URANERZ ENERGY CORP.
Form S-3
May 27, 2008
As filed with the Securities and Exchange Commission on May 23, 2008

Registration Statement No. ____________

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-3

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

URANERZ ENERGY CORPORATION

(Exact name of registrant as specified in its charter)

Nevada (State or other jurisdiction of incorporation or organization)	**1081** (Primary Standard Industrial Classification Code Number)	**98-0365605** (I.R.S. Employer Identification No.)

Suite 1410 – 800 West Pender Street

Vancouver, British Columbia, Canada V6C 2V6

(604) 689-1659

(Address, including zip code, and telephone number, including area code, of registrant’s principal executive offices)

Dorsey & Whitney LLP

Republic Plaza Building, Suite 4700

370 Seventeenth Street

Denver, CO 80202-5647

(303) 629-3400

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Kenneth G. Sam, Esq.
Jason K. Brenkert, Esq.

Dorsey & Whitney LLP

Republic Plaza Building, Suite 4700

370 Seventeenth Street

Denver, CO 80202-5647

From time to time after the effective date of this registration statement

(Approximate date of commencement of proposed sale to public)

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. o

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, please check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. o

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer o Accelerated filer x Non-accelerated filed o Small reporting company o

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	**Amount to be Registered**	**Proposed Maximum Offering Price Per Share**	**Proposed Maximum Aggregate Offering Price**	**Amount of registration fee**
Common Stock to be offered for resale by the selling shareholders	10,888,400 (1)	$2.82(1)	$30,705,288	$1,207
Common Stock acquirable upon exercise of warrants to be offered for resale by selling shareholders (2)	4,932,498	$3.50(3)	$17,263,743	$679
Common Stock acquirable upon exercise of agents' warrants to be offered for resale by selling shareholders (4)	120,000	$2.60(5)	$312,000	$13
Total	15,940,898	--	$48,281,031	$1,899

(1) Estimated pursuant to Rule 457(c) under the Securities Act of 1933, as amended, solely for the purpose of calculating the amount of the registration fee, based on the average of the high and low sale prices for the Registrant's common shares on May 20, 2008, as quoted on the American Stock Exchange.

(2) Consisting of 4,932,498 shares of common stock issuable upon the exercise of warrants issued on April 15, 2008, with each whole warrant entitling the holder thereof to purchase one additional share of the Registrant's common stock for a period ending April 15, 2010 at an exercise price of $3.50 per common share.

(3) Estimated pursuant to Rule 457(g) under the U.S. Securities Act of 1933, as amended, solely for the purposes of calculating the registration fee, based on the exercise price of $3.50 per share, the highest exercise price for the warrants over the term of the warrants.

(4) Consisting of 120,000 shares of common stock issuable upon the exercise of agents' warrants issued on April 15, 2008, entitling the holder to purchase one common share of the Registrant at a price of $2.60 for a period ending April 15, 2009.

(5) Estimated pursuant to Rule 457(g) under the U.S. Securities Act of 1933, as amended, solely for the purposes of calculating the registration fee, based on the exercise price of $2.60 per share, the highest exercise price for the warrants over the term of the agents' warrants.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended (the "Securities Act"), or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information contained in this prospectus is not complete and may be changed. The Selling Security Holders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these shares, and the Selling Security Holders are not soliciting an offer to buy these shares in any state where the offer or sale is not permitted.

PRELIMINARY PROSPECTUS

Subject To Completion: Dated May 23, 2008

Uranerz Energy Corporation

15,940,898 SHARES OF COMMON STOCK

This prospectus relates to the sale, transfer or distribution of up to 15,940,898 shares of the common stock, par value $0.001 per share, of Uranerz Energy Corporation, by Selling Security Holders described herein. The price at which the Selling Security Holders may sell the shares will be determined by the prevailing market price for the shares or in negotiated transactions. The shares of common stock registered for sale:

- 10,888,400 shares of common stock held by Selling Security Holders;
- 4,932,498 shares of common stock acquirable upon exercise of warrants issued April 15, 2008 (April Warrants) at $3.50 per share until April 15, 2010 held by Selling Security Holders; and
- 120,000 shares of common stock acquirable upon exercise of agents' warrants issued April 15, 2008 (Agents' Warrants) at $2.60 per share until April 15, 2009 held by Selling Security Holders.

We will not receive any proceeds from the sale or distribution of the common stock by the Selling Security Holders.

We may receive proceeds from the exercise of the warrants, if any, and will use the proceeds from any exercise for general working capital purposes.

Our common stock is listed on the American Stock Exchange (AMEX) and the Toronto Stock Exchange (TSX) both under the symbol "URZ". On May 20, 2008, the closing sale price for our common stock was $3.09 as quoted on the AMEX.

Investing in our common stock involves risks. See "Risk Factors and Uncertainties" beginning of page 5.

These securities have not been approved or disapproved by the U.S. Securities and Exchange Commission (SEC) or any state securities commission nor has the SEC or any state securities commission passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

THE DATE OF THIS PRELIMINARY PROSPECTUS IS MAY 23, 2008.

TABLE OF CONTENTS

FORWARD-LOOKING STATEMENTS

This prospectus and the exhibits attached hereto contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward looking statements concern the Company’s anticipated results and developments in the Company’s operations in future periods, planned exploration and, if warranted, development of its properties, plans related to its business and other matters that may occur in the future. These statements relate to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management.

Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as “expects” or “does not expect”, “is expected”, “anticipates” or “does not anticipate”, “plans”, “estimates” or “intends”, or stating that certain actions, events or results “may”, “could”, “would”, “might” or “will” be take or be achieved) are not statements of historical fact and may be forward-looking statements. Forward-looking statements are subject to a variety of known and unknown risks, uncertainties and other factors which could cause actual events or results to differ from those expressed or implied by the forward-looking statements, including, without limitation:

- risks related to our limited operating history;
- risks related to the probability that our properties contain reserves;
- risks related to our past losses and expected losses in the near future;
- risks related to our need for qualified personnel for exploring for, starting and operation of a mine;
- risks related to our lack of known reserves;
- risks related to the fluctuation of uranium prices;
- risks related to environmental laws and regulations;
- risks related to using our in-situ recovery mining process;
- risks related to exploration and development of our properties;
- risks related to some of our officers having other commitments for their time and attention;

- risks related to our ability to make property payment obligations;
- risks related to doing business in Mongolia;
- risks related to the competitive nature of the mining industry; and
- risks related to our securities.

This list is not exhaustive of the factors that may affect our forward-looking statements. Some of the important risks and uncertainties that could affect forward-looking statements are described further under the section titled “Risk Factors and Uncertainties” of this prospectus and the sections titled “Description of the Business” and “Management’s Discussion and Analysis” in our Annual Report on Form 10-K filed with the SEC on March 17, 2008, which is incorporated herein by reference. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, believed, estimated or expected. We caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. We disclaim any obligation subsequently to revise any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

We qualify all the forward-looking statements contained in this prospectus by the foregoing cautionary statements.

SUMMARY INFORMATION

This summary does not contain all of the information you should consider before buying shares of our common stock. You should read the entire prospectus carefully especially the “Risk Factors and Uncertainties” section before deciding to invest in shares of our common stock. Additionally, we incorporate by reference in this prospectus important business and financial information about us, see “Where You Can Find More Information” on page 35. You should review the information incorporated by reference in this prospectus carefully before deciding to invest in shares of our common stock.

The Offering

This is an offering of up to 15,940,898 shares of our common stock by certain Selling Security Holders.

Shares Offered By the Selling Shareholders	15,940,898 shares of common stock, $0.001 par value per share, including: • 10,888,400 shares of common stock held by Selling Security Holders; • 4,932,498 shares of common stock acquirable upon exercise of warrants issued April 15, 2008 (April Warrants) at $3.50 per share until April 15, 2010 held by Selling Security Holders; and

	• 120,000 shares of common stock acquirable upon exercise of agents' warrants issued April 15, 2008 (Agents' Warrants) at $2.60 per share until April 15, 2009 held by Selling Security Holders.
Offering Price	Determined at the time of sale by the Selling Security Holders
Common Stock Outstanding as of May 20, 2008	55,382,387 common shares
Use of Proceeds	We will not receive any of the proceeds of the shares offered by the Selling Security Holders. We may receive proceeds from the exercise of warrants, if any, and will use any such proceeds for general working capital purposes.
Dividend Policy	We currently intend to retain any future earnings to fund the development and growth of our business. Therefore, we do not currently anticipate paying cash dividends.
American Stock Exchange Symbol	URZ

The number of shares of our common stock that will be outstanding immediately after this offering includes 55,382,387shares of common stock outstanding as of May 20, 2008. This calculation excludes:

- 5,397,140 shares of common stock issuable upon exercise of vested options outstanding as of May 20, 2008;
- 4,932,498 shares of common stock acquirable upon exercise of warrants at $3.50 per share until April 15, 2010; and
- 120,000 shares of common stock acquirable upon exercise of agents' warrants at $2.60 per share until April 15, 2009.

2

Summary of Our Business

Uranerz Energy Corporation was incorporated under the laws of the State of Nevada on May 26, 1999. On July 5, 2005, we changed our name from Carleton Ventures Corp. to Uranerz Energy Corporation. Our executive offices are located at Suite 1410 - 800 West Pender Street, Vancouver, British Columbia Canada V6C 2V6, and our phone number is 604-689-1659.

Our principal business offices are located at Suite 1410-800 West Pender Street, Vancouver, British Columbia, Canada V6C 2V6, and our telephone number is (604) 689-1659. Our operations office is located at 1701 East "E" Street, PO Box 50850, Casper, Wyoming 82605-0850, USA and our phone number there is 307-265-8900.

We are an exploration stage company engaged in the acquisition, exploration and, if warranted, development of uranium properties.

We own interests in properties in Wyoming, USA; Saskatchewan, Canada; and Mongolia. We have entered into joint venture agreements for each of our Mongolia properties whereby the joint venture partner for each property can earn an ownership interest in the property. We had previously joint ventured our seven claims in Cochrane River, Saskatchewan. However, that joint venture was terminated on April 24, 2008. The Saskatchewan properties, which remain 100% owned by us, are in good standing with two of the claims due to expire in January, 2010 and the remaining five claims due to expire in January 2011. We are evaluating our options with regard to these Saskatchewan properties, which may include possible arrangement with other potential joint venture partners, further exploration to be performed by us, or divestiture. We have also joint ventured our uranium projects in the Great Divide Basin area of Wyoming, and plan to maintain, explore, and if warranted, develop our projects in the Powder River Basin area of Wyoming. We anticipate that our joint venture partners will conduct exploration of our Wyoming Great Divide Basin, and Mongolian mineral properties.

We hold interests in the following mineral properties:

Name of Property	**Location**
State Mineral Leases, Federal Mining Claims and Private (Fee) Mineral	Powder River Basin, Wyoming, USA
State Mineral Leases, Federal Mining Claims (joint venture agreement in place)	Great Divide Basin, Wyoming, USA
Cochrane River Property	Saskatchewan, Canada
Eight Exploration Licenses (joint venture agreement in place)	Mongolia

Our plan of operations is to carry out exploration of our Wyoming Powder River Basin properties while our joint venture partners will be responsible for carrying out exploration of our Wyoming Great Divide Basin properties and Mongolia properties. Most of our exploration programs are preliminary in nature in that their completion may not result in a determination that our properties contain commercially exploitable quantities of uranium mineralization.

Our exploration program in the Wyoming Powder River Basin will be directed by our management and will be supervised by Mr. George Hartman, our executive vice-president of mining and chief operating officer. We will engage contractors to carry out our exploration programs under Mr. Hartman’s supervision. Contractors that we plan to engage include project geologists, drilling companies and geophysical logging companies, each according the specific exploration program on each property. Exploration of our Wyoming Great Divide Basin and Mongolian mineral properties will be undertaken by our partners, Black Range Minerals (“Black Range”) and Bluerock Resources Ltd. (“Bluerock”), respectively.

Our management will make determinations as to whether to proceed with the additional exploration of our Wyoming Powder River Basin mineral properties based on the results of the preliminary exploration that we undertake. In completing these determinations, we will make an assessment as to whether the results of the exploration are sufficiently positive for us to proceed with more advanced exploration. On our Wyoming Great Divide Basin and Mongolian mineral properties, our partners are committed to certain minimum exploration expenditures over the earn-in period. In March, 2008, Bluerock earned a 60% interest in the Mongolia project by satisfying its first set of earn-in obligations. The management of Black Range and Bluerock will be responsible for

3

overseeing the exploration in Wyoming Great Divide Basin and Mongolia, respectively. Bluerock is required to submit reports on the results of their exploration efforts in Mongolia.

We plan to continue exploration of our mineral properties for so long as the results of the geological exploration that we complete indicate that further exploration of our mineral properties is warranted, and we are able to obtain the additional financing necessary to enable us to continue exploration.

Selected Financial Data

The selected financial information presented below as of and for the periods indicated is derived from our financial statements contained elsewhere in this prospectus and should be read in conjunction with those financial statements.

INCOME STATEMENT DATA	**Year Ended December 31 2007**	**2006**	**2005**
Revenue	NIL	NIL	NIL
Operating Expenses	14,951,402	7,126,992	4,891,392
Net Loss	(14,197,366)	(6,548,901)	(5,002,225)
Loss per Common share*	(0.37)	(0.22)	(0.38)
Weighted Average Number of Common Shares Outstanding	38,438,000	29,738,000	12,995,000

INCOME STATEMENT DATA	**Three Months Ended March 31 (Unaudited) 2008**	**2007**
Revenue	NIL	NIL
Operating Expenses	28,381,499	8,685,157
Net (Loss)	(28,319,203)	(8,508,444)
(Loss) per Common share*	(0.64)	(0.23)
Weighted Average Number of Common Shares Outstanding	44,318,000	36,266,000

BALANCE SHEET DATA	**At December 31, 2007**	**At December 31, 2006**

Working Capital	11,114,149	11,979,951
Total Assets	12,216,146	12,491,996
Accumulated Deficit	(25,896,798)	(11,699,432)
Stockholders' Equity	11,518,291	12,113,187

BALANCE SHEET DATA	**At March 31, 2008 (Unaudited)**
Working Capital	4,773,633
Total Assets	5,823,982
Accumulated Deficit	(54,216,001)
Stockholders' Equity	5,466,098

* Basic and diluted.

RISK FACTORS AND UNCERTAINTIES

Readers should carefully consider the risks and uncertainties described below before deciding whether to invest in shares of our common stock.

Our failure to successfully address the risks and uncertainties described below would have a material adverse effect on our business, financial condition and/or results of operations, and the trading price of our common stock may decline and investors may lose all or part of their investment. We cannot assure you that we will successfully address these risks or other unknown risks that may affect our business.

Risks Related to Our Business

Our future performance is difficult to evaluate because we have a limited operating history.

We were incorporated in 1999 and we began to implement our current business strategy in the uranium industry in the beginning of 2005. Our operating cash flow needs have been financed primarily through issuances of our common stock. As a result, we have little historical financial and operating information available to help you evaluate our performance or an investment in our common stock and warrants.

Because the probability of an individual prospect ever having reserves is remote, our properties may not contain any reserves, and any funds spent on exploration may be lost.

We have no uranium producing properties and have never generated any revenue from our operations. Because the probability of an individual prospect ever having reserves is remote, our properties may not contain any reserves, and any funds spent on exploration may be lost. Notwithstanding our disclosures to Canadian authorities under National Instrument 43-101, we do not know with certainty that economically recoverable uranium exists on any of our properties. We may never discover uranium in commercially exploitable quantities and any identified deposit may never qualify as a commercially mineable (or viable) reserve. We will continue to attempt to acquire the surface and mineral rights on lands that we think are geologically favorable or where we have historical information in our possession that indicates uranium mineralization might be present.

The exploration and development of mineral deposits involves significant financial and other risks over an extended period of time, which even a combination of careful evaluation, experience and knowledge may not eliminate. While discovery of a uranium, precious or base metal deposit may result in substantial rewards, few properties which are explored are ultimately developed into producing mines. Major expenses are required to establish reserves by drilling and to construct mining and processing facilities at a site. Our uranium properties are all at the exploration stage and do not contain any reserves at this time. It is impossible to ensure that the current or proposed exploration programs on properties in which the Company has an interest will result in the delineation of mineral deposits or in profitable commercial operations. Our operations are subject to the hazards and risks normally incident to exploration, development and production of uranium, precious and base metals, any of which could result in damage to life or property, environmental damage and possible legal liability for such damage. While we may obtain insurance against certain risks, the nature of these risks are such that liabilities could exceed policy limits or could be excluded from coverage. There are also risks against which we cannot insure or against which we may elect not to insure. The potential costs which could be associated with any liabilities not covered by insurance, or in excess of insurance coverage, or compliance with applicable laws and regulations may cause substantial delays and require significant capital outlays, adversely affecting our future earnings and competitive position and, potentially our financial viability.

We have a limited operating history and have losses which we expect to continue into the future. As a result, we may have to suspend or cease exploration activities.

We were incorporated in 1999 and are engaged in the business of mineral exploration. We have not realized any revenue from our operations. We have a relatively limited exploration history upon which an evaluation of our future success or failure can be made. Our net loss since inception through December 31, 2007 is $25,896,798, an amount which includes stock based compensation of $13,030,491 and mineral property expenditures of $8,684,649. Our ability to achieve and maintain profitability and positive cash flow is dependent upon:

* our ability to locate a profitable mineral property;
* our ability to generate revenues;
* our ability to reduce exploration costs.

Based upon current plans, we expect to incur operating losses in future periods. This will happen because there are expenses associated with the research and exploration of our mineral properties plus development costs to produce saleable product. We may not guarantee we will be successful in generating revenues in the future. Failure to generate revenues may cause us to go out of business.

Because some of our officers and directors do not have technical training or experience in exploring for, starting, and operating a mine, we may have to hire qualified personnel. If we can't locate qualified personnel, we may have to suspend or cease exploration activity which may result in the loss of your investment.

Some, but not all, of our officers and directors do have experience with exploring for, starting, and operating a mine. Because some of our officers and directors are inexperienced with exploring for, starting, and operating a mine, we may have to hire qualified persons to perform surveying, exploration, and excavation of our property. Some of our officers and directors have no direct training or experience in these areas and as a result may not be fully aware of many of the specific requirements related to working within the industry. Their decisions and choices would typically take into account standard engineering or managerial approaches mineral exploration companies commonly use. However, our exploration activities, earnings and ultimate financial success could suffer irreparable harm due to certain of management's decisions. As a result we may have to suspend or cease exploration activities, or any future warranted development activities, which would likely result in the loss of your investment.

We have no known reserves. Without reserves we may not be able to generate income and if we cannot generate income we will have to cease exploration activities which result in the loss your investment.

We have no known reserves. Without reserves, we may not be able to generate income and if we cannot generate income we will have to cease exploration activities which would likely result in the loss of your investment. We have attempted to acquire the surface and mineral rights on lands that we think are geologically favorable or where we have historical information in our possession that indicates uranium mineralization might be present. It is not known with certainty that economically recoverable uranium exists on any of our properties.

Even in the event commercial quantities of uranium are discovered, the mining properties might not be brought into a state of commercial production. Estimates of mineral reserves are inherently imprecise and depend to some extent on statistical inferences drawn from limited methods, which may prove unreliable. Fluctuations in the market prices of uranium may render reserves and deposits containing relatively low grades of uranium uneconomic. Whether a uranium, precious or base metal deposit will be commercially viable depends on a number of factors, some of which are: the particular attributes of the deposit, such as its size and grade; costs and efficiency of the recovery methods that can be employed; proximity to infrastructure; financing costs; and governmental regulations, including regulations relating to prices, taxes, royalties, infrastructure, land use, importing and exporting of minerals and environmental protection. The effect of these factors cannot be accurately predicted, but the combination of these factors may result in us not receiving an adequate return on our invested capital.

Our future profitability will be dependent on Uranium Prices.

Because a significant portion of our anticipated revenues are expected to be derived from the sale of uranium, our net earnings, if any, can be affected by the long- and short-term market price of U3O8. Uranium prices are subject to fluctuation. The price of uranium has been and will continue to be affected by numerous factors beyond our control. With respect to uranium, such factors include the demand for nuclear power, political and economic conditions in uranium producing and consuming countries, uranium supply from secondary sources and uranium production levels and costs of production. Spot prices for U3O8 were at $20.00 per pound U3O8 in December 2004, rose to $35.25 per pound in December 2005 and rose again to $72.00 per pound in December 2006. During 2007 the spot price reached a high of $138.00 per pound. The U.S. monthly spot price of U3O8 was approximately $90.00 per pound in December 2007. As of May 9, 2008 the U.S. weekly spot price of U308 was $60.00 per pound.

Our operations are subject to environmental regulation and environmental risks.

We are required to comply with applicable environmental protection laws and regulations and permitting requirements, and we anticipate that we will be required to continue to do so in the future. The material laws and regulations within the U.S. that the Company must comply with are the Atomic Energy Act, Uranium Mill Tailings Radiation Control Act of 1978 (UMTRCA), Clean Air Act, Clean Water Act, Safe Drinking Water Act, Federal Land Policy Management Act, National Park System Mining Regulations Act, and the State Mined Land Reclamation Acts or State Department of Environmental Quality regulations, as applicable. We also are required to comply with environmental protection laws in Mongolia and Canada. We are required to comply with the Atomic Energy Act, as amended by UMTRCA, by applying for and maintaining an operating license from the State of Wyoming. Uranium operations must conform to the terms of such licenses, which include provisions for protection

6

of human health and the environment from endangerment due to radioactive materials. The licenses encompass protective measures consistent with the Clean Air Act and the Clean Water Act. We intend to utilize specific employees and consultants in order to comply with and maintain our compliance with the above laws and regulations.

The uranium industry is subject not only to the worker health and safety and environmental risks associated with all mining businesses, but also to additional risks uniquely associated with uranium mining and milling. The possibility of more stringent regulations exists in the areas of worker health and safety, the disposition of wastes, the decommissioning and reclamation of exploration, mining and in-situ sites, and other environmental matters, each of which could have a material adverse effect on the costs or the viability of a particular project. We cannot predict what environmental legislation, regulation or policy will be enacted or adopted in the future or how future laws and regulations will be administered or interpreted. The recent trend in environmental legislation and regulation, generally, is toward stricter standards and this trend is likely to continue in the future. This recent trend includes, without limitation, laws and regulations relating to air and water quality, mine reclamation, waste handling and disposal, the protection of certain species and the preservation of certain lands. These regulations may require the acquisition of permits or other authorizations for certain activities. These laws and regulations may also limit or prohibit activities on certain lands. Compliance with more stringent laws and regulations, as well as potentially more vigorous enforcement policies or stricter interpretation of existing laws, may necessitate significant capital outlays, may materially affect our results of operations and business, or may cause material changes or delays in our intended activities.

Our operations may require additional analysis in the future including environmental and social impact and other related studies. Certain activities require the submission and approval of environmental impact assessments. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers, and employees. There can be no assurance that we will be able to obtain or maintain all necessary permits that may be required to continue its operation or its exploration of its properties or, if feasible, to commence development, construction or operation of mining facilities at such properties on terms which enable operations to be conducted at economically justifiable costs.

We intend to extract uranium from our properties using the in-situ recovery mining process which may not be successful.

We intend to extract uranium from our properties using in-situ recovery mining, which is suitable for extraction of certain types of uranium deposits. This process requires in-situ recovery mining equipment and trained personnel. Competition and unforeseen limited sources of supplies in the industry could result in occasional spot shortages of supplies, and certain equipment such as drilling rigs and other equipment that we might need to conduct exploration and, if warranted, development. We will attempt to locate additional products, equipment and materials as needed. If we cannot find the products and equipment we need, we will have to suspend our exploration and, if warranted, development plans until we do find the products and equipment we need.

We face risks related to exploration and development, if warranted, on our properties.

Our level of profitability, if any, in future years will depend to a great degree on uranium prices and whether any of our exploration stage properties can be brought into production. The exploration for and development of mineral deposits involves significant risks. It is impossible to ensure that the current and future exploration programs and/or feasibility studies on our existing properties will establish reserves. Whether an uranium ore body will be commercially viable depends on a number of factors, including, but not limited to: the particular attributes of the deposit, such as size, grade and proximity to infrastructure; uranium prices, which cannot be predicted and which have been highly volatile in the past; mining, processing and transportation costs; perceived levels of political risk and the willingness of lenders and investors to provide project financing; labor costs and possible labor strikes; and governmental regulations, including, without limitation, regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting materials, foreign exchange, environmental protection, employment, worker safety, transportation, and reclamation and closure obligations.

We are subject to the risks normally encountered in the mining industry, such as:

- unusual or unexpected geological formations;
- fires, floods, earthquakes, volcanic eruptions, and other natural disasters;
- power outages and water shortages;
- cave-ins, land slides, and other similar mining hazards;
- labor disruptions and labor disputes;

- inability to obtain suitable or adequate machinery, equipment, or labor;
- liability for pollution or other hazards; and
- other known and unknown risks involved in the operation of mines and the conduct of exploration.

The development of mineral properties is affected by many factors, including, but not limited to: the cost of operations, variations in the grade of ore, fluctuations in metal markets, costs of extraction and processing equipment, availability of equipment and labor, labor costs and possible labor strikes, and government regulations, including without limitation, regulations relating to taxes, royalties, allowable production, importing and exporting of minerals, foreign exchange, employment, worker safety, transportation, and environmental protection. Depending on the price of uranium, we may determine that it is impractical to commence, or, if commenced, continue, commercial production. Such a decision would negatively affect our profits and may affect the value of your investment.

Because we may be unable to meet property payment obligations or be able to acquire necessary mining licenses, we may lose interests in our exploration properties.

The agreements pursuant to which we acquired our interests in some of our properties provide that we must make a series of cash payments over certain time periods, expend certain minimum amounts on the exploration of the properties or contribute our share of ongoing expenditures. If we fail to make such payments or expenditures in a timely fashion, we may lose our interest in those properties. Further, even if we do complete exploration activities, we may not be able to obtain the necessary licenses to conduct mining operations on the properties, and thus would realize no benefit from our exploration activities on the properties.

Because mineral exploration and development activities are inherently risky, we may be exposed to environmental liabilities. If such an event were to occur it may result in a loss of your investment.

