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)
(Hong Kong Stock Code: 1878)
(Toronto Stock Code: SGQ)

SouthGobi Resources announces fourth quarter and full year 2016 financial and operating results and updated resource estimate and newly declared reserve estimate in respect of Ovoot Tolgoi

HONG KONG – SouthGobi Resources Ltd. (**TSX: SGQ, HK: 1878**) (the "**Company**") today announces its financial and operating results for the quarter and the year ended December 31, 2016.

Please see the attached announcement for more details. The information per the attached announcement is available on the SEDAR website at www.sedar.com and the website of the Hong Kong Stock Exchange at www.hkexnews.hk.

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

Hong Kong, March 31, 2017

As at the date of this announcement, the executive directors of the Company are Messrs. Ningqiao Li, Aminbuhe and Yulan Guo; the independent non-executive directors are Messrs. Zhu Liu, Mao Sun, Joseph Belan and Ms. Jin Lan Quan; the non-executive director is Mr. Huiyi Wang.

* *For identification purposes only*

SouthGobi Resources

March 31, 2017

SOUTHGOBI RESOURCES ANNOUNCES FOURTH QUARTER AND FULL YEAR 2016 FINANCIAL AND OPERATING RESULTS AND UPDATED RESOURCE ESTIMATE AND NEWLY DECLARED RESERVE ESTIMATE IN RESPECT OF OVOOT TOLGOI

HONG KONG – SouthGobi Resources Ltd. (**TSX: SGQ, HK: 1878**) (the "Company" or "SouthGobi") today announces its financial and operating results for the quarter and the year ended December 31, 2016. All figures are in U.S. dollars ("USD") unless otherwise stated.

SIGNIFICANT EVENTS AND HIGHLIGHTS

The Company's significant events and highlights for the year ended December 31, 2016 and the subsequent period to March 31, 2017 are as follows:

- ***Operating Results*** – Although the coal prices generally improved in China during 2016, the impact of negotiating coal sale agreements during lower coal price periods and the depreciation of the Renminbi against the USD negatively impacted the overall coal prices achieved by the Company. The Company sold 1.08 million tonnes of coal during the fourth quarter of 2016 compared to 0.21 million tonnes in the fourth quarter of 2015. The production for the fourth quarter of 2016 was 1.21 million tonnes, compared to 0.62 million tonnes for the fourth quarter of 2015. The Company maintained a strong safety record and completed the fourth quarter of 2016 without any lost time injury.

- ***Financial Results*** – The Company recorded an $11.4 million loss from operations during the fourth quarter of 2016 as compared to a $105.1 million loss from operations in the fourth quarter of 2015. Revenue was $19.0 million in the fourth quarter of 2016 as compared to $2.9 million in the fourth quarter of 2015. The operations during the fourth quarter of 2016 improved over the comparative 2015 quarter given the improved market conditions in China and the $92.7 million of impairment charges that were recorded in the fourth quarter of 2015 to reduce the carrying value of various items of property, plant and equipment to their recoverable amounts.

- ***Expanded Resources and Declared Reserves*** – As a result of the work performed by Dragon Mining Consulting Limited ("DMCL"), the Company increased its estimate of total resources at the Ovoot Tolgoi deposit from those described in the technical report the Company filed in respect of the Ovoot Tolgoi deposit in May 2016 (the "2016 Technical Report") and has declared reserves for the Ovoot Tolgoi deposit.

- ***Settlement of Trade Receivable*** – During the year ended December 31, 2016, the Company entered into a settlement agreement with one of the major customers (the "Customer") pursuant to which 200 residential units and 40 parking spaces (collectively, the "240 Units") located in Ulaanbaatar, Mongolia, are to be transferred to the Company as partial consideration for settling an outstanding trade receivables in the amount of $12.0 million, with the balance of the receivable, totaling $7.5 million, payable in cash by the Customer to the Company by March 31, 2017 (subsequently extended to May 10, 2017). As title transfers on the agreement could not be completed prior to December 31, 2016, the transaction cannot be completed and recorded in the Company's accounts until such titles are properly registered in the Company's name. The settlement agreement includes an option for the Company to return any unsold units back to the Customer, until September 30, 2017, at the same price per unit for immediate payment of the balance in cash. As of the date hereof, the title transfer registration in Mongolia has been completed for a material portion of the 240 Units but additional time will be required to finalize the administrative process for the registration of the remaining portion of the 240 Units due to the number of units involved, the Company has been working closely with the government authority to facilitate the process. The Company anticipates that the title registration process will be completed shortly and the sales of the 240 Units will commence during the second quarter of 2017. To March 31, 2017, the Company has collected $3.5 million from the Customer to settle the outstanding trade receivables and on March 27, 2017 entered into a deferral agreement to extend the payment due date on the remaining uncollected balance to May 10, 2017.

- ***Short-term Bridge Loan*** – In October 2015, the Company entered into a short term bridge loan facility with an Asian based private equity fund for maximum proceeds of $10.0 million. The Company has repaid the first tranche of the short-term bridge loan of $5.0 million (inclusive of interest) up to August 11, 2016. During June and July 2016, the Company drew the second tranche of $5.0 million. $1.5 million has been matured in March 2017 and $3.5 million will mature in April 2017. In December 2016, $1.5 million was repaid for the short-term bridge loan and a further $1.8 million and $1.6 million was subsequently repaid in January 2017 and March 2017, respectively.

- ***Shareholder Loan*** – On May 16, 2016, Turquoise Hill Resources Ltd ("Turquoise Hill") signed a deferral letter agreement with the Company (the "May 2016 Deferral Letter Agreement"), in which Turquoise Hill agreed to a limited deferral of repayment of all remaining amounts and obligations owing under the Turquoise Hill shareholder loan (the "TRQ Loan"). The Company has agreed to repay $0.15 million per month from May 2016 to April 2017; and $0.2 million per month from May 2017 to December 2017, at which time all remaining obligations will become due. Interest shall continue to accrue on all outstanding obligations at the 12-month US dollar LIBOR rate. To date, the Company has made all payments due under the May 2016 Deferral Letter Agreement.

- ***China Investment Corporation ("CIC") Convertible Debenture (the "CIC Convertible Debenture")*** – On December 29, 2016, the Company executed the December 2016 Deferral Agreement ("December 2016 Deferral Agreement") with CIC for a revised repayment schedule on the $20.7 million of cash interest and associated costs originally due on December 19, 2016 ("December 2016 Deferral Amounts"). The key repayment terms of the December 2016 Deferral Agreement are: (i) the Company is required to repay $6.8 million of the cash interest and associated deferral fee costs in five monthly amounts during the period from December 2016 to April 2017; and (ii) the Company is required to repay $14.3 million of cash interest and associated costs on May 19, 2017. Although the Company has been in discussions with CIC for a further deferral, there can be no assurance that a favorable outcome can be reached. At any time before the December 2016 Deferral Amounts are fully repaid, the Company is required to consult with and obtain written consent from CIC prior to effecting a replacement or termination of either or both of its Chief Executive Officer and its Chief Financial Officer; otherwise this will constitute an event of default under the CIC Convertible Debenture, but CIC shall not withhold its consent if the board of directors proposes to replace either or both such officers with nominees selected by the Board, provided that the directors acted honestly and in good faith with a view to the best interests of the Company in the selection of the applicable replacements. To date, the Company has made all payments due under the December 2016 Deferral Agreement.

- ***Class Action Lawsuit*** – On May 24, 2016, the Ontario Superior Court of Justice (the "Ontario Court") granted the Company leave to appeal the decision made on November 5, 2015 (the "Corporation Appeal"), which granted the plaintiff permission to commence an action claiming damages under the Ontario Securities Act with respect to the Company's restatement of consolidated financial statements as previously disclosed in the Company's public filings. The plaintiff is also appealing the portion of the November 5, 2015 Ontario Court decision that dismissed the action against former officers and directors of the Company (the "Individual's Appeal").

  The Individuals' Appeal and the Corporation Appeal will now be verbally argued together. The appeals are scheduled to be heard by the Ontario Court of Appeal in June 2017. The Company disputes and is vigorously defending itself against the plaintiff's 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 appeals or determine the amount of potential losses, if any. However, the Company has judged a provision for this matter at December 31, 2016 is not required.

- ***Tax Investigation Case in Mongolia*** – In May 2016, Resolution No.258 of the Government of Mongolia ("Resolution 258") was issued, which approved the Company's proposal to settle the Tax Penalty (as defined and described under "Governmental and Regulatory Investigations" in section "Regulatory Issues and Contingencies") by making a series of cash payments and by performing mining operations at the Tavan Tolgoi deposit in

Southern Mongolia on behalf of Erdenes Tavan Tolgoi JSC ("Erdenes"), a company owned by the Government of Mongolia. During 2016, the Company made cash payments of $2.4 million as a partial settlement of the Tax Penalty.

In compliance with the Resolution 258, in November 2016, the Company entered into an agreement with Erdenes under which the Company agreed to perform certain mining operations equivalent to Mongolian Tugrik ("MNT") 20.3 billion (approximately $8.1 million) in the West Tsankhi section of the Tavan Tolgoi deposit during the period from November 2016 to February 2017. As at December 31, 2016, the Company had performed mining operations consisting of drilling and blasting of rock mass, stripping and loading topsoil, selective excavation and loading coal, and creating overburden stockpiles at the Tavan Tolgoi deposit equivalent to MNT 5.2 billion (approximately $2.1 million).

As at December 31, 2016, the provision for the Tax Verdict (as defined below in "Governmental and Regulatory Investigations" of section "Regulatory Issues and Contingencies") was reduced to $9.3 million.

As of the date hereof the Company has completed the mining operations at the Tavan Tolgoi deposit equivalent to MNT 20.3 billion (approximately $8.1 million) as set out in the agreement with Erdenes. The Company is required to make further cash payments of $3.0 million in 2017 to complete repayment of the balance of the penalty owing.

- ***Notice of Arbitration*** – The Company is subject to arbitration proceedings with First Concept Logistics Limited ("First Concept") with respect to a dispute with respect to the supply of coal under a coal sale agreement. The arbitration hearing with First Concept was held in the fourth quarter of 2016. The arbitration decision is expected to be released in the second quarter of 2017.

- ***Settlement of Claim by Former Chief Executive Officer*** – The claim by Mr. Alex Molyneux ("Mr. Molyneux"), the Company's former President and Chief Executive Officer, and the counterclaim by the Company, has been settled by a payment by the Company to Mr. Molyneux of the sum of $0.29 million, without admission of liability by either party. As a term of the settlement, the Company and Mr. Molyneux executed mutual general releases, and the action and counterclaim were dismissed as against all parties by consent without court costs payable to any party, effective on November 25, 2016.

- ***Settlement of Lawsuit Notice from a Former Fuel Supplier*** – On January 20, 2017, the Company announced that SouthGobi Sands LLC ("SGS"), a subsidiary of the Company, had received a lawsuit notice from the Khan-Uul District Civil Court of First Instance in Mongolia (the "DC Court") in relation to a claim from Magnai Trade LLC ("MTLLC"), a former fuel supplier of SGS, for MNT 22.2 billion (approximately $8.9 million) consisting of MNT 14.6 billion (approximately $5.8 million) of outstanding fuel supply payments and MNT 7.6 billion (approximately $3.1 million) of late payment penalties and associated interest costs.

Following SGS' successful challenge to the authority of the DC Court to hear the matter, the Company signed a settlement agreement with MTLLC on February 10, 2017, pursuant to which the outstanding amount of $7.9 million will be settled in equal monthly installments of $2.0 million from March 2017 to June 2017.

- ***Novel Sunrise Investments Limited ("Novel Sunrise") sold 25.8 million Shares to a Company Owned by Members of Management*** – On January 11, 2017, Novel Sunrise, the Company's largest shareholder at the time, reported that it had sold 25.8 million common shares of the Company effective December 31, 2016 to Voyage Wisdom Limited ("Voyage Wisdom"), a company owned by three members of the Company's management team, for consideration of $24 million.

- ***Changes in Directors***

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

  Mr. Pierre Lebel: Mr. Lebel retired as Lead Director and an Independent Non-Executive Director on June 30, 2016.

  Mr. Joseph Belan: Mr. Belan was appointed as Independent Non-Executive Director of the Company on August 16, 2016.

- ***Strategic Advisor*** – On September 16, 2016, the Company established a Strategic Advisory Board and appointed Mr. Abraham (Braam) Jonker as its initial member. The purpose of the Strategic Advisory Board is to provide non-binding strategic guidance and advice to the Board of Directors of the Company in connection with the Company's ongoing business activities and initiatives.

- ***Going Concern*** – As at the date hereof, the Company has initiated a plan to change the existing product mix to higher value and higher margin outputs by washing certain grades of coal commencing in 2017 in order to produce more premium semi-soft coking coal and to initiate more processing of the lower grades of coal in order to reduce the ash content and improve the selling price and margins on its thermal coal product. The Company has also completed a new mine plan, which incorporates the coal washing and processing systems and contemplates significantly higher volumes of production in order to complement the Company's new product mix and sales volume targets. Such plans will involve the need for a significant level of stripping activities over the next two years and require certain capital expenditures to achieve the designed production outputs. Such expenditures will require the Company to seek additional financing in the form of finance leases, debt or equity. The Company has entered into an agreement for a finance lease on the new wash plant facility but will need financing to complete the thermal coal processing facilities.

