

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants to the Company.

January 15, 2010

The Directors

SouthGobi Energy Resources Ltd.

Citigroup Global Markets Asia Limited

Macquarie Capital Securities Limited

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) relating to SouthGobi Energy Resources Ltd. (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the three years ended December 31, 2006, 2007 and 2008 and the nine months ended September 30, 2009 (the “Relevant Periods”) for inclusion in the prospectus of the Company dated January 15, 2010 (the “Prospectus”).

The Company was incorporated in British Columbia, Canada, on February 14, 2002 and listed on the TSX Venture Exchange on December 15, 2003. The Group is principally engaged in the acquisition, exploration and development of mineral properties in Mongolia and Indonesia.

The name of the Company was changed from Asia Gold Corp. to SouthGobi Energy Resources Ltd., following approval by the Company’s shareholders at the Annual General Meeting held on May 25, 2007.

The detail of the corporate structure is explained in the section headed “Corporate Structure” in the Prospectus (the “Corporate Structure”).

All subsidiaries have adopted December 31 as their financial year end dates. As at the date of this report, the Company has direct and indirect interests in the following subsidiaries comprising the Group:

Name of company	Place and date of incorporation	Issued and fully paid share capital	Equity interest attributable to the Group			At date of this report	Principal registration activities
			At December 31,				
			2006	2007	2008		
Arkadia Indonesia Holding Company Ltd. . . . .	British Virgin Islands April 19, 2007	Nil	—	100%	100%	—	De-registered on April 28, 2009
ASG Bulgaria Holdings Ltd. . . . .	British Virgin Islands August 31, 2005	Nil	100%	—	—	—	De-registered on June 28, 2007
ASG Cambridge Mining Ventures Ltd. . . . .	British Virgin Islands January 10, 2005	Nil	51%	—	—	—	Transferred on March 4, 2007
ASG Resources Ltd. . . . .	Canada May 5, 2006	Nil	100%	—	—	—	Amalgamated on May 29, 2007
Asia Gold International Holding Company Ltd. . . . .	British Virgin Islands November 30, 2004	Nil	100%	100%	100%	100%	Investment holding
Asia Gold Mongolia LLC. . . . .	Mongolia October 3, 2001	MNT 10,608,000	100%	100%	100%	—	Engaged in exploration and development of mineral properties in Mongolia and was disposed by Group on February 2, 2009
Bacan Holding Company Ltd. . . . .	British Virgin Islands January 10, 2006	Nil	—	100%	100%	—	De-registered on April 28, 2009
Bacan Indonesia Holding Company Pte. Ltd. . . . .	Singapore June 29, 2007	US\$1	—	100%	100%	—	Investment holding company and was disposed by Group on February 2, 2009

Name of company	Place and date of incorporation	Issued and fully paid share capital	Equity interest attributable to the Group				At date of this report	Principal registration activities
			At December 31,			At September 30 2009		
			2006	2007	2008			
Carbonado Holding Company Ltd. . . . .	British Virgin Islands October 25, 2005	Nil	100%	100%	—	—	—	De-registered on March 13, 2008
Dayarbulag LLC . . . . .	Mongolia December 21, 2004	MNT 12,120,000	—	100%	100%	100%	100%	Investment holding
Ivanhoe Coal Holding Company Ltd. . . . .	British Virgin Islands October 25, 2005	Nil	—	100%	—	—	—	De-registered on March 13, 2008
Ivanhoe Resources Ltd. . . . .	Canada October 25, 2005	Nil	—	100%	—	—	—	Investment holding company and merged with the Company effective on January 1, 2008.
Mongolia Holding Company Ltd. . . . .	British Virgin Islands June 12, 2003	Nil	100%	100%	—	—	—	De-registered on November 3, 2008
PT AGC Indonesia . . . . .	Indonesia March 10, 2006	US\$250,000	100%	100%	100%	—	—	Engaged in business management and consulting in general mining sectors and disposed by Group on February 2, 2009
PT ASG Harita Mining Services . . . . .	Indonesia December 5, 2006	US\$300,000	—	85%	85%	—	—	Engaged in provision of mining services and disposed by Group on February 2, 2009
SGQ Batubara(A) Pte. Ltd. . . . .	Singapore April 11, 2008	US\$1	—	—	85%	85%	—	Investment holding and disposed by Group on December 23, 2009
SGQ Coal Investment Pte. Ltd. . . . .	Singapore July 9, 2007	US\$1	—	100%	100%	100%	100%	Investment holding
SGQ Dayarcoal Mongolia Pte. Ltd. . . . .	Singapore July 6, 2007	US\$1	—	100%	100%	100%	100%	Investment holding
SGQ Indonesia Holding Company Pte. Ltd. . . . .	Singapore June 28, 2007	US\$1	—	100%	100%	—	—	Investment holding company and disposed by Group on February 2, 2009
SGQ Mongolia Holding Pte. Ltd. . . . .	Singapore June 29, 2007	US\$1	—	100%	100%	—	—	Investment holding company and disposed by Group on February 2, 2009
SGQ Singapore Investment Company Pte Ltd . . . . .	Singapore October 29, 2007	US\$1	—	100%	100%	100%	—	Investment holding and disposed by Group on December 23, 2009
SGQ Singapore Projects Holding Company Pte. Ltd . . . . .	Singapore October 29, 2007	US\$1	—	100%	100%	—	—	Investment holding company and disposed by Group on February 2, 2009
Southgobi sands LLC . . . . .	Mongolia August 24, 2006, registered as a foreign incorporated company on September 19, 2006	MNT 11,655,000	—	100%	100%	100%	100%	Exploration and development of mineral properties in Mongolia
Transbaikal Gold LLC . . . . .	Russia Federation May 18, 2005	10,000 Russian Roubles	100%	100%	100%	100%	100%	Research, exploration and extraction of minerals
PT Multi Mamahak Batubara . . . . .	Indonesia June 3, 2008	US\$500,000	—	—	85%	85%	—	Business services and general mining support services and disposed by Group on December 23, 2009
SouthGobi Energy Resources (Hong Kong) Ltd. . . . .	Hong Kong February 14, 2008	HK\$1	—	—	—	100%	100%	Business services

Name of company	Place and date of incorporation	Issued and fully paid share capital	Equity interest attributable to the Group			At date of this report	Principal registration activities	
			At December 31,					At September 30 2009
			2006	2007	2008			
PT Karsa Optima Jaya . . .	Indonesia November 28, 2007	Rp 1,000,000,000	—	—	—	85%	—	Distribution, export , import and business and management consultancy services and disposed by Group on December 23, 2009
PT Mamahak Coal Mining . . . . .	Indonesia February 25, 2005	Rp 3,000,000,000	—	—	—	84%	—	Mining, trading and land transportation and disposed by Group on December 23, 2009
PT Bara Karsa Lestari . . .	Indonesia October 2, 2007	Rp 250,000,000	—	—	—	84%	—	Mining, construction services, land transportation, trading, industry, agriculture, printing, and workshop and disposed by Group on December 23, 2009
PT Mahakam Energi Lestari . . . . .	Indonesia January 31, 2008	Rp 250,000,000	—	—	—	84%	—	Mining, construction services, land transportation, trading, industry, agriculture, printing, and workshop and disposed by Group on December 23, 2009
PT Mahakam Bara Energi . . . . .	Indonesia November 27, 2007	Rp 250,000,000	—	—	—	84%	—	Mining, construction services, land transportation, trading, industry , agriculture, printing, and workshop and disposed by Group on December 23, 2009

The statutory financial statements of the following subsidiaries for the Relevant Periods, or since their respective dates of establishment or acquisition, where this is a shorter period, were prepared in accordance with relevant accounting principles and financial regulations applicable to their respective jurisdictions and were audited by the following certified public accountants registered in that jurisdiction:

<u>Name</u>	<u>Financial period</u>	<u>Auditors</u>
Bacan Indonesia Holding Company Pte. Ltd. . . . . .	From June 29, 2007 (date of incorporation) to December 31, 2007 For year ended December 31, 2008	Chong, Lim & Partners Certified Public Accountants, Singapore Pricewaterhouse Coopers Certified Public Accountants, Singapore
PT AGC Indonesia. . . . .	From March 10, 2006 (date of incorporation) to December 31, 2007 and year ended December 31, 2008	Russell Bedford International Registered Public Accountant
PT ASG Harita Mining Services . . . . .	From December 5, 2006 (date of incorporation) to December 31, 2007 and year ended December 31, 2008	Russell Bedford International Registered Public Accountant
Asia Gold Mongolia LLC. . . . .	For year ended December 31, 2006 and 2007 For year ended December 31, 2008	Onch-Audit LLC Certified Public Accountants, Mongolia KPMG Certified Public Accountants, Malaysia
Dayarbulag LLC . . . . .	For year ended December 31, 2008	KPMG Certified Public Accountants, Malaysia
Southgobi sands LLC. . . . .	For year ended December 31, 2007 For year ended December 31, 2008	Onch-Audit LLC Certified Public Accountants, Mongolia KPMG Certified Public Accountants, Malaysia
SGQ Coal Investment Pte. Ltd. . . . .	From July 9, 2007 (date of incorporation) to December 31, 2007 For year ended December 31, 2008	Chong, Lim & Partners Certified Public Accountants, Singapore Pricewaterhouse Coopers Certified Public Accountants, Singapore
SGQ Dayarcoal Mongolia Pte. Ltd. . . . .	From July 6, 2007 (date of incorporation) to December 31, 2007 For year ended December 31, 2008	Chong, Lim & Partners Certified Public Accountants, Singapore Pricewaterhouse Coopers Certified Public Accountants, Singapore
SGQ Indonesia Holding Company Pte. Ltd. . . . .	From June 28, 2007 (date of incorporation) to December 31, 2007 For year ended December 31, 2008	Chong, Lim & Partners Certified Public Accountants, Singapore Pricewaterhouse Coopers Certified Public Accountants, Singapore
SGQ Mongolia Holding Pte. Ltd. . . . .	From June 29, 2007 (date of incorporation) to December 31, 2007 For year ended December 31, 2008	Chong, Lim & Partners Certified Public Accountants, Singapore Pricewaterhouse Coopers Certified Public Accountants, Singapore
SGQ Singapore Investment Company Pte. Ltd. . . . .	From October 29, 2007 (date of incorporation) to December 31, 2007 For year ended December 31, 2008	Chong, Lim & Partners Certified Public Accountants, Singapore Pricewaterhouse Coopers Certified Public Accountants, Singapore
SGQ Singapore Projects Holding Company Pte. Ltd. . . . .	From October 29, 2007 (date of incorporation) to December 31, 2007 For year ended December 31, 2008	Chong, Lim & Partners Certified Public Accountants, Singapore Pricewaterhouse Coopers Certified Public Accountants, Singapore
SGQ Batubara (A) Pte. Ltd. . . . .	From April 11, 2008 (date of incorporation) to December 31, 2008	Pricewaterhouse Coopers Certified Public Accountants, Singapore
PT Multi Mamahak Batubara . . . . .	From June 3, 2008 (date of incorporation) to December 31, 2008	Pricewaterhouse Coopers Certified Public Accountants, Indonesia

No audited financial statements have been prepared for ASG Bulgaria Holdings Ltd., ASG Cambridge Mining Ventures Ltd., Asia Gold International Holding Company Ltd., Bacan Holding Company Ltd., Ivanhoe Coal Holding Company Ltd., Mongolia Holding Company Ltd., ASG Resources Ltd., Ivanhoe Resources Ltd., Arkadia Indonesia Holding Company Ltd., Transbaikal Gold LLC and Carbonado Holding Company Ltd. since their respective dates of incorporation as they were incorporated in countries where they were not subject to statutory audit requirements. No audited financial statements have been prepared for Southgobi sands LLC from August 24, 2006 (date of incorporation) to December 31, 2006 as it was incorporated in a country where it was not subject to statutory audit requirements and had not yet commenced business up to the end of December 31, 2006. No audited financial statements have been prepared for Dayarbulag LLC from December 21, 2004 (date of incorporation) to December 31, 2007 as it had not yet commenced business up to December 31, 2007. No audited financial statements have been prepared for SouthGobi Energy Resources (Hong Kong) Ltd. as it has been established in Hong Kong since February 14, 2008 and has not yet commenced business. For the purpose of preparing this report, Deloitte & Touche LLP, Chartered Accountants registered in Canada, has carried out audit procedures in accordance with Canadian generally accepted auditing standards on the consolidated financial statements of the Group for the three years ended December 31, 2006, 2007 and 2008 which are prepared in accordance with Canadian generally accepted accounting principles and has carried out audit procedures in accordance with Canadian generally accepted auditing standards on the consolidated financial statements of the Group for the nine months ended September 30, 2009 which are prepared in accordance with International Financial Reporting Standards (“IFRS”) (the “Underlying Financial Statements”).

The Financial Information set out in this report for the Relevant Periods has been prepared from the Underlying Financial Statements, on the basis set out in Note 2 of Section A below, after making such adjustments as we consider appropriate for the purpose of preparing our report in accordance with IFRS issued by International Accounting Standards Board (“IASB”) and for the inclusion in the Prospectus. For the purpose of preparing this report, we have examined the Underlying Financial Statements and performed such additional procedures as necessary in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” as recommended by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The directors of the Company are responsible for preparing the Underlying Financial Statements and the contents of the Prospectus in which the report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in Note 2 of Section A below, the Financial Information together with the notes thereon, for the purpose of this report, gives a true and fair view of the state of affairs of the Group and of the Company as at December 31, 2006, 2007, 2008 and September 30, 2009 and of the consolidated results and consolidated cash flows of the Group for each of the three years ended December 31, 2006, 2007 and 2008 and nine months ended September 30, 2009.

The comparative consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity of the Group for the nine months ended September 30, 2008 together with the notes thereon have been extracted from the Group’s consolidated financial information for the same period (the “September 30, 2008 Financial Information”) which were prepared by the directors of the Company solely for the purpose of this report. We conducted our review on the September 30, 2008 Financial Information in accordance with the International Standards on Review Engagement 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review consists of making inquiries, preliminary of persons responsible for financial and accounting matters, and applying analytical and other

review procedures. A review is substantially less in scope than an audit conducted with the International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the September 30, 2008 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the September 30, 2008 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of Financial Information, which conform with IFRS.

## A. FINANCIAL INFORMATION

THE GROUP*Consolidated Statements of Comprehensive Income*

	Notes	Year ended December 31,			Nine months ended September 30,	
		2006	2007	2008	2008	2009
		US\$	US\$	US\$	US\$ (unaudited)	US\$
<b>Continuing operations</b>						
Revenue . . . . .	8	—	—	3,125,851	—	26,077,803
Cost of sales . . . . .	9	—	—	(2,177,425)	—	(20,988,873)
<b>INCOME FROM MINE</b>						
<b>OPERATIONS . . . . .</b>						
Administration expenses . . . . .	10	(5,038,547)	(7,191,262)	(20,310,155)	(12,850,768)	(16,783,348)
Evaluation and exploration expenses . . . . .	11	(9,577,429)	(13,787,952)	(36,183,163)	(28,088,514)	(13,781,444)
Impairment charge on Mamahak Coal project . . . . .	7	—	—	—	—	(23,029,013)
<b>OPERATING LOSS FROM</b>						
<b>CONTINUING OPERATIONS . . . . .</b>						
Finance costs . . . . .	12	(14,615,976)	(20,979,214)	(55,544,892)	(40,939,282)	(48,504,875)
Interest income . . . . .		49,700	44,082	1,869,894	1,697,623	16,272
<b>LOSS BEFORE TAX . . . . .</b>						
Current income tax expense . . . . .	13	(15,194,638)	(92,060,616)	(61,664,490)	(47,207,930)	(49,549,744)
Deferred income tax credit . . . . .	13	—	—	—	—	(711,855)
<b>LOSS FROM CONTINUING</b>						
<b>OPERATIONS . . . . .</b>						
Loss from discontinued operations . . . . .	6	(15,194,638)	(92,060,616)	(61,664,490)	(47,207,930)	(41,652,833)
<b>NET LOSS AND COMPREHENSIVE</b>						
<b>LOSS ATTRIBUTABLE TO EQUITY</b>						
<b>HOLDERS OF THE COMPANY . . . . .</b>						
	14	<u>(21,728,636)</u>	<u>(96,736,428)</u>	<u>(69,575,742)</u>	<u>(52,570,044)</u>	<u>(41,652,833)</u>
<b>BASIC AND DILUTED LOSS PER</b>						
<b>SHARE FROM:</b>						
Continuing operations . . . . .		(0.91)	(1.80)	(0.48)	(0.37)	(0.31)
Discontinued operations . . . . .		(0.40)	(0.09)	(0.06)	(0.04)	—
<b>CONTINUING AND DISCONTINUED</b>						
<b>OPERATIONS . . . . .</b>						
	17	<u>(1.31)</u>	<u>(1.89)</u>	<u>(0.54)</u>	<u>(0.41)</u>	<u>(0.31)</u>
Weighted average number of basic and diluted shares outstanding . . . . .		<u>16,647,940</u>	<u>51,070,891</u>	<u>128,353,692</u>	<u>126,775,043</u>	<u>133,341,543</u>