The business of mineral exploration and extraction involves a high degree of risk. Few properties that are explored are ultimately developed into production. At present, none of our properties has a known body of commercial ore. Unusual or unexpected formations, formation pressures, fires, power outages, labor disruptions, flooding, explosions and the inability to obtain suitable or adequate machinery, equipment or labor are other risks involved in extraction operations and the conduct of exploration programs. Although we intend to carry liability insurance with respect to our mineral exploration operations, we may become subject to liability for damage to life and property, environmental damage, cave-ins or hazards against which we cannot insure or against which we may elect not to insure. There are also physical risks to the exploration personnel working in the rugged terrain of Mongolia, often in poor climate conditions. Previous mining operations may have caused environmental damage at certain of our properties. It may be difficult or impossible to assess the extent to which such damage was caused by us or by the activities of previous operators, in which case, any indemnities and exemptions from liability may be ineffective. If any of our properties is found to have commercial quantities of ore, we would be subject to additional risks respecting any development and production activities. Most exploration projects do not result in the discovery of commercially mineable deposits of ore.

Because we have not put a mineral deposit into production before, we may have to acquire outside expertise. If we are unable to acquire such expertise we may be unable to put our properties into production and you may lose your investment.

The board of directors includes six individuals that have technical or financial experience in placing mining projects into production. However, we will be dependent upon using the services of appropriately experienced personnel or entering into agreements with other major resource companies that can provide such expertise. There can be no assurance that we will have available to us the necessary expertise when and if we place mineral deposit properties into production.

Because certain of our mineral interests are in Mongolia, you will be exposed to political risk. Such political risk could result in us losing value of our properties in Mongolia. If this occurs you could lose your investment.

Some of our mineral interests are in Mongolia and may be affected by varying degrees of political instability and the policies of other nations in respect of these countries. These risks and uncertainties include military repression, political and labor unrest, extreme fluctuations in currency exchange rates, high rates of inflation, terrorism, hostage taking and expropriation. A small portion of our mineral interests are currently located in Mongolia. Our mining, exploration and development activities may be affected by changes in government, political instability and the nature of various government regulations relating to the mining industry, including but not limited to, environmental regulation, labor regulations, worker health and safety regulations, and royalties, taxes, import and export laws and

regulations. Any changes in regulations or shifts in political conditions are beyond our control and may adversely affect our business and/or holdings. Operations may be affected in varying degrees by government regulations with respect to restrictions on production, price controls, export controls, income taxes, expropriation of property, environmental legislation, imposition of new, high government royalties and ownership interests, and safety factors. Our operations in Mongolia entail significant governmental, economic, social, medical and other risk factors common to all developing countries.

Because our Mongolian subsidiary company may require certain approvals to advance our operations we are at risk of not receiving such approvals. If we don’t receive the necessary approvals we may lose our Mongolian property interests resulting in a loss of your investment.

While we are authorized to explore for uranium on our Mongolian projects, we may be required to obtain further approvals from regulatory authorities in Mongolia in order to conduct mining operations. There is no assurance that such approvals would be granted by the Mongolian authorities at all or on terms favorable to the continued operations. The laws of Mongolia are ambiguous, inconsistently applied and subject to reinterpretation or change. While we believe that we will be properly established and that we have taken the steps necessary to obtain our interest in these projects, there can be no guarantee that such steps will be sufficient to preserve our interests in these projects.

The mining industry is highly competitive.

The business of the acquisition, exploration, and development of uranium properties is intensely competitive. We will be required to compete, in the future, directly with other corporations that may have better access to potential uranium resources, more developed infrastructure, more available capital, better access to necessary financing, and more knowledgeable and available employees than us. We may encounter competition in acquiring uranium properties, hiring mining professionals, obtaining mining resources, such as manpower, drill rigs, and other mining equipment. Such competitors could outbid us for potential projects or produce minerals at lower costs. Increased competition could also affect our ability to attract necessary capital funding or acquire suitable producing properties or prospects for uranium exploration in the future.

Risks Related to Corporate and Financial Structure

We are dependent upon key management employees.

The success of our operations will depend upon numerous factors, many of which are beyond our control, including (i) our ability to enter into strategic alliances through a combination of one or more joint ventures, mergers or acquisition transactions; and (ii) our ability to attract and retain additional key personnel in sales, marketing, technical support and finance. We currently depend upon our management employees to seek out and form strategic alliances and find and retain additional employees. There can be no assurance of success with any or all of these factors on which our operations will depend. We have relied and may continue to rely, upon consultants and others for operating expertise.

Our growth will require new personnel, which we will be required to recruit, hire, train and retain.

We expect significant growth in the number of our employees if we determine that a mine at any of our properties is commercially feasible, we are able to raise sufficient funding and we elect to develop the property. This growth will place substantial demands on us and our management. Our ability to assimilate new personnel will be critical to our performance. We will be required to recruit additional personnel and to train, motivate and manage employees. We will also have to adopt and implement new systems in all aspects of our operations. This will be particularly critical in the event we decide not to use contract miners at any of our properties. We have no assurance that we will be able to recruit the personnel required to execute our programs or to manage these changes successfully.

New legislation, including the Sarbanes-Oxley Act of 2002, may make it difficult for us to retain or attract officers and directors.

We may be unable to attract and retain qualified officers, directors and members of board committees required to provide for our effective management as a result of the recent and currently proposed changes in the rules and regulations which govern publicly-held companies. Sarbanes-Oxley Act of 2002 has resulted in a series of rules and regulations by the Securities and Exchange Commission that increase responsibilities and liabilities of directors and executive officers. The perceived increased personal risk associated with these recent changes may deter qualified individuals from accepting these roles.

While we believe we have adequate internal control over financial reporting, we are required to evaluate our internal controls under Section 404 of the Sarbanes-Oxley Act of 2002. Any adverse results from such evaluation could result in a loss of investor confidence in our financial reports and have an adverse effect on the price of our shares of common stock.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, beginning with our annual report on Form 10-K for the fiscal year ended December 31, 2007, we are required to furnish a report by management on our internal control over financial reporting. Such report will contain among other matters, an assessment of the effectiveness of our internal control over financial reporting, including a statement as to whether or not our internal control over financial reporting is effective. This annual assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by our management. Beginning with our annual report on Form 10-K for the fiscal year ended December 31, 2007, such report also contains a statement that our auditors have issued an attestation report on our management’s assessment of such internal controls. Public Company Accounting Oversight Board Auditing Standard No. 2 provides the professional standards and related performance guidance for auditors to attest to, and report on, our management’s assessment of the effectiveness of internal control over financial reporting under Section 404.

Failure to comply with the new rules may make it more difficult for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage and/or incur substantially higher costs to obtain the same or similar coverage. The impact of these events could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, on committees of our board of directors, or as executive officers.

Stock market price and volume volatility.

The market for our common shares may be highly volatile for reasons both related to the performance of the Company or events pertaining to the industry (i.e., mineral price fluctuation/high production costs/accidents) as well as factors unrelated to the Company or its industry. In particular, market demand for uranium fluctuates from one business cycle to the next, resulting in change of demand for the mineral and an attendant change in the price for the mineral. Our common shares can be expected to be subject to volatility in both price and volume arising from market expectations, announcements and press releases regarding our business, and changes in estimates and evaluations by securities analysts or other events or factors. In recent years, the securities markets in the United States have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly small-capitalization companies, have experienced wide fluctuations that have not necessarily been related to the operations, performances, underlying asset values, or prospects of such companies. For these reasons, the price of our common shares can also be expected to be subject to volatility resulting from purely market forces over which we will have no control.

Dilution through the granting of options.

Because the success of the Company is highly dependent upon its respective employees, we may in the future grant to some or all of our key employees, directors and consultants options to purchase our common shares as non-cash incentives. Those options may be granted at exercise prices equal to market prices at times when the public market is depressed. To the extent that significant numbers of such options may be granted and exercised, the interests of the other stockholders of the Company may be diluted.

You may lose your entire investment in our shares.

An investment in our common stock is highly speculative and may result in the loss of your entire investment. Only investors who are experienced investors in high risk investments and who can afford to lose their entire investment should consider an investment in us.

In the event that your investment in our shares is for the purpose of deriving dividend income or in expectation of an increase in market price of our shares from the declaration and payment of dividends, your investment may be compromised because we do not intend to pay dividends.

We have never paid a dividend to our shareholders, and we intend to retain our cash for the continued development of our business. We do not intend to pay cash dividends on our common stock in the foreseeable future. As a result, your return on investment will be solely determined by your ability to sell your shares in a secondary market.

We depend on our ability to successfully access the capital and financial markets. Any inability to access the capital or financial markets may limit our ability to execute our business plan or pursue investments that we may rely on for future growth.

We rely on access to long-term capital markets as a source of liquidity for capital and operating requirements. If we are not able to access financial markets at competitive rates, our ability to implement our business plan and strategy may be affected. Certain market disruptions may increase our cost of borrowing or affect our ability to access one or more financial markets. Such market disruptions could result from:

- adverse economic conditions;
- adverse general capital market conditions;
- poor performance and health of the uranium industry in general;
- bankruptcy or financial distress of unrelated uranium companies or marketers;
- significant decrease in the demand for uranium;
- adverse regulatory actions that affect our exploration and development plans; and
- terrorist attacks on our potential customers.

USE OF PROCEEDS

We will not receive any of the proceeds of the shares offered by the Selling Security Holders. We may receive proceeds from the exercise of warrants, if any, and will use any such proceeds for general working capital purposes.

SELLING SECURITY HOLDERS

This prospectus covers the offering of up to 15,940,898 shares of our common stock by Selling Security Holders.

The shares issued to the Selling Security Holders are "restricted" shares under applicable federal and state securities laws and are being registered to give the Selling Security Holders the opportunity to sell their shares. The registration of such shares does not necessarily mean, however, that any of these shares will be offered or sold by the Selling Security Holders. The Selling Security Holders may from time to time offer and sell all or a portion of their shares in the over-the-counter market, in negotiated transactions, or otherwise, at market prices prevailing at the time of sale or at negotiated prices.

The registered shares may be sold directly or through brokers or dealers, or in a distribution by one or more underwriters on a firm commitment or best efforts basis. To the extent required, the names of any agent or broker-dealer and applicable commissions or discounts and any other required information with respect to any particular offer will be set forth in an accompanying prospectus supplement. See "Plan of Distribution" beginning on page 33 of this prospectus. Each of the Selling Security Holders reserves the sole right to accept or reject, in whole or in part, any proposed purchase of the registered shares to be made directly or through agents. The Selling Security Holders and any agents or broker-dealers that participate with the Selling Security Holders in the distribution of their registered shares may be deemed to be "underwriters" within the meaning of the Securities Act of 1933, as amended, and any commissions received by them and any profit on the resale of the registered shares may be deemed to be underwriting commissions or discounts under the Securities Act.

We will receive no proceeds from the sale of the registered shares, and we have agreed to bear the expenses of registration of the shares, other than commissions and discounts of agents or broker-dealers and transfer taxes, if any.

Selling Security Holders Information

The following is a list of the Selling Security Holders who own an aggregate of 15,940,898 shares of our common stock covered in this prospectus, including 4,932,498 shares acquirable upon exercise of warrants and 120,000 shares acquirable upon the exercise of agents' warrants within 60 days of the date of this prospectus. The Selling Security Holders acquired the shares of common stock or warrants to purchase shares of common stock in our private placement. See "Transactions with Selling Security Holders" beginning on page 32 of this prospectus for further details. At May 20, 2008, we had 55,382,387 shares of common stock issued and outstanding.

Name	Before Offering Total Number of Shares Beneficially Owned	Percentage of Shares Owned[1]	After Offering Number of Shares Offered[2]	Shares Owned After Offering	Percentage of Shares owned After Offering
Thomas Downie Holdings Ltd. 100 - 814 Richards Street Vancouver, BC V6B 3A7[3]	37,500	**	37,500	0	0%
Marilyn Corbett 5940 Raven Place Vancouver, BC V7W 1X2[4]	30,000	**	30,000	0	0%
Corbett Realty Ltd. 5940 Raven Place Vancouver, BC V7W 1X2[5]	30,000	**	30,000	0	0%
Fei-Brent Investment Inc. c/o Haywood Securities Inc. 2100 - 400 Burrard Street Vancouver, BC V6C 3A6[6]	37,500	**	37,500	0	0%

Banque Privee Edmond De Rothschild Europe Ref The Marlborough Trust 20 BD Emmanuel Servais 2535 Luxembourg(7)	37,500	**	37,500	0	0%
Banque Privee Edmond De Rothschild Europe (BP#6) Ref 53440 Springvalve Ent 20 BD Emmanuel Servais 2535 Luxembourg(8)	37,500	**	37,500	0	0%
Banque Privee Edmond De Rothschild Europe Ref 301260 Chrometech 1 20 BD Emmanuel Servais 2535 Luxembourg(9)	75,000	**	75,000	0	0%
Marna Disbrow PO Box 461 Heriot Bay, BC V0P 1H0(10)	140,000	**	90,000	50,000	**

David A. Wallace 2937 44th Ave W Vancouver, BC V6N 3K3(11)	37,500	**	37,500	0	0%
Julie Turcotte 21 Summit Ave Sault Ste Marie, ON P6B 2S2(12)	37,500	**	37,500	0	0%
Colin &/or Theresa Jensen 351 Leadville Ave Ketchum, ID 83340(13)	37,500	**	37,500	0	0%
Roger L. Miller 26500 SW 182 Ave Homestead, FL 33031(14)	75,000	**	75,000	0	0%
Embark Investments Trust 2160 - 650 W Georgia Street Vancouver, BC V6B 4N7(15)	37,500	**	37,500	0	0%
John Niemeyer 15 82nd Drive, Ste 210 Gladstone, OR 97027(16)	37,500	**	37,500	0	0%

John Hasse 49 Elkhorn Fairway #9 Sunvalley, ID 83353[17]	37,500	**	37,500	0	0%
Alpine Capital Corp. 2100 - 330 5th Ave SW Calgary, AB T2P 0L4[18]	37,500	**	37,500	0	0%
Kai Commercial Trust 2100 - 330 5th Ave SW Calgary, AB T2P 0L4[19]	37,500	**	37,500	0	0%
Avila Investments Ltd. 900 - 666 Burrard Street Vancouver, BC V6C 2X8[20]	37,500	**	37,500	0	0%
Ken Downie 100 - 814 Richards Street Vancouver, BC V6B 3A7[21]	37,500	**	37,500	0	0%
Richard &/or Valerie Bradshaw 4676 NW Marine Drive Vancouver, BC V6R 1B9[22]	37,500	**	37,500	0	0%

13

Paul Meidal 9 - 1140 25 Street West Vancouver, BC V7V 0A2[23]	15,000	**	15,000	0	0%
Paul &/or Kari Meidal 9 - 1140 25 Street West Vancouver, BC V7V 0A2[24]	15,000	**	15,000	0	0%
Bill Disbrow 1275 Pacific Street, Suite 2201 Vancouver, BC V6E 1T6[25]	37,500	**	37,500	0	0%
Dr. David Harris 1006 - 125 Milross Ave Vancouver, BC V6A 0A1[26]	37,500	**	37,500	0	0%
James William Bishop 622 E 18th Street North Vancouver, BC V7L 2Y5[27]	37,500	**	37,500	0	0%

Norma Harris 1006 - 125 Milross Ave Vancouver, BC V6A 0A1(28)	37,500	**	37,500	0	0%
Bernice Willoughby 1878 14th Ave West Vancouver, BC V6J 2J9(29)	30,000	**	30,000	0	0%
Don Willoughby 1878 14th Ave West Vancouver, BC V6J 2J9(30)	30,000	**	30,000	0	0%
Ron &/or Judy Hughes 7430 Mark Cres Burnaby, BC V5A 1Z3(31)	30,000	**	30,000	0	0%
National Cross Country Ski Development Association c/o Haywood Securities Inc. 2100 - 400 Burrard Street Vancouver, BC V6C 3A6(32)	37,500	**	37,500	0	0%
Darilyn Platt 2869 Wembley Place North Vancouver, BC V7J 3C1(33)	30,000	**	30,000	0	0%

14

John G. Platt 2869 Wembley Place North Vancouver, BC V7J 3C1(34)	30,000	**	30,000	0	0%
Stephen Kerr 943 Beaumont Drive North Vancouver, BC V7R 1P5(35)	15,000	**	15,000	0	0%
Judith McGladdery 1381 Burnside Road West Vancouver, BC V7S 2P6(36)	15,000	**	15,000	0	0%
Brigitte Relling 1547 Gordon Ave West Vancouver, BC V7V 1T8(37)	30,000	**	30,000	0	0%
Malcolm Alford Box 7 Site 18 RR 1 Station Main Okotoks, AB T1S 1A1(38)	45,000	**	45,000	0	0%

Alan Fisher Box 872 Rossland, BC V0G 1Y0(39)	30,000	**	30,000	0	0%
Kaimar Investments Corp. 1885 Marine Drive North Vancouver, BC V7P 1V5(40)	45,000	**	45,000	0	0%
Robert J. Travers 343 Moyne Drive West Vancouver, BC V7S 1J6(41)	15,000	**	15,000	0	0%
Paul Sharpe &/or Jacqueline Cristianini 1943 Riverside Drive North Vancouver, BC V7C 2C2(42)	15,000	**	15,000	0	0%
Sharpe Sound Studios Inc. 4 - 440 Brooksbank Ave North Vancouver, BC V7J 2C2(43)	15,000	**	15,000	0	0%
Arthur Haladner 2482 Hudson Crt West Vancouver, BC V7S 3J2(44)	15,000	**	15,000	0	0%
Wendy Hardy 502 - 1888 Alberni Street Vancouver, BC V6G 1B3(45)	15,000	**	15,000	0	0%

Robert Hazeldine 1495 Coats Drive Gabriola Island, BC V0R 1X6(46)	15,000	**	15,000	0	0%
Anne Marie Kains 1885 Marine Drive North Vancouver, BC V7P 1V5(47)	15,000	**	15,000	0	0%
Kevin McGladdery 1 - 920 Tobruck Ave North Vancouver, BC V7P 1V8(48)	15,000	**	15,000	0	0%
Murray Baron 23623 N Scottsdale Road Scottsdale, AZ 85255(49)	30,000	**	30,000	0	0%

Marna Disbrow PO Box 461 Heriot Bay, BC V0P 1H0(50)	65,000	**	15,000	50,000	**
Anar Shariff 5259 Windjammer Road Delta, BC V4K 5A6(51)	30,000	**	30,000	0	0%
Vista Del Mar Po Box HM 2903 Hamilton HM LX, Bermuda(52)	52,500	**	52,500	0	0%
Bruno Richter 115 Kala Lagoon Ct. Port Townsend, WA 98368(53)	15,000	**	15,000	0	0%
Dan Shepansky Holdings Ltd. 4601 Wickenden Road North Vancouver, BC V7G 1H3(54)	30,000	**	30,000	0	0%
Fanning Properties Inc. 3258 13th Ave W Vancouver, BC V6K 2V5(55)	9,375	**	9,375	0	0%
Arnold Armstrong 2080 - 777 Hornby Street Vancouver, BC V6Z 1S4(56)	14,250	**	14,250	0	0%
Blake Pottinger 1100 - 900 W Hastings Street Vancouver, BC V6C 1E5(57)	9,375	**	9,375	0	0%

Robert Duncan Productions Inc. 3075 39th Ave W Vancouver, BC V6N 2Z7(58)	15,000	**	15,000	0	0%
James Kelsey 20651 97B Ave Langley, BC V1M 3Y3(59)	12,000	**	12,000	0	0%
Paul Sabiston 2810 Bellevue Ave West Vancouver, BC V7V 1E8(60)	22,500	**	22,500	0	0%
Steve Fitzmaurice 82 McKenzie Lake Island SE	22,500	**	22,500	0	0%

Calgary, AB T2Z 3P4[61]					
Douglas Birnie 2101 - 550 Pacific Street Vancouver, BC V6Z 3G2[62]	15,000	**	15,000	0	0%
Salim Shariff 2033 2nd Ave, Unit 1805 Seattle, WA 98121[63]	30,000	**	30,000	0	0%
Michael Fitzmaurice 1806 St Denis Road West Vancouver, BC V7V 3W5[64]	22,500	**	22,500	0	0%
Charles Lyall 3392 W 38th Ave Vancouver, BC V6N 2X7[65]	52,500	**	52,500	0	0%
Susan Gallagher 36 - 5760 Hampton Place Vancouver, BC V6T 2G1[66]	15,000	**	15,000	0	0%
Embark Investment Trust 2160 - 650 W Georgia Street Vancouver, BC V6B 4N7[67]	52,500	**	52,500	0	0%
G. Scott Paterson 401 - 463 King Street W Toronto, ON M5V 1K4[68]	80,000	**	30,000	50,000	**
Robert A. Montgomery W. Lyford Place Lyford Cay, Bahamas[69]	245,530	**	145,500	100,030	**

R. Craig Barton 45710 Airport Road Chilliwack, BC V2P 6Z9[70]	37,500	**	37,500	0	0%
Arthur Brown 597 - 1027 Davie Street Vancouver, BC V6E 4L2[71]	60,000	**	15,000	45,000	**
Gerald Mitton 3543 W 24th Ave Vancouver, BC V6S 1L5[72]	575,000	1.04%	37,500	537,500	**
Craig Graupe 63 Mount Assiniboine Circle SE	25,000	**	15,000	10,000	**

Calgary, AB T2Z 2M8(73)					
Eric Fergie 2221 Venables Street Vancouver, BC V5L 2J5(74)	96,000	**	30,000	66,000	**
Heiko Bauer Kranach 29 8462 Gamlitz, Austria(75)	23,000	**	15,000	8,000	**
Guillermo Lozano-Chavez Camino Lindavista #112 Fracc Loss Remedios 34000 Durango, Mexico(76)	65,000	**	45,000	20,000	**
Douglas Verne Higgs 118 - 9700 Glenacres Drive Richmond, BC V7A 1Y7(77)	197,500	**	22,500	175,000	**
Jason Anderson 4445 W 5th Ave Vancouver, BC V6R 2S4(78)	65,000	**	30,000	35,000	**
Arlana Anderson 4445 W 5th Ave Vancouver, BC V6R 2S4(79)	17,750	**	9,750	8,000	**
Aileen Lloyd 3996 Michener Ct North Vancouver, BC V7K 3C7(80)	1,156,940	2.09%	75,000	1,081,940	1.95%

Bjorn Kirchner Gartenstrasse 26 4563 Micheldorf, Austria(81)	180,000	**	60,000	120,000	**
John Ross 3750 Burns Road Courtney, BC V9J 1S2(82)	22,250	**	9,750	12,500	**
Millerd Holdings Ltd. 833 W 3rd Street North Vancouver, BC V7P 3K7(83)	150,000	**	150,000	0	0%
Laurence Guichon 4260 River Road W Delta, BC V4K 1S1(84)	37,500	**	37,500	0	0%

Terry Evancio 7643 Garfield Drive Delta, BC V4C 4E6(85)	37,500	**	37,500	0	0%
John Day 4368 W 8th Ave Vancouver, BC V6R 2A1(86)	15,000	**	15,000	0	0%
Timothy Turyk 6891 Cypress Street Vancouver, BC V6P 5L9(87)	15,000	**	15,000	0	0%
Trafalgar 1805 Ltd. 90 Jermyn Street London, UK SW1Y 6JD(88)	15,000	**	15,000	0	0%
Ken Bates 3999 40th Street Delta, BC V4K 3N2(89)	15,000	**	15,000	0	0%
Remap Management Ltd. 800 - 475 W Georgia Street Vancouver, BC V6B 4M9(90)	15,000	**	15,000	0	0%
Gladys Tough 17379 101 Ave Surrey, BC V4N 4L7(91)	15,000	**	15,000	0	0%
Andron Capital Mgmt. 3650 Mt. Diablo Blvd., Ste 103 Lafayette, CA 94549(92)	60,000	**	60,000	0	0%

2035718 Ontario Inc. 55 University Ave, Suite 603 Toronto, ON M5J 2H7(93)	90,000	**	90,000	0	0%
Corsair Capital Partners, L.P. Corsair Capital Management, LLC 350 Madison Ave, 9th Floor New York, NY 10017(94)	144,580	**	144,580	0	0%
Corsair Capital Partners 100, L.P. Corsair Capital Management, LLC 350 Madison Ave, 9th Floor New York, NY 10017(95)	9,160	**	9,160	0	0%
Corsair Capital Investors, Ltd. Ugland House, South Church Street	18,759	**	18,759	0	0%

Georgetown, Grand Cayman, Cayman Islands(96)					
EDJ Limited c/o Elco Securities Ltd. Loyalist Plaza, Don Mackay Blvd. Box AB-2037 Marsh Harbour, Abaco, Bahamas(97)	22,500	**	22,500	0	0%
Porter Partners, L.P. 300 Drakes Landing Road, Ste. 175 Greenbrae, CA 94904(98)	90,000	**	90,000	0	0%
Uranium Focused Energy Fund 58th Floor, 1st Canadian Place, PO Box 192 Toronto, ON M5X 1A6(99)	1,887,500	3.40%	637,500	1,250,000	2.26%
Kingsford Capital Partners, LP 1160 Brickyard Cove Road, Suite 300 Point Richmond, CA 94801(100)	17,685	**	17,685	0	0%
Y2K Partners, LP 1160 Brickyard Cove Road, Suite 300 Point Richmond, CA 94801(101)	14,250	**	14,250	0	0%
Kingsford International, Ltd. 1160 Brickyard Cove Road, Suite 300 Point Richmond, CA 94801(102)	80,565	**	80,565	0	0%
Front Street Managed Act#1 33 Yonge Street, Suite 600 Toronto, ON M5E 1G4(103)	16,446	**	16,446	0	0%

Toronto, ON M5E 1G4(103)					
Front Street Resource Performance Fund 33 Yonge Street, Suite 600 Toronto, ON M5E 1G4(104)	521,757	**	521,757	0	0%
Front Street Resource Fund 33 Yonge Street, Suite 600 Toronto, ON M5E 1G4(105)	50,856	**	50,856	0	0%
Front Street FT 2007 L.P. 33 Yonge Street, Suite 600 Toronto, ON M5E 1G4(106)	303,403	**	303,403	0	0%

CIBC Securities-Energy Fund 33 Yonge Street, Suite 600 Toronto, ON M5E 1G4(107)	566,983	1.02%	566,983	0	0%
CIBC Securities Inc., Canadian Resources Fund 33 Yonge Street, Suite 600 Toronto, ON M5E 1G4(108)	371,820	**	371,820	0	0%
Talvest Global Resources Fund 33 Yonge Street, Suite 600 Toronto, ON M5E 1G4(109)	96,234	**	96,234	0	0%
Joachim Brunner Wickepoint Gasse 13 4011 Buchkirchen Austria(110)	110,000	**	45,000	65,000	**
Dennis Higgs 4520 West 5th Avenue Vancouver,British Columbia V6R 1S7(111)	4,447,001	7.92%	123,000	4,324,001	7.71%
Sascha Opel 1A Schachtgasse D-95362 Kupferberg Germany(112)	85,000	**	60,000	25,000	**
Glenn Catchpole 222 Carriage Circle Cheyenne, Wyoming 82009(113)	2,163,500	3.85%	7,500	2,156,000	3.84%
Steve Kirkwood (114) 6220 S. Walnut Street	1,044,702	1.88%	124,500	920,202	1.66%

21

Casper, Wyoming 82601					
2029, LLC P.O. Box 3003 Casper, Wyoming 82602 (115)	2,273,340	4.10%	240,000	2,033,340	3.67%
Denison Mines, Inc. Atrium on Bay 595 Bay Street, Suite 402 Toronto, Ontario M5G 2C2(116)	8,197,500	14.11%	8,197,500	0	0%
	1,480,600	2.64%	160,900	1,319,700	2.35%

George Hartman 1220 Elkhorn Valley Drive Casper, Wyoming (117)					
Stephen L. Payne 2171 W. 40th Casper, Wyoming 82604(118)	862,500	1.56%	862,500	0	0%
Haywood Securities 2000-400 Burrard Street Vancounver, British Columbia Canada V6C 3A6(119)	60,000	**	60,000	0	0%
Cormark Securities Inc. Royal Bank Plaza South Tower, Suite 2800 Toronto, Ontario Canada M5J 2J2(120)	60,000	**	60,000	0	0%
TOTAL	30,310,611	48.53%	15,940,898	14,369,713	24.98%

** Represents less than one percent of the outstanding common stock.

(1) All percentages are based on 55,382,387 shares of common stock issued and outstanding on May 20, 2008. Beneficial ownership is calculated by the number of shares of common stock that each Selling Security Holder owns or controls or has the right to acquire within 60 days of May 23, 2008.

