ 6,706
1 to 3 months	**3,282**	1,703
3 to 6 months	**6,075**	2,705
Over 6 months	**12,095**	7,010
Total trade and other payables	**$ 30,917**	$ 18,124

12. DEFERRED REVENUE

At December 31, 2015, the Company has deferred revenue of $11,683, which represents prepayments for coal sales from customers (2014: $11,898).

Included in deferred revenue is amount prepaid by First Concept who served the Notice on SGS of $11,500 at December 31, 2015 (2014: $11,500).

13. INTEREST-BEARING BORROWINGS

Turquoise Hill Loan Facility

On May 25, 2014, the Company announced it had obtained the TRQ Loan in the form of a $10,000 revolving credit facility from Turquoise Hill to meet its short term working capital requirements. The key commercial terms of the facility were: an original maturity date of August 30, 2014 (subsequently extended); an interest rate of one month US dollar LIBOR Rate in effect plus 11% margin per annum; a commitment fee of 35% of interest rate payable quarterly in arrears on undrawn principal amount of facility and a front end fee of $100;

During 2014 and 2015, the due date of the TRQ Loan was extended several times and the limit has been reduced to $3,800.

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

- The Company agreed to effect a partial repayment under the TRQ Loan and a one-time deferral fee of $200 and $50, respectively, no later than the fifth business day following October 27, 2015. The outstanding amount under the Turquoise Hill Loan Facility shall be reduced by $400 upon the receipt of such amount. The Company has made the repayment of $200 and settled the one-time deferral fee of $50 accordingly;

- Interest shall continue to accrue on all outstanding obligations but at the prevailing 12-month US dollar LIBOR rate plus 8%;

- In the event that the Company has the ability and capacity to make one or more further partial repayments between October 27, 2015 and April 22, 2016, then Turquoise Hill agrees to accept such partial repayment up to an aggregate amount of $1,000 and the outstanding amount under the TRQ Loan shall be reduced by an amount equal to 200% of the amount so partially repaid up to a maximum aggregate reduction of $2,000;

- In the event that the Company receives any cash proceeds upon closing of any financing or funding transactions by ways of issuance of equity or debt securities or of hybrid equity-debt securities, or any cash proceeds under and sales, offtake or other commercial agreement(s) (whether as a payment, prepayment or otherwise), then immediately following the receipt of such proceeds, the Company shall make a partial repayment to Turquoise Hill in an amount equal to 10% of the aggregate gross proceeds and the outstanding amount under the TRQ Loan shall be reduced by an amount equal to 200% of the amount so repaid; and

- In the event that the Company fails to strictly comply with any of the provisions set in the Deferral Letter Agreement shall result in the immediate termination and revocation of the Deferral Letter Agreement and the Company shall immediately be in default of the TRQ Loan.

As at December 31, 2015, the outstanding principal and accrued interest under this facility amounted to $3,400 and $554, respectively (at December 31, 2014, the outstanding principal and accrued interest under this facility amounted to $3,800 and $145, respectively).

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

Short-term Bridge Loan

On October 27, 2015, the Company executed a $10,000 bridge loan agreement with an independent Asian based private equity fund. The key commercial terms of the loan are as follows:

- $5,300 and $4,700 will mature on May 10, 2016 and July 30, 2016, respectively;
- Interest rate of 8% per annum and payable upon the repayment of loan principal; and
- Loan arrangement fee is charged at 4% of the loan principal drawn.

As at December 31, 2015, the outstanding balance for the short-term bridge loan was $4,885 (2014: nil) and the Company owed accrued interest of $66 (2014: nil).

14. CONVERTIBLE DEBENTURE

On November 19, 2009, the Company issued a convertible debenture to a wholly owned subsidiary of the CIC for $500,000.