## A. FINANCIAL INFORMATION — continued

**THE GROUP***Consolidated Statements of Financial Position*

	Notes	As at December 31,			As at
		2006	2007	2008	September 30,
		US\$	US\$	US\$	2009
				US\$	
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and cash equivalents . . . . .	25	965,494	1,393,632	10,117,311	2,710,766
Trade and other receivables . . . . .	22	215,783	759,528	7,289,726	14,798,663
Inventories . . . . .	21	—	—	13,676,716	10,707,439
Prepaid expenses and deposits . . . . .	23	235,013	1,890,177	2,578,527	7,176,448
		<u>1,416,290</u>	<u>4,043,337</u>	<u>33,662,280</u>	<u>35,393,316</u>
Assets classified as held for sale . . . . .	6	—	—	637,600	—
		<u>1,416,290</u>	<u>4,043,337</u>	<u>34,299,880</u>	<u>35,393,316</u>
<b>TOTAL CURRENT ASSETS</b> . . . . .		<u>1,416,290</u>	<u>4,043,337</u>	<u>34,299,880</u>	<u>35,393,316</u>
<b>NON-CURRENT ASSETS</b>					
Property, plant and equipment . . . . .	18	495,273	1,123,380	52,439,911	65,791,565
Intangible assets . . . . .	19	403,360	443,360	13,208,218	—
Deferred income tax assets . . . . .	13	—	—	—	8,608,766
Other receivables . . . . .		—	—	—	108,333
		<u>898,633</u>	<u>1,566,740</u>	<u>65,648,129</u>	<u>74,508,664</u>
<b>TOTAL NON-CURRENT ASSETS</b> . . . . .		<u>898,633</u>	<u>1,566,740</u>	<u>65,648,129</u>	<u>74,508,664</u>
<b>TOTAL ASSETS</b> . . . . .		<u>2,314,923</u>	<u>5,610,077</u>	<u>99,948,009</u>	<u>109,901,980</u>
<b>EQUITY AND LIABILITIES</b>					
<b>CURRENT LIABILITIES</b>					
Trade and other payables . . . . .	26	451,540	1,767,784	7,400,009	11,210,514
Amounts due under line of credit facilities . .	28	—	—	—	37,030,151
Deposit received for sale of Metals Division . . . . .	6	—	—	3,000,000	—
		<u>451,540</u>	<u>1,767,784</u>	<u>10,400,009</u>	<u>48,240,665</u>
Current liabilities classified as held for sale . . . . .	6	—	—	255,080	—
		<u>451,540</u>	<u>1,767,784</u>	<u>10,655,089</u>	<u>48,240,665</u>
<b>TOTAL CURRENT LIABILITIES</b> . . . . .		<u>451,540</u>	<u>1,767,784</u>	<u>10,655,089</u>	<u>48,240,665</u>
<b>NON-CURRENT LIABILITIES</b>					
Amounts due under line of credit facilities . .	28	5,835,501	105,673,380	—	—
Asset retirement obligation . . . . .	29	—	—	328,229	984,822
		<u>5,835,501</u>	<u>105,673,380</u>	<u>328,229</u>	<u>984,822</u>
<b>TOTAL NON-CURRENT LIABILITIES</b> . . . . .		<u>5,835,501</u>	<u>105,673,380</u>	<u>328,229</u>	<u>984,822</u>
<b>TOTAL LIABILITIES</b> . . . . .		<u>6,287,041</u>	<u>107,441,164</u>	<u>10,983,318</u>	<u>49,225,487</u>
<b>SHAREHOLDERS' (DEFICIENCY) EQUITY</b>					
Common shares . . . . .	30	17,001,421	30,229,785	289,512,074	291,320,990
Preferred shares . . . . .	30	—	4,189,154	—	—
Additional paid-in capital . . . . .		24,009,622	—	—	—
Share option reserve . . . . .		2,027,128	7,496,691	12,775,076	21,713,315
Accumulated deficit . . . . .		(47,010,289)	(143,746,717)	(213,322,459)	(252,357,812)
		<u>(3,972,118)</u>	<u>(101,831,087)</u>	<u>88,964,691</u>	<u>60,676,493</u>
<b>TOTAL SHAREHOLDERS' (DEFICIENCY) EQUITY</b> . . . . .		<u>(3,972,118)</u>	<u>(101,831,087)</u>	<u>88,964,691</u>	<u>60,676,493</u>
<b>TOTAL EQUITY AND LIABILITIES</b> . . . . .		<u>2,314,923</u>	<u>5,610,077</u>	<u>99,948,009</u>	<u>109,901,980</u>
<b>NET CURRENT ASSETS (LIABILITIES)</b> . . . . .					
		<u>964,750</u>	<u>2,275,553</u>	<u>23,644,791</u>	<u>(12,847,349)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b> . . . . .					
		<u>1,863,383</u>	<u>3,842,293</u>	<u>89,292,920</u>	<u>61,661,315</u>