(2) This table assumes that each Selling Security Holder will sell all of its shares available for sale during the effectiveness of the registration statement that includes this prospectus. Selling Security Holders are not required to sell their shares. See "Plan of Distribution" beginning on page 33.

(3) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named company. Ken Downie of Thomas Downie Holdings Ltd. exercises sole voting control and dispositive power over these securities. Consists of 25,000 common shares and 12,500 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(4) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 20,000 common shares and 10,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(5) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named company. Gary A. Corbett of Corbett Realty Ltd. exercises sole voting control and dispositive power over these securities. Consists of 20,000 common shares and 10,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(6) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named company. Robert Disbrow of Frei-Brent Investment Inc. exercises sole voting control and dispositive power over these securities. Consists of 25,000 common shares and 12,500 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(7) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named company. Jean-Francois Evrard of Banque Privee Edmond De Rothschild Europe exercises sole voting control and dispositive power over these securities. Consists of 25,000 common shares and 12,500 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(8) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named company. Jean-Francois Evrard of Banque Privee Edmond De Rothschild Europe exercises sole voting control and dispositive power over these securities. Consists of 25,000 common shares and 12,500 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(9) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named company. Jean-Francois Evrard of Banque Privee Edmond De Rothschild Europe exercises sole voting control and dispositive power over these securities. Consists of 50,000 common shares and 25,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(10) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 60,000 common shares and 30,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus. Beneficial ownership includes 50,000 common shares not being registered under this prospectus.

(11) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 25,000 common shares and 12,500 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(12) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 25,000 common shares and 12,500 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(13) The named individuals exercise joint voting control and dispositive power over these securities. Consists of 25,000 common shares and 12,500 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(14) The named individual exercises sole voting control and dispositive power over these securities. Consists of 50,000 common shares and 25,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(15) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named company. John D L Mackay of Embark Holdings Corp. the trustee of Embark Investments Trust exercises voting control and dispositive power over these securities. Consists of 25,000 common shares and 12,500 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

16) The named individual exercises sole voting control and dispositive power over these securities. Consists of 25,000 common shares and 12,500 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(17) The named individual exercises sole voting control and dispositive power over these securities. Consists of 25,000 common shares and 12,500 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(18) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named company. M Bruce Chernoff of Alpine Capital Corp. exercises sole voting control and dispositive power over these securities. Consists of 25,000 common shares and 12,500 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(19) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named company. Michael Chernoff of Kai Commercial Trust exercises sole voting control and dispositive power over these securities. Consists of 25,000 common shares and 12,500 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(20) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named company. Joseph Houssian of Avila Investments Ltd. exercises sole voting control and dispositive power over these securities. Consists of 25,000 common shares and 12,500 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(21) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 25,000 common shares and 12,500 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(22) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individuals, who exercises joint voting control and dispositive power over these securities. Consists of 25,000 common

shares and 12,500 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(23) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 10,000 common shares and 5,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(24) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 10,000 common shares and 5,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(25) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 25,000 common shares and 12,500 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(26) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 25,000 common shares and 12,500 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(27) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 25,000 common shares and 12,500 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(28) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 25,000 common shares and 12,500 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(29) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 20,000 common shares and 10,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(30) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 20,000 common shares and 10,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(31) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 20,000 common shares and 10,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(32) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named company. Don Willoighby, Kim Kawaguchi, and Frei Disbrow of National Cross Country

Ski Development Association exercise joint voting control and dispositive power over these securities. Consists of 25,000 common shares and 12,500 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(33) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 20,000 common shares and 10,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(34) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 20,000 common shares and 10,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(35) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 10,000 common shares and 5,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(36) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 10,000 common shares and 5,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(37) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 20,000 common shares and 10,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(38) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 30,000 common shares and 15,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(39) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 20,000 common

shares and 10,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(40) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named company. Peter Kains of Kaimar Investments Corp. exercises sole voting control and dispositive power over these securities. Consists of 30,000 common shares and 15,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(41) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 10,000 common shares and 5,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(42) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 10,000 common shares and 5,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(43) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named company. Paul Sharpe of Sharpe Sound Studios Inc. exercises sole voting control and dispositive power over these securities. Consists of 10,000 common shares and 5,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(44) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 10,000 common shares and 5,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(45) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities.

Consists of 10,000 common shares and 5,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(46) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 10,000 common shares and 5,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(47) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 10,000 common shares and 5,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(48) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 10,000 common shares and 5,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(49) The named individual exercises sole voting control and dispositive power over these securities. Consists of 20,000 common shares and 10,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(50) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 10,000 common shares and 5,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus. Beneficial ownership includes 50,000 common shares not being registered under this prospectus.

(51) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 20,000 common shares and 10,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(52) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named company. Robert Jennings of Vista Del Mar exercises voting control and dispositive power over these securities. Consists of 35,000 common shares and 17,500 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(53) The named individual exercises sole voting control and dispositive power over these securities. Consists of 10,000 common shares and 5,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(54) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named company. Dan Shepansky of Dan Shepansky Holdings Ltd. exercises sole voting control and dispositive power over these securities. Consists of 20,000 common shares and 10,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(55) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named company. James Fanning of Fanning Properties Inc. exercises sole voting control and dispositive power over these securities. Consists of 6,250 common shares and 3,125 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(56) The named individual exercises sole voting control and dispositive power over these securities. Consists of 9,500 common shares and 4,750 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(57) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 6,250 common shares and 3,125 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(58) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named company. Robert Duncan of Robert Duncan Productions Inc. exercises sole voting control

and dispositive power over these securities. Consists of 10,000 common shares and 5,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(59) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 8,000 common shares and 4,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(60) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 15,000 common shares and 7,500 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(61) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 15,000 common shares and 7,500 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(62) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 10,000 common shares and 5,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(63) The named individual exercises sole voting control and dispositive power over these securities. Consists of 20,000 common shares and 10,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(64) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 15,000 common shares and 7,500 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(65) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 35,000 common shares and 17,500 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(66) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 10,000 common shares and 5,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(67) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named company. John McKay of Embark Investment Trust exercises sole voting control and dispositive power over these securities. Consists of 35,000 common shares and 17,500 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(68) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 20,000 common shares and 10,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus. Beneficial ownership includes 50,000 common shares not being registered under this prospectus.

69) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 97,000 common shares and 48,500 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus. Beneficial ownership includes 100,030 common shares not being registered under this prospectus.

(70) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 25,000 common shares and 17,500 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(71) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities.

Consists of 10,000 common shares and 5,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus. Beneficial ownership includes 45,000 common shares not being registered under this prospectus.

(72) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 25,000 common shares and 17,500 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus. Beneficial ownership includes 537,500 common shares not being registered under this prospectus.

(73) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 10,000 common shares and 5,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus. Beneficial ownership includes 10,000 common shares not being registered under this prospectus.

(74) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 20,000 common shares and 10,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus. Beneficial ownership includes 66,000 common shares not being registered under this prospectus.

(75) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 10,000 common shares and 5,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus. Beneficial ownership includes 8,000 common shares not being registered under this prospectus.

(76) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 30,000 common shares and 15,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus. Beneficial ownership includes 20,000 common shares not being registered under this prospectus.

(77) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 15,000 common shares and 7,500 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus. Beneficial ownership includes 175,000 common shares not being registered under this prospectus. Douglas Higgs is the brother of Dennis Higgs, our Chairman of the Board.

(78) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 20,000 common shares and 10,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus. Beneficial ownership includes 35,000 common shares not being registered under this prospectus.

(79) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 6,500 common shares and 3,250 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus. Beneficial ownership includes 8,000 common shares not being registered under this prospectus.

(80) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 50,000 common shares and 25,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus. Beneficial ownership includes 1,081,940 common shares not being registered under this prospectus.

(81) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 40,000 common shares and 20,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus. Beneficial ownership includes 120,000 common shares not being registered under this prospectus. Bjorn is the son of Gerhard Kirchner, one of our directors.

(82) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities.

Consists of 6,500 common shares and 3,250 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus. Beneficial ownership includes 12,500 common shares not being registered under this prospectus.

(83) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named company. Don Millerd of Millerd Holdings Ltd. exercises sole voting control and dispositive power over these securities. Consists of 100,000 common shares and 50,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(84) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 25,000 common shares and 17,500 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(85) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 25,000 common shares and 17,500 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(86) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 10,000 common shares and 5,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(87) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 10,000 common shares and 5,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(88) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named company. John H. Clarke of Trafalgar 1805 Ltd. exercises sole voting control and dispositive power over these securities. Consists of 10,000 common shares and 5,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(89) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 10,000 common shares and 5,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(90) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named company. Ryan Saunders of Remap Management Ltd. exercises sole voting control and dispositive power over these securities. Consists of 10,000 common shares and 5,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(91) These securities are held by Haywood Securities Inc., 2000-400 Burrard Street, Vancouver, BC, V6C 3A6, in trust for the named individual, who exercises sole voting control and dispositive power over these securities. Consists of 10,000 common shares and 5,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(92) These securities are held by Creve & Company for the account of Andron Capital Mgmt., 135 N. Meramec Ave., Clayton, MO 63105. Jonathan Andron of Andron Capital Mgmt. exercises sole voting control and dispositive power over these securities. Consists of 40,000 common shares and 20,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(93) These securities are held by Investor Company, A/C 5J5047C, 77 Bloor Street W, 3rd Floor, Toronto, ON M4Y 2T1 for the benefit of 2035718. Rick Kung of 2035718 Ontario Inc. exercises sole voting control and dispositive power over these securities. Consists of 60,000 common shares and 30,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(94) Jay R. Petschek of Corsair Capital Partners, L.P. exercises sole voting control and dispositive power over these securities. Consists of 96,387 common shares and 48,193 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(95) Jay R. Petschek of Corsair Capital Partners 100, L.P. exercises sole voting control and dispositive power over these securities. Consists of 6,107 common shares and 3,053 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(96) Jay R. Petschek of Corsair Capital Investors Ltd. exercises sole voting control and dispositive power over these securities. Consists of 12,506 common shares and 6,253 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(97) Timothy Fraser-Smith of EDJ Limited exercises sole voting control and dispositive power over these securities. Consists of 15,000 common shares and 7,500 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(98) Jeffery H. Porter of Porter Partners, L.P. exercises sole voting control and dispositive power over these securities. Consists of 60,000 common shares and 30,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(99) Rob Lauzon of Uranium Focused Energy Fund exercises sole voting control and dispositive power over these securities. Consists of 425,000 common shares and 212,500 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus. Beneficial ownership includes 1,250,000 common shares not being registered under this prospectus.

(100)

These securities are held for the benefit of the named company by Kingsford Capital Management, LLC, 1160 Brickyard Cove Road, Suite 300, Point Richmond, CA 94801. Dave Scially of Kingsford Capital Partners, LP exercises sole voting control and dispositive power over these securities. Consists of 11,790 common shares and 5,895 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(101) David Scially of Y2K Partners, LP exercises sole voting control and dispositive power over these securities. Consists of 9,500 common shares and 4,750 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(102) These securities are held for the benefit of the named company by Kingsford Capital Management, LLC, 1160 Brickyard Cove Road, Suite 300, Point Richmond, CA 94801. David Scially of Kingsford International Ltd. exercises sole voting control and dispositive power over these securities. Consists of 53,710 common shares and 26,855 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(103) These securities are held by NBCN Inc. A/C #26AA50V, 1010 de la Gauchetiere West, Suite 1410, Montreal, Quebec H3B 5J2 for the benefit of the named company. Craig Porter exercises sole voting control and dispositive power over these securities. Consists of 10,964 common shares and 5,482 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(104) These securities are held by NBCN Inc. A/C #26AA50V, 1010 de la Gauchetiere West, Suite 1410, Montreal, Quebec H3B 5J2 for the benefit of the named company. Craig Porter exercises sole voting control and dispositive power over these securities. Consists of 347,838 common shares and 173,919 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(105) These securities are held by BMO Nesbitt Burns Inc. FRRES A/C # 402-20522-21, Stock cage, 35th Floor, 100 King Street W., Toronto, Ontario M5X 1H3 for the benefit of the named company. Craig Porter sole voting control and dispositive power over these securities. Consists of 33,904 common shares and 16,952 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(106) These securities are held by Jayvee 7 co. A/C # FSKF20070002 PO Box 9, Commerce Court W., Securities Level, Toronto, Ontrario M5H 1A6 for the benefit of the named company. Craig Porter exercises sole voting control and dispositive power over these securities. Consists of 202,269 common shares and 101,134 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(107) These securities are held by Jayvee 7 co. A/C # FSKF20070002 PO Box 9, Commerce Court W., Securities Level, Toronto, Ontrario M5H 1A6 for the benefit of the named company. Craig Porter exercises sole voting control and dispositive power over these securities. Consists of 377,989 common shares and 188,994 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus. Beneficial ownership includes shares beneficially owned by affiliated companies in the Front Street Investment Management Inc. group, including Front Street Managed Acct. #1, Front Street Resource Performance Fund, Front Street Resource Fund, Front Street FT 2007 L.P., CIBC Securities Inc. Canadian Resources Fund, and Talvest Global Resources Fund.

(108) These securities are held by Jayvee 7 co. A/C # FSKF20070002 PO Box 9, Commerce Court W., Securities Level, Toronto, Ontrario M5H 1A6 for the benefit of the named company. Craig Porter exercises sole voting control and dispositive power over these securities. Consists of 247,880 common shares and 123,940 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus. Beneficial ownership includes shares beneficially owned by affiliated companies in the Front Street Investment Management Inc. group, including Front Street Managed Acct. #1, Front Street Resource Performance Fund, Front Street Resource Fund, Front Street FT 2007 L.P., CIBC Securities – Energy Fund, and Talvest Global Resources Fund.

(109) These securities are held by Jayvee 7 co. A/C # FSKF20070002 PO Box 9, Commerce Court W., Securities Level, Toronto, Ontrario M5H 1A6 for the benefit of the named company. Craig Porter exercises sole voting control and dispositive power over these securities. Consists of 64,156 common shares and 32,078 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus. Beneficial ownership includes shares beneficially owned by affiliated companies in the Front Street Investment Management Inc. group, including Front Street Managed Acct. #1, Front Street Resource Performance Fund, Front Street Resource Fund, Front Street FT 2007 L.P., CIBC Securities – Energy Fund, and CIBC Securities Inc. Canadian Resources Fund.

(110) These securities are held in trust by Haywood Securities Inc. for the named individual who exercises sole voting control and dispositive power over these securities. Consists of 30,000 common shares and 15,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus. 15,000 of the common shares and 7,500 of the common shares acquirable upon exercise of warrants are held in trust for the named individual by Canaccord Capital. Beneficial ownership includes 65,000 common shares not being registered under this prospectus.

(111) The named individual exercises sole voting control and dispositive power over these securities. Consists of 82,000 common shares and 41,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus. Beneficial ownership includes 3,599,001 common shares and 725,000 common shares acquirable within 60 days of the date of this prospectus not being registered under this prospectus. Dennis Higgs is our Chairman of the Board.

(112) These securities are held in trust by Gundyco for the named individual who exercises sole voting control and dispositive power over these securities. Consists of 40,000 common shares and 20,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus. Beneficial ownership includes 25,000 common shares not being registered under this prospectus.

(113) The named individual exercises sole voting control and dispositive power over these securities. Consists of 5,000 common shares and 2,500 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus. Beneficial ownership includes 1,431,000 common shares and 725,000 common shares acquirable within 60 days of the date of this prospectus not being registered under this prospectus. Glenn Catchpole is our Chief Executive Officer.

(114) The named individual exercises sole voting control and dispositive power over these securities. Consists of 83,000 common shares and 41,500 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus. Beneficial ownership includes 1,044,702 common shares not being registered under this prospectus.

(115) Neil A McMurray of 2029, LLC exercises sole voting control and dispositive power over these securities. Consists of 160,000 common shares and 80,000 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus. Beneficial ownership includes 2,033,340 common shares not being registered pursuant to this prospectus, 240,000 held by the Neil A. & Susie K. McMurry Revocable Trust, 1,500,000 by NERD Gas Company, LLC, wholly-owned by Neil A. McMurray, 42,340 by NERD Gas Profit Sharing Plan FBO Neil A. McMurry, 206,000 by 2029, LLC wholly owned by Neil A. McMurray and Susie K. McMurray, and 45,000 by Neuman Limited Partnership, of which Neil A. McMurray is a partner.

(116) E.P. Farmer of Denison Mines, Inc. exercises sole voting control and dispositive power over these securities. Consists of 5,465,000 common shares and 2,732,500 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus.

(117) The named individual exercises sole voting control and dispositive power over these securities. George Hartman is one of our directors and is also one of our officers. Beneficial ownership includes 791,900 common

shares and 688,700 common shares acquirable within 60 days of the date of this prospectus not being registered under this prospectus.

(118) The named individual exercises sole voting control and dispositive power over these securities.

(119) Marilyn Dryhurst of Haywood Securities, Inc. exercises sole voting control and dispositive power over these securities. Consists of 52,500 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus. Haywood Securities Inc. was broker in April 15, 2008 private placement transaction.

(120) Jeff Kennedy of Cormark Securities Inc. exercises sole voting control and dispositive power over these securities. Consists of 67,500 common shares acquirable upon exercise of warrants within 60 days of the date of this prospectus. Cormark Securities Inc. was broker in April 15, 2008 private placement transaction.

Transactions with Selling Security Holders

April 15, 2008 Private Placements

1. Brokered Private Placement.

On April 15, 2008, we completed a private placement with investors of 4,000,000 units of the Company at a price of U.S. $2.40 per unit for aggregate gross proceeds of U.S. $9,600,000. Each unit is comprised of one common share and one-half of one common share purchase warrant, with each whole warrant entitling the holder thereof to purchase one additional share of our common stock for a period ending April 15, 2010 at an exercise price of U.S. $3.50 per common share. In the event that the trading price of our common shares on the American Stock Exchange closes above U.S. $4.50 per share for a period of 20 consecutive trading days at any time after August 16, 2008, we may accelerate the expiry time of these warrants by giving notice to the warrantholders by press release and in such case these warrants will expire on the 30th day after the date on which notice is given via press release.

In connection with the private placement, we entered into an agency agreement (the “Agency Agreement”) with Haywood Securities Inc. and Cormark Securities Inc. (collectively, the “Agents”). Pursuant to the Agency Agreement, we agreed to grant certain registration rights in connection with the Brokered Private Placement. As consideration to the Agents pursuant to the Agency Agreement, the registrant paid the Agents a cash commission of U.S. $576,000, or 6% of the gross proceeds of the Brokered Private Placement, and issued to the Agents whole common share purchase warrants entitling the Agents to purchase 120,000 common shares of the Company, equal to 3% of the units sold under the Brokered Private Placement, at price of U.S. $2.60 for a period ending April 15, 2009 (the “Agents Warrants”).

Certain of the units were placed within the U.S. and to, or for the account or benefit of, U.S. persons or persons within the U.S. pursuant to exemptions from the registration requirements of the Securities Act provided by Section 4(2) of the Securities Act and/or Rule 506 of Regulation D on the basis that each holder or beneficial holder is an “accredited investor”, as defined under Rule 501(a) of Regulation D of the Securities Act. Certain other units were placed outside the U.S. to non-U.S. persons pursuant to the exclusion from the registration requirements under Rule 903 of Regulation S of the Securities Act on the basis that the sale of the units was completed in an “offshore transaction”, as defined in Rule 902(h) of Regulation S. In determining the availability of these exemptions, we relied on representations made by the investors in the subscription agreements pursuant to which the units were purchased. The Agents Warrants were issued outside the U.S. in off-shore transactions pursuant to the exclusion from the registration requirements of the U.S. Securities Act provided by Regulation S.

2. Non-Brokered Private Placement.

On April 15, 2008, we closed a non-brokered private placement of 5,865,000 units, including 5,465,000 to Denison Mines Corp. (“Denison”), at a price of U.S. $2.40 per unit for aggregate gross proceeds of U.S. $14,076,000 (the “Non-Brokered Private Placement”). Each unit is comprised of one common share and one-half of one common share purchase warrant, with each whole warrant entitling the holder to purchase one additional share of our common stock for a period ending April 15, 2010 at an exercise price of U.S. $3.50 per share. In the event that the trading price of our common shares on the American Stock Exchange closes above U.S. $4.50 per share for a period of 20 consecutive trading days at any time after August 16, 2008, we may accelerate the expiry time of these

32

warrants by giving notice to the warrantholders by press release and in such case these warrants will expire on the 30th day after the date on which notice is given via press release.

Upon closing of the Brokered Private Placement and the Non-Brokered Private Placement, Denison owns approximately 9.9% of our issued and outstanding common shares. In connection with the strategic investment by Denison, we paid a cash advisory fee to Haywood Securities Inc. equal to U.S. $524,640 or 4.0% of the gross proceeds received from Denison by the registrant.

Certain units, including the units issued to Denison, were placed outside the U.S. to non-U.S. persons or persons outside of the U.S. pursuant to the exclusion from the registration requirements under Rule 903 of Regulation S of the Securities Act on the basis that the sale of the units was completed in an “offshore transaction”, as defined in Rule 902(h) of Regulation S. Certain other units were placed within the U.S. and to, or for the account or benefit of, U.S. persons or persons within the U.S. pursuant to exemptions from the registration requirements of the Securities Act provided by Section 4(2) of the Securities Act and/or Rule 506 of Regulation D on the basis that each investor is an “accredited investor”, as defined under Rule 501(a) of Regulation D of the Securities Act. In determining the availability of these exemptions, the Company relied on representations made by the investors in the subscription agreements pursuant to which the units were purchased.

NAMMCO Transaction

On January 15, 2008, we completed an acquisition of an undivided 81% interest in the NAMMCO mineral properties, covering approximately 82,200 acres in the Pumpkin Buttes uranium mining district of the central Powder River Basin of Wyoming, U.S.A. (the “NAMMCO Properties”) pursuant to a purchase and sale agreement with mining venture previously announced on September 19, 2007 between us and NAMMCO, Steven C. Kirkwood, Robert W. Kirkwood and Stephen L. Payne (collectively, the “NAMMCO Sellers”). Pursuant to the Purchase and Sale Agreement, the total purchase price paid by us to acquire our 81% interest in the NAMMCO Properties was cash in the amount of U.S. $5,000,000 and 5,750,000 shares of our common stock issued to the NAMMCO Sellers. Of the 5,750,000 common shares issued, only the 862,500 common shares held by Stephen L. Payne are being registered for resale under this prospectus.

In connection with our acquisition of our 81% interest in the NAMMCO Properties, we entered into a joint venture agreement dated as of January 15, 2008 (the “Venture Agreement”) with United Nuclear, LLC (“United Nuclear”), a limited liability company wholly owned by the NAMMCO Sellers and their designee under the Purchase and Sale Agreement (as amended). Under the Venture Agreement, the parties agree that United Nuclear will hold (and contribute to) its nineteen percent (19%) working interest in the joint venture, and we will operate and be the manager of the joint venture under the name “Arkose Mining Venture”. Effective as of January 14, 2008, the Purchase and Sale Agreement was amended to reflect the formation of United Nuclear to serve as a vehicle pursuant to which the NAMMCO Sellers would enter into the Venture Agreement.

The common shares were placed pursuant to exemptions from registration requirements of the Securities Act provided by Section 506 of Regulation D of the Securities Act and/or Section 4(2) of the Securities Act.

In connection with the issuance of the common shares to the NAMMCO Sellers, the NAMMCO Sellers entered into a voting agreement with us dated as of January 15, 2008 pursuant to which each of such sellers granted our management or our appointed agent the right to vote fifty percent (50%) of their outstanding and currently held common shares, whether held directly or indirectly by such NAMMCO Sellers, for a period of three (3) years following the date of the issuance of the common shares.

Hartman Shares

On October 30, 2006, we entered into an agreement with Mr. George Hartman to use certain geological reports held by Mr. Hartman for the purposes of staking and acquiring potential areas of interest. Under the terms of the agreement, we agreed to pay Mr. Hartman the sum of $0.40 for each measured and indicated pound of uranium staked by us or a fee of $750 for each claim registered with the Bureau of Land Management, based on the use of the geological reports. This fee was payable to Mr. Hartman in shares of our common stock based on a share price of $2.50 per share. In connection with the issuance of the common shares, we agreed to grant Mr. Hartman registration rights for the resale of such common shares. If the shares are not registered and eligible for resale six months after issuance, we have agreed to pay a penalty of an additional 10% of the number of shares issued. In December 2007, the staking and acquisition program was completed and a liability of $402,250 (2006 - $Nil, 2005 - $Nil) was recorded as due to Mr. Hartman. The Company issued these 160,900 common shares to Mr. Hartman on March 19, 2008.