There is no guarantee that the Company will be able to successfully secure additional sources of financing. 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. Unless the Company acquires additional sources of financing and/or funding in the short term, the ability of the Company to continue as a going concern is threatened. If the Company is unable to continue as a going concern, it may be forced to seek relief under applicable bankruptcy and insolvency legislation. See section "Liquidity and Capital Resources" for details. As at March 31, 2017, the Company had $5.3 million of cash.

OVERVIEW OF OPERATIONAL DATA AND FINANCIAL RESULTS

Summary of Annual Operational Data

	Year ended December 31,	
	2016	2015
Sales Volumes, Prices and Costs		
Premium semi-soft coking coal		
Coal sales *(millions of tonnes)*	**0.28**	0.22
Average realized selling price *(per tonne)* (i)	**$ 31.14**	$ 22.33
Standard semi-soft coking coal		
Coal sales *(millions of tonnes)*	**2.52**	0.59
Average realized selling price *(per tonne)* (i)	**$ 16.71**	$ 19.12
Thermal coal		
Coal sales *(millions of tonnes)*	**1.11**	0.26
Average realized selling price *(per tonne)* (i)	**$ 12.16**	$ 10.24
Total		
Coal sales *(millions of tonnes)*	**3.91**	1.07
Average realized selling price *(per tonne)* (i)	**$ 16.44**	$ 17.66
Raw coal production *(millions of tonnes)*	**3.38**	1.95
Cost of sales of product sold *(per tonne)*	**$ 22.26**	$ 59.52
Direct cash costs of product sold *(per tonne)* (ii)	**$ 8.66**	$ 13.63
Mine administration cash costs of product sold *(per tonne)* (ii)	**$ 2.32**	$ 3.44
Total cash costs of product sold *(per tonne)* (ii)	**$ 10.98**	$ 17.07
Other Operational Data		
Production waste material moved *(millions of bank cubic meters)*	**7.38**	7.02
Strip ratio *(bank cubic meters of waste material per tonne of coal produced)*	**2.18**	3.60
Lost time injury frequency rate (iii)	**0.00**	0.00

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

(ii) A Non-International Financial Reporting Standards ("IFRS") financial measure, see "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 Annual Operational Data

The Company ended 2016 without any lost time injury. As at December 31, 2016, the Company had a lost time injury frequency rate of nil per 200,000 man hours based on a rolling 12 month average.

The market conditions remained difficult in the first half of 2016 despite a modest recovery in the second half of 2016 following the implementation of China's national policy of restricting coal production described above. The overall price for coal improved in China in 2016, but these improvements were negatively impacted by certain coal sale contracts negotiated at a time of lower coal prices. In addition, the depreciation of the Renminbi against the USD hindered the positive impact of increased coal prices.

The Company managed to increase its sales volume from 1.07 million tonnes in 2015 to 3.91 million tonnes in 2016; however, the average realized selling price decreased from $17.66 per tonne in 2015 to $16.44 per tonne in 2016 which was mainly a result of the product mix as well as the depreciation of the Renminbi against the USD. The product mix for 2016 consisted of approximately 7% of Premium semi-soft coking coal, 64% of Standard semi-soft coking coal and 29% of thermal coal compared to approximately 21% of Premium semi-soft coking coal, 55% of Standard semi-soft coking coal and 24% of thermal coal in 2015.

The Company's production in 2016 was higher than 2015 as a result of ramping up production to meet the expected increase in sales, yielding 3.38 million tonnes for 2016 as compared to 1.95 million tonnes for 2015.

The Company's unit cost of sales of product sold decreased to $22.26 per tonne for the year ended December 31, 2016 from $59.52 per tonne in the year ended December 31, 2015. The decrease was mainly driven by the increased sales and the related economies of scale while less coal stockpile inventory impairment was recorded for the year 2016.

Summary of Annual Financial Results

$ in thousands, except per share information	**Year ended December 31, 2016**	2015
Revenue [(i), (ii)]	**$ 58,450**	$ 16,030
Cost of sales [(ii)]	**(87,045)**	(63,691)
Gross loss excluding idled mine asset costs	**(16,490)**	(22,226)
Gross loss including idled mine asset costs	**(28,595)**	(47,661)
Other operating expenses	**(50)**	(18,951)
Administration expenses	**(7,888)**	(7,509)
Evaluation and exploration expenses	**(422)**	(145)
Impairment of property, plant and equipment	**(1,152)**	(92,651)
Loss from operations	**(38,107)**	(166,917)
Finance costs	**(22,314)**	(21,371)
Finance income	**239**	1,302
Share of earnings of a joint venture	**806**	225
Income tax expense	**(1,470)**	(4)
Net loss	**(60,846)**	(186,765)
Basic and diluted loss per share	**$ (0.24)**	$ (0.79)

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

(ii) Revenue and cost of sales relate to the Company's Ovoot Tolgoi Mine within the Coal Division operating segment. Refer to note 4 of the consolidated financial statements for further analysis regarding the Company's reportable operating segments.

Overview of Annual Financial Results

The Company recorded a $38.1 million loss from operations in 2016 compared to a $166.9 million loss from operations in 2015. Although the general coal market remained difficult in 2016, the 2016 results were an improvement when compared to 2015 and were principally attributable to increased coal sales as well as decrease of impairment of property, plant and equipment from $92.7 million in 2015 to $1.2 million in 2016.

Revenue was $58.5 million in 2016 compared to $16.0 million in 2015. The Company sold 3.91 million tonnes of coal in 2016 as compared to 1.07 million tonnes in 2015.

The Company's revenue is presented after deduction of royalties and selling fees. The Company's effective royalty rate for 2016, based on the Company's average realized selling price of $16.44 per tonne, was 7.0% or $1.14 per tonne compared to 12.7% or $2.25 per tonne based on the average realized selling price of $17.66 per tonne in 2015.

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 to be 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. No contracts of the Company were deemed as "non-market" during 2016.

Cost of sales was $87.0 million in 2016 compared to $63.7 million in 2015. Cost of sales comprises operating expenses, share-based compensation expense, equipment depreciation, depletion of mineral properties, coal stockpile inventory impairments and idled mine asset costs. Operating expenses in cost of sales reflect the total cash costs of product sold (a Non-IFRS financial measure; see section "Non-IFRS Financial Measures" for further analysis) during the year.

	Year ended December 31,	
$ in thousands	**2016**	2015
Operating expenses	**$ 41,452**	$ 18,266
Share-based compensation expense/(recovery)	**(8)**	42
Depreciation and depletion	**26,142**	5,361
Impairment of coal stockpile inventories	**7,354**	14,588
Cost of sales from mine operations	**74,940**	38,257
Cost of sales related to idled mine assets	**12,105**	25,434
Cost of sales	**$ 87,045**	$ 63,691

Operating expenses in cost of sales were $41.5 million in 2016 compared to $18.3 million in 2015. The overall increase in operating expenses was primarily the result of the net effect of (i) increased sales volume from 1.07 million tonnes in 2015 to 3.91 million tonnes in 2016; (ii) reduced impairment of coal stockpile inventories and (iii) continued focus on cost saving initiatives.

Cost of sales in 2016 and 2015 included coal stockpile impairments of $7.4 million and $14.6 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 reflected the challenging coal market conditions and primarily related to the Company's higher-ash content products.

Cost of sales related to idled mine asset costs primarily consisted of periodic costs, which were expensed as incurred and included mainly depreciation expense. Cost of sales related to idled mine assets in 2016 included $12.1 million related to depreciation expenses for idled equipment (2015: $22.5 million). The drop of cost of sales related to idled mine assets was mainly due to the increase in production during 2016 which results a higher utilization rate for the machinery and related assets.

Other operating expenses were negligible in 2016 compared to $19.0 million in 2015.

	Year ended December 31,	
$ in thousands	**2016**	2015
Foreign exchange gain	**$ (5,423)**	$ (896)
Discount on settlement of trade payables	**(1,009)**	–
Mining services, net	**1,006**	–
Settlement of civil claims	**2,652**	–
Provision for doubtful trade and other receivable	**2,641**	161
Loss on settlement of prepayments	**–**	712
Impairment of materials and supplies inventories	**–**	675
Provision for court case penalty	**–**	18,049
Other	**183**	250
Other operating expenses	**$ 50**	$ 18,951

A foreign exchange gain of $5.4 million (2015: $0.9 million) was recorded as a result of the significant depreciation of MNT against USD during the fourth quarter of 2016. The key underlying driver of the forex gain are that most trade and other payables and the Tax Penalty are denominated in MNT.

The Company made a provision for doubtful trade and other receivables of $2.6 million (2015: $0.2 million) for the long aged receivables. As at December 31, 2016, the Company had gross receivables of $19.2 million due from the Customer. Of this amount approximately $12.0 million is expected to be settled in due course in exchange for the 240 Units in Mongolia. See section "Overview" for details. The 240 Units are located in Ulaanbaatar, Mongolia and were constructed in 2013. The total saleable area of the residential units is approximately 13,790 square meter. The size of each residential unit ranges from 42 square meter to 94 square meter. The balance outstanding from December 31, 2016, after deducting the $12.0 million, was to be paid by March 31, 2017 pursuant to the same agreement related to the residential real estate transaction. To March 31, 2017, the Company has collected $3.5 million from the Customer and on March 27, 2017 entered into a deferral agreement to extend the payment due date on the remaining uncollected balance to May 10, 2017.

In 2015, the Company recognized an expense for the provision of the Tax Penalty of $18.0 million.

Mining services at the Tavan Tolgoi deposit were provided in connection with settlement of the Tax Penalty at a net cost of $1.0 million in 2016 (Direct mining costs and depreciation totaling $3.1 million, net of service revenue of $2.1 million) (refer to "Governmental and Regulatory Investigations" of section "Regulatory Issues and Contingencies" for details), with no similar amount incurred in 2015.

Refer to "Settlement of Lawsuit Notice from a Former Fuel Supplier" and "Settlement of Claim by Former Chief Executive Officer" of section "Regulatory Issues and Contingencies" for details of the settlement of civil claims with MTLLC of $2.4 million and with Mr. Molyneux of $0.29 million, respectively.

Administration expenses were $7.9 million in 2016 as compared to $7.5 million in 2015. The increase in corporate administration and salaries and benefits was mainly due to the operations of the new subsidiary in China, which was incorporated in June 2016 to expand the sales channels of coal in China.

	Year ended December 31,	
$ in thousands	**2016**	2015
Corporate administration	**$ 2,724**	$ 2,112
Legal and professional fees	**2,022**	2,921
Salaries and benefits	**2,820**	2,155
Share-based compensation expense	**58**	199
Depreciation	**264**	122
Administration expenses	**$ 7,888**	$ 7,509

Evaluation and exploration expenses were $0.4 million in 2016 as compared to $0.1 million in 2015. The Company continued to minimize evaluation and exploration expenditures in 2016 in order to preserve the Company's financial resources. Evaluation and exploration activities and expenditures in 2016 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, 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. In particular, after conducting an impairment test on the Ovoot Tolgoi Mine cash generating unit, the Company recorded a $76.7 million impairment charge in 2015 (refer to "Ovoot Tolgoi Mine Impairment Analysis" of section "Liquidity and Capital Resources" 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 was no longer a plan to restart the DCHF project or to utilize the facility. As a result, the Company recorded an $8.5 million impairment charge in 2015 to reduce the carrying value of the DCHF to $nil as at December 31, 2015. For the year ended December 31, 2016, the Company again identified impairment indicators for the Ovoot Tolgoi Mine cash generating unit and conducted an impairment test. Following the slight market recovery in 2016 as well as the successful implementation of the Company's business plan, no general impairment charges and no impairment reversal was determined. A specific impairment charge of $1.2 million of impairment charge was made for the year ended December 31, 2016 on the deposits related to pending purchases property, plant and equipment.

Finance costs were $22.3 million and $21.4 million in 2016 and 2015 respectively, which primarily consisted of the interest expense on the $250.0 million CIC Convertible Debenture.

Finance income was $0.2 million in 2016 compared to $1.3 million in 2015, which primarily related to unrealized gains on the change in fair value of the embedded derivatives in the CIC Convertible Debenture ($0.2 million and $1.1 million for 2016 and 2015, respectively). The fair value of the embedded derivatives in the CIC Convertible Debenture is driven by many factors including: the Company's common share price, the USD and Canadian Dollar exchange rates and share price volatility.