## A. FINANCIAL INFORMATION — continued

THE COMPANY*Statements of Financial Position*

	Notes	As at December 31,			As at
		2006	2007	2008	September 30,
		US\$	US\$	US\$	2009
					US\$
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and cash equivalents . . . . .	25	702,960	1,121,700	7,101,556	1,970,518
Other receivables . . . . .	22	120,605	172,845	73,975	158,970
Prepaid expenses and deposits . . . . .	23	130,565	565,385	662,483	820,211
<b>TOTAL CURRENT ASSETS . . . . .</b>		<b>954,130</b>	<b>1,859,930</b>	<b>7,838,014</b>	<b>2,949,699</b>
<b>NON-CURRENT ASSETS</b>					
Property, plant and equipment . . . . .	18	32,157	106,217	20,570	17,783
Intangible assets . . . . .	19	403,360	443,360	13,208,218	—
Investments in subsidiaries . . . . .	20	3,704,763	11,274,841	22,070,689	23,464,896
Amounts due from subsidiaries . . . . .	24	8,243,915	38,889,483	141,098,563	162,037,806
Other receivables . . . . .		—	—	—	108,333
<b>TOTAL NON-CURRENT ASSETS . . . . .</b>		<b>12,384,195</b>	<b>50,713,901</b>	<b>176,398,040</b>	<b>185,628,818</b>
<b>TOTAL ASSETS . . . . .</b>		<b>13,338,325</b>	<b>52,573,831</b>	<b>184,236,054</b>	<b>188,578,517</b>
<b>EQUITY AND LIABILITIES</b>					
<b>CURRENT LIABILITIES</b>					
Trade and other payables . . . . .	26	368,757	661,991	3,689,785	4,325,546
Amounts due under line of credit facilities . . . . .	28	—	—	—	37,030,151
Deposit received for sale of Metals Division . . . . .	6	—	—	3,000,000	—
<b>TOTAL CURRENT LIABILITIES . . . . .</b>		<b>368,757</b>	<b>661,991</b>	<b>6,689,785</b>	<b>41,355,697</b>
<b>NON-CURRENT LIABILITY</b>					
Amounts due under line of credit facilities . . . . .	28	5,835,501	105,673,380	—	—
<b>TOTAL NON-CURRENT LIABILITY . . . . .</b>		<b>5,835,501</b>	<b>105,673,380</b>	<b>—</b>	<b>—</b>
<b>TOTAL LIABILITIES . . . . .</b>		<b>6,204,258</b>	<b>106,335,371</b>	<b>6,689,785</b>	<b>41,355,697</b>
<b>SHAREHOLDERS' EQUITY (DEFICIENCY)</b>					
Common shares . . . . .	30	17,001,421	30,229,785	289,512,074	291,320,990
Preferred shares . . . . .	30	—	4,189,154	—	—
Share option reserve . . . . .		2,027,128	7,496,691	12,775,076	21,713,315
Accumulated deficit . . . . .	31	(11,894,482)	(95,677,170)	(124,740,881)	(165,811,485)
<b>TOTAL SHAREHOLDERS' EQUITY (DEFICIENCY) . . . . .</b>		<b>7,134,067</b>	<b>(53,761,540)</b>	<b>177,546,269</b>	<b>147,222,820</b>
<b>TOTAL EQUITY AND LIABILITIES . . . . .</b>		<b>13,338,325</b>	<b>52,573,831</b>	<b>184,236,054</b>	<b>188,578,517</b>
<b>NET CURRENT ASSETS (LIABILITIES) . . . . .</b>					
		<b>585,373</b>	<b>1,197,939</b>	<b>1,148,229</b>	<b>(38,405,998)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES . . . . .</b>					
		<b>12,969,568</b>	<b>51,911,840</b>	<b>177,546,269</b>	<b>147,222,820</b>

## A. FINANCIAL INFORMATION — continued

**THE GROUP***Consolidated Statements of Changes In Equity*

	Common shares		Preferred shares		Additional paid-in capital	Share option reserve	Accumulated deficit	Total
	Number of shares	Amount	Number of shares	Amount				
		US\$		US\$				
Balances, January 1, 2006 . . . .	15,895,580	15,142,440	—	—	11,722,647	1,420,820	(25,281,653)	3,004,254
Contribution from Ivanhoe's coal division . . . . .	—	—	—	—	12,286,975	—	—	12,286,975
Shares issued for:								
Mineral property . . . . .	95,821	200,000	—	—	—	—	—	200,000
Exercise of warrants . . . . .	576,999	1,387,061	—	—	—	—	—	1,387,061
Exercise of stock options . . . .	215,631	271,920	—	—	—	(81,247)	—	190,673
Stock-based compensation charged to operations . . . . .	—	—	—	—	—	687,555	—	687,555
Net loss and comprehensive loss for the year . . . . .	—	—	—	—	—	—	(21,728,636)	(21,728,636)
Balances, December 31, 2006 . .	<u>16,784,031</u>	<u>17,001,421</u>	<u>—</u>	<u>—</u>	<u>24,009,622</u>	<u>2,027,128</u>	<u>(47,010,289)</u>	<u>(3,972,118)</u>
Contribution from Ivanhoe's coal division . . . . .	—	—	—	—	2,527,178	—	—	2,527,178
Shares issued for:								
Mineral properties . . . . .	3,060	20,000	—	—	—	—	—	20,000
Coal transaction . . . . .	57,000,000	9,336,023	25,576,383	4,189,154	(26,536,800)	—	—	(13,011,623)
Exercise of stock options . . . .	1,145,566	3,872,341	—	—	—	(1,307,536)	—	2,564,805
Stock-based compensation charged to operations . . . . .	—	—	—	—	—	6,777,099	—	6,777,099
Net loss and comprehensive loss for the year . . . . .	—	—	—	—	—	—	(96,736,428)	(96,736,428)
Balances, December 31, 2007 . .	<u>74,932,657</u>	<u>30,229,785</u>	<u>25,576,383</u>	<u>4,189,154</u>	<u>—</u>	<u>7,496,691</u>	<u>(143,746,717)</u>	<u>(101,831,087)</u>
Shares issued for:								
Cash . . . . .	16,211,111	139,642,368	—	—	—	—	—	139,642,368
Share issue costs . . . . .	—	(3,303,418)	—	—	—	—	—	(3,303,418)
Mineral properties . . . . .	321,818	5,198,000	—	—	—	—	—	5,198,000
Conversion of line of credit facility . . . . .	14,709,071	107,551,903	—	—	—	—	—	107,551,903
Conversion of preferred shares . . . . .	25,576,383	4,189,154	(25,576,383)	(4,189,154)	—	—	—	—
Exercise of stock options . . . .	1,442,242	6,004,282	—	—	—	(1,960,086)	—	4,044,196
Stock-based compensation charged to operations . . . . .	—	—	—	—	—	7,238,471	—	7,238,471
Net loss and comprehensive loss for the year . . . . .	—	—	—	—	—	—	(69,575,742)	(69,575,742)
Balances, December 31, 2008 . .	<u>133,193,282</u>	<u>289,512,074</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>12,775,076</u>	<u>(213,322,459)</u>	<u>88,964,691</u>
Shares issued for:								
Exercise of stock options . . . .	349,767	1,808,916	—	—	—	(802,935)	—	1,005,981
Stock-based compensation charged to operations . . . . .	—	—	—	—	—	9,741,174	—	9,741,174
Gain on sale of Metals Division (Note 6) . . . . .	—	—	—	—	—	—	2,617,480	2,617,480
Net loss and comprehensive loss for the period . . . . .	—	—	—	—	—	—	(41,652,833)	(41,652,833)
Balances, September 30, 2009 . .	<u>133,543,049</u>	<u>291,320,990</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>21,713,315</u>	<u>(252,357,812)</u>	<u>60,676,493</u>

## A. FINANCIAL INFORMATION — continued

	Common shares		Preferred shares		Additional paid-in capital US\$ (Note)	Share option reserve US\$	Accumulated deficit US\$	Total US\$
	Number of shares	Amount	Number of shares	Amount				
		US\$		US\$				
(unaudited)								
Balances, January 1, 2008 . . . . .	74,932,657	30,229,785	25,576,383	4,189,154	—	7,496,691	(143,746,717)	(101,831,087)
Shares issued for:								
Cash . . . . .	16,211,111	139,642,368	—	—	—	—	—	139,642,368
Share issue costs . . . . .	—	(3,303,418)	—	—	—	—	—	(3,303,418)
Mineral Properties . . . . .	1,818	30,000	—	—	—	—	—	30,000
Conversion of line of credit . . . . .	14,709,071	107,551,903	—	—	—	—	—	107,551,903
Conversion of preferred shares . . . . .	25,576,383	4,189,154	(25,576,383)	(4,189,154)	—	—	—	—
Exercise of stock options . . . . .	1,408,542	5,891,215	—	—	—	(1,925,691)	—	3,965,524
Stock-based compensation charged to operations . . . . .	—	—	—	—	—	4,773,140	—	4,773,140
Net loss and comprehensive loss for the period . . . . .	—	—	—	—	—	—	(52,570,044)	(52,570,044)
Balances, September 30, 2008 . . . . .	<u>132,839,582</u>	<u>284,231,007</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>10,344,140</u>	<u>(196,316,761)</u>	<u>98,258,386</u>

*Note:* As disclosed in Note 2, the Company completed the acquisition of coal division from its holding company, Ivanhoe Mines Ltd. (the 'Ivanhoe') on May 29, 2007. The coal division is considered as a combination between businesses or entities under common control by using the principles of merger accounting as if the current group structure had been in existence during the Relevant Periods. Additional paid-in capital represented the difference between share capital issued for the acquisition of Ivanhoe's coal division and the net book value of the contribution from Ivanhoe's coal division acquired during the Relevant Periods.