PLAN OF DISTRIBUTION

We are registering the shares of common stock on behalf of the Selling Security Holders. When we refer to Selling Security Holders, we intend to include donees and pledgees selling shares received from a named selling shareholder after the date of this prospectus. All costs, expenses and fees in connection with this registration of the shares offered under this registration statement will be borne by us. Brokerage commissions and similar selling expenses, if any, attributable to the sale of shares will be borne by the Selling Security Holders. Sales of shares may be effected by the Selling Security Holders from time to time in one or more types of transactions (which may include block transactions) on the over-the-counter market, in negotiated transactions, through put or call options transactions relating to the shares, through short sales of shares, or a combination of such methods of sale, at market prices prevailing at the time of sale, or at negotiated prices. Such transactions may or may not involve brokers or dealers. The Selling Security Holders have advised us that they have not entered into any agreements, understandings or arrangements with any underwriters or broker-dealers regarding the sale of their securities, nor is there an underwriter or coordinating broker acting in connection with the proposed sale of shares by the Selling Security Holders.

The Selling Security Holders may effect such transactions by selling shares directly to purchasers or through broker-dealers, which may act as agents or principals. Such broker-dealers may receive compensation in the form of discounts, concessions, or commissions from the Selling Security Holders and/or purchasers of shares for whom such broker-dealers may act as agents or to whom they sell as principal, or both (which compensation as to a particular broker-dealer might be in excess of customary commissions).

The Selling Security Holders and any broker-dealers that act in connection with the sale of shares might be deemed to be “underwriters” within the meaning of Section 2(11) of the Securities Act, and any commissions received by such broker-dealers and any profit on the resale of shares sold by them while acting as principals might be deemed to be underwriting discounts or commissions under the Securities Act. The Selling Security Holders may agree to indemnify any agent, dealer or broker-dealer that participates in transactions involving sales of the shares against some liabilities arising under the Securities Act.

Because the Selling Security Holders may be deemed to be “underwriters” within the meaning of Section 2(11) of the Securities Act, the Selling Security Holders will be subject to the prospectus delivery requirements of the Securities Act. We have informed the Selling Security Holders that the anti-manipulative provisions of Regulation M promulgated under the Exchange Act may apply to their sales in the market.

In the event that the registration statement is no longer effective, the Selling Security Holders may resell all or a portion of the shares in open market transactions in reliance upon Rule 144 under the Securities Act, provided they meet the criteria and conform to the requirements of such Rule, including the minimum six-month holding period.

Upon being notified by any selling shareholder that any material arrangement has been entered into with a broker-dealer for the sale of shares through a block trade, special offering, exchange distribution or secondary distribution or a purchase by a broker or dealer, we will file a supplement to this prospectus, if required, under Rule 424(b) of the Act, disclosing:

- the name of each selling shareholder(s) and of the participating broker-dealer(s),
- the number of shares involved,
- the price at which the shares were sold,
- the commissions paid or discounts or concessions allowed to the broker-dealer(s), where applicable,
- that the broker-dealer(s) did not conduct any investigation to verify information set out or incorporated by reference in this prospectus; and
- other facts material to the transaction.

THE SEC'S POSITION ON INDEMNIFICATION FOR SECURITIES ACT LIABILITIES

The Company’s Bylaws and Section 78.7502 of the Nevada Corporate Law provide in relevant part that the Company shall have the power to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding (other than an action by or in the right of the Company) by reason of the fact that such person is or was a director, officer, employee or agent of the Company, or is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses, including attorneys’ fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with the action, suit or proceeding if such person is not liable under Section 78.138 of the Nevada Corporate Law or it is determined that he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company, and with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful.

Similar indemnity is authorized for such persons against expenses (including attorneys’ fees) actually and reasonably incurred in defense or settlement of any threatened, pending or completed action or suit by or in the right of the Company, if such person acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company, and provided further that (unless a court of competent jurisdiction otherwise provides) such person shall not have been adjudged liable to the Company. Pursuant to the Company’s Bylaws and Section 78.751 of the Nevada Corporate Law, any such indemnification may be made only as authorized in each specific case upon a determination by the stockholders or disinterested directors that indemnification is proper because the indemnitee has met the applicable standard of conduct.

Under the Company’s Bylaws and Section 78.7502 of the Nevada Corporate Law, where an officer or a director is successful on the merits or otherwise in the defense of any action referred to above, we must indemnify him against the expenses which such officer or director actually or reasonably incurred.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

INTERESTS OF NAMED EXPERTS AND COUNSEL

None.

TRANSFER AGENT AND REGISTRAR

Our registrar and transfer agent for our common shares is Corporate Stock Transfer, Inc. located at 3200 Cherry Creek Dr. South, Suite 430, Denver, Colorado 80209.

LEGAL MATTERS

The law firm of Lang Michener LLP of Vancouver, British Columbia, has acted as our counsel by providing an opinion on the validity of the securities offered in this Registration Statement.

EXPERTS

Our consolidated financial statements as of December 31, 2007 and 2006, and for the years ended December 31, 2007, 2006, and 2005, have been incorporated by reference herein in reliance upon the report of Manning Elliott LLP, independent registered public accounting firm, given upon the authority of that firm as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the SEC. Our SEC filings are available to the public over the Internet at the SEC’s web site at http://www.sec.gov or at our web site at http://www.uranerz.com. You may also read and copy any document we file with the SEC at its public reference facilities at 450 Fifth Street, NW, Washington, DC 20549. You can also obtain copies of the documents at prescribed rates by writing to the Public Reference Section of the SEC at 450 Fifth Street, NW, Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference facilities.

We ''incorporate by reference'' into this prospectus the information we file with the SEC, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this prospectus and information that we file subsequently with the SEC will automatically update this prospectus. We incorporate by reference the documents listed below and any filings we make with the SEC under Sections 13(a), 13(c), 14, or 15(d) of the Securities Exchange Act of 1934, as amended, after initial filing of the registration statement that contains this prospectus and prior to the time that the Selling Shareholders sell all the securities offered by this prospectus:

- Our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, as filed on March 17, 2008;
- Our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2008, as filed May 9, 2008;
- Our Current Reports on Form 8-K as filed January 22, 2008, February 28, 2008, March 17, 2008, March 31, 2008, April 2, 2008, April 18, 2008, April 29, 2008, May 2, 2008, and May 6, 2008;
- Our Definitive Proxy Statement for our Annual General Meeting, as filed May 12, 2008; and
- The description of our common stock, $0.001 par value per share, which is contained in our Registration Statement on Form 8-A, filed on August 7, 2006, which incorporates by reference the description of our securities contained in our Registration Statement on Form SB-2, as last amended on January 27, 2003 (File No. 333-12633).

You may request a copy of these filings (other than an exhibit to a filing unless that exhibit is specifically incorporated by reference into that filing) at no cost, by writing to or telephoning us at the following address:

Uranerz Energy Corporation

Suite 1410-800 West Pender Street

Vancouver, BC, Canada V6C 2V6

Attention: Sonya Reiss, Secretary

36

PROSPECTUS

URANERZ ENERGY CORPORATION

15,940,898 Shares of Common Stock

MAY 23, 2008

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 14- OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

	Amount
Securities and Exchange Commission Registration Fee	$ 1,899
Legal Fees and Expenses	30,000
Accounting Fees and Expenses	10,000
Printing and Engraving Expenses	500
Miscellaneous Expenses	2,500
Total	**$ 44,899**

ITEM 15- INDEMNIFICATION OF DIRECTORS AND OFFICERS

The Company's Bylaws and Section 78.7502 of the Nevada Corporate Law provide in relevant part that the Company shall have the power to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding (other than an action by or in the right of the Company) by reason of the fact that such person is or was a director, officer, employee or agent of the Company, or is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses, including attorneys' fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with the action, suit or proceeding if such person is not liable under Section 78.138 of the Nevada Corporate Law or it is determined that he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company, and with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful.

Similar indemnity is authorized for such persons against expenses (including attorneys' fees) actually and reasonably incurred in defense or settlement of any threatened, pending or completed action or suit by or in the right of the Company, if such person acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company, and provided further that (unless a court of competent jurisdiction otherwise provides) such person shall not have been adjudged liable to the Company. Pursuant to the Company's Bylaws and Section 78.751 of the Nevada Corporate Law, any such indemnification may be made only as authorized in each specific case upon a determination by the stockholders or disinterested directors that indemnification is proper because the indemnitee has met the applicable standard of conduct.

Under the Company's Bylaws and Section 78.7502 of the Nevada Corporate Law, where an officer or a director is successful on the merits or otherwise in the defense of any action referred to above, we must indemnify him against the expenses which such officer or director actually or reasonably incurred.

II-1

ITEM 16- EXHIBITS

Other than contracts made in the ordinary course of business, the following are the material contracts and other material exhibits as of the date of this Registration Statement:

3.1	Articles of Incorporation (1)
3.2	Bylaws, as amended (1)
3.3	Articles of Amendment (3)
4.1	Share Certificate (1)
5.1	Opinion of Lang Michener LLP
10.1	Office and Administration Services Agreement between the Company and Senate Capital Group Inc. dated September 1, 2005 (2)
10.2	Agreement for Services between the Company and Highlands Capital, Inc. dated November 1, 2005 (2)
10.3	Financial Public Relations Agreement between the Company and Accent Marketing Ltd. dated November 1, 2005(2)
10.4	Mineral Property Purchase Agreement between the Company and Ubex Capital Inc. dated April 26, 2005(2)
10.5	Joint Venture Agreement between the Company and Triex Minerals Corporation dated November 4, 2005(2)
10.6	Consulting Agreement between the Company and Ubex Capital Inc. for management and consulting services (2)
10.7	Consulting Agreement between Catchpole Enterprises and the Company (3)
10.8	Joint Venture Agreement between the Company and Bluerock Resources Ltd. (3)
10.9	Option and Purchase Agreement for federal mining claims in Wyoming (3)
10.10	Agreement to Purchase ten mining claims in Wyoming (3)
10.11	2005 Stock Option Plan (4)
10.12	Mr. George Hartman letter agreement. (3)

10.13	Black Range Minerals Agreement dated June 7, 2006 [5]
10.14	Amendment to Joint Venture Agreement dated September 12, 2006 between the Company and Bluerock Resources Ltd. [6]

	4,818		2,398	2,750
Earnings per share attributable to equity shareholders of the Company				
Basic and diluted		19	RMB 0.38	RMB 0.18	RMB 0.20

The accompanying notes form part of these financial statements.

F-2

Consolidated statements of comprehensive income for the years ended December 31, 2015, 2014 and 2013

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi)

	Note	**2015 RMB million**	**2014 RMB million**	**2013 RMB million**
Profit for the year		4,818	2,398	2,750
Other comprehensive income for the year:				
Items that may be reclassified subsequently to profit or loss				
- Fair value movement of available-for-sale financial assets	27	-	43	(8)
- Fair value movement of derivative financials instrument	28	13	-	-
- Share of other comprehensive income/(loss) of an associate		(7)	21	(3)
- Deferred tax relating to above items	29	(3)	(11)	2
Total comprehensive income for the year		4,821	2,451	2,741
Total comprehensive income attributable to:				
Equity shareholders of the Company		3,742	1,813	1,981
Non-controlling interests		1,079	638	760
Total comprehensive income for the year		4,821	2,451	2,741

The accompanying notes form part of these financial statements.

Consolidated balance sheet at December 31, 2015 and 2014

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi)

	Note	2015 RMB million	2014 RMB million
Non-current assets			
Property, plant and equipment, net	20	142,870	134,453
Construction in progress	21	19,433	19,347
Lease prepayments	22	2,637	2,349
Interest in associates	24	1,995	1,583
Interest in joint ventures	25	1,440	1,338
Other investments in equity securities	26	136	136
Aircraft operating lease deposits		669	651
Available-for-sale financial assets	27	104	104
Derivative financial instruments	28	13	-
Deferred tax assets	29	1,387	966
Other receivables	33	304	300
Other assets	30	888	920
		171,876	162,147
Current assets			
Inventories	31	1,606	1,661
Trade receivables	32	2,580	2,683
Other receivables	33	3,720	5,864
Cash and cash equivalents	34	4,560	15,414
Restricted bank deposits		123	438
Prepaid expenses and other current assets		1,191	995
Amounts due from related companies	39	333	486
		14,113	27,541
Current liabilities			
Borrowings	35	30,002	20,979
Current portion of obligations under finance leases	36	6,416	5,992
Trade payables	37	2,500	1,657
Sales in advance of carriage		7,131	6,101
Deferred revenue	38	1,029	1,160
Current income tax		66	296
Amounts due to related companies	39	152	458
Accrued expenses	40	13,081	12,122
Other liabilities	41	5,158	5,321
		65,535	54,086

Consolidated balance sheet at December 31, 2015 and 2014 (continued)

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi)

	Note	2015 RMB million	2014 RMB million
Non-current liabilities			
Borrowings	35	15,884	42,066
Obligations under finance leases	36	49,408	43,919
Deferred revenue	38	1,806	1,750
Provision for major overhauls	42	1,895	1,623
Provision for early retirement benefits	43	13	25
Deferred benefits and gains	44	886	853
Deferred tax liabilities	29	938	873
		70,830	91,109
Net assets		49,624	44,493
Capital and reserves			
Share capital	45	9,818	9,818
Reserves	46	29,227	25,930
Total equity attributable to equity shareholders of the Company		39,045	35,748
Non-controlling interests		10,579	8,745
Total equity		49,624	44,493

The accompanying notes form part of these financial statements.

The financial statements were approved by the Board of Directors on 30 March 2016 and were signed on its behalf.

Consolidated statements of changes in equity

for the years ended December 31, 2015, 2014 and 2013

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi)

	Attributable to equity shareholders of the Company							
	Share capital RMB million	Share premium RMB million	Fair value reserves RMB million	Other reserves RMB million	Retained earnings RMB million	Total RMB million	Non-controlling interests RMB million	Total equity RMB million
Balance at January 1, 2013	9,818	14,131	24	1,226	7,640	32,839	6,895	39,734
Changes in equity for 2013:								
Profit for the year	-	-	-	-	1,986	1,986	764	2,750
Other comprehensive income	-	-	(2)	(3)	-	(5)	(4)	(9)
Total comprehensive income	-	-	(2)	(3)	1,986	1,981	760	2,741
Appropriations to reserves	-	-	-	113	(113)	-	-	-
Dividends relating to 2012	-	-	-	-	(491)	(491)	-	(491)
Acquisition of non-controlling interests in a subsidiary	-	-	-	-	-	-	(6)	(6)
Capital injection from the non-controlling shareholder of a Subsidiary	-	-	-	-	-	-	560	560
Distributions to non-controlling interests	-	-	-	-	-	-	(87)	(87)
Balance at December 31, 2013	9,818	14,131	22	1,336	9,022	34,329	8,122	42,451

	Attributable to equity shareholders of the Company							
	Share capital RMB million	Share premium RMB million	Fair value reserves RMB million	Other reserves RMB million	Retained earnings RMB million	Total RMB million	Non-controlling interests RMB million	Total equity RMB million
Balance at January 1, 2014	9,818	14,131	22	1,336	9,022	34,329	8,122	42,451
Changes in equity for 2014:								
Profit for the year	-	-	-	-	1,777	1,777	621	2,398
Other comprehensive income	-	-	22	14	-	36	17	53
Total comprehensive income	-	-	22	14	1,777	1,813	638	2,451

Appropriations to reserves	-	-	-	137	(137)	-	-	-
Dividends relating to 2013(Note 46)	-	-	-	-	(393)	(393)	-	(393)
Capital injection of non-controlling interests in a subsidiary	-	-	-	-	-	-	108	108
Acquisition of non-controlling interests in a subsidiary	-	-	-	(1)	-	(1)	(1)	(2)
Non-controlling interest arising on business combination	-	-	-	-	-	-	6	6
Distributions to non-controlling interests	-	-	-	-	-	-	(128)	(128)
Balance at December 31, 2014	9,818	14,131	44	1,486	10,269	35,748	8,745	44,493

F-6

Consolidated statements of changes in equity

for the years ended December 31, 2015, 2014 and 2013 (continued)

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi)

	Attributable to equity shareholders of the Company							
	Share capital RMB million	Share premium RMB million	Fair value reserves RMB million	Other reserves RMB million	Retained earnings RMB million	Total RMB million	Non-controlling interests RMB million	Total equity RMB million
Balance at January 1, 2015	9,818	14,131	44	1,486	10,269	35,748	8,745	44,493
Changes in equity for 2015:								
Profit for the year	-	-	-	-	3,736	3,736	1,082	4,818
Other comprehensive income	-	-	11	(5)	-	6	(3)	3
Total comprehensive income	-	-	11	(5)	3,736	3,742	1,079	4,821
Appropriations to reserves	-	-	-	246	(246)	-	-	-
Dividends relating to 2014(note 46)	-	-	-	-	(393)	(393)	-	(393)
Capital injection of non-controlling interests in a subsidiary	-	-	-	-	-	-	1,360	1,360
Acquisition of non-controlling interests in a subsidiary	-	-	-	(52)	-	(52)	(574)	(626)
Distributions to non-controlling interests	-	-	-	-	-	-	(31)	(31)
Balance at December 31, 2015	9,818	14,131	55	1,675	13,366	39,045	10,579	49,624

The accompanying notes form part of these financial statements.

F-7

Consolidated cash flow statements for the years ended December 31, 2015, 2014 and 2013

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi)

	Note	**2015** RMB million	**2014** RMB million	**2013** RMB million
Operating activities				
Cash generated from operating activities	34(b)	27,857	15,826	11,546
Interest received		313	360	220
Interest paid		(2,274)	(1,991)	(1,538)
Income tax paid		(2,162)	(625)	(525)
Net cash generated from operating activities		23,734	13,570	9,703
Investing activities				
Acquisition of subsidiaries, net of cash acquired		(69)	(657)	-
Proceeds from disposal of property, plant and equipment and lease prepayments		3,196	1,611	205
Dividends received from associates		67	86	33
Dividends received from a joint venture		6	-	5
Dividends received from other investments in equity securities and available-for-sale financial assets		13	13	14
Acquisition of term deposits and wealth management products		(278)	(3,286)	(8,402)
Proceeds from maturity of term deposits and wealth management products		1,971	1,254	8,481
Interest received on wealth management products		-	-	25
Additions of property, plant and equipment, lease prepayments and other assets		(12,139)	(8,649)	(12,308)
Capital injection into associates and other investment		(40)	-	(72)
Payment for aircraft lease deposits		(123)	(172)	(51)
Refund of aircraft lease deposits		141	87	142
Placement of pledged bank deposits		-	(1,656)	(277)
Withdrawal of pledged bank deposits		324	1,609	-
Net cash used in investing activities		(6,931)	(9,760)	(12,205)
Financing activities				
Dividends paid to equity shareholders of the Company		(393)	(393)	(491)
Proceeds from borrowings		34,170	32,488	38,324
Proceeds from ultra-short-term financing bills		8,000	6,000	500
Proceeds from corporate bond		3,000	-	-
Repayment of borrowings		(62,212)	(31,126)	(31,243)
Repayment of principal under finance lease obligations		(8,209)	(4,072)	(2,895)
Repayment of ultra-short-term financing bills		(3,000)	(3,000)	(500)
Capital injection from the non-controlling interests of subsidiaries		1,360	108	560
Dividends paid to non-controlling interests		(23)	(128)	(87)

Payment for purchase of non-controlling interest	(388)	(8)	-
Net cash (used in)/generated from financing activities	(27,695)	(131)	4,168
Net (decrease)/increase in cash and cash equivalents	(10,892)	3,679	1,666
Cash and cash equivalents at January 1	15,414	11,748	10,082
Exchange gain/(loss) on cash and cash equivalents	38	(13)	-
Cash and cash equivalents at December 31	4,560	15,414	11,748

The accompanying notes form part of these financial statements.

F-8

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

1 Corporate information

China Southern Airlines Company Limited (the "Company"), a joint stock company limited by shares, was incorporated in the People's Republic of China (the "PRC") on March 25, 1995. The address of the Company's registered office is House 203, No. 233 Kaifa Avenue, Guangzhou Economic & Technology Development Zone, Luogang District, Guangzhou, Guangdong Province, the PRC. The Company and its subsidiaries (the "Group") are principally engaged in the operation of civil aviation, including the provision of passenger, cargo, mail delivery and other extended transportation services.

The Company's majority interest is owned by China Southern Air Holding Company ("CSAHC"), a state-owned enterprise incorporated in the PRC.

The Company's shares are traded on the Shanghai Stock Exchange, the Stock Exchange of Hong Kong Limited and the New York Stock Exchange.

These financial statements are presented in RMB, unless otherwise stated.

These consolidated financial statements were approved for issue by the Company's Board on March 30, 2016.

2 Significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual IFRSs, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board (the "IASB"). The measurement basis used in the preparation of the financial statements is the historical cost basis, except that available-for-sale equity securities are stated at their fair value as explained in the accounting policies set out in Note 2(e) and Note 2(f).

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and relevant assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and relevant assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

The consolidated financial statements comprise the Company and its subsidiaries and the Group's interest in associates and joint ventures.

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

2 Significant accounting policies (continued)

(a) Basis of preparation (continued)

(i) Going concern

As at December 31, 2015, the Group's current liabilities exceeded its current assets by RMB51,422 million. In preparing the consolidated financial statements, the Board has given careful consideration to the going concern status of the Group in the context of the Group's current working capital deficit and believe that adequate funding is available to fulfil the Group's short-term obligations and capital expenditure requirements.

As at December 31, 2015, he Group had banking facilities with several PRC banks and financial institutions for providing bank financing up to approximately RMB173.7 billion (2014: RMB187.1 billion), of which approximately RMB131.0 billion (2014: RMB126.7 billion) was unutilised. The Board believes that, based on experience to date, it is likely that these facilities will be rolled over in future years if required. Accordingly, the Board believes that it is appropriate to prepare the consolidated financial statements on a going concern basis without including any adjustments that would be required should the Company and the Group fail to continue as a going concern.

(ii) New and amended standards adopted by the Group

The following standards have been adopted by the Group for the first time for the financial year beginning on or after January 1, 2015:

- Amendment to IAS 19 on contributions from employees or third parties to defined benefit plans. The amendment distinguishes between contributions that are linked to service only in the period in which they arise and those linked to service in more than one period. The amendment allows contributions that are linked to service, and do not vary with the length of employee service, to be deducted from the cost of benefits earned in the period that the service is provided. Contributions that are linked to service, and vary according to the length of employee service, must be spread over the service period using the same attribution method that is applied to the benefits.

- Amendments from annual improvements to IFRSs – 2010 – 2012 Cycle, on IFRS 8, ‘Operating segments’, IAS 16, ‘Property, plant and equipment’ and IAS 38, ‘Intangible assets’ and IAS 24, ‘Related party disclosures.

- Amendments from annual improvements to IFRSs – 2011 – 2013 Cycle, on IFRS 3, ‘Business combinations’, IFRS 13, ‘Fair value measurement’ and IAS 40, ‘Investment property.

The adoption of the improvements made in the 2010-2012 Cycle has required additional disclosures in the segment note. Other than that, the remaining amendments are not material to the Group.

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

2 Significant accounting policies (continued)

(a) Basis of preparation (continued)

(iii) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2015, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

- IFRS 9, ‘Financial instruments’, addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the ‘hedged ratio’ to be the same as the one management actually use for risk management purposes.

- Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted. The Group is yet to assess IFRS 9’s full impact.

- IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2017 and earlier application is permitted. The Group is assessing the impact of IFRS 15.

- IFRS 16, ‘Leases’ addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces IAS 17 ‘Leases', and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted subject to the entity adopting IFRS 15 'Revenue from contracts with customers' at the same time. The group is currently assessing the impact of IFRS 16.

There are no other IFRSs or IFRIC/HK interpretations that are not yet effective that would be expected to have a material impact on the Group.

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

2 Significant accounting policies (continued)

(b) Subsidiaries and non-controlling interests

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. With regards to each business combination, the Group recognized non-controlling interests based on the proportion of the net identifiable assets of the subsidiary owned by the non-controlling interests.

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in accordance with Notes 2(n) or Note 2(o) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognized.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognized in income statement. Any interest retained in that former subsidiary at the date when control is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (Note 2(e)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (Note 2(c)).

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

2 Significant accounting policies (continued)

(b) Subsidiaries and non-controlling interests (continued)

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

(c) Associates and joint arrangements

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

The Group has applied IFRS 11 to all joint arrangements. Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (Notes 2(e) and 2(k)). The Group's share of the post-acquisition, post-tax results of the investees, adjusted for any acquisition-date excess over cost and any impairment losses for the year are recognized in the consolidated income statement, whereas the Group’s share of the post-acquisition post-tax items of the investees’ other comprehensive income is recognized in the consolidated statement of comprehensive income.

When the Group’s share of losses exceeds its interest in the associate or the joint venture, the Group’s interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group’s interest is the carrying amount of the investment under the equity method together with the Group’s long-term interests that in substance form part of the Group’s net investment in the associate or the joint venture.

Unrealized profits and losses resulting from transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group’s interest in the investee, except where unrealized losses provide evidence of an impairment of the asset transferred, in which case they are recognized immediately in the consolidated income statement.

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

2 Significant accounting policies (continued)

(d) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the Group's interest in the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognized immediately in the consolidated income statement as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (Note 2(k)).

(e) Other investments in equity securities

The Group's policies for investments in equity securities, other than investments in subsidiaries, associates and joint ventures, are as follows:

Investments in equity securities are initially stated at fair value, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets.

Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Available-for-sale equity securities are those non-derivative financial assets that are designated as available for sale. At the end of each financial year the fair value is remeasured, with any resultant gain or loss being recognized in other comprehensive income and accumulated separately in equity in the fair value reserve. Dividend income from these investments is recognized in the consolidated income statement in accordance with the policy set out in Note (2(w)(iv)). When these investments are derecognized or impaired (Note 2(k)), the cumulative gain or loss is reclassified from equity to profit or loss.

The Group's other investments in equity securities represent unlisted equity securities of companies established in the PRC. These securities do not have a quoted market price in an active market and their fair values cannot be reliably measured. Accordingly, they are recognized in the consolidated balance sheet at cost less impairment losses (Note 2(k)).

Investments are recognized/derecognized on the date the Group commits to purchase/sell the investments or they expire.