Summary of Quarterly Operational Data

	2016				2015			
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)*	**0.15**	**0.07**	**–**	**0.06**	0.04	0.16	0.02	–
Average realized selling price *(per tonne)* [(i)]	**$ 40.49**	**$ 21.04**	**$ –**	**$ 21.38**	$ 21.72	$ 22.32	$ 23.37	$ –
Standard semi-soft coking coal								
Coal sales *(millions of tonnes)*	**0.65**	**0.77**	**0.52**	**0.58**	0.12	0.31	0.11	0.05
Average realized selling price *(per tonne)* [(i)]	**$ 16.79**	**$ 15.66**	**$ 16.27**	**$ 18.42**	$ 18.91	$ 19.10	$ 19.97	$ 17.95
Thermal coal								
Coal sales *(millions of tonnes)*	**0.28**	**0.29**	**0.30**	**0.24**	0.05	0.02	0.06	0.13
Average realized selling price *(per tonne)* [(i)]	**$ 15.26**	**$ 14.79**	**$ 9.17**	**$ 9.19**	$ 9.26	$ 10.48	$ 10.47	$ 10.46
Total								
Coal sales *(millions of tonnes)*	**1.08**	**1.13**	**0.82**	**0.88**	0.21	0.49	0.19	0.18
Average realized selling price *(per tonne)* [(i)]	**$ 19.55**	**$ 15.79**	**$ 13.65**	**$ 16.11**	$ 17.19	$ 19.76	$ 17.42	$ 12.66
Raw coal production *(millions of tonnes)*	**1.21**	**1.13**	**0.67**	**0.37**	0.62	0.71	0.62	–
Cost of sales of product sold *(per tonne)*	**$ 21.15**	**$ 19.53**	**$ 28.01**	**$ 21.62**	$ 56.59	$ 44.86	$ 60.75	$ 98.95
Direct cash costs of product sold *(per tonne)* [(ii)]	**$ 7.97**	**$ 7.13**	**$ 12.47**	**$ 7.88**	$ 6.55	$ 17.46	$ 15.57	$ 8.68
Mine administration cash costs of product sold *(per tonne)* [(ii)]	**$ 3.23**	**$ 2.26**	**$ 2.32**	**$ 1.24**	$ 1.78	$ 2.81	$ 7.90	$ 2.11
Total cash costs of product sold *(per tonne)* [(ii)]	**$ 11.20**	**$ 9.39**	**$ 14.79**	**$ 9.12**	$ 8.33	$ 20.27	$ 23.47	$ 10.79
Other Operational Data								
Production waste material moved *(millions of bank cubic meters)*	**2.62**	**2.22**	**1.82**	**0.72**	1.08	2.33	3.62	–
Strip ratio *(bank cubic meters of waste material per tonne of coal produced)*	**2.16**	**1.96**	**2.71**	**1.94**	1.75	3.25	5.87	–
Lost time injury frequency rate [(iii)]	**0.00**	**0.00**	**0.00**	**0.00**	0.00	0.00	0.00	0.25

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

(ii) A non-IFRS financial measure, see section "Non-IFRS Financial Measures". 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

The Company maintained a strong safety record and completed the fourth quarter of 2016 without any lost time injury.

Although market conditions and prices for coal improved in China in the fourth quarter of 2016, the impact of these conditions was partially offset by the Company being required to sell coal pursuant to the sales agreements which were negotiated at a time of lower coal prices, and the depreciation of the Renminbi against the USD. The Company sold 1.08 million tonnes of its coal products during the fourth quarter of 2016 compared to 0.21 million tonnes for the fourth quarter of 2015. The Company also improved the pacing of production to meet demand, such that production was 1.21 million tonnes for the fourth quarter of 2016 as compared to 0.62 million tonnes for the fourth quarter of 2015.

Summary of Quarterly Financial Results

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

$ in thousands, except per share information	**2016**				2015			
Quarter Ended	**31-Dec**	**30-Sep**	**30-Jun**	**31-Mar**	31-Dec	30-Sep	30-Jun	31-Mar
Financial Results								
Revenue [(i), (ii)]	**$ 18,983**	**$ 16,379**	**$ 10,361**	**$ 12,727**	$ 2,873	$ 8,620	$ 2,949	$ 1,587
Cost of sales [(ii)]	**(22,842)**	**(22,018)**	**(23,105)**	**(19,080)**	(12,072)	(22,108)	(11,833)	(17,678)
Gross loss excluding idled mine asset costs	**(2,353)**	**(3,162)**	**(9,926)**	**(1,049)**	(5,338)	(10,642)	(5,017)	(1,230)
Gross loss including idled mine asset costs	**(3,859)**	**(5,639)**	**(12,744)**	**(6,353)**	(9,199)	(13,488)	(8,884)	(16,091)
Other operating income/(expenses)	**(3,782)**	**4,631**	**812**	**(1,711)**	(1,093)	621	(19,450)	971
Administration expenses	**(2,378)**	**(2,042)**	**(1,826)**	**(1,642)**	(2,154)	(1,967)	(1,963)	(1,425)
Evaluation and exploration expenses	**(222)**	**(101)**	**(52)**	**(47)**	(46)	(40)	22	(81)
Impairment of property, plant and equipment	**(1,152)**	**–**	**–**	**–**	(92,651)	–	–	–
Loss from operations	**(11,393)**	**(3,151)**	**(13,810)**	**(9,753)**	(105,143)	(14,873)	(30,275)	(16,626)
Finance costs	**(5,645)**	**(6,358)**	**(5,377)**	**(5,497)**	(5,694)	(5,351)	(5,222)	(6,648)
Finance income	**472**	**5**	**324**	**1**	580	1,984	274	8
Share of earnings/(losses) of a joint venture	**378**	**89**	**256**	**83**	(7)	99	151	(18)
Income tax credit/(expense)	**(1,294)**	**82**	**(23)**	**(235)**	(2)	(1)	(1)	–
Net loss	**(17,482)**	**(9,333)**	**(18,630)**	**(15,401)**	(110,266)	(18,142)	(35,073)	(23,284)
Basic and dilute loss per share	**$ (0.07)**	**$ (0.04)**	**$ (0.07)**	**$ (0.06)**	$ (0.44)	$ (0.07)	$ (0.15)	$ (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 Coal Division operating segment. Refer to note 4 of the consolidated financial statements for further analysis regarding the Company's reportable operating segments.

Overview of Quarterly Financial Results

The Company recorded an $11.4 million loss from operations in the fourth quarter of 2016 compared to a $105.1 million loss from operations in the fourth quarter of 2015. The operations for the three months ended December 31, 2016 improved given the improved market conditions in China.

Revenue was $19.0 million in the fourth quarter of 2016 compared to $2.9 million in the fourth quarter of 2015. The Company sold 1.08 million tonnes of coal at an average realized selling price of $19.55 per tonne in the fourth quarter of 2016 compared to sales of 0.21 million tonnes at an average realized selling price of $17.19 per tonne in the fourth quarter of 2015. Revenue increased in the fourth quarter of 2016 compared to the fourth quarter of 2015 as a combined result of the higher sales volumes as well as the improved average selling price.

The Company's revenue is presented after deduction of royalties and selling fees. The Company's effective royalty rate for the fourth quarter of 2016, based on the Company's average realized selling price of $19.55 per tonne, was 7.0% or $1.36 per tonne while the Company's effective royalty rate was 13.8% or $2.38 per tonne based on the average realized selling price of $17.19 per tonne in the fourth quarter of 2015. The difference in the effective royalty rate was mainly driven by the change in the royalty regime which has been based on the actual contract price since February 2016 (refer to "Royalty regime in Mongolia" in this announcement for details).

Cost of sales was $22.8 million in the fourth quarter of 2016 compared to $12.1 million in the fourth quarter of 2015. Cost of sales comprises operating expenses, share-based compensation expense, equipment depreciation, depletion of mineral properties, coal stockpile inventory impairments and idled mine asset costs. Operating expenses in cost of sales reflect the total cash costs of product sold (a Non-IFRS financial measure. See section "Non-IFRS Financial Measures" for further analysis) during the period.

	Three months ended December 31,	
$ in thousands	**2016**	2015
Operating expenses	**$ 12,095**	$ 1,780
Share-based compensation expense/(recovery)	**(2)**	8
Depreciation and depletion	**9,127**	946
Impairment of coal stockpile inventories	**116**	5,477
Cost of sales from mine operations	**21,336**	8,211
Cost of sales related to idled mine assets	**1,506**	3,861
Cost of sales	**$ 22,842**	$ 12,072

Operating expenses included in cost of sales were $12.1 million in the fourth quarter of 2016 as compared to $1.8 million in the fourth quarter of 2015. The overall increase in operating expenses was primarily the net effect of (i) the increase in sales volume from 0.21 million tonnes in the fourth quarter of 2015 to 1.08 million tonnes in the fourth quarter of 2016; (ii) reduced impairment of coal stockpile inventories and (iii) continued focus on cost saving initiatives.

The depreciation and depletion portion of cost of sales increased to $9.1 million in the fourth quarter of 2016 from $0.9 million in the fourth quarter of 2015. The increase was mainly due to the increase in sales volume.

Cost of sales in the fourth quarter of 2016 and the fourth quarter of 2015 included coal stockpile impairments of $0.1 million and $5.5 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 periods reflected the challenging coal market conditions and primarily related to the Company's higher-ash content products. The lower balance for the fourth quarter of 2016 was mainly due to the recovery of coal market as evidenced by a higher selling price.

Idled mine asset costs in the fourth quarter of 2016 included depreciation expense for idled mine equipment of $1.5 million (2015: $3.9 million).

Other operating expenses were $3.8 million in the fourth quarter of 2016 (2015: $1.1 million).

$ in thousands	**Three months ended December 31, 2016**	2015
Foreign exchange gain	**$ (2,281)**	$ (355)
Mining services, net	**1,006**	–
Settlement of civil claims	**2,362**	–
Loss on settlement of prepayments	**–**	712
Impairment of materials and supplies inventories	**–**	675
Provision for doubtful trade and other receivables	**2,639**	4
Other	**56**	57
Other operating expenses	**$ 3,782**	$ 1,093

The foreign exchange gain of $2.3 million for the fourth quarter of 2016 (2015: $0.4 million) was recorded as a result of the significant depreciation of the MNT against the USD. The key underlying drivers of the foreign exchange gain are that most trade and other payables and the Tax Penalty are denominated in MNT.

Mining services at the Tavan Tolgoi deposit were provided in connection with settlement of the Tax Penalty at a net cost of $1.0 million for the fourth quarter of 2016 (Direct mining costs and depreciation totaling $3.1 million, net of service revenue of $2.1 million) (refer to "Governmental and Regulatory Investigations" of section "Regulatory Issues and Contingencies" for details), with no similar amount incurred for the fourth quarter of 2015.

The Company made a provision for doubtful trade and other receivables of $2.6 million in the fourth quarter of 2016 (2015: negligible) for the long aged receivables.

Refer to "Settlement of Lawsuit Notice from a Former Fuel Supplier" of section "Regulatory Issues and Contingencies" for details of the settlement of civil claims with MTLLC of $2.4 million.

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 (2016: nil).

Administration expenses were $2.4 million in the fourth quarter of 2016 as compared to $2.2 million in the fourth quarter of 2015. The increase in corporate administration and salaries and benefits was mainly due to the operations of a new subsidiary in China which was incorporated in June 2016 to expand the sales channels of coal in China.

	Three months ended December 31,	
$ in thousands	**2016**	2015
Corporate administration	**$ 689**	$ 647
Legal and professional fees	**727**	786
Salaries and benefits	**787**	682
Share-based compensation expense	**26**	12
Depreciation	**149**	27
Administration expenses	**$ 2,378**	$ 2,154

Evaluation and exploration expenses were $0.2 million in the fourth quarter of 2016 as compared to $0.1 million in the fourth quarter of 2015. The Company continued to minimize evaluation and exploration expenditures in order to preserve the Company's financial resources. Evaluation and exploration activities and expenditures in the fourth quarter of 2016 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. In particular, after conducting an impairment test on the Ovoot Tolgoi Mine cash generating unit, the Company recorded a $76.7 million impairment charge in 2015. A further review has been performed on DCHF in the fourth quarter of 2015 related to the new mine plan. The Company concluded that there is no longer a plan to restart the DCHF project or utilize the facility. As a result, the Company recorded an $8.5 million impairment charge in 2015 to reduce the carrying value of the DCHF to $nil as at December 31, 2015. For the year ended December 31, 2016, the Company again identified impairment indicators for the Ovoot Tolgoi Mine cash generating unit and conducted an impairment test. Following the slight market recovery in 2016 as well as the successful implementation of the Company's business plan, no general impairment charge and no impairment reversal was determined. A specific impairment charge of $1.2 million was made in the fourth quarter of 2016 on the deposits related to pending purchases of property, plant and equipment.

Finance costs were $5.6 million in the fourth quarter of 2016 compared to $5.7 million in the fourth quarter of 2015, which primarily consisted of interest expense on the CIC Convertible Debenture.

Finance income was $0.5 million in the fourth quarter of 2016 compared to $0.6 million in the fourth quarter of 2015, which primarily consisted of unrealized gains on the fair value change of the embedded derivatives in the CIC Convertible Debenture. The fair value of the embedded derivatives in the CIC Convertible Debenture is driven by many factors, including the Company's common share price, the USD and Canadian Dollar exchange rates and share price volatility.

UPDATED RESOURCE AND RESERVE ESTIMATE – OVOOT TOLGOI MINE

Resource

The term "resource" is utilized to quantify coal contained in seams occurring within specified limits of thickness and depth from surface considered by the Qualified Person to have reasonable prospects for eventual economic extraction. For a complete description of a resource, refer to "mineral resource" under the heading "DEFINITIONS AND OTHER INFORMATION – Glossary of Geological and Mining Terms" in the Company's Annual Information Form dated March 31, 2017. The resource estimates presented are on an in-place basis, i.e., without adjustment for mining losses or coal recovery. Minimum seam thickness and maximum parting thickness are considered and coal intervals not meeting these criteria are not included in the reported resources.