## A. FINANCIAL INFORMATION — continued

## THE GROUP

## Consolidated Statements of Cash Flows

	Year ended December 31,			Nine months ended September 30,	
	2006	2007	2008	2008	2009
	US\$	US\$	US\$	US\$	US\$
				(unaudited)	
OPERATING ACTIVITIES					
Loss for the period from continuing operations before tax . . . . .	(15,194,638)	(92,060,616)	(61,664,490)	(47,207,930)	(49,549,744)
Adjustments for:					
Depreciation and depletion . . . . .	69,820	115,300	493,527	184,426	4,274,070
Share-based compensation . . . . .	400,704	5,957,975	5,747,423	3,625,580	9,741,174
Fair value change on embedded derivative . . . . .	—	63,286,039	7,223,399	7,223,399	—
Fair value change on warrant liabilities . . . . .	449,623	—	—	—	—
Interest income . . . . .	(49,700)	(44,082)	(1,869,894)	(1,697,623)	(16,272)
Accrued interest expense . . . . .	178,739	1,358,742	134,186	134,186	1,030,151
Interest accretion on line of credit facility . . . . .	—	6,480,703	598,408	598,408	—
Unrealized foreign exchange loss/(gain) . . . . .	3,427	(6,219)	4,464,481	565,612	1,307,348
Loss on disposal of property, plant and equipment . . . . .	8,731	—	5,663	5,663	115,824
Coal transaction expenditures . . . . .	12,286,975	2,527,178	—	—	—
Accretion of asset retirement obligation . . . . .	—	—	19,498	10,278	30,990
Impairment charge on Mamahak Coal project (Note 7) . . . . .	—	—	—	—	23,029,013
Operating cash flows before movements in working capital . . . . .	(1,846,319)	(12,384,980)	(44,847,799)	(36,558,001)	(10,037,446)
(Increase)/decrease in inventories . . . . .	—	—	(10,856,935)	(6,404,075)	130,816
Increase in trade and other receivables . . . . .	(60,418)	(523,386)	(7,166,492)	(4,231,438)	(9,654,687)
(Increase)/decrease in prepaid expenses and deposits . . . . .	(178,175)	(1,417,793)	(1,031,240)	207,715	(4,597,921)
Increase in trade and other payables . . . . .	162,103	1,127,815	6,101,978	7,043,511	3,942,740
Cash used in continuing operations . . . . .	(1,922,809)	(13,198,344)	(57,800,488)	(39,942,288)	(20,216,498)
Cash used in discontinued operations (Note 6) . . . . .	(6,281,849)	(3,809,795)	(5,786,403)	(4,238,230)	—
CASH USED IN OPERATING ACTIVITIES . . . . .	(8,204,658)	(17,008,139)	(63,586,891)	(44,180,518)	(20,216,498)
INVESTING ACTIVITIES					
Purchase of property, plant and equipment . . . . .	(195,987)	(623,928)	(54,456,202)	(45,428,722)	(24,123,956)
Purchase of intangible assets . . . . .	—	—	(8,040,218)	(8,013,800)	—
Interest received . . . . .	49,700	44,082	1,869,894	1,697,623	26,114
Proceeds from disposal of property, plant and equipment . . . . .	4,783	25,000	10,295	10,295	25,675
Increase in other receivables . . . . .	—	—	—	—	(108,333)
Cash used in continuing operations . . . . .	(141,504)	(554,846)	(60,616,231)	(51,734,604)	(24,180,500)
Cash (used in)/generated from discontinued operations (Note 6) . . . . .	(214,988)	(56,564)	2,946,602	(47,376)	(222,699)
CASH USED IN INVESTING ACTIVITIES . . . . .	(356,492)	(611,410)	(57,669,629)	(51,781,980)	(24,403,199)
FINANCING ACTIVITIES					
Proceeds from issuance of common shares, warrants and exercise of stock options . . . . .	906,470	2,564,804	140,383,144	140,304,475	1,005,981
Drawings under line of credit facilities . . . . .	5,500,000	15,500,000	2,000,000	2,000,000	36,000,000
Repayment of line of credit facility . . . . .	—	—	(8,077,470)	(8,077,470)	—
CASH GENERATED FROM FINANCING ACTIVITIES . . . . .	6,406,470	18,064,804	134,305,674	134,227,005	37,005,981
Effect of foreign exchange rate changes on cash . . . . .	(4,826)	(17,117)	(4,102,776)	(866,200)	(15,528)
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS . . . . .	(2,159,506)	428,138	8,946,378	37,398,307	(7,629,244)
Cash and cash equivalents, beginning of year . . . . .	3,125,000	965,494	1,393,632	1,393,632	10,340,010
CASH AND CASH EQUIVALENTS, END OF YEAR/PERIOD . . . . .	965,494	1,393,632	10,340,010	38,791,939	2,710,766
COMPRISED OF:					
Cash and cash equivalents of continuing operations . . . . .	702,960	1,216,954	10,117,311	38,574,191	2,710,766
Cash and cash equivalents of discontinued operations . . . . .	262,534	176,678	222,699	217,748	—
TOTAL CASH AND CASH EQUIVALENTS . . . . .	965,494	1,393,632	10,340,010	38,791,939	2,710,766
Cash . . . . .	965,494	1,393,632	6,659,328	11,359,634	2,710,766
Money market investments . . . . .	—	—	3,680,682	27,432,305	—
TOTAL CASH AND CASH EQUIVALENTS . . . . .	965,494	1,393,632	10,340,010	38,791,939	2,710,766

**A. FINANCIAL INFORMATION — continued****NOTES TO THE FINANCIAL INFORMATION****1. General**

SouthGobi Energy Resources Ltd., formerly known as Asia Gold Corp., (the “Company”) is a publicly listed company incorporated in Canada on February 14, 2002 with limited liability under the legislation of the Province of British Columbia and its shares are listed on the TSX Venture Exchange since December 15, 2003. The Company together with its subsidiaries (collectively referred to as the “Group”) is principally engaged in the acquisition, exploration, development and production of coal properties in Mongolia and Indonesia. The Company’s parent is Ivanhoe Mines Ltd. (the “parent” or “Ivanhoe”), a company listed on the New York Stock Exchange, NASDAQ and Toronto Stock Exchange.

The head office, principal address and registered and records office of the Company are located at 999 Canada Place, Suite 654, Vancouver, British Columbia, V6C 3E1.

**2. Basis of Presentation of Financial Information**

In July 2006, the Company and Ivanhoe signed a definitive agreement, effective April 26, 2006, whereby the Company agreed to acquire Ivanhoe’s coal division (the “Coal Transaction”) in exchange for 82,576,383 common shares and convertible preferred shares of the Company.

On August 8, 2006, the coal transaction and the equity conversion rights under the line of credit facility (Note 28) were approved by the Company’s minority shareholders at a special meeting convened for that purpose.

The Coal Transaction, which was a related party transaction, received final approval from the TSX Venture Exchange on May 28, 2007. The Company continued its incorporation from the Canada Business Corporations Act to the British Columbia Business Corporations Act. As well, the Company adopted an amended and restated equity incentive plan (the “Amended Equity Incentive Plan”).

On May 29, 2007, the Company completed the purchase of the Ivanhoe coal division in consideration for the issuance to Ivanhoe of 57,000,000 common shares and 25,576,383 convertible preferred shares. The common shares issued to Ivanhoe, when aggregated with Ivanhoe’s existing holding of common shares, represented approximately 86% of the total number of common shares issued and outstanding at December 31, 2007.

With the completion of the Coal Transaction, certain coal division expenditures made by Ivanhoe from April 25, 2006 to May 28, 2007 were added to the indebtedness outstanding under the first line of credit facility and were repayable by the Company as if they were advances. The total coal expenditures funded by Ivanhoe from April 25, 2006 to May 28, 2007, and accepted by the Company, were approximately US\$13.2 million of which US\$13 million were related to exploration expenses and US\$200,772 were for plant and equipment. Together with the line of credit advances and interest charges under the first funding agreement (Note 28), the total amount payable to Ivanhoe as at December 31, 2007 was US\$29,855,178.