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

2 Significant accounting policies (continued)

(f) Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Derivative financial instruments that do not qualify for hedge accounting are accounted for as trading instruments and any unrealised gains or losses, being changes in fair value of the derivatives, are recognised in the profit or loss immediately.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that are highly effective, are recorded in the profit or loss, along with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

Derivative financial instruments that qualify for hedge accounting and which are designated as a specific hedge of the variability in cash flows of a highly probable forecast transaction, are accounted for as follows:

(i) The effective portion of any change in fair value of the derivative financial instrument is recognised directly in equity. Where the forecast transaction or firm commitment results in the recognition of an asset or a liability, the gains and losses previously deferred in equity are included in the initial measurement of the cost of the asset or liability.

Otherwise, the cumulative gain or loss on the derivative financial instrument is removed from equity and recognized in the profit or loss in the same period during which the hedged forecast transaction affects net profit or loss.

(ii) The ineffective portion of any change in fair value is recognised in the profit or loss immediately.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the profit or loss when the committed or forecast transaction ultimately occurs. When a committed or forecast transaction is no longer expected to occur, the cumulative gain or loss that was recorded in equity is immediately transferred to the profit or loss.

(g) Investment properties

Investment properties are buildings which are owned to earn rental income and/or for capital appreciation.

Investment properties are stated at cost, less accumulated depreciation and impairment losses (Note 2(k)). Depreciation is calculated to write off the cost of items of investment properties, less their estimated residual value, if any, using the straight line method over their estimated useful lives. Rental income from investment properties is accounted for as described in Note 2(w)(iii).

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

2 Significant accounting policies (continued)

(h) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (Note 2(k)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labor, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (Note 2(z)).

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in income statement on the date of retirement or disposal.

When each major aircraft overhaul is performed, its cost is recognized in the carrying amount of the component of aircraft and is depreciated over the appropriate maintenance cycles. Components related to overhaul cost, are depreciated on a straight-line basis over 3 to 12 years. Upon completion of an overhaul, any remaining carrying amount of the cost of the previous overhaul is derecognized and charged to the income statement.

Except for components related to overhaul costs, the depreciation method of which has been described in the preceding paragraph, depreciation of other property, plant and equipment is calculated to write off the cost of items less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

Buildings	5 to 35 years
Owned and finance leased aircraft	15 to 20 years
Other flight equipment	
–Jet engines	15 to 20 years
–Others, including rotable spares	3 to 15 years
Machinery and equipment	4 to 10 years
Vehicles	6 to 8 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(i) Construction in progress

Construction in progress represents aircraft prepayment, office buildings, various infrastructure projects under construction and equipment pending for installation, and is stated at cost less impairment losses(Note 2(k)). Capitalization of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use, notwithstanding any delay in the issue of the relevant commissioning certificates by the relevant PRC authorities.

No depreciation is provided in respect of construction in progress.

F-16

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

2 Significant accounting policies (continued)

(j) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, except for land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in Note 2(h). Impairment losses are accounted for in accordance with the accounting policy as set out in (Note 2(k)). Finance charges implicit in the lease payments are charged to income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to income statement in the accounting period in which they are incurred.

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognized in income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to income statement in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the respective periods of lease terms which range from 30 to 70 years.

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

2 Significant accounting policies (continued)

(j) Leased assets (continued)

(iv) Sale and leaseback transactions

Gains or losses on aircraft sale and leaseback transactions which result in finance leases are deferred and amortised over the terms of the related leases.

Gains or losses on aircraft sale and leaseback transactions which result in operating leases are recognized immediately if the transactions are established at fair value. If the sale price is below fair value then the gain or loss is recognized immediately. However, if a loss is compensated for by future rentals at a below-market price, then the loss is deferred and amortised over the period that the aircraft is expected to be used. If the sale price is above fair value, then any gain is deferred and amortised over the useful life of the assets.

(k) Impairment of assets

(i) Impairment of investments in equity securities and receivables

Investments in equity securities and current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale equity securities are reviewed at the end of each financial year to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;

- a breach of contract, such as a default or delinquency in interest or principal payments;

- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognized as follows:

- For investments in subsidiaries, associates and joint ventures (including those recognized using the equity method (Note 2(c))), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with Note 2(k)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with Note 2(k)(ii).

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

2 Significant accounting policies (continued)

(k) Impairment of assets (continued)

(i) Impairment of investments in equity securities and receivables (continued)

For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognized in prior years.

For available-for-sale securities, the cumulative loss that has been recognized in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognized in income statement is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognized in income statement.

Impairment losses recognized in income statement in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognized directly in other comprehensive income.

Impairment losses are written off against the corresponding asset directly, except for impairment losses recognized in respect of trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade and other receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognized in income statement.

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

2 Significant accounting policies (continued)

(k) Impairment of assets (continued)

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each financial year to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased:

- Property, plant and equipment;
- Investment properties;
- Construction in progress;
- Lease deposits;
- Lease prepayments;
- Other assets; and
- Goodwill

If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of goodwill is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

Recognition of impairment losses

An impairment loss is recognized in income statement if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to income statement in the year in which the reversals are recognized.

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

2 Significant accounting policies (continued)

(k) Impairment of assets (continued)

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with IAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (Notes 2(k)(i) and (ii)).

Impairment losses recognized in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognized had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognized in other comprehensive income and not profit or loss.

(l) Inventories

Inventories, which consist primarily of consumable spare parts and supplies, are stated at cost less any applicable provision for obsolescence, and are charged to income statement when used in operations. Cost represents the average unit cost.

Inventories held for sale or disposal are carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

(m) Trade and other receivables

Trade and other receivables are initially recognized at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (Note 2(k)), except where the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of bad and doubtful debts.

(n) Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognized and redemption value being recognized in income statement over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

2 Significant accounting policies (continued)

(o) Trade and other payables

Trade and other payables are initially recognized at fair value. Except for financial guarantee liabilities measured in accordance with (Note 2(q)(i)), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been generally within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(q) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognized.

The amount of the guarantee initially recognized is amortised in income statement over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognized in accordance with (Note 2(q)(ii)) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognized, less accumulated amortisation.

(ii) Provision and contingent liabilities

Provisions are recognized for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

2 Significant accounting policies (continued)

(r) Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the Company's shareholders.

(s) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(t) Defeasance of long-term liabilities

Where long-term liabilities have been defeased by the placement of security deposits, those liabilities and deposits (and income and charge arising therefrom) are netted off in order to reflect the overall commercial effect of the arrangements. Such netting off has been effected where a right is held by the Group to insist on net settlement of the liability and deposit including in all situations of default and where that right is assured beyond doubt.

(u) Deferred benefits and gains

In connection with the acquisitions or leases of certain aircraft and engines, the Group receives various credits. Such credits are deferred until the aircraft and engines are delivered, at which time they are either applied as a reduction of the cost of acquiring the aircraft and engines, resulting in a reduction of future depreciation, or amortised as a reduction of rental expense for aircraft and engines under leases.

(v) Income tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the financial year, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

2 Significant accounting policies (continued)

(v) Income tax (continued)

The limited exception to the recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future and it is probable that future taxable profit will be available against which the temporary difference can be utilized.

The amount of deferred tax recognized is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the financial year and are expected to apply when related deferred tax asset is realized or the deferred tax liability is settled. Deferred tax assets and liabilities are not discounted.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

(w) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in income statement as follows:

(i) Passenger, cargo and mail revenues

Passenger revenue is recognized at the fair value of the consideration received when the transportation is provided or when an unused ticket expires rather than a ticket is sold. Ticket sales for transportation not yet provided are included in current liabilities as sales in advance of carriage.

Cargo and mail revenues are recognized when the transportation is provided.

Revenues from airline-related business are recognized when services are rendered.

Revenue is stated net of sales tax.

F-24

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

2 Significant accounting policies (continued)

(w) Revenue recognition (continued)

(ii) Frequent flyer revenue

The Group maintains two frequent flyer award programmes, namely, the China Southern Airlines Sky Pearl Club and the Xiamen Airlines' Egret Card Frequent Flyer Programme, which provide travel and other awards to members based on accumulated mileages.

Amount received in relation to mileage earning flights is allocated, based on fair value, between the flight and mileages earned by members of the Group's frequent flyer award programmes. The value attributed to the awarded mileages is deferred as a liability, within deferred revenue, until the mileages are redeemed or expired.

Amount received from third parties for the issue of mileages under the frequent flyer award programmes is also deferred as a liability, within deferred revenue.

As members of the frequent flyer award programmes redeem mileages for an award, revenue is recorded in income statement. Revenue in relation to flight awards is recognized when the transportation is provided. Revenue in relation to non-flight rewards is recognized at the point of redemption where non-flight rewards are selected.

(iii) Operating rental income

Receivable under operating leases is recognized in income statement in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognized in income statement as an integral part of the aggregate net lease payments receivables. Contingent rentals are recognized as income in the accounting period in which they are earned.

(iv) Dividends

- Dividend income from unlisted investments is recognized when the shareholder's right to receive payment is established.

- Dividend income from listed investments is recognized when the share price of the investment goes ex-dividend.

(v) Government grants are recognized in consolidated balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognized as revenue in income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognized in income statement over the useful life of the asset by way of reduced depreciation expense.

(vi) Interest income is recognized as it accrues using the effective interest method.

(x) Traffic commissions

Traffic commissions are expensed in income statement when the transportation is provided and the related revenue is recognized. Traffic commissions for transportation not yet provided are recorded on the consolidated balance sheet as prepaid expense.

F-25

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

2 Significant accounting policies (continued)

(y) Maintenance and overhaul costs

Routine maintenance, repairs and overhauls are charged to income statement as and when incurred.

In respect of owned and finance leased aircraft, components within the aircraft subject to replacement during major overhauls are depreciated over the average expected life between major overhauls. When each major overhaul is performed, its cost is recognized in the carrying amount of property, plant and equipment and is depreciated over the estimated period between major overhauls. Any remaining carrying amount of cost of previous major overhaul is derecognized and charged to income statement.

In respect of aircraft held under operating leases, the Group has responsibility to fulfil certain return conditions under relevant lease agreements. In order to fulfil these return conditions, major overhauls are required to be conducted on a regular basis. Accordingly, estimated costs of major overhauls are accrued and charged to income statement over the estimated period between overhauls. After the aircraft has completed its last overhaul cycle prior to being returned, expected cost of overhaul to be incurred at the end of the lease is estimated and accrued over the remaining period of the lease. Differences between the estimated costs and the actual costs of overhauls are charged to income statement in the period when the overhaul is performed.

(z) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are interrupted or complete.

(aa) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement schemes

Salaries, annual bonuses and contributions to defined contribution retirement schemes are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Termination benefits

Termination benefits are recognized when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(iii) Share-based payment

The fair value of the amount payable to employee in respect of share appreciation rights ("SARs"), which are settled in cash, is recognized as an expense with a corresponding increase in liabilities, over the vesting period. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized as staff cost in the consolidated income statement.

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

2 Significant accounting policies (continued)

(ab) Translation of foreign currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Renminbi, which is the Company's functional and the Group's presentation currency.

Foreign currencies transactions during the year are translated into Renminbi at the applicable rates of exchange quoted by the People's Bank of China ("PBOC") prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the PBOC exchange rates prevailing at the end of the financial year. Exchange gains and losses are recognized in income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into Renminbi at the PBOC exchange rates prevailing at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into Renminbi at the PBOC exchange rates prevailing at the dates the fair value was determined.

(ac) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii)

is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

2 Significant accounting policies (continued)

(ad) Segmental information

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management, who is the chief operating decision maker, for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 Accounting estimates and judgements

The Groups' financial position and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the financial statements. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an ongoing basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in condition and assumptions are factors to be considered when reviewing the financial statements. In addition to the assumptions and estimates regarding provision for early retirement benefits and fair value measurements of financial instruments disclosed in Note 43 and Note 4(g) respectively, the Group believes the following critical accounting policies also involve the most significant judgements and estimates used in the preparation of the financial statements.

(a) Accounting estimates

(i) Impairment of trade receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement. When a trade receivable is uncollectible, it is written off against the provision account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the income statement.

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

3 Accounting estimates and judgements (continued)

(a) Accounting estimates (continued)

(ii) Impairment of long-lived assets

If circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the asset may be considered “impaired”, and an impairment loss may be recognized in accordance with IAS36, Impairment of Assets. The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The recoverable amount is the greater of the fair value less costs to sell and value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of traffic revenue and the amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions for projections of traffic revenue and amount of operating costs.

(iii) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews the estimated useful lives of assets annually in order to determine the amount of depreciation expense to be recorded during any financial year. The useful lives are based on the Group’s historical experience with similar assets and take into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(iv) Provision for major overhauls

Provision for the cost of major overhauls to fulfil certain return condition for airframes and engines under operating leases is accrued and charged to the income statement over the estimated overhaul period. This requires estimation of the expected overhaul cycle and overhaul cost, which are based on the historical experience of actual cost incurred for overhauls of airframes and engines of the same or similar types. Different estimates could significantly affect the estimated provision and the results of operations.

(v) Frequent flyer revenue

The amount of revenue attributable to the mileages earned by the members of the Group's frequent flyer award programmes is estimated based on the fair value of the mileages awarded and the expected redemption rate. The fair value of the mileages awarded is estimated by reference to external sales. The expected redemption rate was estimated based on historical experience, anticipated redemption pattern and the frequent flyer programme design.

(vi) Provision for consumable spare parts and maintenance materials

Provision for consumable spare parts and maintenance materials is made based on the difference between the carrying amount and the net realisable value. The net realisable value is estimated based on current market condition, historical experience and Company's future operation plan for the consumable spare parts and maintenance materials. The net realisable value may be adjusted significantly due to the change of market condition and the future plan for the consumable spare parts and maintenance materials.

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

3 Accounting estimates and judgements (continued)

(a) Accounting estimates (continued)

(vii) Income tax

Significant judgment is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional tax will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the year in which such determination is made.

(b) Accounting judgements

(i) Retirement benefits

According to IAS 19, an entity shall account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices where the entity has no realistic alternative but to pay the employee benefits. The Company believes the payments of welfare subsidy to those retirees who retired before the establishment of Pension Scheme (as defined in Note 49 (a)) are discretionary and have not created a legal or constructive obligation. Such payments are made according to the Group's business performance, and can be suspended at any time (Note 14).

4 Financial risk management and fair values

The Group is exposed to liquidity, interest rate, currency, credit risks and commodity jet fuel price risk in the normal course of business. The Group's overall risk management programme focuses on the unpredictability of financial market seeks to minimize the adverse effects on the Group's financial performance. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Liquidity risk

As at December 31, 2015, the Group's current liabilities exceeded its current assets by RMB51,422 million. For the year ended December 31, 2015, the Group recorded a net cash inflow from operating activities of RMB23,734 million, a net cash outflow from investing activities of RMB6,931 million and a net cash outflow from financing activities of RMB27,695 million, which in total resulted in a net decrease in cash and cash equivalents of RMB10,892 million

The Group is dependent on its ability to maintain adequate cash inflow from operations, its ability to maintain existing external financing, and its ability to obtain new external financing to meet its debt obligations as they fall due and to meet its committed future capital expenditures. As at December 31, 2015, the Group had banking facilities with several PRC banks and financial institutions for providing bank financing up to approximately RMB173,739 million (2014: RMB187,133 million), of which approximately RMB131,021 million (2014: RMB126,703 million) was unutilised. The Directors of the Company believe that sufficient financing will be available to the Group when and where needed.

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

4 Financial risk management and fair values (continued)

(a) Liquidity risk (continued)

The Directors of the Company have carried out a detailed review of the cash flow forecast of the Group for the twelve months ending December 31, 2016. Based on such forecast, the Directors have determined that adequate liquidity exists to finance the working capital, capital expenditure requirements and dividend payments of the Group during that period. In preparing the cash flow forecast, the Directors have considered historical cash requirements of the Group as well as other key factors, including the availability of the above-mentioned bank facilities, which may impact the operations of the Group during the next twelve-month period. The Directors of the Company are of the opinion that the assumptions and sensitivities which are included in the cash flow forecast are reasonable. However, as with all assumptions in regard to future events, these are subject to inherent limitations and uncertainties and some or all of these assumptions may not be realized.

As at December 31, 2015, the contractual maturities at the end of financial years of the Group’s borrowings and obligations under finance leases are disclosed in Notes 35, 36 respectively.

(b) Interest rate risk

The interest rates and maturity information of the Group’s borrowings and obligations under finance leases are disclosed in Note 35 and Note 36, respectively. Majority of the Group’s borrowing are at floating interest rates which expose the Group to cash flow interest rate risk. Borrowings at fixed interest rates expose the Group to fair value interest risk. The Group has entered into interest rate swap contracts to mitigate its cash flow and fair value interest rate risk.

Based on the various scenarios, the Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings or obligations under finance leases from floating rates to fixed rates. Generally, the Group raises long-term borrowings or obligations under finance leases at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (primarily quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts.

At December 31, 2015, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately RMB416 million (2014: RMB569 million; 2013: RMB443 million). Other components of consolidated equity would not be affected (2014 and 2013: Nil) by the changes in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax and retained profits and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit after tax (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. This analysis is performed on the same basis as that for 2014 and 2013.

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

4 Financial risk management and fair values (continued)

(c) Foreign currency risk

Renminbi is not freely convertible into foreign currencies. All foreign exchange transactions involving Renminbi must take place either through the PBOC or other institutions authorised to buy and sell foreign exchange or at a swap centre.

The Group has significant exposure to foreign currency risk as substantially all of the Group's obligations under finance leases (Note 36), borrowings (Note 35) and operating lease commitments (Note 47(b)) are denominated in foreign currencies, principally US dollars, Euro and Japanese Yen. Depreciation or appreciation of Renminbi against foreign currencies affects the Group's results significantly because the Group's foreign currency liabilities generally exceed its foreign currency assets.

The following table indicates the instantaneous change in Group's profit after tax and retained profits that would arise if foreign exchange rates to which the Group has significant exposure at the beginning of the financial year had changed at that date, assuming all other risk variables remained constant.

	2015		**2014**		**2013**	
	Appreciation /(depreciation) of Renminbi against foreign currency	**Increase /(decrease) on profit after tax and retained profits RMB million**	**Appreciation/ (depreciation) of Renminbi against foreign currency**	**Increase /(decrease) on profit after tax and retained profits RMB million**	**Appreciation/ (depreciation) of Renminbi against foreign currency**	**Increase/ (decrease) on profit after tax and retained profits RMB million**
United States Dollars	1%	453	1%	767	1%	654
	(1)%	(453)	(1)%	(767)	(1)%	(654)

Euro						
	1%	38	-	-	-	-
	(1)%	(38)	-	-	-	-
Singapore Dollars	-	-	2%	6	2%	7
	-	-	(2)%	(6)	(2)%	(7)
Japanese Yen	10%	135	10%	145	10%	177
	(10)%	(135)	(10)%	(145)	(10)%	(177)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and retained profits measured in the respective functional currencies, translated into Renminbi at the exchange rate ruling at the end of the financial year for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments, borrowings, and lease obligations held by the Group which expose the Group to foreign currency risk at the end of the financial year, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2014 and 2013.

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

4 Financial risk management and fair values (continued)

(d) Credit risk

The Group's credit risk is primarily attributable to cash and cash equivalents, trade receivables and the guarantees on personal bank loans provided to the Group's pilot trainees.

Substantially all of the Group's cash and cash equivalents are deposited with major reputable PRC financial institutions, which management believes are of high credit quality.

A significant portion of the Group's air tickets are sold by agents participating in the Billing and Settlement Plan ("BSP"), a clearing scheme between airlines and sales agents organised by International Air Transportation Association. The use of the BSP reduces credit risk to the Group. As at December 31, 2015, the balance due from BSP agents amounted to RMB1,054 million (2014: RMB990 million). The credit risk exposure to BSP and the remaining trade receivables balance are monitored by the Group on an ongoing basis and the allowance for impairment of doubtful debts is within management's expectations. Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables is set out in Note 32.

The Company and its subsidiary, Xiamen Airlines, entered into agreements with their pilot trainees and certain banks to provide guarantees on personal bank loans amounting to RMB627 million (December 31, 2014: RMB646 million) that can be drawn by the pilot trainees to finance their respective flight training expenses. As at December 31, 2015, total personal bank loans of RMB454 million (December 31, 2014: RMB486 million), under these guarantees, were drawn down from the banks. During the year, the Group has paid RMB4 million (2014: RMB2 million) to the banks due to the default of payments of certain pilot trainees.

(e) Jet fuel price risk

The Group's results of operations may be significantly affected by fluctuations in fuel prices since the jet fuel expenses are a significant cost for the Group. A reasonable possible increase/decrease of 10% (2014 and 2013:10%) in jet fuel price, with volume of fuel consumed and all other variables held constant, would have increased/decreased the fuel costs by approximately RMB2,627 million (2014: RMB3,773 million; 2013: RMB3,554 million). The sensitivity analysis indicates the instantaneous change in the Group's fuel cost that would arise assuming that the change in fuel price had occurred at the beginning of the financial year.

(f) Capital management

The Group's primary objectives in managing capital are to safeguard the Group's ability to continue as a going concern, and to generate sufficient profit to maintain growth and provide returns to its shareholders, by securing access to finance at a reasonable cost.

The Group manages the amount of capital in proportion to risk and manages its debt portfolio in conjunction with projected financing requirements. The Group monitors capital on the basis of the debt ratio, which is calculated as total liabilities divided by total assets.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements. The Group's debt ratio was 73% at December 31, 2015 (2014: 77%).

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

4 Financial risk management and fair values (continued)

(g) Fair value

(i) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value at the end of financial period across the three levels of the fair value hierarchy defined in IFRS 7, Financial Instruments: Disclosures, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

– Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

– Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

– Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

The following table presents the Group's financial assets that are measured at fair value at December 31, 2015.

2015	Level 1 RMB million	Level 2 RMB million	Level 3 RMB million	Total RMB million

Assets				
Available-for-sale equity securities:				
-Listed	104	-	-	104
Derivative financial instruments				
-Interest rate swap	-	13	-	13
Total	104	13	-	117

2014

Assets				
Available-for-sale equity securities:				
-Listed	104	-	-	104

During the years ended December 31, 2015 and 2014, there were no significant transfers between instruments in Level 1 and Level 2.

F-34

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

4 Financial risk management and fair values (continued)

(g) Fair value (continued)

(i) Financial instruments carried at fair value (continued)

(a) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date without any deduction for transaction costs. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily A share equity investments classified as trading securities or available-for-sale.

(b) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

(ii) Financial instruments not carried at fair value

(a) Other investments in equity securities represent unlisted equity securities of companies established in the PRC. There is no quoted market price for such equity securities and accordingly a reasonable estimate of the fair value could not be measured reliably. Accordingly, they are recognized in the consolidated balance sheet at cost less impairment losses.

(b) All other financial instruments, including amounts due from/to related companies, trade and other receivables, trade and other payables, borrowings and obligation under finance leases are carried at amounts not materially different from their fair values as at December 31, 2015 and December 31, 2014.

5 Traffic revenue

	2015 RMB million	2014 RMB million	2013 RMB million
Passenger	94,677	84,740	76,687
Cargo and mail	6,122	5,842	4,935
Fuel Surcharge Income	6,300	13,746	13,062
	107,099	104,328	94,684

F-35

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

6 Segmental information

(a) Business segments

The Group’s network passenger, cargo and mail transportation are managed as a single business unit. The Group’s chief operating decision maker (“CODM”), which is the senior executive management, makes resource allocation decisions based on route profitability, which considers aircraft type and route economics. The objective in making resource allocation decisions is to optimise consolidated financial results. Therefore, based on the way the Group manages the network passenger and cargo operations, and the manner in which resource allocation decisions are made, the Group has only one reportable operating segment for financial reporting purposes, reported as the “airline transportation operations”.

Other operating segments consist primarily of business segments of hotel and tour operation, ground services, cargo handling and other miscellaneous services. These other operating segments are combined and reported as “other segments”.

Inter-segment sales are based on prices set on an arm’s length basis.

For the purposes of assessing segment performance and allocating resources between segments, the Group’s CODM monitors the results, assets and liabilities attributable to each reportable segment based on financial results prepared under the People’s Republic of China Accounting Standards for Business Enterprises (“PRC GAAP”). As such, the amount of each material reconciling item from the Group’s reportable segment revenue, profit before tax, assets and liabilities arising from different accounting policies are set out in Note 6(c).

Information regarding the Group’s reportable segments as provided to the Group’s CODM for the purposes of resource allocation and assessment of segment performance is set out below.

The segment results of the Group for the year ended December 31, 2015 are as follows:

	Airline transportation operations	Other segments	Elimination	Unallocated*	Total
	RMB million	RMB million	RMB million	RMB million	RMB million
Revenue from external customers	110,067	1,400	-	-	111,467
Inter-segment sales	114	1,528	(1,642)	-	-
Reportable segment revenue	110,181	2,928	(1,642)	-	111,467
Reportable segment profit before taxation	5,480	279	-	582	6,341
Reportable segment profit after taxation	4,199	205	-	582	4,986
Other segment information					
Income tax	1,281	74	-	-	1,355
Interest income	244	9	-	-	253
Interest expense	2,156	32	-	-	2,188
Depreciation and amortisation	11,915	97	-	-	12,012
Impairment loss	105	3	-	-	108
Share of associates' results	-	-	-	462	462
Share of joint ventures' results	-	-	-	107	107
Non-current assets additions during the year	24,242	98	-	-	24,340

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

6 Segment reporting (continued)

(a) Business segments (continued)

The segment results of the Group for the year ended December 31, 2014 are as follows:

	Airline transportation operations	Other segments	Elimination	Unallocated*	Total
	RMB million	RMB million	RMB million	RMB million	RMB million
Revenue from external customers	107,790	523	-	-	108,313
Inter-segment sales	-	1,364	(1,364)	-	-
Reportable segment revenue	107,790	1,887	(1,364)	-	108,313
Reportable segment profit before taxation	2,422	257	-	416	3,095
Reportable segment profit after taxation	1,800	202	-	416	2,418
Other segment information					
Income tax	622	55	-	-	677
Interest income	369	7	-	-	376
Interest expense	2,155	38	-	-	2,193
Depreciation and amortisation	10,915	88	-	-	11,003
Impairment loss	205	-	-	-	205
Share of associates' results	-	-	-	263	263
Share of joint ventures' results	-	-	-	140	140
Non-current assets additions during the year	29,523	98	-	-	29,621

The segment results of the Group for the year ended December 31, 2013 are as follows:

	Airline transportation operations	Other segments	Elimination	Unallocated*	Total

	RMB million	RMB million	RMB million	RMB million	RMB million
Revenue from external customers	97,659	471	-	-	98,130
Inter-segment sales	-	1,147	(1,147)	-	-
Reportable segment revenue	97,659	1,618	(1,147)	-	98,130
Reportable segment profit before taxation	2,796	123	-	431	3,350
Reportable segment profit after taxation	2,118	100	-	431	2,649
Other segment information					
Income tax	678	23	-	-	701
Interest income	300	7	-	-	307
Interest expense	1,611	40	-	-	1,651
Depreciation and amortisation	9,425	80	-	-	9,505
Impairment loss	567	1	-	-	568
Share of associates' results	-	-	-	296	296
Share of joint ventures' results	-	-	-	96	96
Non-current assets additions during the year	28,780	82	-	-	28,862

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

6 Segment reporting (continued)

(a) Business segments (continued)

The segment assets and liabilities of the Group as at December 31, 2015 and December 31, 2014 are as follows:

	Airline transportation operations	Other segments	Elimination	Unallocated*	Total
	RMB million	RMB million	RMB million	RMB million	RMB million
As at December 31, 2015					
Reportable segment assets	180,753	2,795	(1,004)	3,706	186,250
Reportable segment liabilities	136,391	1,290	(1,004)	-	136,677
As at December 31, 2014					
Reportable segment assets	184,661	2,427	(568)	3,177	189,697
Reportable segment liabilities	144,782	1,209	(568)	-	145,423

* Unallocated assets primarily include investments in associates and joint ventures, available-for-sale financial assets, derivative financial instruments and other investments in equity securities. Unallocated results primarily include the share of results of associates and joint ventures, dividend income from available-for-sales financial assets and other investments in equity securities.