In accordance with National Instrument 43-101 of the Canadian Securities Administrators ("NI 43-101"), DMCL has made reference to the GSC Paper 88-21 during the classification, estimation and reporting of coal resources for the Ovoot Tolgoi deposit. The exercise of resource classification is initially made based on the Geology-Type of the coal deposits as defined in the GSC Paper 88-21. According to the level of confidence of coal resource existence and data density, the resources are further classified into three categories respectively: Measured, Indicated and Inferred. These were considered by the Qualified Person during the classification of the resources at the Ovoot Tolgoi deposit.

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 2016, particularly those relating to ongoing changes in coal market conditions in China, geologic analysis, optimized mining strategy and processing strategy, the Company has updated its resource and reserve estimate for the Ovoot Tolgoi deposit.

The resource estimate presented in this announcement is materially different from the previous estimate made in the 2016 Technical Report due to the following factors:

- The Geology Type classification has been re-categorized from “Severe” to “Complex”, which led to a different requirement of spatial distribution of geological data and thus resource categorization according to GSC 88-21. Resource categories have been re-classified accordingly and this has resulted in the re-designation of the Measured Resources in the overall SGS resource portfolio.

- In-pit (surface) resources have been more conservatively constrained to a depth of 300m from the ground surface, compared to a depth of 350m used in the 2016 Technical Report.

- Underground resources have been re-established, as resources and considered to be a reasonable prospect for eventual economic extraction due to recovering coal market conditions in China and Company’s long-term plan for a thermal power plant for a location near the mine site which is expected to generate substantial demand for thermal coal for electricity generation.

- A more conservative approach was adopted, compared to the last technical report in 2012 that contemplated potential economic extraction for the underground portion of the Ovoot Tolgoi deposit (the “2012 Technical Report”), such that only underground resources to a depth of 500m were considered to be of a reasonable prospects for eventual economic extraction.

Resources have been estimated for the Ovoot Tolgoi deposit as of December 31, 2016, including Measured Resources of 201.9 million tonnes (“Mt”), Indicated Resources of 100.3 Mt and Inferred Resources of 89.0 Mt.

Resource categorization was completed on a Seam Group basis. The resource categorization also took into account the continuity and confidence in drill hole intersections along each section.

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

Ovoot Tolgoi Deposit – Surface Resource Estimate

		Resource (Mt)		
Coalfield	**Seam Group**	**Measured**	**Indicated**	**Inferred**
Sunrise Pit (depth <300m)	7	2.2	2.9	2.0
	6	3.4	4.8	4.2
	5U	39.6	20.5	22.6
	5L	18.2	4.1	1.0
	4	0.4	0.7	0.6
	subtotal	**63.8**	**33.0**	**30.4**
Sunset Pit (depth <300m)	11	0.1	–	–
	10	8.8	2.1	0.1
	9	17.8	3.4	0.2
	8	16.4	3.2	0.3
	5U	25.6	6.3	0.3
	5L	11.8	2.3	0.8
	subtotal	**80.5**	**17.3**	**1.7**
Grand Total		**144.3**	**50.3**	**32.1**

Totals may not add up due to rounding.

Ovoot Tolgoi Deposit – Underground Resource Estimate

		Resource (Mt)		
Coalfield	**Seam Group**	**Measured**	**Indicated**	**Inferred**
Sunrise (depth 300m to 500m)	5U	2.0	4.9	13.1
	5L	6.0	12.0	25.0
	Total	**8.0**	**16.9**	**38.1**
Sunset (depth 300m to 500m)	10	3.0	1.9	–
	9	6.2	4.6	0.4
	8	6.9	3.8	2.2
	5U	27.9	14.9	3.4
	5L	5.6	7.9	12.8
	Total	**49.6**	**33.1**	**18.8**
Grand Total		**57.6**	**50.0**	**56.9**

Totals may not add up due to rounding.

Resources have been estimated as of December 31, 2016 using the Minex™ models provided by SGS. The key assumptions used for the resource estimation are:

- Minimum coal thickness = 0.6m;
- Maximum coal parting = 0.3m;
- Surface resources were constrained to a depth of 300m, the same as the pit design used in the 2012 Technical Report;
- Volumes were converted to tonnages using laboratory relative density analytical results converted to an estimated in-situ basis;
- Resources were constrained to the mining lease held by SGS only;
- Resources were estimated on an in-situ basis (i.e. as an in-situ tonnage and not adjusted for mining recovery);
- Resources were depleted by mined out tonnage; and
- Resources were estimated based on the survey data made available as of December 20, 2016 for the Sunrise and Sunset coalfields.

The updated resource estimate for the Ovoot Tolgoi deposit was prepared for the Company by DMCL which has been engaged to prepare a technical report in compliance with NI 43-101 reflecting the updated resource estimate, which the Company expects to file on SEDAR within 45 days of this announcement.

Reserves

The Company previously reported 175.7 million tonnes of proven and probable reserves in respect of the Ovoot Tolgoi deposit based on the 2012 Technical Report. Subsequently, the total resources estimated for the Ovoot Tolgoi deposit in the 2016 Technical Report significantly decreased from the 2012 Technical Report principally due to the exclusion of previously estimated underground resources, which were assessed as not having a reasonable prospects for eventual economic extraction. In response to the declining coal prices and weak coal transaction conditions in China, the previously established underground resource at the Ovoot Tolgoi deposit was not considered to be reasonably economically viable in the 2016 Technical Report, significantly reducing the Company's reported resources, which, together with the reclassification of the Geology Type of the deposit from "Complex" to "Severe", eliminated the Company's mineable reserves that had previously been established for the Ovoot Tolgoi deposit.

In late 2016, the Company and DMCL engaged in a comprehensive review of all relevant information including technical data, mining strategy, pit optimization, mine design, production scheduling, coal processing strategy, sales strategy, coal prices and recovering coal transaction conditions, in order to prepare and update its resources and reserve estimates and prepare a new mine plan. This process resulted in a re-estimation reserves by DMCL which appears in the table below.

The reserve estimate presented below is materially different from the previous estimate made in the 2016 Technical Report due to the following factors:

- The Geology Type classification has been re-categorized from "Severe" to "Complex", which led to a different requirement of spatial distribution of geological data and thus resource categorization according to GSC 88-21. Resource categories were re-classified accordingly such that Indicated and Inferred Resources were reclassified as Measured and Indicated Resources respectively. Such resource reclassification further resulted in the fact that the overall resource estimation and classification could be used in mine planning in conformity with the industry practice and NI 43-101 requirements; and

- In-pit (surface) resources are more conservatively constrained to a depth of 300m from the ground surface, compared to a depth of 350m used in the 2016 Technical Report.

Ovoot Tolgoi Deposit – Reserve Estimate

			Reserve (Mt)	
Pit	**Seam Group**	**Proven**	**Probable**	**Total**
Sunrise Pit	7	0.4	0.5	0.9
	6	1.7	1.4	3.1
	5U	29.3	6.3	35.6
	5L	12.4	1.7	14.1
	4	0.4	0.5	0.9
	Sub-total	**44.3**	**10.3**	**54.6**
Sunset Pit	11	0.1	–	0.1
	10	5.0	0.6	5.6
	9	10.2	0.5	10.7
	8	10.4	0.5	10.9
	5U	21.1	1.8	22.9
	5L	8.6	0.9	9.5
	Sub-total	**55.2**	**4.3**	**59.5**
Grand Total		**99.5**	**14.6**	**114.1**

Totals may not add up due to rounding.

The above estimate of Reserves at the Ovoot Tolgoi deposit have been estimated as of December 31, 2016 based on the resource model provided by SGS. Measured and Indicated Resources are inclusive of those Mineral Resources modified to produce the Reserves, ie, Reserves are not additional to Resources.

The key assumptions used for the reserve estimation are:

- The reserve estimation used coal selling prices provided by an independent market consulting firm which was commissioned by the Company in December 2016 and subsequently confirmed as reasonable and appropriate by the qualified person responsible for this reserve estimate;

- Reserves do not include any Inferred Resources which have been treated as waste (i.e. their mining costs have been covered but no revenue has been assumed for the Inferred Resources);

- A recovery factor of 95% and a dilution factor of 2.5% have been applied in the Reserve estimate;

- The pits design (and thus Reserves) was designed to a depth of 300m below the original ground surface, which is same as the pit design used in the 2012 Technical Report;

- Reserves are constrained to the mining lease held by SGS only although the open pit limits will extend across the lease boundary into the adjacent lease held by Mongolyn Alt Corporation (“MAK”). SGS and MAK have an agreement in place that allows SGS to strip off the overburden in MAK’s lease. Coal within the pits and within the MAK’s lease has been treated as generating no revenue and having no associated cost whereas the waste within the pits and MAK’s lease will be stripped off at SGS’ cost; and

- Reserves are estimated to account for coal and waste that was mined as of December 31, 2016.

The updated reserve estimate for the Ovoot Tolgoi deposit was prepared by DMCL which has been engaged by the Company to prepare a technical report reflecting the updated reserve estimate in compliance with NI 43-101, which the Company expects to file on SEDAR within 45 days.

Mining Operations

Mining Method

The mining method employed at the Ovoot Tolgoi deposit could be described as open pit terrace mining utilizing large scale hydraulic excavators and shovels and trucks. Terrace mining is utilized where coal seams dip steeply and operating machinery on the coal seam roof and floor is not possible, due to the steep seam dips. Terraces, or benches, are excavated along fixed horizontal horizons and these benches intersect both coal and waste. Coal and waste are mined separately on each bench with dozers being used, as needed, to push coal or waste down to the excavator for loading onto trucks. This mining method allows large scale open pit mining to occur productively in steeply dipping coal seam environments. All waste is dumped ex-pit, as the steep dips preclude in-pit dumping.

The open pit limits extend across the Ovoot Tolgoi Mining Licence boundary into the adjacent lease held by MAK. As described previously, the Company and MAK have a cooperation agreement in place to allow mining across the boundary, which stipulates that SGS is responsible for removal of MAK waste but MAK is responsible for mining of MAK coal. Accordingly, the current reserve estimate does not include any coal within the MAK lease that must be extracted as part of the Company mining operation. Therefore in the current mine plan, no revenue has been assumed for the MAK coal whereas costs have been assumed for stripping off the MAK waste.

Technical Report

The technical report for the Ovoot Tolgoi deposit that is currently being prepared by DMCL will contain details of the new mine plan for Ovoot Tolgoi and will include information with respect to (i) processing and recovery operations, (ii) infrastructure, permitting and compliance, and (iii) capital and operating costs.

It is expected that the mine plan in the DMCL technical report will include a processing strategy marked by wet washing facilities comprised of a wet wash plant equipped with the customized jig washing circuit and deep de-watering equipment. It is further expected that such processing strategy will be multi-phased and expanded over time.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Capital Management

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

Turquoise Hill Loan Facility

On May 25, 2014, the Company announced it obtained the TRQ Loan in the form of a $10 million revolving credit facility to meet its short term working capital requirements. The terms and conditions of this facility were filed on SEDAR (www.sedar.com) on June 2, 2014. The key commercial terms of the facility were: an original maturity date of August 30, 2014 (subsequently extended as described below); 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 to 2016, the due date of the TRQ Loan, was extended several times and the maximum amount of the facility was reduced to $3.8 million.

On May 16, 2016, the Company and Turquoise Hill entered into the May 2016 Deferral Agreement, whereby Turquoise Hill agreed to a limited deferral of repayment of all remaining amounts and obligations owing under the TRQ Loan to December 29, 2017 in accordance with the schedule of repayment set out below:

- The Company agreed to effect monthly repayments on the last business day of each month in an amount of (i) $0.15 million per month from May 2016 to April 2017; (ii) $0.2 million per month from May 2017 to December 2017 (the payments in (i) and (ii), the "Repayments"), at which time all remaining obligations will become due.

- In the event that the Company fails to make any one of the Repayments in its entirety on or before the dates set out above, then the Company shall be in automatic and irremediable default of the obligations thereunder and under the TRQ Loan, shall immediately and irremediably lose all benefits of the May 2016 Deferral Agreement, and all then outstanding obligations shall become immediately due and payable to Turquoise Hill; and

- Interest shall continue to accrue on all outstanding obligations at the 12-month US dollar LIBOR rate.

Unless otherwise agreed by Turquoise Hill, under certain circumstances, 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.

At December 31, 2016, the outstanding principal and accrued interest under this facility amounted to $2.2 million and $0.7 million, respectively (at December 31, 2015, the outstanding principal and accrued interest under the facility amounted to $3.4 million and $0.6 million, respectively).

To date, the Company has made all payments due under the May 2016 Deferral Letter Agreement.

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 interest rate is 8% per annum with interest payable upon the repayment of loan principal.

The Company repaid the first tranche of the short-term bridge loan with interest of $5.0 million up to August 11, 2016. During June and July 2016, the Company drew the second tranche of $5.0 million, of which $1.5 million has been matured in March and $3.5 million will mature in April 2017. In December 2016, $1.5 million was repaid for the short-term bridge loan and a further $1.8 million and $1.6 million was subsequently repaid in January 2017 and March 2017, respectively.

As at December 31, 2016, the outstanding balance for the short-term bridge loan was $3.3 million (December 31, 2015: $4.9 million) and the Company owed accrued interest of $0.1 million (December 31, 2015: $0.1 million). A loan arrangement fee of 5% of the loan principal drawn was charged, totaling $0.3 million for the loans drawn during June and July 2016 and amortized throughout the loan term. For the year ended December 31, 2016, $0.2 million of loan arrangement fee was amortized (2015: nil).