During the Relevant Periods, Ivanhoe is regarded as the controlling shareholder of both the Company and the Ivanhoe’s coal division. Therefore, both the Company and Ivanhoe’s coal division are regarded as entities or business under common control during the Relevant Periods. Accordingly, the Coal Transaction is considered a combination between businesses or entities under common control and is therefore exempt from the scope of IFRS 3, ‘*Business Combinations*’. The Group has accounted for the business combinations of the entities under

**A. FINANCIAL INFORMATION — continued****NOTES TO THE FINANCIAL INFORMATION — continued****2. Basis of Presentation of Financial Information — continued**

common control by using the principles of merger accounting as if the current group structure had been in existence at those dates.

Accordingly, the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows include the results, changes in equity and cash flows of the coal division as if the current group structure had been in existence throughout the Relevant Periods except for those subsidiaries that were either acquired, setup, deregistered or disposed of during the Relevant Periods. The consolidated statements of financial position of the Group as at December 31 2006, 2007, 2008 and September 30, 2009 have been prepared to present the assets and liabilities of the entities under common control as at the respective dates.

In December 2008, the Company signed an agreement with Ivanhoe for the sale of its Metals Division for US\$3 million. The agreement was effective December 30, 2008 and the disposal transaction was completed on February 2, 2009. The Metals Division consisted of certain base and precious metals properties in Mongolia and Indonesia. The Company will now be focused solely on coal production, development and exploration.

The Financial Information is presented in United States Dollars (“US\$”), which is the functional currency of the Company and its subsidiaries.

**3. Adoption of New and Revised International Financial Reporting Standards**

The International Accounting Standards Board (the “IASB”) issued a number of new and revised International Accounting Standards (“IASs”), International Financial Reporting Standards (“IFRSs”), amendments and related Interpretations (“IFRICs”) (hereinafter collectively referred to as the “new IFRSs”) which are effective for the Group’s financial year beginning on January 1, 2009. For the purpose of preparing and presenting the Financial Information of the Relevant Periods, the Group has consistently adopted all these new IFRSs for the Relevant Periods.

At the date of this report, the IASB has issued the following new and revised standards, amendments and interpretations which are not yet effective during the Relevant Periods.

- |                        |  |
|------------------------|--|
| • IFRSs (Amendments)   | Amendment to IFRS 5 as part of Improvements to IFRSs issued in 2008 <sup>(i)</sup> |
| • IFRSs (Amendments)   | Improvements to IFRSs issued in 2009 <sup>(ii)</sup>                               |
| • IAS 24 (Revised)     | Related Party Disclosures <sup>(iii)</sup>   |
| • IAS 27 (Revised)     | Consolidated and Separate Financial Statements <sup>(i)</sup>                      |
| • IAS 32 (Amendment)   | Classification of Rights Issues <sup>(iv)</sup>                                    |
| • IAS 39 (Amendment)   | Eligible Hedged Items <sup>(i)</sup>   |
| • IFRS 2 (Amendment)   | Group Cash-settled Share-based Payment Transactions <sup>(v)</sup>                 |
| • IFRS 3 (Revised)     | Business Combinations <sup>(i)</sup>   |
| • IFRS 9               | Financial Instruments <sup>(vi)</sup>  |
| • IFRIC 14 (Amendment) | Prepayment of a Minimum Funding Requirement <sup>(iii)</sup>                       |

**A. FINANCIAL INFORMATION — continued****NOTES TO THE FINANCIAL INFORMATION — continued****3. Adoption of New and Revised International Financial Reporting Standards — continued**

- IFRIC 17 Distributions of Non-cash Assets to Owners<sup>(i)</sup>
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments<sup>(vii)</sup>

- 
- (i) Effective for annual periods beginning on or after July 1, 2009
  - (ii) Amendments that are effective for annual periods beginning on or after July 1, 2009 or January 1, 2010, as appropriate
  - (iii) Effective for annual periods beginning on or after January 1, 2011
  - (iv) Effective for annual periods beginning on or after February 1, 2010
  - (v) Effective for annual periods beginning on or after January 1, 2010
  - (vi) Effective for annual periods beginning on or after January 1, 2013
  - (vii) Effective for annual periods beginning on or after July 1, 2010

The directors of the Company anticipate that the application of these standards, amendments and interpretations will have no material impact on the results and financial positions of the Group.

**4. Significant Accounting Policies**

The Financial Information has been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The Financial Information has been prepared in accordance with the following accounting policies which conform to IFRSs issued by the IASB. These policies have been consistently applied throughout the Relevant Periods. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

***Basis of consolidation***

The consolidated financial statements include the financial statements of the Company and its controlled subsidiaries. Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statements of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All intra-Company transactions, balances, income and expenses are eliminated in full on consolidation.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Company's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority interests' share of changes in equity since the date of the combination. Losses applicable to the minority interests in excess of their interest in the subsidiary's equity are allocated against the interests of the Company except to the extent that the minority interests have a binding obligation and are able to make an additional investment to cover the losses.

**A. FINANCIAL INFORMATION — continued****NOTES TO THE FINANCIAL INFORMATION — continued****4. Significant Accounting Policies — continued***Business combinations*

Acquisitions of subsidiaries and businesses (other than entities which were under the control of the parent) are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the fair value (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree, plus any acquisition-related costs incurred to effect a business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 '*Business Combinations*' are recognized at their fair value at the acquisition date except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 '*Non-current Assets Held for Sale and Discontinued Operations*,' which are recognized and measured at fair value less cost to sell.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If, after reassessment, the Company's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized immediately in profit or loss.

A business combination involving businesses under common control is a business combination in which all of the combining businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. Business combinations under common control are accounted for in accordance with the principle of merger accounting. In applying the principle of merger accounting, the consolidated financial statements incorporate the financial statement items of the combining businesses in which the common control combination occurs as if they had been combined from the date when the combining business first came under the control of the controlling party.

The net assets of the combining businesses are combined using the existing book values prior to the common control combinations from the controlling parties' perspective. No amount is recognized in respect of goodwill or excess of acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of comprehensive income includes the results of each of the combining businesses from the earliest date presented or since the date when the combining businesses first came under common control, where this is a shorter period, regardless of the date of common control combination.

*Interest income*

Interest income from financial assets is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.



**A. FINANCIAL INFORMATION — continued****NOTES TO THE FINANCIAL INFORMATION — continued****4. Significant Accounting Policies — continued***Foreign currencies*

The Company's reporting currency and the functional currency of all of its operations is the U.S. dollar as this is the principal currency of the economic environment in which they operate.

Transactions in foreign currencies are initially recorded at the functional currency rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the end of each reporting period.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

*Borrowing costs*

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. Other borrowing costs not directly attributable to a qualifying asset are expensed in the period incurred.

*Retirement benefit costs*

Payments to retirement benefit costs are charged as an expense when employees have rendered services entitling them to the contributions.

*Inventories*

Coal inventories are stated at lower of production cost and net realizable value. Production costs include direct and indirect labour, operating materials and supplies, transportation costs and an appropriate portion of fixed and variable overhead expenses, including depreciation and depletion. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Materials and supplies inventory consists of consumable parts and supplies which are valued at lower of weighted average cost and net realizable value. Supplies used in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. Net realizable value is defined as the selling price of the finished product less any provisions for obsolescence and costs of completion.

*Property, plant and equipment ("PPE")*

PPE is stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of PPE consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

**A. FINANCIAL INFORMATION — continued****NOTES TO THE FINANCIAL INFORMATION — continued****4. Significant Accounting Policies — continued***Property, plant and equipment (“PPE”) — continued*

Depreciation is provided at rates calculated to write off the cost of PPE, less their estimated residual value, using the straight line method or unit-of-production method over the following expected useful lives:

- |                            |  |
|----------------------------|--|
| • Mobile equipment         | 5 years  |
| • Computer equipment       | 1 to 5 years                                     |
| • Furniture and fixtures   | 5 years  |
| • Machinery and equipment  | 3 to 10 years                                    |
| • Buildings and roads      | 5 to 15 years                                    |
| • Leasehold improvements   | 5 years  |
| • Construction in progress | see below  |
| • Mineral assets           | based on resources on a unit-of-production basis |

Construction in progress includes PPE in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognized impairment loss. Construction in progress is classified to the appropriate category of PPE when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Mineral assets include deferred stripping costs and asset retirement obligations related to the reclamation of mining properties.