(b) The Group's business segments operate in three main geographical areas, even though they are managed on a worldwide basis.

The Group's revenues by geographical segment are analyzed based on the following criteria:

(i) Traffic revenues from services within the PRC (excluding Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan ("Hong Kong, Macau and Taiwan")), is classified as domestic operations. Traffic revenue from inbound and outbound services between overseas markets, excluding Hong Kong, Macau and Taiwan, is classified as international operations revenues.

(ii) Revenues from commission income, hotel and tour operation, ground services, cargo handling and other miscellaneous services are classified on the basis of where the services are performed.

	2015 RMB million	2014 RMB million	2013 RMB million
Domestic	82,981	82,764	76,828
International	25,872	22,952	19,053
Hong Kong, Macau and Taiwan	2,614	2,597	2,249
	111,467	108,313	98,130

The major revenue earning assets of the Group are its aircraft fleet which is registered in the PRC and is deployed across its worldwide route network. Majority of the Group's other assets are located in the PRC. CODM considers that there is no suitable basis for allocating such assets and related liabilities to geographical locations. Accordingly, geographical segment assets and liabilities are not disclosed.

F-38

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

6 Segment reporting (continued)

(c) Reconciliation of reportable segment revenues, profit before income tax, assets and liabilities to the consolidated figures as reported in the consolidated financial statement.

	Note	2015 RMB million	2014 RMB million	2013 RMB million
Revenue				
Reportable segment revenues		111,467	108,313	98,130
Reclassification of expired sales in advance of carriage	(i)	459	459	684
Reclassification of sales tax	(ii)	(274)	(188)	(267)
Consolidated revenues		111,652	108,584	98,547

	Note	2015 RMB million	2014 RMB million	2013 RMB million
Profit before income tax				
Reportable segment profit before taxation		6,341	3,095	3,350
Capitalization of exchange difference of specific loans	(iii)	(222)	(28)	133
Government grants	(iv)	1	1	3
Others		(2)	(2)	(2)
Consolidated profit before income tax		6,118	3,066	3,484

	Note	2015 RMB million	2014 RMB million
Assets			
Reportable segment assets		186,250	189,697
Capitalization of exchange difference of specific loans	(iii)	101	323
Government grants	(iv)	(342)	(259)
Others		(20)	(73)
Consolidated total assets		185,989	189,688

	Note	2015 RMB million	2014 RMB million
Liabilities			
Reportable segment liabilities		136,677	145,423
Government grants	(iv)	(312)	(228)
Consolidated total liabilities		136,365	145,195

Notes:

(i) In accordance with the PRC GAAP, expired sales in advance of carriage are recorded under non-operating income. Under IFRSs, such income is recognized as other operating income.

(ii) In accordance with the PRC GAAP, sales tax is separately disclosed rather than deducted from revenue under IFRSs.

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

6 Segment reporting (continued)

(c) Reconciliation of reportable segment revenue, profit before income tax, assets and liabilities to the consolidated figures as reported in the consolidated financial statement. (continued)

(iii) In accordance with the PRC GAAP, exchange difference arising on translation of specific loans and related interest denominated in a foreign currency is capitalized as part of the cost of qualifying assets. Under IFRSs, such exchange difference is recognized in income statement unless the exchange difference represents an adjustment to interest.

(iv) In accordance with the PRC GAAP, special funds such as investment grants allocated by the government, if clearly defined on official documents as part of "capital reserve", are credited to capital reserve. Otherwise, government grants related to assets are recognized as deferred income and amortised to profit or loss on a straight line basis over the useful life of the related assets. Under IFRSs, government grants relating to purchase of fixed assets are deducted from the cost of the related fixed assets.

7 Other operating revenue

	2015 RMB million	2014 RMB million	2013 RMB million
Commission income	1,545	1,335	1,040
Expired sales in advance of carriage	459	459	684
Hotel and tour operation income	621	508	565
General aviation income	490	576	484
Ground services income	345	293	349
Air catering income	239	272	226
Cargo handling income	230	236	176
Rental income	182	156	137
Others	442	421	202
	4,553	4,256	3,863

8 Flight operation expenses

	2015 RMB million	2014 RMB million	2013 RMB million
Jet fuel costs	26,274	37,728	35,538
Flight personnel payroll and welfare	8,070	6,803	5,799
Aircraft operating lease charges	6,153	5,383	4,767
Air catering expenses	2,680	2,497	2,295
Civil Aviation Development Fund	2,482	2,279	2,036
Training expenses	1,003	1,003	784
Aircraft insurance	168	202	194
Others	3,582	3,006	2,597
	50,412	58,901	54,010

F-40

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

9 Maintenance expenses

	2015 RMB million	2014 RMB million	2013 RMB million
Aviation repair and maintenance charges	7,396	5,525	5,334
Staff payroll and welfare	2,131	1,966	1,712
Maintenance materials	880	813	759
	10,407	8,304	7,805

10 Aircraft and transportation service expenses

	2015 RMB million	2014 RMB million	2013 RMB million
Landing and navigation fees	11,510	10,496	9,510
Ground service and other charges	6,398	5,906	5,581
	17,908	16,402	15,091

11 Promotion and selling expenses

	2015 RMB million	2014 RMB million	2013 RMB million
Sales commissions	3,150	4,263	4,356
Ticket office expenses	2,605	2,465	2,303
Computer reservation services	605	542	526
Advertising and promotion	122	116	118
Others	494	455	451
	6,976	7,841	7,754

12 General and administrative expenses

	2015 RMB million	2014 RMB million	2013 RMB million
General corporate expenses	2,325	2,195	2,334
Auditors’ remuneration	15	18	16
- Audit services	15	18	16
- Non-audit services	-	-	-
Other taxes and levies	124	124	120
	2,464	2,337	2,470

13 Depreciation and amortisation

	2015 RMB million	2014 RMB million	2013 RMB million
Depreciation			
– Owned assets	7,082	8,021	6,861
– Assets acquired under finance leases	4,684	2,768	2,477
Amortisation of deferred benefits and gains	(148)	(156)	(146)
Other amortisation	227	195	155
	11,845	10,828	9,347

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

14 Staff costs

	2015 RMB million	2014 RMB million	2013 RMB million
Salaries, wages and welfare	16,636	14,667	12,938
Contribution to retirement schemes	1,726	1,554	1,324
Other retirement welfare subsidy	177	167	175
Early retirement benefits (Note 43)	3	7	12
	18,542	16,395	14,449

Staff costs relating to flight operations and maintenance are also included in the respective total amounts disclosed separately in Note 8 to Note 9 above.

Details of staff costs arising from cash-settled share appreciation rights are disclosed in Note 49(c). Such costs have been included in "salaries, wages and welfare" above.

15 Other net income

	2015 RMB million	2014 RMB million	2013 RMB million
Government grants (Note)	2,331	1,700	1,155
Gain/ (losses) on disposal of property, plant and equipment, net			
– Aircraft and spare engines	414	344	(8)
– Other property, plant and equipment	(102)	(77)	(70)
Others	635	223	166
	3,278	2,190	1,243

Note:

Government grants mainly represent (i) subsidies based on certain amount of tax paid granted by governments to the Group; (ii) subsidies granted by various local governments to encourage the Group to operate certain routes to cities where these governments are located. The government grants are recognized when fulfilling the requirements and when cash is received.

There are no unfulfilled conditions and other contingencies related to subsidies that have been recognized during the year ended December 31, 2015.

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

16 Interest expense

	2015 RMB million	2014 RMB million	2013 RMB million
Interest on borrowings	1,320	1,628	1,275
Interest relating to obligations under finance leases	1,248	978	692
Interest relating to provision for early retirement benefits(Note 43)	2	4	5
Less: interest expense capitalized (Note)	(382)	(417)	(321)
	2,188	2,193	1,651

Note:

The weighted average interest rate used for interest capitalisation was 2.77% per annum in 2015 (2014: 2.37%; 2013: 2.50%).

17 Other non-operating income

	2015 RMB million	2014 RMB million	2013 RMB million
Interest income on wealth management products	-	-	25
Gain recognized on acquisition of a subsidiary	-	26	-
	-	26	25

F-43

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

18 Income tax

(a) Income tax expense in the consolidated income statement

	2015 RMB million	2014 RMB million	2013 RMB million
PRC income tax			
– Provision for the year	1,700	430	705
– Over-provision in prior year	(41)	(29)	(31)
	1,659	401	674
Deferred tax (Note 29)			
Origination and reversal of temporary differences	(359)	267	60
Tax expense	1,300	668	734

In respect of majority of the Group's airline operation outside mainland China, the Group has either obtained exemptions from overseas taxation pursuant to the bilateral aviation agreements between the overseas governments and the PRC government, or has sustained tax losses in those overseas jurisdictions. Accordingly, no provision for overseas tax has been made for overseas airlines operation in the current and prior years.

Under the Corporate Income Tax Law of the PRC, the Company and majority of its subsidiaries are subject to PRC income tax at 25% (2014: 25%). Certain subsidiaries of the Company are subject to preferential income tax rate at 15% according to the preferential tax policy in locations, where those subsidiaries are located.

(b) Reconciliation between actual tax expense and calculated tax based on accounting profit at applicable tax rates

	2015	2014	2013

	RMB million	RMB million	RMB million
Profit before taxation	6,118	3,066	3,484
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned (Note)	1,482	738	863
Adjustments for tax effect of:			
Non-deductible expenses	3	11	19
Share of results of associates and joint ventures	(144)	(104)	(108)
Unused tax losses and deductible temporary differences for which no deferred tax assets were recognized	23	63	32
Utilisation of unused tax losses and deductible temporary differences for which no deferred tax assets were recognized in prior years	(18)	(11)	(41)
Over-provision in prior year	(41)	(29)	(31)
Others	(5)	-	-
Tax expense	1,300	668	734

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

18 Income tax (continued)

(b) Reconciliation between actual tax expense and calculated tax based on accounting profit at applicable tax rates (continued)

Note:

The headquarters of the Company and its branches are taxed at rate at 25% (2014 and 2013: 25%). The subsidiaries of the Group are taxed at rates ranging from 15% to 25% (2014 and 2013: 15% to 25%).

19 Earnings per share

The calculation of basic earnings per share for the year ended December 31, 2015 is based on the profit attributable to equity shareholders of the Company of RMB3,736 million (2014: RMB1,777 million; 2013: RMB1,986 million) and the weighted average of 9,817,567,000 shares in issue during the year (2014 and 2013: 9,817,567,000 shares).

The amounts of diluted earnings per share are the same as basic earnings per share as there were no dilutive potential ordinary shares in existence for the year ended December 31, 2015 and 2014.

20 Property, plant and equipment, net

			Aircraft				
	Investment properties	**Buildings**	**Owned**	**Acquired under finance leases**	**Other flight equipment including rotables**	**Machinery, equipment and vehicles**	**Total**

	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Cost:							
At January 1, 2014	681	8,672	88,864	58,318	17,477	5,346	179,358
Additions	-	151	726	8,521	821	608	10,827
Transfer from construction in progress (Note 21)	1	444	382	11,546	957	133	13,463
Transfer to buildings upon cease of lease intention	(99)	99	-	-	-	-	-
Transfer to lease prepayments upon cease of lease intention	(21)	-	-	-	-	-	(21)
Transfer to investment properties upon lease out	84	(84)	-	-	-	-	-
Acquisition of a subsidiary	-	-	539	1,931	261	23	2,754
Disposals	-	(77)	(5,390)	(443)	(946)	(227)	(7,083)
At December 31, 2014	646	9,205	85,121	79,873	18,570	5,883	199,298
At January 1, 2015	646	9,205	85,121	79,873	18,570	5,883	199,298
Additions	-	138	1,564	5,901	660	353	8,616
Transfer from construction in progress (Note 21)	-	849	1,777	8,174	896	103	11,799
Transfer from lease prepayments	6	-	-	-	-	-	6
Transfer to buildings upon cease of lease intention	(8)	8	-	-	-	-	-
Transfer to investment properties upon lease out	88	(88)	-	-	-	-	-
Reclassification on exercise of purchase option	-	-	6,700	(6,700)	-	-	-
Disposals	(2)	(38)	(1,454)	(416)	(1,156)	(230)	(3,296)
At December 31, 2015	730	10,074	93,708	86,832	18,970	6,109	216,423

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

20 Property, plant and equipment, net (continued)

	Investment properties	Buildings	Aircraft Owned	Aircraft Acquired under finance leases	Other flight equipment including rotables	Machinery, equipment and vehicles	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Accumulated depreciation and impairment losses:							
At January 1, 2014	173	2,794	32,812	10,240	10,216	3,346	59,581
Depreciation charge for the year	21	292	6,095	2,768	1,063	550	10,789
Transfer to buildings upon cease of lease intention	(22)	22	-	-	-	-	-
Transfer to lease prepayments upon cease of lease intention	(4)	-	-	-	-	-	(4)
Transfer to investment properties upon lease out	19	(19)	-	-	-	-	-
Disposals	-	(61)	(3,966)	(429)	(701)	(211)	(5,368)
Provision for impairment loss (Note 20(d))	-	-	176	-	39	-	215
Impairment losses written off on disposal (Note 20(c))	-	-	(317)	-	(51)	-	(368)
At December 31, 2014	187	3,028	34,800	12,579	10,566	3,685	64,845
At January 1, 2015	187	3,028	34,800	12,579	10,566	3,685	64,845
Depreciation charge for the year	19	351	5,089	4,684	1,104	519	11,766
Transfer to buildings upon cease of lease intention	(2)	2	-	-	-	-	-
Transfer to investment properties upon lease out	18	(18)	-	-	-	-	-
Transfer from lease prepayments	2	-	-	-	-	-	2
Reclassification on exercise of purchase options	-	-	2,301	(2,301)	-	-	-
Disposals	(1)	(14)	(1,315)	(416)	(1,087)	(191)	(3,024)
	-	-	15	40	35	-	90

Provision for impairment loss (Note 20(d))							
Impairment losses written off on disposal (Note 20(c))	-	-	(108)	-	(18)	-	(126)
At December 31, 2015	223	3,349	40,782	14,586	10,600	4,013	73,553
Net book value							
At December 31, 2015	507	6,725	52,926	72,246	8,370	2,096	142,870
At December 31, 2014	459	6,177	50,321	67,294	8,004	2,198	134,453

(a) As at December 31, 2015, the accumulated impairment provision of aircraft and flight equipment of the Group is RMB1,570 million and RMB125 million respectively (2014: RMB1,623 million and RMB108 million respectively).

(b) As at December 31, 2015, certain aircraft and other flight equipment of the Group with an aggregate carrying value of approximately RMB88,060 million (2014: RMB99,119 million) were mortgaged under certain loans or certain lease agreements (Notes 35 and 36).

(c) During the year ended December 31, 2015, 2 Boeing 757-200 aircraft against which impairment provision had been provided in previous years were disposed of and the impairment provision of RMB108 million for these aircraft was written of on disposal.

(d) As at December 31, 2015, the Group reviewed the recoverable amounts of the aircrafts and related assets and made an additional impairment provision of RMB55 million for 5 EMB 145 aircraft and 2 EMB 190 aircraft against which impairment provision had been provided in previous years. The estimates of recoverable amounts were based on the greater of the assets' fair value less costs to sell and the value in use. The fair value was determined by reference to the recent observable market prices for the aircraft fleet and flight equipment.

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

20 Property, plant and equipment, net (continued)

(e) As at December 31, 2015 and up to the date of approval of these financial statements, the Group is in the process of applying for the property title certificates in respect of the properties located in Guangzhou (including Guangzhou Baiyun International Airport), Xiamen, Heilongjiang, Jilin, Dalian, Guangxi, Hunan, Beijing, Shanghai, Zhuhai, Shenzhen, Shenyang, Xi'an, Xinjiang, Henan, Chengdu, Guizhou, Hainan, Hubei, Sanya and Shantou, in which the Group has interests and for which such certificates have not been granted. As at December 31, 2015, carrying value of such properties of the Group amounted to RMB3,615 million (2014: RMB3,572 million). The Directors of the Company are of the opinion that the use of and the conduct of operating activities at the properties referred to above are not affected by the fact that the Group has not yet obtained the relevant property title certificates.

(f) The Group leased out investment properties and certain flight training facilities under operating leases. The leases typically run for an initial period of one to fourteen years, with an option to renew the leases after that date at which time all terms are renegotiated. None of the leases includes contingent rentals. In this connection, rental income totalling RMB182 million (2014: RMB156 million) was received by the Group during the year in respect of the leases. Directors estimated the fair value of these investment properties approximate the carrying amount.

The properties are reclassified between investment properties and property, plant and equipment, upon the intention of commencement or cease of lease.

The Group's total future minimum lease income under non-cancellable operating leases are as follows:

	2015 RMB million	2014 RMB million
Within 1 year	53	54
After 1 year but within 5 years	77	72
After 5 years	20	11
	150	137

F-47

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

21 Construction in progress

	Advance payment for aircraft and flight equipment	Others	Total
	RMB million	RMB million	RMB million
At January 1, 2014	16,413	1,046	17,459
Additions	13,742	1,342	15,084
Acquisition of a subsidiary	484	2	486
Transferred to property, plant and equipment (Note 20)	(12,885)	(578)	(13,463)
Transfer to lease prepayments and other assets upon completion of development	-	(219)	(219)
At December 31, 2014	17,754	1,593	19,347
At January 1, 2015	17,754	1,593	19,347
Additions	13,671	1,287	14,958
Transferred to property, plant and equipment (Note 20)	(10,787)	(1,012)	(11,799)
Transferred to lease prepayments and other assets upon completion of development	-	(123)	(123)
Disposals	(2,938)	(12)	(2,950)
At December 31, 2015	17,700	1,733	19,433

22 Lease prepayments

Lease prepayments relate to the Group's land use rights. In 2015, the amount of amortisation charged to consolidated income statement was RMB64 million (2014: RMB61 million; 2013: RMB58 million).

A majority of the Group's properties are located in the PRC. The Group was formally granted the rights to use certain parcels of land in Guangzhou, Shenzhen, Zhuhai, Beihai, Changsha, Shantou, Haikou, Zhengzhou, Jilin, Guiyang and other PRC cities by the relevant PRC authorities for periods of 30 to 70 years, which expire between 2020 and 2073.

As at December 31, 2015 and up to the date of approval of these financial statements, the Group is in the process of applying for certain land use right certificates. As at December 31, 2015, carrying value of such land use rights of the Group amounted to RMB1,359 million (2014: RMB1,038 million). The Directors of the Company are of the opinion that the use of and the conduct of operating activities at the land use rights referred to above are not affected by the fact that the Group has not yet obtained the relevant land use right certificates.

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

23 Subsidiaries

All the subsidiaries of the Company are unlisted. The following list contains only the particulars of subsidiaries which principally affect the results, assets or liabilities of the Group.

Name of company	**Place of establishment/ operation**	**Registered capital**	**Proportion of ownership interest held by the Company**		Principal activity
Henan Airlines Company Limited ("China Southern Henan Airlines") (i)&(ii)	PRC	RMB6,000,000,000	60	%	Airline transportation
Xiamen Airlines Company Limited ("Xiaman Airlines") (ii)&(v)	PRC	RMB5,000,000,000	55	%	Airline transportation
Chongqing Airlines Company Limited (ii)	PRC	RMB1,200,000,000	60	%	Airline transportation
Shantou Airlines Company Limited (ii)	PRC	RMB280,000,000	60	%	Airline transportation
Xinjiang Civil Aviation Property Management Limited (ii)	PRC	RMB251,332,832	51.84	%	Property management
Zhuhai Airlines Company Limited (ii)	PRC	RMB250,000,000	60	%	Airline transportation
Guizhou Airlines Company Limited ("Guizhou Airlines") (ii)	PRC	RMB650,000,000	60	%	Airline transportation
Guangzhou Nanland Air Catering Company Limited (iii)	PRC	RMB120,000,000	55	%	Air catering
Guangzhou Baiyun International Logistic Company Limited (ii)	PRC	RMB50,000,000	61	%	Logistics operations
Beijing Southern Airlines Ground Services Company Limited (ii)	PRC	RMB18,000,000	100	%	Airport ground services
China Southern Airlines Group Air Catering Company Limited (ii)	PRC	RMB10,200,000	100	%	Air catering
Nan Lung International Freight Limited	Hong Kong	HKD3,270,000	51	%	Freight services

(i) Pursuant to an agreement entered into in 2014 by the equity holders of China Southern Henan Airlines, a subsidiary of the Company, the equity holders of China Southern Henan Airlines agreed to further inject capital of RMB 2.8 billion into the company based on their equity percentage. The Company's capital injection of RMB1.68 billion comprises of RMB1.33 billion in cash and RMB0.35 billion in the form of property, plant and equipment and lease prepayments. The non-controlling shareholder's capital injection of RMB1.12 billion is in the form of cash contribution. As at 31 December 2015, the above capital injection was fully completed.

(ii) These subsidiaries are PRC limited liability companies.

(iii) This subsidiary is a Sino-foreign equity joint venture company established in the PRC.

(iv) Certain subsidiaries of the Group are PRC joint ventures which have limited terms pursuant to the PRC law.

(v) The Company held 51% equity interests in Xiamen Airlines since its incorporation. In December 2015, the Company acquired additional 4% equity interests in Xiamen Airlines from its non-controlling shareholders at a consideration of RMB 626 million.

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

23 Subsidiaries (continued)

(a) Material non-controlling interests

As at 31 December 2015, the balance of total non-controlling interests is RMB10,579 million, of which RMB6,706 million is for Xiamen Airlines. The rest of non-controlling interests are not material.

Set out below are the summarised financial information for Xiamen Airlines that has non-controlling interests that are material to the Group.

Summarised balance sheet

	Xiamen Airlines	
	2015	2014
	RMB million	RMB million
Current		
Assets	2,435	6,397
Liabilities	(12,148)	(8,527)
Total current net liabilities	(9,713)	(2,130)
Non-current		
Assets	35,628	32,883
Liabilities	(11,336)	(17,579)
Total non-current net assets	24,292	15,304
Net assets	14,579	13,174

Summarised statement of comprehensive income

	Xiamen Airlines		
	2015	2014	2013
	RMB million	RMB million	RMB million
Revenue	19,915	17,831	16,598
Profit before income tax	1,576	993	1,750
Income tax expense	(406)	(238)	(438)
Post-tax profit from continuing operations	1,170	755	1,312
Other comprehensive (loss)/income	(5)	32	(8)
Total comprehensive income	1,165	787	1,304
Dividends paid to non-controlling interests	-	3	74

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

23 Subsidiaries (continued)

(a) Material non-controlling interests (continued)

Summarised cash flows

	Xiamen Airlines		
	2015	2014	2013
	RMB million	RMB million	RMB million
Cash generated from operating activities			
Cash generated from operations	5,035	2,660	3,152
Interest received	162	140	86
Interest paid	(312)	(377)	(209)
Income tax paid	(473)	(180)	(477)
Net cash generated from operating activities	4,412	2,243	2,552
Net cash used in investing activities	(3,521)	(4,866)	(4,171)
Net cash (used in)/generated from financing activities	(3,296)	1,850	1,833
Net (decrease)/increase in cash and cash equivalents	(2,405)	(773)	214
Cash and cash equivalents at beginning of year	3,036	3,809	3,595
Exchange gain on cash and cash equivalents	13	-	-
Cash and cash equivalents at end of year	644	3,036	3,809

The information above is the amount before inter-company eliminations.

F-51

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

24 Interest in associates

	2015 RMB million	**2014 RMB million**
Share of net assets	1,995	1,583

All the Group's associates are unlisted without quoted market price. The particulars of the Group's principal associates as of December 31, 2015 are as follows:

	Place of establishment / operation	Group's effective interest	Proportion of ownership interest held by The Company	Proportion of ownership interest held by Subsidiaries	Proportion of voting rights held by the Group	Principal activity
China Southern Group Finance Co.,Ltd ("SA Finance")	PRC	33.98 %	21.09 %	12.89 %	33.98 %	Provision of Airlines financial services
Sichuan Airlines Co.,Ltd ("Sichuan Airlines")	PRC	39 %	39 %	-	39 %	Airline transportation
Southern Airlines Culture and Meida Co., Ltd ("SACM")	PRC	40 %	40 %	-	40 %	Advertising services

There is no associate that is individually material to the Group.