Under certain circumstances, including the non-payment of interest amounts as the same become due, amounts outstanding under the short-term bridge 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 short-term bridge loan. Subject to notice and cure periods, certain events of default under the short-term bridge loan will result in acceleration of the indebtedness under the short-term bridge loan at the option of the lender.

Bank loan

On May 6, 2016, the Company entered into a $2.0 million loan agreement with a Mongolian bank. The key commercial terms of the loan are as follows:

- Maturity on May 6, 2017;
- Interest rate of 15.8% per annum and payable monthly; and
- Certain items of property, plant and equipment were pledged which had a carrying value of $3.7 million as at December 31, 2016.

As at December 31, 2016, the outstanding balance for the bank loan was $2.0 million (2015: nil) and the Company owed accrued interest of $0.1 million (2015: nil).

Going concern considerations

The Company's consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue operating until at least December 31, 2017 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 transactions to provide it with additional liquidity.

Several adverse conditions and material uncertainties cast significant doubt upon the going concern assumption. The Company had a working capital deficiency (excess current liabilities over current assets) of $59.4 million as at December 31, 2016 compared to $42.3 million of working capital deficiency as at December 31, 2015. Included in the working capital deficiency at December 31, 2016 are significant obligations, which come due in the short-term, including the agreement to pay $19.7 million to CIC from January to May 2017, pursuant to the interest deferral agreement (refer to "CIC Convertible Debenture" of section "Liquidity and Capital Resources"). Although the Company has been in discussions with CIC for a further deferral, there can be no assurance that a favorable outcome can be reached.

Further, the trade and other payables of the Company have continued to accumulate due to liquidity constraints. The aging profile of trade and other payables has worsened as compared to December 31, 2015, as follows:

	As as December 31,	
$ in thousands	**2016**	2015
Less than 1 month	**$ 14,640**	$ 9,465
1 to 3 months	**2,493**	3,282
3 to 6 months	**2,648**	6,075
Over 6 months	**23,847**	12,095
Total trade and other payables	**$ 43,628**	$ 30,917

The Company may not be able to settle all trade and other payables on a timely basis, while continuing postponement in settling the trade payables may impact the mining operations of the Company and result in potential lawsuits and/or bankruptcy proceedings being filed against the Company. No such lawsuits or proceedings are pending as at March 31, 2017.

The Company also has other current liabilities, which require settlement in the short-term, including: the remaining cash payments of $3.0 million due in connection with the Tax Penalty owing to the Government of Mongolia; the MTLLC settlement in the amount of $7.9 million, which is included in trade and other payables, due between March and June 2017; the $3.4

million balance of the short-term bridge loan due in April 2017 (repaid in January and March 2017), the $2.9 million balance of the TRQ Loan payable in monthly payments with the balance due in December 2017; and the bank loan of $2.0 million due in May 2017.

The Company is also party to a commercial arbitration in Hong Kong with First Concept, involving an $11.5 million amount received as a coal supply contract prepayment, whereby First Concept is seeking to recover its deposit rather than completing the contracted coal purchases. An arbitration decision, which would compel the Company to repay First Concept or alternatively, which would compel First Concept to take the coal will impact the liquidity of the Company.

In order to address the continuing difficult coal market conditions in China, the Company has initiated a plan to change the existing product mix to higher value and higher margin outputs by washing certain grades of coal commencing in 2017 in order to produce more premium semi-soft coking coal and to initiate more processing of the lower grades of coal in order to reduce the ash content and improve the selling price and margins on its thermal coal product. The Company has also completed a new mine plan, which incorporates the coal washing and processing systems and contemplates significantly higher volumes of production in order to complement the Company's new product mix and sales volume targets. Such plans will involve the need for a significant level of stripping activities over the next two years and require certain capital expenditures to achieve the designed production outputs. Such expenditures will require the Company to seek additional financing in the form of finance leases, debt or equity. The Company has entered into an agreement for a finance lease on the new wash plant facility but will need financing to complete the thermal coal processing facilities.

There is no guarantee that the Company will be able to successfully execute the measures mentioned above and 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, 2017, then the Company is unlikely to have sufficient capital resources or cash flows from mining operations in order to satisfy its current ongoing obligations and future contractual commitments. 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.

Unless the Company acquires additional sources of financing and/or funding in the short term, the ability of the Company to continue as a going concern is threatened. If the Company is unable to continue as a going concern, it may be forced to seek relief under applicable bankruptcy and insolvency legislation.

Continuing delay in securing additional financing could ultimately result in an event of default of the CIC Convertible Debenture, the TRQ Loan and the bank loan, which if not cured within applicable cure periods in accordance with the terms of respective instruments, may result in the principal amounts owing and all accrued and unpaid interest becoming immediately due and payable upon notice to the Company by CIC, Turquoise Hill and the lender of the bank loan, respectively.

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

As at December 31, 2016, the Company's gearing ratio was 0.37 (2015: 0.33), which was calculated based on the Company's long term liabilities to total assets. As at December 31, 2016 and December 31, 2015, the Company is not subject to any externally imposed capital requirements.

As at March 31, 2017, the Company had $5.3 million of cash.

CIC Convertible Debenture

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

On March 29, 2010, the Company exercised its right to call for the conversion of up to $250.0 million of the CIC Convertible Debenture into approximately 21.5 million shares at a conversion price of $11.64 (CAD$11.88). As at December 31, 2016, CIC owned, through its indirect wholly owned subsidiary, approximately 19.4% of the issued and outstanding common shares of the Company.

On July 13, 2016, the Company executed a deferral agreement with CIC which covered outstanding deferred cash interest obligations and associated costs of $18.8 million as of July 13, 2016 and the cash interest payment of $8.1 million due on November 19, 2016. Pursuant to the deferral agreement, the Company originally agreed to repay $1.3 to $1.4 million monthly from July to November 2016 and repay $20.7 million on December 19, 2016. In consideration for the deferred payments, the Company agreed to pay a deferral fee at a rate of 6.4% per annum to CIC.

In November 2016, the Company and CIC agreed to delay the share issuance portion of the interest settlement of $4 million, subsequently the shares of $4 million were issued to CIC on January 11, 2017.

On December 29, 2016, the Company executed the December 2016 Deferral Agreement with CIC for a revised repayment schedule on the $20.7 million of cash interest and associated costs originally due on December 19, 2016 ("December 2016 Deferral Amounts"). The key repayment terms of the December 2016 Deferral Agreement are: (i) the Company is required to repay $6.8 million of the cash interest and associated deferral fee costs in five monthly amounts during the period from December 2016 to April 2017; and (ii) the Company is required to repay $14.3 million of cash interest and associated costs on May 19, 2017.

At any time before the December 2016 Deferral Amounts are fully repaid, the Company is required to consult with and obtain written consent from CIC prior to effecting a replacement or termination of either or both of its Chief Executive Officer and its Chief Financial Officer, otherwise this will constitute an event of default under the CIC Convertible Debenture, but CIC shall not withhold its consent if the board of directors proposes to replace either or both such officers with nominees selected by the Board, provided that the directors acted honestly and in good faith with a view to the best interests of the Company in the selection of the applicable replacements.

To date, the Company has made all payments due under the December 2016 Deferral Agreement.

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

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, 2016. The impairment indicator was the uncertainty of future coal prices in China.

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 and washing assumptions, operating cost and life of mine coal production assumptions as at December 31, 2016. The Company's Ovoot Tolgoi Mine cash generating unit carrying value was $169.3 million as at December 31, 2016.

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

- Coal resources and reserves as estimated by an independent third party engineering firm;
- Sales price estimates from an independent market consulting firm;
- Forecasted sales volumes in line with production levels as per the updated mine plan;
- Updated life-of-mine coal production, strip ratio, capital costs and operating costs;
- Coal washing to increase the volume of premium semi-soft coking coal sold;
- Coal processing to increase the grade and qualities of the thermal coal produced and sold; and
- A post-tax discount rate of 13.5% based on an analysis of the market, country and asset specific factors.

The impairment analysis did not result in the identification of an impairment loss or an impairment reversal and no charge or reversal was required as at December 31, 2016. The Company also conducted an impairment analysis in the prior year and an impairment loss of $76.7 million was charged to other operating expense as at December 31, 2015. The Company believes that the estimates and assumptions incorporated in the impairment analysis are reasonable; however, the estimates and assumptions are subject to significant uncertainties and judgments.

REGULATORY ISSUES AND CONTINGENCIES

Governmental and Regulatory Investigations

In 2014, 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 certain funds held in bank accounts in Mongolia totalling $1.2 million (the "Restricted Funds"). 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 the 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 MNT 35.3 billion (approximately $18.2 million on February 1, 2015). Following the refusal of the Supreme Court of Mongolia to hear the case on appeal in June 2015, the Tax Verdict entered into force. The Tax Verdict is, however, not immediately payable and enforceable against SGS absent further actions prescribed by the laws of Mongolia. 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 had entered into force.

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

Following the submission by the Company of various proposals to resolve the dispute giving rise to the Tax Verdict, in May 2016, the Resolution 258 of the Government of Mongolia was issued, which approved the Company's proposal to partially settle the Tax Penalty by way of certain cash payments in 2016 and 2017 and by the Company performing certain mining operations at the Tavan Tolgoi deposit on behalf of Erdenes. Subsequently to the Resolution, the Company made cash payments of $2.4 million during 2016 as a partial settlement of the Tax Penalty.

In compliance with the Resolution 258, in November 2016, the Company entered into an agreement with Erdenes under which the Company agreed to perform certain mining operations equivalent to MNT 20.3 billion (approximately $8.1 million) in the West Tsankhi section of the Tavan Tolgoi deposit during the period from November 2016 to February 2017. As at December 31, 2016, the Company had performed mining operations consisting of drilling and blasting of rock mass, stripping and loading topsoil, selective excavation and loading coal, and creating overburden stockpiles at the Tavan Tolgoi deposit equivalent to MNT 5.2 billion (approximately $2.1 million).

As of the date hereof the Company has completed the mining operations at the Tavan Tolgoi deposit equivalent to MNT 20.3 billion (approximately $8.1million) as set out in the agreement with Erdenes.

The Company has provided $9.1 million for the court case penalty at December 31, 2016. The decrease from $18.0 million as at June 30, 2015 is as a result of subsequent transfers from frozen bank accounts of $1.2 million, additional cash payments by the Company in 2016 of $2.4 million, the provision of mining services at the Tavan Tolgoi deposit in 2016 of $2.1 million and the foreign exchange adjustments.

The Company is required to make further cash payments of $3.0 million in 2017 to complete repayment to the balance of the penalty owing.

As described above, the Company is working with the relevant authorities in Mongolia to resolve the dispute giving rise to the tax verdict in a manner that is appropriate having regard to the Company's limited financial resources and supportive of a positive environment for foreign investment in Mongolia. Should the Company fail to meet the terms of the agreed repayment plan and to receive a discharge of the judgment from the applicable Mongolian court, this may result in an event of default under the CIC Convertible Debenture and CIC would have the right to declare the full principal and accrued interest owing thereunder immediately due and payable. Such an event of default under the CIC Convertible Debenture or the Company's inability to 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 plc., 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.

The Company, through the Board and management, has taken a number of steps to address issues noted during the investigations and to focus on ongoing compliance by all employees with all applicable laws, internal corporate policies and codes of conduct, and with the Company's disclosure controls and procedures and internal controls over financial reporting.

In the opinion of management of the Company, at December 31, 2016 a provision for this matter is not required.

Mongolian IAAC Investigation

In the first quarter of 2013, the Company was subject to orders imposed by the IAAC which placed restrictions on certain of the Company's Mongolian assets. The orders were imposed on the Company in connection with the IAAC's investigations of the Company as described above under "Governmental and Regulatory Investigations" and continued to be enforced by the Mongolian State Investigation Office. The 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 ("Restricted Funds"). 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 Court Decision Implementing Agency of Mongolia as partial payment of the Tax Verdict in October and November 2015. See "Governmental and Regulatory Investigations" above.

Following a review by the Company and its advisers, it is the Company's view that the orders placing restrictions on certain of the Company's Mongolian assets did not result in an event of default as defined under the terms of the CIC Convertible Debenture. However, the enforcement of the orders could ultimately result in an event of default of the Company's CIC Convertible Debenture, which if it 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 a class action (the "Class Action") against the Company, certain of its former senior officers and directors, and its former auditors, Deloitte LLP, in the Ontario Court in relation to the Company's restatement of consolidated financial statements as previously disclosed in the Company's public filings.

To commence and proceed with the Class Action, the plaintiff was required to bring a preliminary leave motion and to certify the Class Action as a class proceeding (the "Leave Motion"). The Ontario 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 directors of the Company named in the Class Action on the basis that the "large volume of compelling evidence" proved the defense of reasonable investigation on the balance of probabilities and provided the basis for dismissing the Leave Motion as against them.

However, the Ontario Court allowed the Ontario class action to proceed under Part XXIII.1 of the Ontario Securities Act, permitting the plaintiff to commence and proceed with an action against the Company in respect of alleged misrepresentations affecting trades in the secondary market for the Company's securities arising from the restatement. The Company initiated the Corporation's Appeal to appeal this portion of the decision of the Ontario Court.