An item of PPE is derecognized upon disposal, when held for sale or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the consolidated statement of comprehensive income.

The Company conducts an annual assessment of the residual balances, useful lives and depreciation methods being used for PPE and any changes arising from the assessment are applied by the Group prospectively.

*Stripping costs*

Stripping costs incurred during the development of a mine are capitalized into PPE. Stripping costs incurred during the production phase are variable production costs that are included in the costs of inventory produced during the period that the stripping costs are incurred, unless the stripping activity can be shown to give rise to future benefits from the mineral property, in which case the stripping costs would be capitalized into PPE. Future benefits arise when stripping activity increases the future output of the mine by providing access to a new ore body. Capitalized stripping costs are depleted on a unit-of production basis, using estimated resources as the depletion base.

*Mineral properties*

All direct costs related to the acquisition of mineral property interests are capitalized into intangible assets on a property by property basis. Exploration costs, net of incidental revenues, are charged to operations in the period incurred until such time as it has been determined that a property has economically recoverable reserves, in which

**A. FINANCIAL INFORMATION — continued****NOTES TO THE FINANCIAL INFORMATION — continued****4. Significant Accounting Policies — continued***Mineral properties — continued*

case subsequent exploration costs and the costs incurred to develop a property are capitalized into PPE. Exploration costs include value-added taxes incurred in foreign jurisdictions when recoverability of these taxes is uncertain. On the commencement of commercial production, depletion of each mining property will be provided on a unit-of-production basis using estimated resources as the depletion base.

*Decommissioning, restoration and similar liabilities (“Asset retirement obligation” or “ARO”)*

The Company recognizes provision for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of mineral properties and mineral assets under PPE, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a provision for an asset retirement obligation is recognized as its present value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding asset retirement obligation is added to the carrying amount of the related asset and the cost is amortized as an expense over the economic life of the asset using either the unit-of-production method or the straight-line method, as appropriate. Following the initial recognition of the asset retirement obligation, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation.

*Share-based payments**Share-based payment transactions*

Employees (including directors and senior executives) of the Company receive a portion of their remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (“equity-settled transactions”).

In situations where equity instruments are issued and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of good or services received.

*Equity-settled transactions*

The costs of equity-settled transactions with employees are measured by reference to the fair value at the date on which they are granted.

The costs of equity-settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (“the vesting date”). The cumulative expense is recognized for equity-settled transactions at each reporting date until the vesting date reflects the Company’s best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in share option reserve. No expense is recognized for awards that do not ultimately vest.

**A. FINANCIAL INFORMATION — continued****NOTES TO THE FINANCIAL INFORMATION — continued****4. Significant Accounting Policies — continued***Share-based payments — continued*

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

The dilutive effect of outstanding options is reflected as additional dilution in the computation of earnings per share.

*Taxation*

Income tax expense represents the sum of tax currently payable and deferred tax.

*Current income tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of each reporting period.

*Deferred income tax*

Deferred income tax is provided using the liability method on temporary differences, at the end of each reporting period, between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will

**A. FINANCIAL INFORMATION — continued****NOTES TO THE FINANCIAL INFORMATION — continued****4. Significant Accounting Policies — continued***Taxation — continued*

reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of each reporting period.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the statement of comprehensive income.

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

*Financial instruments**Financial assets*

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans-and-receivables or at fair value through profit or loss (“FVTPL”).

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through profit and loss.

Financial assets classified as loans-and-receivables and held-to-maturity are measured at amortized cost using the effective interest method less any allowance for impairment. The Company’s trade and other receivables are classified as loans-and-receivables. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary

**A. FINANCIAL INFORMATION — continued****NOTES TO THE FINANCIAL INFORMATION — continued****4. Significant Accounting Policies — continued***Financial instruments — continued*

or a significant or prolonged decline in the fair value of that investment below its cost. At December 31, 2006, 2007, 2008 and September 30, 2009 the Company has not classified any financial assets as available-for-sale.

Transactions costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

*Financial liabilities*

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other-financial-liabilities.

Financial liabilities classified as other-financial-liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other-financial-liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's trade and other payables, deposits received and amounts due under line of credit facilities are classified as other-financial-liabilities.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including warranty liabilities and separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized through the statement of comprehensive income. All warrant liabilities, which had been accounted for as financial liabilities at FVTPL, were fully converted into common shares during the year ended December 31, 2006, therefore no warrant liabilities were outstanding at the end of each reporting period. At December 31, 2006 and 2007, the conversion option included in amounts due under line of credit facilities was separately accounted for as financial liabilities at FVTPL, while at December 31, 2008 and September 30, 2009 the Company has not classified any financial liabilities as FVTPL.

At the end of each reporting period subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognized directly in profit or loss in the period in which they arise. The net gain or loss recognized in profit or loss excludes any interest paid on the financial liabilities.

*Impairment of financial assets*

The Company assesses at the end of each reporting period whether a financial asset is impaired.

*Assets carried at amortized cost*

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of

**A. FINANCIAL INFORMATION — continued****NOTES TO THE FINANCIAL INFORMATION — continued****4. Significant Accounting Policies — continued***Impairment of financial assets — continued*

estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in profit or loss.

In relation to trade and other receivables, a provision for impairment is made and an impairment loss is recognized in profit and loss when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are written off against the allowance account when they are assessed as uncollectible.

*Derecognition of financial assets and financial liabilities*

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

For financial liabilities, they are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

*Impairment of non-financial assets*

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the assets belong.

Recoverable amount is the higher of 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.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive income.



**A. FINANCIAL INFORMATION — continued****NOTES TO THE FINANCIAL INFORMATION — continued****4. Significant Accounting Policies — continued***Impairment of non-financial assets — continued*

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

*Cash and cash equivalents*

Cash and cash equivalents comprise cash at banks and on hand, and short term money market instruments with an original maturity of three months or less, which are readily convertible into a known amount of cash.

*Revenue recognition*

Revenue represents the fair value of consideration received and receivable that are derived from the sales of coal. Sales revenues are recognized when the risks and rewards of ownership pass to the buyer, collection is reasonably assured and the price is reasonably determinable. The revenue from sales of coal in the ordinary course of business is recognized when coal is either loaded onto a truck or when it is unloaded at the final destination, depending on the terms of the contract.

*Provisions*

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

*Related party transactions*

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

**5. Significant Accounting Judgements and Estimates**

In the process of applying the Group's accounting policies, which are described in Note 4, the directors of the Company have made the following judgement and key sources of estimation uncertainty that have significant effect on the amounts recognized in the financial information. The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a



**A. FINANCIAL INFORMATION — continued****NOTES TO THE FINANCIAL INFORMATION — continued****5. Significant Accounting Judgements and Estimates — continued**

material adjustment to the carrying amounts of assets and liabilities within the next twelve months, are discussed below.

*Fair value of amounts due under line of credit facilities*

The fair value of conversion option included in the amounts due under line of credit facilities is subject to the limitation of the Black-Scholes options pricing model that incorporates market data and involves uncertainty in estimates used by management in the assumptions. Because the Black-Scholes options pricing model requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate.

*Fair value of asset retirement obligations*

Reclamation and closure costs have been estimated based on the Group's interpretation of current regulatory requirements and have been measured at the net present value of expected future cash expenditures upon reclamation and closure. Reclamation and closure costs are capitalized as mineral assets and amortized over the life of the respective mine. Because the fair value measurement requires the input of subjective assumptions, including the reclamation and closure costs, changes in subjective input assumptions can materially affect the fair value estimate.