The Group has interests in a number of individually immaterial associates that are accounted for using the equity method. The aggregate financial information of these associates is summarized as following:

	2015 RMB million	2014 RMB million	2013 RMB million
Aggregate carrying amount of individually immaterial associates	1,995	1,583	1,305
Aggregate amounts of the Group's share of:			
Profit from continuing activities	460	261	294
Other comprehensive (loss)/income	(7)	21	(3)
Total comprehensive income	453	282	291

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

25 Interest in joint ventures

	2015 RMB million	**2014 RMB million**
Share of net assets	1,440	1,338

All the Group's joint ventures are unlisted without quoted market price. The particulars of the Group's principal joint ventures as of December 31, 2015 are as follows:

	Place of establishment/ operation	Group's effective interest	Proportion of ownership interest held by		Proportion of voting rights held by the Group	Principal activity
			The Company	Subsidiaries		
Guangzhou Aircraft Maintenance Engineering Co.,Ltd ("GAMECO")	PRC	50 %	50 %	-	50 %	Aircraft repair and maintenance services
Zhuhai Xiang Yi Aviation Technology Company Limited ("Zhuhai Xiang Yi")	PRC	51 %	51 %	-	50 %	Flight simulation services
Guangzhou China Southern Zhongmian Dutyfree Store Co., Limited	PRC	50 %	50 %	-	50 %	Sales of duty free goods in flight
China Southern West Australian Flying College Pty Ltd ("Flying College")	Australia	48.12 %	48.12 %	-	50 %	Pilot training services

There is no joint venture that is individually material to the Group.

The Group has interest in a number of individually immaterial joint ventures that are accounted for using the equity method. The aggregate financial information of these joint ventures is summarized as following:

	2015 RMB million	**2014 RMB million**	**2013 RMB million**
Aggregate carrying amount of individually immaterial joint venture	1,440	1,338	1,197
Aggregate amounts of the Group's share of:			
Profit from continuing activities	108	140	96
Total comprehensive income	108	140	96

F-53

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

26 Other investments in equity securities

	2015 RMB million	2014 RMB million
Unlisted equity securities, at cost	136	136

Dividend income from unlisted equity securities of the Group amounted to RMB10 million during the year ended December 31, 2015 (2014: RMB10 million; 2013: RMB11 million).

27 Available-for-sale financial assets

	2015 RMB million	2014 RMB million
Available-for-sale financial assets		
- Listed in the PRC	104	104
Quoted market value of listed securities	104	104

Dividend income from listed securities of the Group amounted to RMB3 million during the year ended December 31, 2015 (2014: RMB3 million, 2013: RMB3 million).

28 Derivative financial instruments

	2015 RMB million	2014 RMB million

Interest rate swaps	13	-

The Group uses interest rate swap to mitigate the risk of changes in market interest rates. At December 31, 2015, the fixed interest rates vary from 1.64% to 1.72%, and the main floating rates are LIBOR. As at December 31, 2015, the notional principal of the outstanding interest rate swap contracts at December 31, 2015 amounted to USD581 million.

29 Deferred tax assets/(liabilities)

(a) The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2015 RMB million	**2014 RMB million**
Deferred tax assets		
– Deferred tax asset to be utilized after 12 months	525	390
– Deferred tax asset to be utilized within 12 months	862	576
	1,387	966
Deferred tax liabilities		
– Deferred tax liability to be realized after 12 months	(938)	(873)
Net deferred tax assets	449	93

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

29 Deferred tax assets/(liabilities) (continued)

(b) Movements of net deferred tax assets are as follows:

	At the beginning of the year	(Charged)/ credited to income statement	Charged to other comprehensive income	At the end of the year
	RMB million	RMB million	RMB million	RMB million
For the year ended December 31, 2015				
Deferred tax assets:				
Accrued expenses	561	190	-	751
Provision for major overhauls	296	176	-	472
Deferred revenue	76	6	-	82
Provision for impairment losses	235	(34)	-	201
Others	82	(20)	-	62
	1,250	318	-	1,568
Deferred tax liabilities:				
Provision for major overhauls	(363)	(21)	-	(384)
Depreciation allowances under tax in excess of the related depreciation under accounting	(689)	2	-	(687)
Change in fair value of derivative financial instruments	-	-	(3)	(3)
Change in fair value of available-for-sale equity securities	(20)	-	-	(20)
Others	(85)	60	-	(25)
	(1,157)	41	(3)	(1,119)
Net deferred tax assets	93	359	(3)	449

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

29 Deferred tax assets/(liabilities) (continued)

(b) Movements of net deferred tax assets are as follows: (continued)

	At the beginning of the year	(Charged)/ credited to income statement	Charged to other comprehensive income	At the end of the year
	RMB million	RMB million	RMB million	RMB million
For the year ended December 31, 2014				
Deferred tax assets:				
Accrued expenses	847	(286)	-	561
Provision for major overhauls	173	123	-	296
Deferred revenue	75	1	-	76
Provision for impairment losses	393	(158)	-	235
Others	69	13	-	82
	1,557	(307)	-	1,250
Deferred tax liabilities:				
Provision for major overhauls	(363)	-	-	(363)
Depreciation allowances under tax in excess of the related depreciation under accounting	(707)	18	-	(689)
Change in fair value of available-for-sale equity securities	(9)	-	(11)	(20)
Others	(107)	22	-	(85)
	(1,186)	40	(11)	(1,157)
Net deferred tax assets	371	(267)	(11)	93

(c) Deferred tax assets not recognized

At December 31, 2015, the Group's deductible temporary differences amounting to RMB371 million (2014: RMB272 million) have not been recognized as deferred tax assets as it was determined by management that it is not probable that future taxable profits will be available for these deductible temporary differences to reverse in the foreseeable future.

Tax losses in the PRC are available for carrying forward to set off future assessable income for a maximum period of five years. At December 31, 2015, the Group's unused tax losses of RMB843 million (2014: RMB970 million) have not been recognized as deferred tax assets, as it was determined by management that it is not probable that future taxable profits against which the losses can be utilized will be available before they expire. The expiry dates of unrecognized unused tax losses are analyzed as follows:

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

29 Deferred tax assets/(liabilities) (continued)

(c) Deferred tax assets not recognized (continued)

	2015 RMB million	2014 RMB million
Expiring in:		
2015	-	95
2016	230	230
2017	200	201
2018	214	250
2019	194	194
2020	5	-
	843	970

30 Other assets

	Prepayment for exclusive use right of an airport terminal RMB million	Software RMB million	Leasehold improvement RMB million	Others RMB million	Total RMB million
At January 1, 2014	260	174	91	64	589
Additions	-	18	37	8	63
Acquisition of a subsidiary	-	5	-	290	295
Transferred from construction in progress	-	63	45	-	108
Disposal	-	(1)	-	-	(1)
Amortization for the year	(10)	(72)	(36)	(16)	(134)
At December 31, 2014	250	187	137	346	920

At January 1, 2015	250	187	137	346	920
Additions	-	29	3	7	39
Transferred from construction in progress	-	106	17	-	123
Disposal	-	-	-	(31)	(31)
Amortization for the year	(10)	(75)	(39)	(39)	(163)
At December 31, 2015	240	247	118	283	888

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

31 Inventories

	2015 RMB million	2014 RMB million
Consumable spare parts and maintenance materials	1,519	1,587
Other supplies	197	178
	1,716	1,765
Less: impairment	(110)	(104)
	1,606	1,661

Impairment of inventory is shown as below:

	2015 RMB million	2014 RMB million
At January 1	104	305
Provision for impairment of inventories	13	-
Provision for impairment written back	-	(22)
Provision written off in relation to disposal of inventories	(7)	(179)
At December 31	110	104

32 Trade receivables

	2015 RMB million	2014 RMB million
Trade receivables	2,613	2,716

Less: bad-debt provision	(33)	(33)
	2,580	2,683

(a) Ageing analysis

Credit terms granted by the Group to sales agents and other customers generally range from one to three months. Ageing analysis of trade receivables is set out below:

	2015 RMB million	**2014 RMB million**
Within 1 month	2,157	2,133
More than 1 month but less than 3 months	383	535
More than 3 months but less than 12 months	30	25
More than 1 year	43	23
	2,613	2,716
Less: bad-debt provision	(33)	(33)
	2,580	2,683

All of the trade receivables are expected to be recovered within one year.

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

32 Trade receivables (continued)

(b) Impairment of trade receivables

(i) Impairment loss in respect of trade receivables is recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (Note 2(k)).

The movements in the allowance for doubtful debts during the year are as follows:

	2015 RMB million	**2014 RMB million**
At January 1	33	27
Impairment loss recognized	4	12
Impairment loss written back	-	(2)
Uncollectible amounts written off	(4)	(4)
At December 31	33	33

(ii) As of December 31, 2015, trade receivables of RMB47 million (2014: RMB5 million) were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered.

The ageing analysis of these trade receivables is as follows:

2015 RMB million	**2014 RMB million**

3 to 12 months	19	5
Over 12 months	28	-
	47	5

(iii) As of December 31, 2015, trade receivables of RMB48 million (2014: RMB43 million) were impaired. The amount of the provision was RMB33 million as of December 31, 2015 (2014: RMB33 million). The individually impaired receivables mainly relate to customers, which are in unexpectedly difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered. The ageing of these receivables is as follows:

	2015 RMB million	**2014 RMB million**
3 to 12 months	30	20
Over 12 months	18	23
	48	43

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

32 Trade receivables (continued)

(c) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	2015 RMB million	**2014 RMB million**
Neither past due nor impaired	2,518	2,668

Trade receivables that were neither past due nor impaired relate to customers for whom there was no recent history of default.

(d) Trade receivables by currencies

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	2015 RMB million	**2014 RMB million**
Renminbi	2,016	2,231
US dollar	218	118
Euro	129	134
Australian dollar	49	36

Taiwan dollar	33	30
UK pound	28	38
Other currencies	140	129
	2,613	2,716

As at December 31, 2015, the fair value of trade receivables approximate its carrying amount.

33 Other receivables

	2015 RMB million	**2014 RMB million**
VAT recoverable	1,596	1,562
Rebate receivables on aircraft acquisitions	901	1,018
Term deposit (Note)	761	2,454
Deposits for aircraft purchase	-	239
Interest receivables	66	126
Other rental deposits	119	73
Others	583	695
Subtotal	4,026	6,167
Less: impairment	(2)	(3)
	4,024	6,164
Less: non-current portion of term deposit recognized as non-current assets (Note)	(304)	(300)
Current portion of other receivables	3,720	5,864

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

33 Other receivables (continued)

Note:

As at December 31, 2015, the balance represents the term deposit amounting to RMB761 million at bank with maturity over 3 months (2014: RMB2,454 million). Term deposit with maturity over 1 years amounting to RMB304 million is classified as non-current asset(2014: RMB300 million). The weighted average annualized interest rate of term deposits as of December 31, 2015 is 3.26% (2014: 3.06%).

As at December 31, 2015, the fair value of other receivables approximates its carrying amount.

34 Cash and cash equivalents

(a) Cash and cash equivalents comprise:

	2015 RMB million	**2014 RMB million**
Deposits in banks and other financial institution	98	4,445
Cash at bank and in hand	4,462	10,969
Cash and cash equivalents in the statement of balance sheet	4,560	15,414

As at December 31, 2015, the Group's deposits with SA Finance, this is a qualified financial institution amounted to RMB2,934 million (2014: RMB4,264 million) (Note 48(d)(ii)).

As at December 31, 2015, the fair value of cash and cash equivalents approximate its carrying amount.

The carrying amounts of the Group's cash and cash equivalents are denominated in the following currencies:

	2015 RMB million	**2014 RMB million**
Renminbi	3,756	13,649
US dollar	587	1,296
Euro	69	136
Japanese Yen	15	5
Hong Kong Dollars	12	60
Others	121	268
	4,560	15,414

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

34 Cash and cash equivalents (continued)

(b) Reconciliation of profit before income tax to cash generated from operating activities:

	Note	2015 RMB million	2014 RMB million	2013 RMB million
Profit before income tax		6,118	3,066	3,484
Depreciation charges	13	11,766	10,789	9,338
Other amortisation	13	227	195	155
Amortisation of deferred benefits and gains	13	(148)	(156)	(146)
Impairment losses on property, plant, equipment	21	90	215	536
Share of profits of associates	24	(460)	(261)	(294)
Share of profits of joint ventures	25	(108)	(140)	(96)
(Gain)/losses on sale of property, plant and equipment, net and lease prepayments	15	(312)	(267)	78
Other non-operating income	17	-	(26)	(25)
Interest income		(253)	(376)	(307)
Interest expense	16	2,188	2,193	1,651
Dividend income from other investments in equity securities and available-for-sale financial assets	26 & 27	(13)	(13)	(14)
Exchange losses/(gain), net		5,516	292	(2,903)
Decrease in inventories		55	15	61
Decrease/(increase) in trade receivables		103	(391)	(321)
Decrease/(increase) in other receivables		418	108	(959)
Increase in prepaid expenses and other current assets		(184)	(203)	(205)
(Decrease)/increase in net amounts due to related companies		(153)	(154)	118
Increase/(decrease) in trade payables		843	45	(418)
Increase in sales in advance of carriage		1,030	261	961
Increase in accrued expenses		695	308	648
(Decrease)/increase in other liabilities		(277)	369	200
(Decrease)/increase in deferred revenue		(75)	(410)	463
Increase/(decrease) in provision for major overhauls		630	244	(421)
Decrease in provision for early retirement benefits		(20)	(28)	(31)
Increase/(decrease) in deferred benefits and gains		181	151	(7)
Cash generated from operating activities		27,857	15,826	11,546

F-62

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

35 Borrowings

(a) As at December 31, 2015, borrowings are analyzed as follows:

	2015 RMB million	**2014 RMB million**
Non-current		
Long-term bank borrowings		
– secured(Note (i)(iii))	7,819	19,846
– unsecured	5,065	22,220
	12,884	42,066
Corporate Bond		
–unsecured(Note (iv))	3,000	-
	15,884	42,066
Current		
Current portion of long-term bank borrowings		
– secured(Note (i)(ii)(iii))	1,696	3,834
– unsecured	823	6,902
Short-term bank borrowings		
– secured(Note (ii))	-	232
– unsecured	19,483	7,011
Ultra short-term financing bills		
– unsecured(Note (v))	8,000	3,000
	30,002	20,979
Total borrowings	45,886	63,045
The borrowings are repayable:		
Within one year	30,002	20,979
In the second year	6,774	17,226
In the third to fifth year inclusive	8,381	19,991
After the fifth year	729	4,849
Total borrowings	45,886	63,045

Notes:

(i) As at December 31, 2015, borrowings of the Group totalling RMB9,100 million (2014: RMB22,946 million) were secured by mortgages over certain of the Group's aircraft and other flight equipment with aggregate carrying amounts of RMB15,814 million (2014: RMB31,825 million).

(ii) As at December 31, 2015, none of the borrowings of the Group (2014: RMB532 million) were secured by pledged bank deposits (2014: RMB324 million).

(iii) As at December 31, 2015, borrowings of the Group amounting to RMB415 million (2014: RMB434 million) was secured by land use rights of RMB66 million (2014: RMB68 million) and investment property of RMB50 million(2014: RMB51 million).

(iv) The Group issued corporate bonds with aggregate nominal value of RMB 3,000 million on 20 November 2015 at a bond rate of 3.63%. The corporate bonds mature in five years. The Company will be entitled at its option to adjust its bond rate and the investors will be entitled to request the Company to redeem all or a portion of the bonds after three years of the issue date.

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

35 Borrowings (continued)

(a) As at December 31, 2015, borrowings are analyzed as follows: (continued)

The Group issued the first tranche of Ultra-short-term Financing Bills for the year 2015 with an amount of RMB 3,000 million on 19 November 2015 at a bond rate of 3.20%, with a maturity period of 270 days.

(v) The Group issued the second tranche of Ultra-short-term Financing Bills for the year 2015 with an amount of RMB 2,000 million on 24 November 2015 at a bond rate of 3.04%, with a maturity period of 180 days.

The Group issued the third tranche of Ultra-short-term Financing Bills for the year 2015 with an amount of RMB 3,000 million on 30 November 2015 at a bond rate of 3.16%, with a maturity period of 268 days.

(b) As at December 31, 2015, the Group's weighted average interest rates on short-term borrowings were 3.66% per annum (2014: 3.30% per annum).

(c) Details of borrowings with original maturity over one year are as follows:

	2015 RMB million	**2014 RMB million**
Renminbi denominated loans		
Fixed interest rate at 1.20% per annum as at December 31, 2015, with maturities through 2027	20	226
Corporate Bond - Fixed bond rate at 3.63%	3,000	-
Floating interest rates 90%, 95%, 100% of benchmark interest rate (stipulated by PBOC) as at December 31, 2015, with maturities through 2022	783	570
United States Dollars denominated loans		

Fixed interest rates ranging from 1.89% to 3.30% per annum as at December 31, 2014	-	927
Floating interest rates ranging from one-month LIBOR + 1.20% to one-month LIBOR + 2.20% per annum as at December 31, 2015, with maturities through 2021	1,097	1,832
Floating interest rates ranging from three-month LIBOR + 0.59% to three-month LIBOR + 2.80% per annum as at December 31, 2015, with maturities through 2024	10,327	38,546
Floating interest rates at six-month LIBOR + 0.45% to six-month LIBOR + 2.55% per annum as at December 31, 2015, with maturities through 2022	3,176	10,701
	18,403	52,802
Less: loans due within one year classified as current liabilities	(2,519)	(10,736)
	15,884	42,066

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

35 Borrowings (continued)

(d) The remaining contractual maturities at the end of the financial year of the Group's borrowings, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, or if floating, based on rates current at the end of the financial year) and the earliest date the Group can be required to pay, are as follows:

	2015 RMB million	**2014 RMB million**
Contractual undiscounted cash flows		
Within 1 year	30,789	22,293
After 1 year but within 2 years	7,110	18,098
After 2 years but within 5 years	8,700	20,758
After 5 years	744	5,040
	47,343	66,189

(e) The carrying amounts of the borrowings are denominated in the following currencies:

	2015 RMB million	**2014 RMB million**
Renminbi	30,145	4,444
US Dollars	15,110	58,601
Euro	631	-
	45,886	63,045

The Group has significant borrowings balances as well as obligations under finance leases (Note 36) which are denominated in US dollars as at December 31, 2015. The net exchange loss of RMB5,953 million (2014: net exchange loss of RMB292 million; 2013: net exchange gain RMB2,903 million) recorded by the Group was mainly attributable to the exchange loss/gain arising from translation of borrowings balances and finance lease obligations denominated in US dollars.

(f) As at December 31, 2015, loans to the Group from SA finance amounted to RMB105 million (2014: RMB105 million) (Note 48(d)(i)).

(g) As at December 31, 2015, the fair value of borrowings approximate their carrying amount. The fair value is within level 2 of the fair value hierarchy.

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

36 Obligations under finance leases

The Group has commitments under finance lease agreements in respect of aircraft and related equipment. The majority of these leases have terms of 10 to 12 years expiring during the years 2016 to 2027. The Group has made careful assessment on the classification of leased aircraft pursuant to IAS 17 and believes all leased aircraft classified as finance lease meet one or more of the criteria as set out in IAS 17 that would lead to a lease being classified as a finance lease (i.e. the lease transfers ownership of the asset to the lessee by the end of the lease term; the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised; at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset).

As at December 31, 2015, future payments under these finance leases are as follows:

	2015			**2014**		
	Present value of the minimum lease payments	**Total minimum lease payments**	**Future interest**	**Present value of the minimum lease payments**	**Total minimum lease payments**	**Interest**
	RMB million	**RMB million**	**RMB million**	**RMB million**	**RMB million**	**RMB million**
Within 1 year	6,416	7,864	1,448	5,992	7,312	1,320
After 1 year but within 2 years	7,369	8,613	1,244	5,487	6,643	1,156
After 2 years but within 5 years	16,818	19,515	2,697	15,781	18,277	2,496
After 5 years	25,221	26,731	1,510	22,651	24,345	1,694
	55,824	62,723	6,899	49,911	56,577	6,666
Less: balance due within one year classified as current liabilities	(6,416)			(5,992)		
	49,408			43,919		

F-66

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

36 Obligations under finance leases (continued)

Details of obligations under finance leases are as follows:

	2015 RMB million	2014 RMB million
United States Dollars denominated obligations		
Fixed interest rates ranging from 2.09% to 6.01% per annum as at December 31, 2015	9,570	4,176
Floating interest rates ranging from three-month LIBOR + 0.18% to three-month LIBOR + 3.30% per annum as at December 31, 2015	21,168	25,819
Floating interest rates ranging from six-month LIBOR + 0.03% to six-month LIBOR + 3.30% per annum as at December 31, 2015	16,744	16,797
Singapore Dollars denominated obligations		
Floating interest rate at six-month SIBOR + 1.44% per annum as at December 31, 2015	368	418
Japanese Yen denominated obligations		
Floating interest rate at three-month TIBOR + 0.75% to three-month LIBOR + 1.90% per annum as at December 31, 2015	1,524	1,610
Floating interest rate at six-month TIBOR + 3.00% per annum as at December 31, 2015	325	331
Renminbi denominated obligations		
Floating interest rate at 130 % of five-year RMB loan benchmark interest rate announced by the PBOC per annum as at December 31, 2015	369	438
Floating interest rate at 100 % of five-year RMB loan benchmark interest rate announced by the PBOC per annum as at December 31, 2015	242	322
Floating interest rate at 95 % of five-year RMB loan benchmark interest rate announced by the PBOC per annum as at December 31, 2015	435	-

Floating interest rate at three-month CHN HIBOR + 0.38%	551	-
Euro denominated obligations		
Floating interest rate ranging from three-month EURIBOR + 0.32% to three-month EURIBOR + 2.70% per annum as at December 31, 2015	2,951	-
Floating interest rate ranging from six-month EURIBOR + 1.45% to six-month EURIBOR + 1.80% per annum as at December 31, 2015	1,577	-
	55,824	49,911

F-67

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

36 Obligations under finance leases (continued)

Charges over the assets concerned and relevant insurance policies are provided to the lessors as collateral and security. As at December 31, 2015, certain of the Group's aircraft with carrying amounts of RMB72,246 million (2014: RMB67,294 million) secured finance lease obligations totaling RMB55,824 million (2014: RMB49,911 million).

As at December 31, 2015, the fair value of obligation under finance leases approximate their carrying amount. The fair value is within level 2 of the fair value hierarchy.

37 Trade payables

	2015 RMB million	**2014 RMB million**
Within 1 month	735	755
More than 1 month but less than 3 months	504	633
More than 3 months but less than 6 months	843	107
More than 6 months but less than 1 year	314	76
More than 1 year	104	86
	2,500	1,657

As at December 31, 2015, the fair value of trade payable approximate their carrying amounts.

The carrying amounts of the Group's trade payable are denominated in the following currencies:

	2015	**2014**

	RMB million	RMB million
Renminbi	2,418	1,558
US Dollars	69	86
Others	13	13
	2,500	1,657

38 Deferred revenue

Deferred revenue represents the unredeemed credits under the frequent flyer award programme.

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

39 Amounts due from/to related companies

(a) Amounts due from related companies

	Note	**2015 RMB million**	**2014 RMB million**
CSAHC and its affiliates		21	78
Associates		226	284
Joint ventures		86	124
	48(c)	333	486

The amounts due from related companies are unsecured, interest free and have no fixed terms of repayment. They are expected to be recovered within one year.

(b) Amounts due to related companies

	Note	**2015 RMB million**	**2014 RMB million**
CSAHC and its affiliates		59	144
A joint venture of CSAHC		18	112
An associate		13	13
Joint ventures		60	119
Other related company		2	70
	48(c)	152	458

The amounts due to related companies are unsecured, interest free and have no fixed terms of repayment. They are expected to be settled within one year.

40 Accrued expenses

	2015 RMB million	2014 RMB million
Repairs and maintenance	5,179	3,518
Jet fuel costs	1,179	1,814
Salaries and welfare	2,434	2,385
Landing and navigation fees	2,003	2,240
Computer reservation services	340	338
Provision for major overhauls (Note 42)	470	112
Interest expense	385	471
Air catering expenses	307	311
Provision for early retirement benefits (Note 43)	12	20
Others	772	913
	13,081	12,122

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

41 Other liabilities

	2015 RMB million	2014 RMB million
Civil Aviation Development Fund and airport tax payable	1,335	1,379
Payable for purchase of property, plant and equipment	767	703
Sales agent deposits	384	418
Other taxes payable	395	397
Deposit received for chartered flights	103	188
Payable due to the former shareholder of a subsidiary (Note (a))	658	758
Others	1,516	1,478
	5,158	5,321

Note:

(a) Balance represented a loan of a subsidiary acquired by the Group in 2014 due to its former shareholder, which was interest-free previously and has started to bear interest with an annual rate of 6% since March 1, 2015. As at December 31, 2015, the fair value of the balance approximate their carrying amount.

42 Provision for major overhauls

Details of provision for major overhauls in respect of aircraft held under operating leases are as follows:

	2015 RMB million	2014 RMB million
At January 1	1,735	1,491

Additional provision	823	682
Utilisation	(193)	(438)
At December 31	2,365	1,735
Less: current portion (Note 40)	(470)	(112)
	1,895	1,623

43 Provision for early retirement benefits

Details of provision for early retirement benefits in respect of obligations to early retired employees are as follows:

	2015 RMB million	**2014 RMB million**
At January 1	45	73
Provision for the year (Note 14)	3	7
Financial cost (Note 16)	2	4
Payments made during the year	(25)	(39)
At December 31	25	45
Less: current portion (Note 40)	(12)	(20)
	13	25

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

43 Provision for early retirement benefits (continued)

The Group has implemented an early retirement plan for certain employees. The benefits of the early retirement plan are calculated based on factors including the remaining number of years of service from the date of early retirement to the normal retirement date and the salary amount on the date of early retirement of the employees. The present value of the future cash flows expected to be required to settle the obligations is recognized as provision for early retirement benefits.

44 Deferred benefits and gains

	2015 RMB million	**2014 RMB million**
Leases rebates (Note (i))	145	184
Maintenance rebates (Note (ii))	455	367
Gains relating to sale and leaseback (Note (iii))	77	103
Government grants	190	177
Others	19	22
	886	853

Notes:

(i) The Company was granted rebates by the lessors under certain lease arrangements when it fulfilled certain requirements. The rebates are deferred and amortised using the straight line method over the remaining lease terms.

(ii) The Company was granted rebates by the engine suppliers under certain arrangements when it fulfilled certain requirements. The rebates are deferred and amortised using the straight line method over the beneficial period.

(iii) The Company entered into sale and leaseback transactions with certain third parties under operating leases. The gains are deferred and amortised over the lease terms of the aircraft.

45 Share capital

	2015 RMB million	2014 RMB million
Registered, issued and paid up capital:		
4,039,228,665 domestic state-owned shares of RMB1.00 each (2014: 4,208,586,278 shares of RMB1.00 each)	4,039	4,209
2,983,421,335 A shares of RMB1.00 each (2014: 2,814,063,722 shares of RMB1.00 each)	2,984	2,814
2,794,917,000 H shares of RMB1.00 each (2014: 2,794,917,000 shares of RMB1.00 each)	2,795	2,795
	9,818	9,818

All the domestic state-owned, H and A shares rank pari passu in all material respects.