On his part, the plaintiff initiated the Individual's Appeal whereby the plaintiff appealed that part of the November 5, 2015 Ontario Court decision dismissing the action against former officers and directors of the Company. The Individual's Appeal was brought as of right to the Ontario Court of Appeal.

By Order dated September 12, 2016, the Corporation Appeal was transferred to the Ontario Court of Appeal to be heard together with the Individuals' Appeal. The Corporation Appeal was perfected on October 25, 2016 in the Ontario Court of Appeal.

Both the Individuals' Appeal and the Corporation Appeal will now be verbally argued together. The appeals have been scheduled to be heard by the Ontario Court of Appeal in June 2017.

The Company disputes and is vigorously defending itself against the plaintiff's 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 potential losses, if any. However, the Company has judged a provision for this matter at December 31, 2016 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 had a duration of five years from commencement of the contract and provided 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. Accordingly, the Company has determined a provision for this matter at December 31, 2016 is not required.

Mining Prohibition in Specified Areas Law

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

In order to address the issues facing its implementation, in February 2015 the Parliament of Mongolia adopted an amendment to the Law on Implementation of the Mining Prohibition in Specified Areas Law (the "Amended Law on Implementation"). The Amended Law on Implementation provides an opportunity for license holders covered within the scope of application of the Mining Prohibition in Specified Areas Law to continue their mining operations subject to advance placement of funds to cover 100% of the future environmental rehabilitation costs. A model contract and a specific Government regulation on this requirement will be adopted by the Government. The license holders must also apply within 3 months after the amendment to the Law on Implementation comes into effect for permission to MRAM to resume activities. The Company considered the development projects may be affected, but not the operating mines. 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, which was converted to mining license MV-0125436 in January 2016, 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 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 exploration license 9449X, which was converted to mining license MV-020451 in January 2016, has been annulled from the Specified Area Law.

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

There has been limited development of the law during 2016 while two exploration licenses of the Company (13779X and 5267X) were converted to mining licenses (MV-020676 and MV-020675) in November 2016. 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 entire Soumber mining license and a portion of SGS' exploration license No.9443X (9443X was converted to mining license MV-025436 in January 2016) (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.

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. Mining activities at the Soumber property cannot proceed until the License Areas are removed from the SNT.

On June 29, 2016, the Mongolian Parliament and CRKh election was held. As a result, the Company is aware that additional action may be taken in respect of the SNT; however, 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 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") for a total consideration of $11.5 million. The arbitral proceedings (the "Arbitration") are deemed to have commenced on June 24, 2015, as the date when the respondent received the Notice.

The Company firmly rejects the allegations of First Concept in the Notice as lacking any merit. The Arbitration was held in the fourth quarter of 2016 and the decision is not expected until the second quarter of 2017.

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

Settlement 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, Mr. Molyneux, in the British Columbia Supreme Court, Canada. 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. The claim, seeking damages in excess of $1 million, related 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 as a defendant in the claim. The Company filed a response to civil claim and a counterclaim in September 2015.

Mr. Molyneux's claim, and the counterclaim by the Company, has been settled by a payment by the Company to Mr. Molyneux of the sum of $0.29 million, without admission of liability by either party. As a term of the settlement, the Company and Mr. Molyneux executed mutual general releases, and the action and counterclaim were dismissed as against all parties by consent without court costs payable to any party, effective on November 25, 2016.

Settlement of Lawsuit Notice from a Former Fuel Supplier

On January 20, 2017, the Company announced that SGS had received a lawsuit notice from the DC Court in relation to a claim from MTLLC, a former fuel supplier of SGS, for MNT 22.2 billion (approximately $8.9 million) consisting of MNT 14.6 billion (approximately $5.8 million) of outstanding fuel supply payments and MNT 7.6 billion (approximately $3.1 million) of late payment penalties and associated interest costs.

SGS disputed the amount claimed by MTLLC in the proceedings before the DC Court and filed an application with the DC Court to dismiss the litigation, on the basis that the contract required an arbitration process prior to the initiation of court proceedings. On January 25, 2017, the Company announced that the DC Court had dismissed the litigation pending the arbitration process.

Following SGS' successful challenge to the authority of the DC Court to hear the matter, the Company signed a settlement agreement with MTLLC on February 10, 2017, pursuant to which the outstanding amount of $7.9 million will be settled in equal monthly installments of $2.0 million from March 2017 to June 2017.

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. The Paved Highway has significantly increased the safety of coal transportation, reduced environmental impacts and improved efficiency and capacity of coal transportation. The current toll rate is set at MNT 900 per tonne of coal as compared to MNT 1,500 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 has a carrying capacity in excess of 20 million tonnes of coal per year.

For the three months ended and the year ended December 31, 2016, RDCC LLC recognized toll fee revenue of $1.7 million (2015: $1.1 million) and $5.0 million (2015: $2.6 million), respectively.

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, 2016, nor have any of its subsidiaries purchased, or sold any of the Company's listed securities during the year ended December 31, 2016.

COMPLIANCE WITH CORPORATE GOVERNANCE

The Company has, throughout the year ended December 31, 2016, 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 which include the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange" and the "Hong Kong Listing Rules", respectively), except for the followings:

Pursuant to code provision A.6.7 of the Corporate Governance Code, the independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Due to other engagements, certain independent non-executive Directors and the non-executive Director were unable to attend the annual general meeting on September 30, 2016 (the "Annual General Meeting").

Pursuant to code provision E.1.2 of the Corporate Governance Code, the chairman of the board of directors should attend the annual general meeting. However, Mr. Ningqiao Li, the Executive Chairman, was unable to attend the Annual General Meeting due to other significant business commitments. In the absence of the Executive Chairman, Mr. Mao Sun, an independent non-executive Director and the Interim Lead Director, acted as chairman of the Annual General Meeting to ensure an effective communication with the Shareholders. Mr. Li had a follow-up with Mr. Sun in respect of the opinions expressed or concerns raised, if any, by the Shareholders at the Annual General Meeting.

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 for Securities Transactions by Directors of Listed Issuers, Appendix 10 of the Hong Kong Listing Rules.

The Board 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, 2016.

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, 2017 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, 2017, 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. As a result, it may not be able to continue as a going concern.

OUTLOOK

Following the implementation of the “One Belt, One Road” program in China, Mongolia is considered to possess further cooperative opportunities in the energy, infrastructure and agriculture sectors. Although the general economic conditions which includes the exchange rate fluctuations of the MNT remains uncertain, the provision of an economic stabilization package of $5.5 billion by the International Monetary Fund and other partners in February 2017 definitely has brought a more positive outlook for the Mongolia economy, including the mining sector in particular.

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

With respect to coal markets in China, in 2016 the Chinese government announced its intention to restructure the coal industry. This restructuring remains in process and is intended to reduce coal production by approximately 500 million tonnes in the next three to five years to accelerate supply-side reform; reduce the number of working days of domestic coal miners from 330 working days/year to 276 working days/year; and prohibit greenfield coal mine construction between 2016 to 2018.

Following the implementation of these measures, the coal supply in China was impacted and resulted in overall coal price increases during 2016 after years of difficulties.

The Company benefitted from the market environment which resulted with the increased average selling price although the impact was partially offset by the depreciation of Renminbi against USD and locked in prices under agreements negotiated during times of lower coal prices. The increase in selling price of the Company’s coal has not tracked the increases in the coal index price in China, as such index has does not account for the challenges faced by the Company in respect of the geological location of the Ovoot Tolgoi Mine and the aforementioned historical sales agreements.

With the execution of the Company’s enhanced sales strategy to expand the sales network and reach out to a wider group of end customers, the number of customers has increased from five in 2015 to 19 in 2016. The Company will continue to strive for revenue growth by expanding its customer base further inland.

Looking forward to 2017, the Company remains cautiously optimistic regarding the coal market which is expected to continue stabilizing.

While most coal miners were affected by the price decline over the past few years, with certain being forced to cease operations and liquidate, those that endured and remained in the market with the competitive assets are now benefitting from the rebound in the underlying market. The Company is well positioned with the Ovoot Tolgoi mine located only approximately 40km from China and several growth options including the Soumber Deposit and Zag Suuj Deposit.

However, the Chinese Government policy may change or not be enforced based on market factors. For example, the 276 working days/year limit was slackened in November 2016 to manage production and price levels. The Company will pay particular attention to the government policy in China and respond proactively if necessary.

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. The Company intends to improve its product mix by beginning to wash coal in 2017 to beneficiate a portion of its lower grade and higher-ash content coal into washed coal products, in order to meet increasing market demand for higher quality coal. The construction of the washing facilities at Ovoot Tolgoi has been commenced and the operation is expected to start in 2017.

The Company is keen to strengthen cost management and control to ensure operating efficiency. The Company has started engaging contract mining companies to enhance the flexibility of production level while maintaining product quality.

The Company is also evaluating various other business opportunities in addition to coal mining and trading in Mongolia to diversify the risk profile as well as to create greater value for investors.

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 operational 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 Company's 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.

- **Expanded Resources and Declared Reserves** – As a result of work performed by DMCL, the Company increased its estimate of total resources at the Ovoot Tolgoi deposit from those described in the 2016 Technical Report and has declared reserves for the Ovoot Tolgoi deposit.

- **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 2017 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 with the engagement of third party contract mining companies 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, coal trading and real estate in Mongolia, including but not limited to power generation and contract mining. 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 property, plant and equipment and mineral properties. The Company uses this performance measure to monitor its operating cash costs internally and believes this measure provides investors and analysts with useful information about the Company's underlying cash costs of operations. The Company believes that conventional measures of performance prepared in accordance with IFRS do not fully illustrate the ability of its mining operations to generate cash flows. The Company reports cash costs on a sales basis. This performance measure is commonly utilized in the mining industry.

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

Summarized Comprehensive Income Information
(Expressed in thousands of USD, except for share and per share amounts)

	Year ended December 31, 2016	2015
Revenue	**$ 58,450**	$ 16,030
Cost of sales	**(87,045)**	(63,691)
Gross loss	**(28,595)**	(47,661)
Other operating expenses	**(50)**	(18,951)
Administration expenses	**(7,888)**	(7,509)
Evaluation and exploration expenses	**(422)**	(145)
Impairment of property, plant and equipment	**(1,152)**	(92,651)
Loss from operations	**(38,107)**	(166,917)
Finance costs	**(22,314)**	(21,371)
Finance income	**239**	1,302
Share of earnings of a joint venture	**806**	225
Loss before tax	**(59,376)**	(186,761)
Current income tax expense	**(1,470)**	(4)
Net loss attributable to equity holders of the Company	**(60,846)**	(186,765)
Other comprehensive loss to be reclassified to profit or loss in subsequent periods		
Exchange differences on translation of foreign operations	**(3,883)**	(1,275)
Net comprehensive loss attributable to equity holders of the Company	**$ (64,729)**	$ (188,040)
Basic and diluted loss per share	**$ (0.24)**	$ (0.79)

Summarized Financial Position Information

(Expressed in thousands of USD)

	As at December 31, 2016	2015
Assets		
Current assets		
Cash and cash equivalents	**$ 966**	$ 377
Trade and other receivables	**19,434**	8,196
Inventories	**28,583**	32,262
Prepaid expenses and deposits	**8,194**	1,487
Total current assets	**57,177**	42,322
Non-current assets		
Property, plant and equipment	**180,809**	222,485
Investment in a joint venture	**21,335**	25,667
Total non-current assets	**202,144**	248,152
Total assets	**$ 259,321**	$ 290,474
Equity and liabilities		
Current liabilities		
Trade and other payables	**$ 43,628**	$ 30,917
Provision for court case penalty	**9,074**	16,468
Deferred revenue	**29,849**	11,683
Interest-bearing borrowings	**8,454**	8,905
Current portion of convertible debenture	**25,597**	16,671
Total current liabilities	**116,602**	84,644
Non-current liabilities		
Interest-bearing borrowings	**425**	–
Convertible debenture	**91,993**	91,988
Decommissioning liability	**4,288**	3,149
Total non-current liabilities	**96,706**	95,137
Total liabilities	**213,308**	179,781
Equity		
Common shares	**1,094,619**	1,094,618
Share option reserve	**52,340**	52,292
Exchange reserve	**(5,158)**	(1,275)
Accumulated deficit	**(1,095,788)**	(1,034,942)
Total equity	**46,013**	110,693
Total equity and liabilities	**$ 259,321**	$ 290,474
Net current liabilities	**$ (59,425)**	$ (42,322)
Total assets less current liabilities	**$ 142,719**	$ 205,830

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 USD 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, 2017 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 transactions to provide it with additional liquidity.

Several adverse conditions and material uncertainties cast significant doubt upon the going concern assumption. The Company had a working capital deficiency (excess current liabilities over current assets) of $59,425 as at December 31, 2016 compared to $42,322 of working capital deficiency as at December 31, 2015. Included in the working capital deficiency at December 31, 2016 are significant obligations, which come due in short-term, including the agreement to pay $19,696 to CIC from January to May 2017, pursuant to the interest deferral agreement. Although the Company has been in discussions with CIC for a further deferral, there can be no assurance that a favorable outcome can be reached.