The convertible debenture is presented as a liability since it contains no equity components. The convertible debenture is a hybrid instrument, containing a debt host component and three embedded derivatives – the investor's conversion option, the issuer's conversion option and the equity based interest payment provision (the 1.6% share interest payment) (the "embedded derivatives"). The debt host component is classified as other-financial-liabilities and is measured at amortized cost using the effective interest rate method and the embedded derivatives are classified as fair value through profit or loss and all changes in fair value are recorded in profit or loss. The difference between the debt host component and the principal amount of the loan outstanding is accreted to profit or loss over the expected life of the convertible debenture.

The embedded derivatives were valued upon initial measurement and subsequent periods using a Monte Carlo simulation valuation model. A Monte Carlo simulation model is a valuation model that relies on random sampling and is often used when modeling systems with a large number of inputs and where there is significant uncertainty in the future value of inputs and where the movement of the inputs can be independent of each other. Some of the key inputs used by the Company in its Monte Carlo simulation include: the floor and ceiling conversion prices, the Company's common share price, the risk-free rate of return, expected volatility of the stock price, forward foreign exchange rate curves (between the CAD$ and U.S. Dollar) and spot foreign exchange rates.

14.1 Partial conversion

On March 29, 2010, the Company exercised a right within the debenture to call and convert $250,000 of the debenture for 21,471 common shares.

14.2 Presentation

Based on the Company's valuation as at December 31, 2015, the fair value of the embedded derivatives decreased by $1,077 compared to December 31, 2014. The decrease was recorded as finance income for the year ended December 31, 2015.

For the year ended December 31, 2015, the Company recorded interest expense of $20,549 related to the convertible debenture as a finance cost (2014: $20,165). The interest expense consists of the interest at the contract rate and the accretion of the debt host component of the convertible debenture. To calculate the accretion expense, the Company uses the contract life of 30 years and an effective interest rate of 22.2%.

The movements of the amounts due under the convertible debenture are as follows:

	Year ended December 31, 2015	2014
Balance, beginning of year	**$ 95,187**	$ 96,603
Interest expense on convertible debenture	**20,549**	20,165
Decrease in fair value of embedded derivatives	**(1,077)**	(1,560)
Interest paid	**(6,000)**	(20,021)
Balance, end of year	**$ 108,659**	$ 95,187

The convertible debenture balance consists of the following amounts:

	As at December 31, 2015	2014
Current convertible debenture		
Interest payable	**$ 16,671**	$ 2,301
Non-current convertible debenture		
Debt host	**91,231**	91,052
Fair value of embedded derivatives	**757**	1,834
	91,988	92,886
Total convertible debenture	**$ 108,659**	$ 95,187

On November 27, 2015, the Company issued 11,958 common shares to settle the $4,000 November 19, 2015 share interest payment. The number of common shares was based on the 50-day volume-weighted average share price on November 19, 2015 of CAD$0.45.

15. ACCUMULATED DEFICIT AND DIVIDENDS

At December 31, 2015, the Company has accumulated a deficit of $1,034,942 (2014: $848,177). No dividends have been paid or declared by the Company since inception.

REVIEW OF RESULTS AND RELEASE OF AUDITED RESULTS

The audited consolidated financial statements for the Company for the year ended December 31, 2015, were reviewed by the Audit Committee of the Company and approved and authorized for issue by the Board of Directors of the Company on March 29, 2016.

The figures in respect of the Company's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended December 31, 2015, as set out in this announcement have been agreed by the Company's auditor, PricewaterhouseCoopers LLP ("PwC"), to the amounts set out in the Company's audited consolidated financial statements for the year. The work performed by PwC in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PwC on this announcement.

The Company's results for the year ended December 31, 2015, are contained in the audited consolidated financial statements and unaudited Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), which will be available on March 29, 2016 on the SEDAR website at www.sedar.com and the Company's website at www.southgobi.com. Copies of the Company's 2015 Annual Report, containing the audited financial statements and MD&A, and the Annual Information Form ("AIF") will be available at www.southgobi.com. Shareholders with registered addresses in Hong Kong who have elected to receive a copy of the Company's Annual Report will receive one. Other shareholders may request a hard copy of the Annual Report free of charge by contacting our Investor Relations department by email at info@southgobi.com.