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

46 Reserves

	2015 RMB million	2014 RMB million
Share premium		
At January 1 and December 31	14,131	14,131
Fair value reserve		
At January 1	44	22
Change in fair value of available-for-sale equity securities	1	22
Change in fair value of derivative financial instruments	10	-
At December 31	55	44
Statutory and discretionary surplus reserve		
At January 1	1,306	1,169
Appropriations to reserves (Note (a))	246	137
At December 31	1,552	1,306
Other reserve		
At January 1	180	167
Share of an associate’s reserves movement	(5)	14
Acquisition of non-controlling interests in a subsidiary	(52)	(1)
At December 31	123	180
Retained profits		
At January 1	10,269	9,022
Profit for the year	3,736	1,777
Appropriations to reserves (Note (a))	(246)	(137)
Dividends approved in respect of the previous year	(393)	(393)
At December 31	13,366	10,269
Total	29,227	25,930

(a) Appropriations to reserves

According to the PRC Company Law and the Articles of Association of the Company and certain of its subsidiaries, the Company and the relevant subsidiaries are required to transfer 10% of their annual net profits after taxation, as determined under the PRC accounting rules and regulations, to a statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of dividend to shareholders and when there are retained profits at the end of the financial year.

Statutory surplus reserve can be used to offset prior years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholding or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

46 Reserves (continued)

(b) Dividends

Dividends payable to equity shareholders of the Company attributable to the year

	2015 RMB million	**2014 RMB million**
Final dividend proposed after the end of the reporting year of RMB0.8 per 10 ordinary shares (2014: RMB0.4 per 10 ordinary shares) (inclusive of applicable tax)	785	393

A dividend in respect of the year ended December 31, 2015 of RMB0.8 per 10 shares (inclusive of applicable tax) (2014: RMB0.4 per 10 shares (inclusive of applicable tax)), amounting to a total dividend of RMB785 million (2014: RMB393 million), was proposed by the directors on March 30, 2016. The final dividend proposed after the end of the financial year has not been recognized as a liability at the end of the financial year.

47 Commitments

(a) Capital commitments

Capital commitments outstanding at December 31, 2015 not provided for in the financial statements were as follows:

	2015 RMB million	**2014 RMB million**
Commitments in respect of aircraft and flight equipment		
– authorised and contracted for	83,427	59,467

Investment commitments		
– authorised and contracted for		
– capital contributions for acquisition of interests in associates	34	70
– share of capital commitments of a joint venture	56	52
	90	122
– authorised but not contracted for		
– share of capital commitments of a joint venture	41	-
	131	122
Commitments for other property, plant and equipment		
– authorised and contracted for	2,550	1,512
– authorised but not contracted for	4,183	3,610
	6,733	5,122
	90,291	64,711

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

47 Commitments (continued)

(a) Capital commitments (continued)

As at December 31, 2015, the approximate total future payments, including estimated amounts for price escalation through anticipated delivery dates for aircraft and flight equipment are as follows:

	2015 RMB million	**2014 RMB million**
2015	-	18,146
2016	19,074	11,628
2017	22,359	10,081
2018	18,898	7,552
2019 and afterwards	23,096	12,060
	83,427	59,467

(b) Operating lease commitments

As at December 31, 2015, the total future minimum lease payments under non-cancellable operating leases in respect of properties, aircraft and flight equipment are as follows:

	2015 RMB million	**2014 RMB million**
Payments due		
Within 1 year	6,560	5,072
After 1 year but within 5 years	18,582	15,496
After 5 years	10,967	8,230

36,109	28,798

F-74

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

48 Material related party transactions

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 54, is as follows:

	2015 RMB thousand	**2014 RMB thousand**	**2013 RMB thousand**
Salaries, wages and welfare	8,907	13,013	12,412
Retirement scheme contributions	1,868	2,359	2,074
	10,775	15,372	14,486

	2015 RMB thousand	**2014 RMB thousand**	**2013 RMB thousand**
Directors and supervisors (Note 54(a))	2,471	3,241	3,108
Senior management	8,304	12,131	11,378
	10,775	15,372	14,486

Total remuneration is included in "staff costs" (Note 14).

(b) Transactions with CSAHC and its affiliates (the "CSAHC Group"), associates, joint ventures and other related company of the Group

The Group provided or received various operational services to or by the CSAHC Group, associates, joint ventures and other related company of the Group during the normal course of its business.

F-75

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

48 Material related party transactions (continued)

(b) Transactions with CSAHC and its affiliates (the "CSAHC Group"), associates, joint ventures and other related company of the Group (continued)

Details of the significant transactions carried out by the Group are as follows:

	Note	**2015 RMB million**	**2014 RMB million**	**2013 RMB million**
Income received from the CSAHC Group				
Charter flight and pallet income	(i)	19	32	107
Air catering supplies income	(ii)	1	1	-
Cargo handling income	(i)	1	-	1
Aircraft material sales	(iii)	1	-	-
Expenses paid to the CSAHC Group				
Repairing charges	(iii)	1,324	780	796
Lease charges for land and buildings	(iv)	193	173	169
Handling charges	(v)	114	119	121
Property management fee	(vi)	73	61	63
Air catering supplies expenses	(ii)	100	89	84
Cargo handling charges	(i)	109	46	33
Commission expenses	(i)	98	8	19
Printing expenses	(vii)	4	4	-
Construction supervision expenses	(xx)	2	-	-
Expenses paid to joint ventures and associates				
Repairing charges	(viii)	1,714	1,335	1,783
Flight simulation service charges	(ix)	324	316	270
Training expenses	(x)	112	169	120
Ground service expenses	(xi)	119	111	14
Air catering supplies	(xii)	108	102	-
Advertising expenses	(xiii)	67	75	77

Commission expense	(xiv)	1	29	-
Maintenance material purchase expenses	(viii)	29	24	-
Intercom rental expenses	(xxi)	2	-	-
Rental expense	(xxii)	1	-	-
Income received from joint ventures and associates				
Entrustment income for advertising media business	(xiii)	21	34	32
Rental income	(ix)	37	33	31
Commission income	(xv)	17	40	12
Repairing income	(xiv)	12	17	14
Air catering supplies	(xiv)	23	10	18
Ground service income	(xvi)	8	8	7
Air ticket Income	(xv)	1	2	-
Maintenance material sales revenue	(xvii)	1	2	-
Air catering supplies income	(xii)	1	1	-
Income received from other related company				
Air tickets income	(xviii)	10	12	12

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

48 Material related party transactions (continued)

(b) Transactions with CSAHC and its affiliates (the "CSAHC Group"), associates, joint ventures and other related company of the Group (continued)

	Note	2015 RMB million	2014 RMB million	2013 RMB million
Expenses paid to other related company				
Computer reservation services	(xix)	515	435	444
Advertising expenses	(xviii)	-	20	10

(i) China Southern Air Holding Ground Services Co.,Ltd ("CSA Groud Services"), a wholly- owned subsidiary of CSAHC, purchases cargo spaces and charter flights from the Group. In addition, cargo handling income/charges are earned/payable by the Group in respect of the cargo handling services with CSA Ground Services.

Commission is earned by CSA Ground Services in connection with the air tickets sold by them on behalf of the Group. Commission is calculated based on the rates stipulated by the CAAC and International Air Transportation Association.

(ii) Shenzhen Air Catering Company Limited ("SZ Catering") became a related party of the Group since its Chairman, Mr. Yuan Xin An was appointed as a non-executive Director of the Company in November 2011.

Air catering supplies income/expenses are earned/payable by the group in respect of certain in-flight meals and related services with SZ catering.

(iii) MTU Maintenance Zhuhai Co., Ltd, a joint venture of CSAHC, provides comprehensive maintenance services to the Group

(iv) The Group leases certain land and buildings in the PRC from CSAHC. The amount represents rental payments for land and buildings paid or payable to CSAHC.

(v) The Group acquires aircraft, flight equipment and other airline-related facilities through Southern Airlines (Group) Import and Export Trading Company Limited ("SAIETC"), a wholly-owned subsidiary of CSAHC, and pays handling charges to SAIETC.

(vi) Guangzhou China Southern Airlines Property Management Company Limited, a subsidiary of CSAHC, provides property management services to the Group.

(vii) Printing Plant of China Nothern Airlines Vestibule School provides printing services for the Group.

(viii) Guangzhou Aircraft Maintenance Engineering Company Limited ("GAMECO") and Shenyang Northern Aircraft Maintenance Limited, joint ventures of the Group, provide comprehensive maintenance services to the Group.

The Group purchases maintenance material from GAMECO.

(ix) Zhuhai Xiang Yi Aviation Technology Company Limited ("Zhuhai Xiang Yi"), a joint venture of the Group, provides flight simulation services to the Group.

In addition, the Group leased certain flight training facilities and buildings to Zhuhai Xiang Yi under operating lease agreements.

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

48 Material related party transactions (continued)

(b) Transactions with CSAHC and its affiliates (the "CSAHC Group"), associates, joint ventures and other related company of the Group (continued)

(x) China Southern West Australian Flying College Pty Limited ("Flying College"), a joint venture of the Group, provides training services to the Group.

(xi) Beijing Aviation Ground Services Co.,Ltd., and Shenyang Konggang Logistic Co. Ltd., associates of the Group provide ground service to the group .

(xii) Air catering supplies income/expenses are earned/payable by the Group in respect of certain in-flight meals and related services with Beijing Airport Inflight Kitchen Co.,Ltd., which is an associate of the Group.

(xiii) SACM, an associate of the Group, provides advertising services to the Group.

In addition, Xiamen Airlines provides certain media resources to Xiamen Airlines Culture and Media Co., Ltd., a subsidiary of SACM.

(xiv) Sichuan Airlines, an associate of the Group, provides commission service to the Group. The charge is determined according to the market price.

In addition, The Company provides aircraft maintenance services to Sichuan Airlines. The Group provides air catering services and repairing services to Sichuan Airlines.

(xv) The Group provides certain website resources to SA Finance for the sales of air insurance to passengers and provides commission service to Sichuan Airlines.

In addition, the Group sells tickets to SA Finance as a gift to passengers for the sales of insurance.

(xvi) The Group provides ground services to Shenyang Konggang Logistic and Sichuan Airlines.

(xvii) The Group sells maintenance materials to Shenyang Northern Aircraft Maintenance Ltd., which is a joint venture of the Group.

(xviii) Phoenix Satellite Television Holdings Limited ("the Phoenix Group") is a related party of the Group as the board chairman of the Phoenix Group was appointed as a non-executive director of the Group. It provides advertising services to the Group.

In addition, the Group Sells tickets to the Phoenix Group on market price.

(xix) China Travel Sky Holding Company is a related party of the Group as a director of the Group was appointed as the director of China Travel Sky Holding Company. It provides computer reservation services to the Group.

(xx) CSA Construction Supervision Co. Ltd., an associate of the CSAHC, provides supervision services to the Group.

(xxi) Guangzhou Tuokang Communication Technology Co. Ltd. , an associate of the Group, provides intercom rental services to the Group.

(xxii) Shenyang Konggang Logistic Co. Ltd., an associate of the Group, provides facilities and buildings to the Group under operating lease agreement.

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

48 Material related party transactions (continued)

(c) Balances with the CSAHC Group, associates, joint ventures and other related company of the Group

Details of amounts due from/to the CSAHC Group, associates, joint ventures and other related company of the Group:

	Note	**2015 RMB million**	**2014 RMB million**
Receivables:			
The CSAHC Group		21	78
Associates		226	284
Joint ventures		86	124
	39(a)	333	486

	Note	**2015 RMB million**	**2014 RMB million**
Payables:			
The CSAHC Group		77	256
Associates		13	13
Joint ventures		60	119
Other related company		2	70
	39(b)	152	458

	2015 RMB million	**2014 RMB million**
Accrued expenses:		
The CSAHC Group	571	451
Associates	97	92
Joint ventures	931	836
Other related company	282	269

1,881	1,648

The amounts due from/to the CSAHC Group, associates, joint ventures and other related company of the Group are unsecured, interest free and have no fixed terms of repayment.

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

48 Material related party transactions (continued)

(d) Loans from and deposits placed with related parties

(i) Loans from related parties

At December 31, 2015, loans from SA Finance to the Group amounted to RMB105 million (2014: RMB105 million).

In 2015, CSAHC, SA Finance and the Group entered into an entrusted loan agreement, pursuant to which, CSAHC, as the lender, entrusted SA Finance to lend RMB105 million to the Group from April 27, 2015 to April 27, 2016. The interest rate is 90% of benchmark interest rate stipulated by PBOC per annum.

The unsecured loans are repayable as follows:

	Note	**2015 RMB million**	**2014 RMB million**
Within 1 year		105	105
	35(f)	105	105

Interest expense paid on such loans amounted to RMB4 million (2014: RMB11 million; 2013: RMB28 million) and the interest rates ranged from 3.92% to 4.14% per annum during the year ended December 31, 2015(2014: 5.04% to 5.70% per annum; 2013: 5.54% to 5.84% per annum).

(ii) Deposits placed with SA Finance

At December 31, 2015 the Group’s deposits with SA Finance are presented in the table below. The applicable interest rates are determined in accordance with the rates published by the PBOC.

	Note	**2015 RMB million**	**2014 RMB million**
Deposits placed with SA Finance	34	2,934	4,264

Interest income received on such deposits amounted to RMB70 million during the year ended December 31, 2015 (2014: RMB68 million; 2013: RMB66 million).

(e) Commitments to CSAHC

At December 31, 2015, the Group had operating lease commitments to CSAHC in respect of lease payments for land and buildings of RMB320 million (2014: RMB207 million).

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

49 Employee benefits plan

(a) Retirement benefits

Employees of the Group participate in several defined contribution retirement schemes organised separately by the PRC municipal and provincial governments in regions where the major operations of the Group are located. The Group is required to contribute to these schemes at rates ranging from 13% to 21% (2014: 11% to 21%; 2013: 10% to 22%) of salary costs including certain allowances. A member of the retirement schemes is entitled to pension benefits from the Local Labour and Social Security Bureau upon his/her retirement. The retirement benefit obligations of all retired staff of the Group are assumed by these schemes. The Group, as its sole discretion, had made certain welfare subsidy payments to these retirees.

In 2014, the Company and its major subsidiaries joined a new defined contribution retirement scheme ("Pension Scheme") that was implemented by CSAHC. The annual contribution to the Pension Scheme is based on a fixed specified percentage of prior year's annual wage. There will be no further obligation beyond the annual contribution according to the Pension Scheme. The total contribution into the Pension Scheme in 2015 was approximately RMB438,000,000.

(b) Housing benefits

The Group contributes on a monthly basis to housing funds organised by municipal and provincial governments based on certain percentages of the salaries of employees. The Group's liability in respect of these funds is limited to the contributions payable in each year.

In addition to the housing funds, certain employees of the Group are eligible to one of the following housing benefit schemes:

(i)

Pursuant to a staff housing benefit scheme effective on September 2002, the Group agreed to pay lump sum housing allowances to certain employees who have not received quarters from CSAHC or the Group according to the relevant PRC housing reform policy. An employee who leaves the Company prior to the end of the vesting benefit period is required to pay back a portion of the lump sum housing benefits determined on a pro rata basis of the vesting benefit period. The Group has the right to effect a charge on the employee’s house and to enforce repayment through the sale of the house in the event of default in repayment. Any remaining shortfall is charged to income statement. The amount was fully amortised in 2012.

(ii) The Group also pays cash housing subsidies on a monthly basis to eligible employees. The monthly cash housing subsidies are charged to income statement.

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

49 Employee benefits plan (continued)

(c) Share Appreciation Rights Scheme

On November 30, 2011, the Company's General Meeting approved the "H Share Appreciation Rights Scheme of China Southern Airlines Company Limited" and "Initial Grant under the H Share Appreciation Rights Scheme of China Southern Airlines Company Limited" ("the Scheme").

Under the Scheme, 24,660,000 units of SARs were granted to 118 employees of the Group at the exercise price of HKD3.92 per unit in December 2011. No shares will be issued under the Scheme and each SAR is notionally linked to one existing H share of the Company. Upon exercise of the SARs, a recipient will receive an amount of cash equal to the difference between the market share price of the relevant H share and the exercise price.

The SARs will have an exercise period of six years from the date of grant. Upon the satisfaction of certain performance conditions after the second, third and fourth anniversary of the date of grant, each one third of the SARs will become exercisable.

A dividend of RMB0.2 (equivalent to HKD0.25) (inclusive of applicable tax), a dividend of RMB 0.05(equivalent to HKD0.06) (inclusive of applicable tax), a dividend of RMB0.04 (equivalent to HKD0.05) (inclusive of applicable tax) and a dividend of RMB0.04 (equivalent to HKD0.05) (inclusive of applicable tax) per share was approved by the Company's General Meeting on May 31, 2012, June 18, 2013, June 26, 2014 and 30 June, 2015 respectively (Note 46(b)), therefore, the exercise price for the SARs was adjusted to HKD3.51 per share in accordance with the predetermined formula stipulated in the Scheme.

The fair value of the liability for SARs is measured using the Black-Scholes option pricing model. The risk free rate, expected dividend yield and expected volatility of the share price are used as the inputs into the model. As at 31 December 2015, 24,660,000 units of SARs granted by the Company have all expired and correspondingly, the liability for SARs was RMB0.

50 Supplementary information to the consolidated cash flow statement

Non-cash transactions-acquisition of aircraft

During the year ended December 31, 2015, aircraft acquired under finance leases amounted to RMB11,251 million (2014: RMB19,163 million; 2013: RMB17,268 million).

51 Contingent liabilities

(a) The Group leased certain properties and buildings from CSAHC which located in Guangzhou, Wuhan and Haikou, etc. However, to the knowledge of the Group, such properties and buildings lack adequate documentation evidencing CSAHC's rights thereto.

Pursuant to the indemnification agreement dated May 22, 1997 between the Group and CSAHC, CSAHC has agreed to indemnify the Group against any loss or damage arising from any challenge of the Group's right to use such properties and buildings.

In addition, as disclosed in notes 21 and 23, the Group is applying title certificates for certain of the Group's properties and land use rights certificates for certain properties and parcels of land. The Company is of the opinion that the use of and the conduct of operating activities at these properties and these parcels of land are not affected by the fact that the Group has not yet obtained the relevant certificates.

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

51 Contingent liabilities (continued)

(b) The Company and its subsidiary, Xiamen Airlines, entered into agreements with their pilot trainees and certain banks to provide guarantees on personal bank loans amounting to RMB627 million (December 31, 2014: RMB646 million) that can be drawn by the pilot trainees to finance their respective flight training expenses. As at December 31, 2015, total personal bank loans of RMB454 million (December 31, 2014: RMB486 million), under these guarantees, were drawn down from the banks. During the year, the Group paid RMB4 million (2014: RMB2 million) to the banks due to the default of payments of certain pilot trainees.

(c) The Company is engaged in International Court of Arbitration proceedings ("ICC arbitration proceedings") in London against a lessor SASOF TR-81 AVIATION IRELAND LIMITED, arising out of the redelivery of two Boeing 737 aircraft. The lessor has made various claims of approximately USD13 million in the arbitration proceedings relating to the redelivery condition of the aircraft, and the Company has counterclaimed against the lessor for the recovery of approximately USD9.8 million. The hearing in the ICC arbitration proceedings commenced in London on March 7, 2016 and will conclude on April 19, 2016, and the award of the Arbitral Tribunal is awaited. As of the date of this report, the Company cannot reasonably predict the result and potential financial impact of this pending arbitration, if any. Therefore, no additional provision has been made against this pending arbitration.

(d) With regard to the investigation of the Company's former chairman as a result of suspected severe disciplinary violation of Communist Party rules and regulations, management of the Company and the internal audit of the Company under the direction of the Audit Committee, have carried out a robust assessment by taking into consideration the fact that the former chairman was a non-executive director and has not been involved in the operation of the Company. Based on the work carried out, we have not identified any possible material misstatements of the financial statements or impact on the internal control over financial reporting caused by the incident.

52 Immediate and ultimate controlling party

As at December 31, 2015, the Directors of the Company consider the immediate parent and ultimate controlling party of the Group to be CSAHC, a state-owned enterprise established in the PRC. CSAHC does not produce financial statements available for public use.

53 Subsequent events

(a) On February 2, 2016, the Company entered into the "Equity Transfer Agreement between China Southern Airlines Company Limited and China Southern Air Holding Company in relation to transfer of 100% equity interest in Southern Airlines (Group) Import and Export Trading Company" with CSAHC, the controlling shareholder of the Company, pursuant to which the Company agreed to acquire 100% equity interest in Southern Airlines (Group) Import and Export Trading Company at a consideration of RMB400,570,400.

(b) On March 7, 2016, the Group has completed the issuance of the 2016 Corporate Bonds (Frist Tranche) with nominal value of RMB5 billion for a term of three years and at nominal interest rate of 2.97%.

(c) On March 8, 2016, the Board approved that, Xiamen Airlines shall make an application to the National Association of Financial Market Institutional Investors for the registration and issuance of ultra-short-term financing bills with the aggregate maximum principal amount of RMB10 billion. The term of this issuance shall be no more than one year. The issuance of ultra-short-term financing is subject to the registration with the National Association of Financial Market Institutional Investors.

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

54 Remuneration of directors, supervisors and senior management

(a) Directors' and supervisors' remuneration

Details of directors' and supervisors' remuneration for the year ended December 31, 2015 are set out below:

Name	Directors' fees	Salaries, wages and welfare	Retirement scheme contributions	Total
	RMB thousand	RMB thousand	RMB thousand	RMB thousand
Non-executive directors				
Wang Quan Hua (Note (i) & (ii))	-	-	-	-
Yuan Xin An (Note (i))	-	-	-	-
Yang Li Hua (Note (i))	-	-	-	-
Executive directors				
Tan Wan Geng (Note (i))	-	-	-	-
Zhang Zi Fang (Note (i))	-	-	-	-
Li Shao Bin	-	636	137	773
Supervisors				
Pan Fu (Note (i))	-	-	-	-
Li Jia Shi	-	636	139	775
Zhang Wei (Note (i))	-	-	-	-
Yang Yi Hua	-	240	92	332
Wu De Ming	-	451	140	591
Independent non-executive directors				
Ning Xiang Dong	150	-	-	150
Liu Chang Le	150	-	-	150
Tan Jin Song	150	-	-	150
Wei Jin Cai (Note (iii))	75	-	-	75
Guo Wei (Note (iv))	75	-	-	75

Jiao Shu Ge (Note (iv))	75	-	-	75
	675	1,963	508	3,146

F-84

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

54 Remuneration of directors, supervisors and senior management (continued)

(a) Directors' and supervisors' remuneration (continued)

Details of directors' and supervisors' remuneration for the year ended December 31, 2014 are set out below:

Name	Directors' fees	Salaries, wages and welfare	Retirement scheme contributions	Total
	RMB thousand	RMB thousand	RMB thousand	RMB thousand
Non-executive directors				
Wang Quan Hua(Note (i) & (ii))	-	-	-	-
Yuan Xin An (Note (i))	-	-	-	-
Yang Li Hua (Note (i))	-	-	-	-
Executive directors				
Tan Wan Geng (Note (i))	-	-	-	-
Zhang Zi Fang (Note (i))	-	-	-	-
Li Shao Bin	-	636	130	766
Supervisors				
Pan Fu (Note (i))	-	-	-	-
Li Jia Shi	-	636	132	768
Zhang Wei (Note (i))	-	-	-	-
Yang Yi Hua	-	294	140	434
Wu De Ming	-	367	140	507
Independent non-executive directors				
Wei Jin Cai (Note (iii))	150	-	-	150
Ning Xiang Dong	150	-	-	150
Liu Chang Le	150	-	-	150
Tan Jin Song	150	-	-	150
	600	1,933	542	3,075

F-85

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

54 Remuneration of directors, supervisors and senior management (continued)

(a) Directors' and supervisors' remuneration (continued)

Details of directors' and supervisors' remuneration for the year ended December 31, 2013 are set out below:

Name	Directors' fees	Salaries, wages and welfare	Retirement scheme contributions	Total
	RMB thousand	RMB thousand	RMB thousand	RMB thousand
Non-executive directors				
Wang Quan Hua (Note (i) & (ii))	-	-	-	-
Yuan Xin An (Note (i))	-	-	-	-
Yang Li Hua (Note (i))	-	-	-	-
Executive directors				
Tan Wan Geng (Note (i))	-	-	-	-
Zhang Zi Fang (Note (i))	-	-	-	-
Li Shao Bin	-	639	120	759
Supervisors				
Pan Fu (Note (i))	-	-	-	-
Li Jia Shi	-	636	120	756
Zhang Wei (Note (i))	-	-	-	-
Yang Yi Hua	-	291	122	413
Liang Zhong Gao	-	300	122	422
Wu De Ming	-	-	-	-
Independent non-executive directors				
Gong Hua Zhang	150	-	-	150
Wei Jin Cai(Note (iii))	150	-	-	150
Ning Xiang Dong	150	-	-	150
Liu Chang Le	150	-	-	150

Tan Jin Song	-	-	-	-
	600	1,866	484	2,950

Save as disclosed above, the Company's non-excecutive director, Mr. Si Xian Min resigned on January 15, 2016. For the years ended December 31, 2015, 2014 and 2013, Mr. Si Xian Min did not receive any remuneration for his service in the capacity of the non-excecutive director of the Company. He also held management positions in CSAHC and his salary were borne by CSAHC.

The Company’s executive director, Mr. Xu Jie Bo resigned on January 5, 2015. For the year ended December 31, 2014, Mr. Xu Jie Bo’s total remuneration was RMB766 thousand, including salaries, wages and welfare of RMB636 thousand and retirement scheme of RMB130 thousand. For the year ended December 31, 2013, Mr. Xu Jie Bo’s total remuneration was RMB757 thousand, including salaries, wages and welfare of RMB636 thousand and retirement scheme of RMB121 thousand.

F-86

Notes to the consolidated financial statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi unless otherwise indicated)

54 Remuneration of directors, supervisors and senior management (continued)

(a) Directors' and supervisors' remuneration (continued)

Notes:

(i) These directors or supervisors did not receive any remuneration for their services in the capacity of the directors or supervisors of the Company. They also held management positions in CSAHC and their salaries were borne by CSAHC.

(ii) Resigned on 25 March 2015.

(iii) Resigned on 30 June 2015.

(iv) Appointed on 30 June 2015.