Further, the trade and other payables of the Company continue to accumulate due to liquidity constraints. The aging profile of the trade and other payables has risen as compared to that as at December 31, 2015, as follows:

	As at December 31, 2016	2015
Less than 1 month	**$ 14,640**	$ 9,465
1 to 3 months	**2,493**	3,282
3 to 6 months	**2,648**	6,075
Over 6 months	**23,847**	12,095
Total trade and other payables	**$ 43,628**	$ 30,917

The Company may not be able to settle all trade and other payables on a timely basis, while continuing postponement in settling the trade payables may impact the mining operations of the Company and result in potential lawsuits and/or bankruptcy proceedings being filed against the Company. No such lawsuits or proceedings are pending as at March 31, 2017.

The Company also has other current liabilities, which require settlement in the short-term, including: the remaining cash payments of $3,013 due in connection with the Tax Penalty owing to the Government of Mongolia; the MTLLC settlement in the amount of $7,928, which is included in trade and other payables, due between March and June 2017; the $3,425 balance of the short-term bridge loan due in April 2017 (repaid in January and March 2017) the $2,881 balance of the TRQ Loan payable in monthly payments with the balance due in December 2017; and the bank loan of $2,026 due in May 2017.

The Company is also party to a commercial arbitration in Hong Kong with First Concept, involving an $11,500 amount received as a coal supply contract prepayment, whereby First Concept is seeking to recover its deposit rather than completing the contracted coal purchases. An arbitration decision, which would compel the Company to repay First Concept or alternatively, which would compel First Concept to take the coal will impact the liquidity of the Company.

In order to address the continuing difficult coal market conditions in China, the Company has initiated a plan to change the existing product mix to higher value and higher margin outputs by washing certain grades of coal commencing in 2017 in order to produce more premium semi-soft coking coal and to initiate more processing of the lower grades of coal in order to reduce the ash content and improve the selling price and margins on its thermal coal product. The Company has also completed a new mine plan, which incorporates the coal washing and processing systems and contemplates significantly higher volumes of production in order to complement the Company's new product mix and sales volume targets. Such plans will involve the need for a significant level of stripping activities over the next two years and require certain capital expenditures to achieve the designed production outputs. Such expenditures will require the Company to seek additional financing in the form of finance leases, debt or equity. The Company has entered into an agreement for a finance lease on the new wash plant facility but will need financing to complete the thermal coal processing facilities.

There is no guarantee that the Company will be able to successfully execute the measures mentioned above and 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, 2017, then the Company is unlikely to have sufficient capital resources or cash flows from mining operations in order to satisfy its current ongoing obligations and future contractual commitments. 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.

Unless the Company acquires additional sources of financing and/or funding in the short term, the ability of the Company to continue as a going concern is threatened. If the Company is unable to continue as a going concern, it may be forced to seek relief under applicable bankruptcy and insolvency legislation.

Continuing delay in securing additional financing could ultimately result in an event of default of the CIC Convertible Debenture, the TRQ Loan and the bank loan, which if not cured within applicable cure periods in accordance with the terms of respective instruments, may result in the principal amounts owing and all accrued and unpaid interest becoming immediately due and payable upon notice to the Company by CIC, Turquoise Hill and the lender of the bank loan, respectively.

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

As at December 31, 2016, the Company's gearing ratio was 0.37 (2015: 0.33), which was calculated based on the Company's long term liabilities to total assets. As at December 31, 2016 and December 31, 2015, the Company is not subject to any externally imposed capital requirements.

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 issued by the IASB.

The consolidated financial statements of the Company for the year ended December 31, 2016 were approved and authorized for issue by the Board of Directors of the Company on March 31, 2017.

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 Coal Division. The Company's Chief Executive Officer (chief operating decision maker) reviews the Coal Division's discrete financial information in order to make decisions about resources to be allocated to the segment and to assess its performance. The division is principally engaged in coal mining, development and exploration in Mongolia. The Company's Corporate Division does not earn revenues and therefore does not meet the definition of an operating segment.

During the year ended December 31, 2016, the Coal Division had 19 active customers with the largest customer accounting for 67% of revenues, the second largest customer accounting for 14% of revenues, the third largest customer accounting for 6% of revenues and the other customers accounting for the remaining 13% of revenues.

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, 2016	**$ 257,256**	**$ 2,065**	**$ 259,321**
As at December 31, 2015	288,974	1,500	290,474
Segment liabilities			
As at December 31, 2016	**$ 81,288**	**$ 132,020**	**$ 213,308**
As at December 31, 2015	51,404	128,377	179,781
Segment loss			
For the year ended December 31, 2016	**$ (31,943)**	**$ (28,903)**	**$ (60,846)**
For the year ended December 31, 2015	(162,534)	(24,231)	(186,765)
Segment revenues			
For the year ended December 31, 2016	**$ 58,450**	**$ –**	**$ 58,450**
For the year ended December 31, 2015	16,030	–	16,030
Impairment charge on assets[(ii)]			
For the year ended December 31, 2016	**$ 11,147**	**$ –**	**$ 11,147**
For the year ended December 31, 2015	108,075	–	108,075
Depreciation and amortization			
For the year ended December 31, 2016	**$ 46,132**	**$ 185**	**$ 46,317**
For the year ended December 31, 2015	49,188	18	49,206
Share of earnings of a joint venture			
For the year ended December 31, 2016	**$ 806**	**$ –**	**$ 806**
For the year ended December 31, 2015	225	–	225
Finance cost			
For the year ended December 31, 2016	**$ 816**	**$ 21,498**	**$ 22,314**
For the year ended December 31, 2015	566	20,805	21,371
Finance income			
For the year ended December 31, 2016	**$ 21**	**$ 218**	**$ 239**
For the year ended December 31, 2015	222	1,080	1,302
Current income tax charge			
For the year ended December 31, 2016	**$ 1,470**	**$ –**	**$ 1,470**
For the year ended December 31, 2015	4	–	4

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

(ii) The impairment charge on assets for the year ended December 31, 2016 relates to trade and other receivables, inventories and property, plant and equipment. The impairment charge on assets for the year ended December 31, 2015 relates to trade and other receivables, inventories, prepaid expenses and deposits and property, plant and equipment.

3. REVENUE

Revenue represents the net invoiced value of goods sold which arises from the trading of coal.

4. EXPENSES BY NATURE

The Company's loss before tax is arrived at after charging/(crediting):

	Year ended December 31,	
	2016	2015
Depreciation	**$ 38,511**	$ 27,945
Auditors' remuneration	**422**	332
Employee benefit expense (including directors' remuneration)		
Wages and salaries	**$ 6,729**	$ 6,650
Equity-settled share option expense	**48**	254
Pension scheme contributions	**675**	650
	$ 7,452	$ 7,554
Minimum lease payments under operating leases	**$ 890**	$ 882
Foreign exchange gain	**(5,423)**	(896)
Impairment of property, plant and equipment	**1,152**	92,651
Impairment of materials and supplies inventories	**–**	675
Impairment of coal stockpile inventories	**7,354**	14,588
Provision for doubtful trade and other receivables	**2,641**	161
Loss on settlement of prepayments	**–**	712
Discounting on settlement of trade payables	**(1,009)**	–
Mining services, net	**1,006**	–
Settlement of civil claims	**2,652**	–
Provision for court case penalty	**–**	18,049
Mine operating cost and others	**40,909**	20,294
Total expenses	**$ 96,557**	$ 182,947

5. COST OF SALES

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

	Year ended December 31, 2016	2015
Operating expenses	**$ 41,452**	$ 18,266
Share-based compensation expense/(recovery)	**(8)**	42
Depreciation and depletion	**26,142**	5,361
Impairment of coal stockpile inventories	**7,354**	14,588
Cost of sales from mine operations	**74,940**	38,257
Cost of sales related to idled mine assets(i)	**12,105**	25,434
Cost of sales	**$ 87,045**	$ 63,691

(i) *Cost of sales related to idled mine assets for the year ended December 31, 2016 includes $12,105 of depreciation expense (2015: includes $22,462 of depreciation expenses). The depreciation expense relates to the Company's idled plant and equipment.*

Cost of inventories recognized as expense in cost of sales for the year ended December 31, 2016 totaled $62,931 (2015: $12,026).

6. OTHER OPERATING EXPENSES

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

	Year ended December 31, 2016	2015
Foreign exchange gain	**$ (5,423)**	$ (896)
Discount on settlement of trade payables	**(1,009)**	–
Mining services, net	**1,006**	–
Settlement of civil claims	**2,652**	–
Provision for doubtful trade and other receivable	**2,641**	161
Loss on settlement of prepayments	**–**	712
Impairment of materials and supplies inventories	**–**	675
Provision for court case penalty	**–**	18,049
Other	**183**	250
Other operating expenses	**$ 50**	$ 18,951

Mining services at the Tavan Tolgoi deposit were provided in connection with settlement of the Tax Penalty at a net cost of $1,006, consisting of direct mining costs and depreciation totaling $3,080, net of service revenue of $2,074. No similar amount was incurred in 2015.

7. ADMINISTRATION EXPENSES

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

	Year ended December 31, 2016	2015
Corporate administration	**$ 2,724**	$ 2,112
Legal and professional fees	**2,022**	2,921
Salaries and benefits	**2,820**	2,155
Share-based compensation expense	**58**	199
Depreciation	**264**	122
Administration expenses	**$ 7,888**	$ 7,509

8. FINANCE COSTS AND INCOME

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

	Year ended December 31, 2016	2015
Interest expense on convertible debenture	**$ 21,279**	$ 20,549
Interest expense on borrowings	**781**	475
Commitment fee and front end fee	**–**	50
Loan arrangement fee	**159**	190
Accretion of decommissioning liability	**95**	107
Finance costs	**$ 22,314**	$ 21,371

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

	Year ended December 31, 2016	2015
Unrealized gain on embedded derivatives in convertible debenture	**$ 217**	$ 1,077
Gain on waiver of loan from Turquoise Hill	**–**	200
Interest income	**22**	25
Finance income	**$ 239**	$ 1,302

9. TAXES

9.1 Income tax recognized in profit or loss

The Canadian statutory tax rate was 26% (2015: 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, 2016	2015
Loss before tax	**$ (59,376)**	$ (186,761)
Statutory tax rate	**26.00%**	26.00%
Income tax recovery based on combined Canadian federal and provincial statutory rates	**(15,438)**	(48,558)
Deduct:		
Lower effective tax rate in foreign jurisdictions	**610**	13,604
Tax effect of tax losses and temporary differences not recognized	**6,529**	5,553
Non-deductible expenses	**9,769**	29,405
Income tax expenses	**$ 1,470**	$ 4

9.2 Deferred tax balances

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

	As at December 31, 2016	2015
Tax loss carryforwards	**$ 15,339**	$ 11,558
Property, plant and equipment and other assets	**(15,339)**	(11,558)
Total deferred tax balances	**$ –**	$ –

9.3 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, **2016**	2015
Non-capital losses	**$ 141,480**	$ 133,756
Capital losses	**30,049**	30,049
Foreign exchange and others	**376,531**	300,197
Total unrecognized amounts	**$ 548,060**	$ 464,002

9.4 Expiry dates

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

	As at December 31, 2016 U.S. Dollar Equivalent	Expiry dates
Non-capital losses		
Canada	**$ 139,659**	2032 – 2036
Mongolia[(i)]	**49,280**	2017 – 2020
China	**1,821**	2020 – 2021
	196,760	
Capital losses		
Canada	**$ 30,049**	indefinite

(i) The tax loss in Mongolia is subject to final approval from the Mongolia tax authorities.

10. LOSS PER SHARE

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

	Year ended December 31, **2016**	2015
Net loss	**$ (60,846)**	$ (186,765)
Weighted average number of shares	**257,692**	237,560
Basic and diluted loss per share	**$ (0.24)**	$ (0.79)

Potentially dilutive items not included in the calculation of diluted loss per share for the year ended December 31, 2016 include the convertible debenture and stock options that were anti-dilutive.

11. TRADE AND OTHER RECEIVABLES

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

	As at December 31, **2016**	2015
Trade receivables	**$ 17,774**	$ 7,800
Other receivables	**1,660**	396
Total trade and other receivables	**$ 19,434**	$ 8,196

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, **2016**	2015
Less than 1 month	**$ 5,777**	$ 4,399
1 to 3 months	**5,622**	167
3 to 6 months	**7,937**	3,597
Over 6 months	**98**	33
Total trade and other receivables	**$ 19,434**	$ 8,196

Trade receivables are normally paid within 6 months from the date of billing. Overdue balances are reviewed regularly by senior management. The Company does not normally hold any collateral or other credit enhancements over its trade and other receivable balances. In December 2016, the Company entered into a settlement agreement with the Customer pursuant to which the 240 Units located in Ulaanbaatar, Mongolia, are to be transferred to the Company as partial consideration for settling the outstanding trade receivables in the amount of $12,000, with the balance of the receivables, totaling $7,500, payable in cash by the Customer to the Company by March 31, 2017 (subsequently extended to May 10, 2017). As the title transfer on the agreement could not be completed prior to December 31, 2016, the transaction cannot be completed and recorded in the Company's accounts until such titles are properly registered in the Company's name. The settlement agreement includes an option for the Company to return any unsold units back to the Customer, until September 30, 2017, at the same price per unit for immediate payment of the balance in cash. As of the date hereof, the title transfer registration in Mongolia has been completed for a material portion of the 240 Units but additional time will be required to finalize the administrative process for the registration of the remaining portion of the 240 Units due to the number of units involved, the Company has been working closely with the government authority to facilitate the process. To March 31, 2017, the Company has collected $3,478 from the Customer to settle the outstanding trade receivables and on March 27, 2017 entered into a deferral agreement to extend the payment due date on the remaining uncollected balance to May 10, 2017.