QUALIFIED PERSON

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

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

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

ABOUT SOUTHGOBI

SouthGobi, listed on the Toronto and Hong Kong stock exchanges, owns and operates its flagship Ovoot Tolgoi coal mine in Mongolia. It also holds the mining and exploration licences of its other metallurgical and thermal coal deposits in South Gobi Region of Mongolia. SouthGobi produces and sells coal to customers in China.

Contacts:

Investors Relations
Kino Fu
Email: kino.fu@southgobi.com

Website: www.southgobi.com

Forward-Looking Statements:

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

- anticipated stock market conditions, the future prices of the Company’s common shares (the “Common Shares”) and ownership thereof;
- the Company’s anticipated business activities, planned expenditures and corporate strategies;

- the Company's intention to develop markets for its semi-soft coking coal brands and to pursue long-term supply offtake agreements with end users in China;

- costs relating to anticipated capital expenditures and the 2016 exploration program;

- the Company's anticipated financing needs, development plans and future production levels;

- expected impacts of the remaining administrative restrictions on certain of the Company's Mongolian assets and the anticipated impact on the Company's activities;

- the results and impact of the Ontario class action;

- the ability of the Company to satisfy the Tax Penalty and the possible consequences to the Company of the Tax Verdict and Appeal Verdict;

- the potential effect of the list of licenses published by the Government of Mongolia covering areas in which exploration and mining is purportedly prohibited on the Company's mining licenses;

- the Company's expectations of sufficient liquidity and capital resources to meets its ongoing obligations and future contractual commitments, including the Company's ability to secure additional funding and to meet its obligations under each of the CIC convertible debenture and the TRQ Loan as the same become due;

- the possible impact of changes to the inputs to the valuation model used to value the embedded derivatives in the CIC Convertible Debenture;

- the estimates and assumptions included in the Company's impairment analysis and the possible impact of changes thereof;

- the possible impacts of changes in useful life or depreciation rates on depreciation expenses;

- the potential effects of a difference between future cash flows and profits from estimates;

- the Company's plans to file a technical report for the new mineral resource estimate described herein for the Ovoot Tolgoi Mine and the timing thereof;

- the results of the Company's mine plan optimization efforts in respect of the Ovoot Tolgoi Mine and corresponding mineral reserve evaluation process;

- the ability for higher-ash product to be sold as a thermal coal product and the type of coal products being produced;

- the ability of the Company to successfully review the utilization of the wet washing facility and enhance the quality of its coal products through a beneficiation process based on wet washing;

- the agreement with Ejin Jinda and payments thereunder;

- the future mining operations at the Soumber Deposit being allowed to share the existing infrastructure with the Ovoot Tolgoi Mine;

- plans for the progress of mining license application processes;

- future coal market conditions in China and the related impact on the Company's margins and liquidity;

- the outcome of the issues described under the heading "REGULATORY ISSUES AND CONTINGENCIES";

- business outlook, including the outlook for the remainder of 2016 and beyond;

- the implementation and impact of the Funding Plan and actions to be taken under the Funding Plan;

- the Company continuing as a going concern and its ability to realize its assets and discharge its liabilities in the normal course of operations as they become due; adjustments to the amounts and classifications of assets and liabilities in the Company's financial statements and the impact thereof; the Company's objectives for the remainder of 2016 and beyond;

- the capacity and future toll rate of the Paved Highway;

- the impact of amendments to, or the application of the laws of Mongolia and other countries in which the Company carries on business;

- the impact of the Company's activities on the environment and actions taken for the purpose of mitigation of potential environmental impacts and planned focus on health, safety and environmental performance;

- the outcome of legal proceedings involving the Company and its former Chief Executive Officer, Mr. Alexander Molyneux;

- the outcome of arbitration proceedings involving the Company and First Concept Logistics Limited with respect a coal supply agreement and payments thereunder;

- greenfield development options with the Soumber Deposit and Zag Suuj Deposit; and

- other statements that are not historical facts.

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