For the year ended December 31, 2016, the Company recorded a $2,641 loss provision on its trade and other receivables in other operating expenses (2015: $161). 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.

12. 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 was as follows:

	As at December 31, 2016	2015
Less than 1 month	**$ 14,640**	$ 9,465
1 to 3 months	**2,493**	3,282
3 to 6 months	**2,648**	6,075
Over 6 months	**23,847**	12,095
Total trade and other payables	**$ 43,628**	$ 30,917

Trade and other payables as at December 31, 2016 included payables resulting from civil claims:

12.1 Settlement 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, Mr. Molyneux, in the British Columbia Supreme Court, Canada. 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. The claim, seeking damages in excess of $1,000, related 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 as a defendant in the claim. The Company filed a response to civil claim and a counterclaim in September 2015.

Mr. Molyneux's claim, and the counterclaim by the Company, have been settled by a payment by the Company to Mr. Molyneux of the sum of $290, without admission of liability by either party. As a term of the settlement, the Company and Mr. Molyneux executed mutual general releases, and the action and counterclaim were dismissed as against all parties by consent without court costs payable to any party, effective on November 25, 2016.

12.2 Settlement of Lawsuit Notice from a Former Fuel Supplier

On January 20, 2017, the Company announced that SGS had received a lawsuit notice from the Khan-Uul District Civil Court of First Instance in Mongolia (the "DC Court") in relation to a claim from MTLLC, a former fuel supplier of SGS, for MNT 22.2 billion (approximately $8,900) consisting of MNT 14.6 billion (approximately $5,800) of outstanding fuel supply payments and MNT 7.6 billion (approximately $3,100) of late payment penalties and associated interest costs.

SGS disputed the amount claimed by MTLLC in the proceedings before the DC Court and filed an application with the DC Court to dismiss the litigation, on the basis that the contract required an arbitration process prior to the initiation of court proceedings. On January 25, 2017, the Company announced that the DC Court had dismissed the litigation pending the arbitration process.

Following SGS' successful challenge to the authority of the DC Court to hear the matter, the Company signed a settlement agreement with MTLLC on February 10, 2017, pursuant to which the outstanding amount of $7,928 will be settled in equal monthly installments of $1,982 from March 2017 to June 2017.

13. DEFERRED REVENUE

At December 31, 2016, the Company has deferred revenue of $29,849, which represents prepayments for coal sales from customers (2015: $11,683).

Included in deferred revenue is amount prepaid by First Concept, who served a notice of arbitration on SGS of $11,500 at December 31, 2016 (2015: $11,500).

14. INTEREST-BEARING BORROWINGS

The Company's interest-bearing borrowings consist of the following amounts:

	As at December 31,	
	2016	2015
Turquoise Hill Loan Facility (i)	**$ 2,881**	$ 3,954
Short-term bridge loan (ii)	**3,425**	4,951
Bank loan (iii)	**2,026**	–
Finance lease payables (iv)	**547**	–
Total interest-bearing borrowings	**$ 8,879**	$ 8,905

(i) Turquoise Hill Loan Facility

On May 25, 2014, the Company announced it obtained a loan from Turquoise Hill in the form of a $10,000 revolving credit facility to meet its short term working capital requirements (the "TRQ Loan"). The key commercial terms of the facility were: an original maturity date of August 30, 2014 (subsequently extended as described below); 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 $100.

During 2014 and 2015, the due date of the TRQ Loan, was extended several times and the maximum amount of the facility was reduced to $3,800.

On May 16, 2016, the Company and Turquoise Hill entered into the May 2016 Deferral Agreement, whereby Turquoise Hill agreed to a limited deferral of repayment of all remaining amounts and obligations owing under the TRQ Loan to December 29, 2017 in accordance with the schedule of repayment set out below:

- The Company agreed to effect monthly repayments on the last business day of each month in an amount of (i) $150 per month from May 2016 to April 2017; (ii) $200 per month starting from May 2017 to December 2017 (the payments in (i) and (ii), the "Repayments"), at which time all remaining obligation will become due;

- In the event that the Company fails to make any one of the Repayments in its entirety on or before the dates set out above, then the Company shall be in automatic and irremediable default of the obligations thereunder and under the TRQ Loan, shall immediately and irremediably lose all benefits of the May 2016 Deferral Agreement, and all then outstanding obligations shall become immediately due and payable to Turquoise Hill; and

- Interest shall continue to accrue on all outstanding obligations at the 12-month US dollar LIBOR rate.

Unless otherwise agreed by Turquoise Hill, under certain circumstances, 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.

As at December 31, 2016, the outstanding principal and accrued interest under this facility amounted to $2,200 and $681, respectively (at December 31, 2015, the outstanding principal and accrued interest under this facility amounted to $3,400 and $554, respectively).

(ii) 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 interest rate is 8% per annum with interest payable upon the repayment of loan principal.

The Company repaid the first tranche of the short-term bridge loan with interest of $5,042 up to August 11, 2016. During June and July 2016, the Company drew the second tranche of $5,038, of which $1,504 will mature in March and $3,534 will mature in April 2017. In December 2016, $1,454 was repaid for the short-term bridge loan and a further $1,796 and $1,597 was subsequently repaid in January 2017 and March 2017, respectively.

As at December 31, 2016, the outstanding balance for the short-term bridge loan was $3,297 (December 31, 2015: $4,885) and the Company owed accrued interest of $128 (December 31, 2015: $66). A loan arrangement fee of 5% of the loan principal drawn was charged, totaling $252 for the loans drawn during June and July 2016 and amortized throughout the loan term. For the year ended December 31, 2016, $159 of loan arrangement fee was amortized (2015: nil).

Under certain circumstances, including the non-payment of interest amounts as the same become due, amounts outstanding under the short-term bridge 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 short-term bridge loan. Subject to notice and cure periods, certain events of default under the short-term bridge loan will result in acceleration of the indebtedness under the short-term bridge loan at the option of the lender.

(iii) Bank Loan

On May 6, 2016, the Company entered into a $2,000 loan agreement with a Mongolian bank. The key commercial terms of the loan are as follows:

- Maturity date of May 6, 2017;
- Interest rate of 15.8% per annum and payable monthly; and
- Certain items of property, plant and equipment in the amount of $3,678 were pledged.

As at December 31, 2016, the outstanding balance for the bank loan was $2,000 (2015: nil) and the Company owed accrued interest of $26 (2015: nil).

(iv) Finance Lease Payables

The Company leases certain of its mobile equipment for daily operations. These leases are classified as finance leases and have remaining lease terms ranging from 2 to 5 years.

At December 31, 2016, the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments As at December 31,		**Present value of minimum lease payments As at December 31,**	
	2016	2015	**2016**	2015
Amounts payable:				
Within one year	**$ 152**	$ –	**$ 122**	$ –
In the second year	**152**	–	**131**	–
In the third to fifth years, inclusive	**314**	–	**294**	–
Total minimum finance lease payments	**$ 618**	$ –	**$ 547**	$ –
Future finance charges	**(71)**	–		
Total net lease finance payables	**$ 547**	$ –		
Portion classified as current liabilities	**(122)**	–		
Non-current portion	**$ 425**	$ –		

15. 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 USD) and spot foreign exchange rates.

15.1 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.

15.2 Presentation

Based on the Company's valuation as at December 31, 2016, the fair value of the embedded derivatives decreased by $217 compared to December 31, 2015. The decrease was recorded as finance income for the year ended December 31, 2016.

For the year ended December 31, 2016, the Company recorded interest expense of $21,279 related to the convertible debenture as a finance cost (2015: $20,549). 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,	
	2016	2015
Balance, beginning of year	**$ 108,659**	$ 95,187
Interest expense on convertible debenture	**21,279**	20,549
Decrease in fair value of embedded derivatives	**(217)**	(1,077)
Interest paid	**(12,131)**	(6,000)
Balance, end of year	**$ 117,590**	$ 108,659

The convertible debenture balance consists of the following amounts:

	As at December 31,	
	2016	2015
Current convertible debenture		
Interest payable	**$ 25,597**	$ 16,671
Non-current convertible debenture		
Debt host	**91,453**	91,231
Fair value of embedded derivatives	**540**	757
	91,993	91,988
Total convertible debenture	**$ 117,590**	$ 108,569

16. ACCUMULATED DEFICIT AND DIVIDENDS

At December 31, 2016, the Company has accumulated a deficit of $1,095,788 (2015: $1,034,942). No dividend has 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, 2016, 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 31, 2017.

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, 2016, 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, 2016, 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 31, 2017 on the SEDAR website at www.sedar.com and the Company's website at www.southgobi.com. Copies of the Company's 2016 Annual Report, containing the audited consolidated financial statements and the 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 of the Company 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 PERSONS

Disclosure of a scientific or technical nature in this announcement 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) listed below.

Scientific and technical disclosure in respect of Ovoot Tolgoi deposit has been reviewed and approved by Mr. Vincent Li and Dr. Weiliang Wang, directors of DMCL. Specifically, Mr. Li and Dr. Wang were responsible for the fields of expertise described below in respect of the Ovoot Tolgoi deposit. Other disclosures of a scientific or technical nature in this announcement in respect of the Ovoot Tolgoi Mine were prepared by employees of the Company and reviewed by Mr. Li. Each of Mr. Li and Dr. Wang is a "qualified person" as that term is defined under NI 43-101. A technical report supporting the updated resources and reserves in respect of the Ovoot Tolgoi deposit disclosed in this announcement is being prepared and is expected to be filed on SEDAR within 45 days of the filing of this announcement.

Disclosure of a scientific or technical nature relating to the Soumber Deposit is derived from a technical report on the Soumber Deposit dated March 25, 2013, prepared by RungePincockMinarco (known as Minarco-MineConsult as of the date of such report) (the “Soumber Technical Report”) and scientific and technical disclosure relating to the Zag Suuj Deposit is derived from a technical report on the Zag Suuj Deposit dated March 25, 2013, prepared by RungePincockMinarco (known as Minarco-MineConsult as of the date of such report) (the “Zag Suuj Technical Report”). Copies of the Soumber Technical Report and the Zag Suuj Technical Report are available on SEDAR at www.sedar.com.

Property	**Qualified Persons**	**Field of Expertise**	**Relationship to Company**
Ovoot Tolgoi	Dr. Weiliang Wang	Resources	Independent Consultant
Ovoot Tolgoi	Vincent Li	Reserves	Independent Consultant
Soumber	Merryl Peterson	Resources	Independent Consultant
Zag Suuj	Merryl Peterson	Resources	Independent Consultant

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.

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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:

- 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 consolidated financial statements and the impact thereof;

- 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 settle the trade payables, to secure additional funding and to meet its obligations under each of the CIC Convertible Debenture, the TRQ Loan, the short-term bridge loan and the bank loan, as the same become due;

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

- the ability of the Company to satisfy the Tax Penalty (as defined under the heading "REGULATORY ISSUES AND CONTINGENCIES – Governmental and Regulatory Investigations" in this announcement);

- the ability of the Company to meet the repayment terms as per the settlement agreement with MTLLC;

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

- the results and impact of the Ontario class action (as described under the heading "REGULATORY ISSUES AND CONTINGENCIES – Class Action Lawsuit" in this announcement);

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

- the Company's plans to file a technical report for the updated resource and reserve estimates and proposed mine plan described herein for the Ovoot Tolgoi Mine and the timing thereof;

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

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

- the ability to enhance the product value by conducting coal processing and coal washing;

- the 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 completion of the balance of the remaining title transfer registration for the residential units and parking spaces in Ulaanbaatar, Mongolia, the plan to commence the sales of such units, and receipt of the remaining cash portion of the associated settlement;

- the agreement with Ejin Jinda and the payments thereunder;
- the capacity and future toll rate of the paved highway;
- the potential effect of the list of licenses published by the Government of Mongolia covering areas in which exploration and mining are purportedly prohibited on certain of the Company's mining licenses;
- 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;
- the future coal market conditions in China and the related impact on the Company's margins and liquidity;
- the costs relating to anticipated capital expenditures and the 2017 exploration program;
- the business outlook, including the outlook for the remainder of 2017 and beyond;
- the Company's objectives for 2017 and beyond;
- the plans for the progress of mining license application processes;
- the anticipated stock market conditions, the future prices of the Company's common shares and ownership thereof;
- the possible impact of changes to the inputs to the valuation model used to value the embedded derivatives in the CIC Convertible Debenture;
- the impact of amendments to, or the application of, the laws of Mongolia, China and other countries in which the Company carries on business;
- the evaluation, and potential pursuit of, business opportunities other than coal mining, coal trading and real estate in Mongolia, including but not limited to power generation and contract mining;
- 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 future mining operations at the Soumber Deposit being allowed to share the existing infrastructure with the Ovoot Tolgoi Mine;

- 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 the forward-looking statements.

The English text of this announcement shall prevail over the Chinese text in case of inconsistencies.