**6. Discontinued Operations**

The Company sold the Metals Division, effective December 30, 2008 with a closing date of February 2, 2009 to Ivanhoe for US\$3 million. In addition, Ivanhoe provided the Company with a US\$30 million credit facility for a term of one year (Note 28). Ivanhoe has provided the Company with the economic equivalent of a 1% Net Smelter Royalty on the Sulawesi and Kerta Projects in Indonesia. The Metals Division consisted of certain base and precious metals properties in Mongolia and Indonesia. The Company received the proceeds of US\$3 million in December 2008 and reflected as deposits received under current liabilities. The Company has recorded a gain of US\$2,617,480 in the nine months ended September 30, 2009 on the sale of the Metals Division and this gain has been recorded directly into equity as the sale was to the parent of the Group.

The Metals Division is presented as a discontinued operation and its financial results are presented as separate items in the consolidated statements of comprehensive income, and consolidated statements of cash flows throughout the Relevant Periods. At December 31, 2008, the Metals Division assets and liabilities are classified as assets and liabilities held for sale. Upon the closing of the sale of the Metals Division on February 2, 2009, there was a net cash outflow of US\$222,699 recorded in the nine months ended September 30, 2009, along with the cash and cash equivalents, all other assets and liabilities classified as held for sale as at December 31, 2008 were disposed of.

## A. FINANCIAL INFORMATION — continued

## NOTES TO THE FINANCIAL INFORMATION — continued

## 6. Discontinued Operations — continued

## (a) Loss from discontinued operations

The losses from discontinued operations for the Relevant Periods are as follows:

	Year ended December 31,			Nine months ended September 30,	
	2006	2007	2008	2008	2009
	US\$	US\$	US\$	US\$	US\$
Evaluation and exploration expenses . . . . .	(6,401,632)	(4,640,803)	(7,417,892)	(5,362,114)	—
Impairment of intangible asset . . . . .	(132,366)	—	(493,360)	—	—
Others . . . . .	—	(35,009)	—	—	—
Net loss from discontinued operations . . . . .	<u>(6,533,998)</u>	<u>(4,675,812)</u>	<u>(7,911,252)</u>	<u>(5,362,114)</u>	<u>—</u>
Basic and diluted loss per share from discontinued operations . . . . .	<u>(0.40)</u>	<u>(0.09)</u>	<u>(0.06)</u>	<u>(0.04)</u>	<u>—</u>

## (b) Net assets classified as held for sale

The carrying values of net assets classified as held for sale as at December 31, 2008 are as follows:

	As at December 31, 2008
	US\$
<b>CURRENT ASSETS</b>	
Cash and cash equivalents . . . . .	222,699
Trade and other receivables . . . . .	184,022
Prepaid expenses and deposits . . . . .	133,664
Property, plant and equipment . . . . .	97,215
<b>CURRENT ASSETS CLASSIFIED AS HELD FOR SALE . . . . .</b>	<u>637,600</u>
<b>CURRENT LIABILITY</b>	
Trade and other payables . . . . .	255,080
<b>CURRENT LIABILITIES CLASSIFIED AS HELD FOR SALE . . . . .</b>	<u>255,080</u>

## 7. Impairment Charge on Mamahak Coal Project

In the third quarter of 2009, Management became aware of the requirement for additional capital expenditure at the Mamahak Coal project (“Mamahak”) beyond what was originally budgeted to develop the project. The Company is planning a detailed operational review at Mamahak to confirm the additional capital requirements and to enhance the mine plan and resource base. Pending the results of the planned review, the Company suspended future development works at Mamahak. The Indonesian Coal Division is a reportable segment for the Group as disclosed in Note 8 and is composed entirely of Mamahak.

Based on these new developments the Company conducted an impairment analysis of the Indonesia Coal Division and has concluded that the carrying value for certain assets exceeds their recoverable amount. The

**A. FINANCIAL INFORMATION — continued****NOTES TO THE FINANCIAL INFORMATION — continued****7. Impairment Charge on Mamahak Coal Project — continued**

Company determined the recoverable amount and calculated the value in use of Mamahak using a discount rate of 11.6%. The Group has recorded an impairment charge of US\$23,029,013, which represented the full carrying value of the respective assets, in the consolidated statement of comprehensive income for the nine months ended September 30, 2009 allocated as follows:

	<u>US\$</u>
Intangible assets . . . . .	13,208,218
Property, plant and equipment . . . . .	7,239,689
Inventories . . . . .	<u>2,581,106</u>
<b>IMPAIRMENT CHARGE ON MAMAHAK COAL PROJECT . . . . .</b>	<b><u>23,029,013</u></b>

Subsequent to September 30, 2009, the Group entered into an agreement to divest its interest in Mamahak (see Section C (ii)).

**8. Segment Information**

During the Relevant Periods the Group has two reportable operating segments, being the Mongolian Coal Division and Indonesian Coal Division.

An operating segment is defined as a component of the Group:

- that engages in business activities from which it may earn revenues and incur expenses;
- whose operating results are reviewed regularly by the entity's chief operating decision maker; and
- for which discrete financial information is available.

For both the Mongolian Coal Division and Indonesian Coal Division, the Company receives discrete financial information that is used by the chief operating decision maker, the president of the Company, to make decisions about resources to be allocated to the segment and to assess its performance. Both divisions are principally engaged in the acquisition, exploration and development of coal properties in distinct geographical locations. During the year ended December 31, 2008, the Mongolian Coal Division achieved commercial production and is earning revenue through the sale of coal to external customers.

The Group's Corporate Division only earns revenues that are considered incidental to the activities of the Company and therefore does not meet the definition of an operating segment as defined in IFRS 8 '*Operating Segments*.'

At September 30, 2009, the Mongolian Coal Division had three customers with the largest customer accounting for 62% of revenues and the other customers accounting for the remaining 38% of revenues. At December 31, 2008, the Mongolian Coal Division had two customers with the largest customer accounting for 61% of revenues and the other customer accounting for 39% of revenues.

## A. FINANCIAL INFORMATION — continued

## NOTES TO THE FINANCIAL INFORMATION — continued

## 8. Segment Information — continued

The following is an analysis of the carrying amounts of segment assets, segment liabilities and reported segment profit or loss, revenues, capital expenditures, depreciation and depletion expense and impairment loss on assets analyzed by operating segment and reconciled to the Group's consolidated financial statements:

	Mongolian Coal Division	Indonesian Coal Division	Discontinued Operations <sup>(i)</sup>	Unallocated <sup>(ii)</sup>	Consolidated Total
	US\$	US\$	US\$	US\$	US\$
<b>SEGMENT ASSETS</b>					
As at December 31, 2006 . . . . .	262,688	—	1,049,397	1,002,838	2,314,923
As at December 31, 2007 . . . . .	2,509,473	—	1,132,268	1,968,336	5,610,077
As at December 31, 2008 . . . . .	76,611,232	14,835,690	637,600	7,863,487	99,948,009
As at September 30, 2009 . . . . .	104,328,554	2,288,522	—	3,284,904	109,901,980
<b>SEGMENT LIABILITIES</b>					
As at December 31, 2006 . . . . .	—	—	82,783	6,204,258	6,287,041
As at December 31, 2007 . . . . .	835,998	—	269,795	106,335,371	107,441,164
As at December 31, 2008 . . . . .	3,101,017	810,929	255,080	6,816,292	10,983,318
As at September 30, 2009 . . . . .	4,314,552	3,513,020	—	41,397,915	49,225,487
<b>SEGMENT (PROFITS)/LOSSES</b>					
For the year ended December 31, 2006 . . . . .	12,167,198	—	6,533,998	3,027,440	21,728,636
For the year ended December 31, 2007 . . . . .	14,687,844	—	4,675,812	77,372,772	96,736,428
For the year ended December 31, 2008 . . . . .	25,433,834	9,689,497	7,911,252	26,541,159	69,575,742
For the nine months ended September 30, 2008 (unaudited) . . . . .	21,495,460	6,603,332	5,362,114	19,109,138	52,570,044
For the nine months ended September 30, 2009 . .	(8,223,134)	32,121,702	—	17,754,265	41,652,833
<b>SEGMENT REVENUES</b>					
For the year ended December 31, 2006 . . . . .	—	—	—	—	—
For the year ended December 31, 2007 . . . . .	—	—	—	—	—
For the year ended December 31, 2008 . . . . .	3,125,851	—	—	—	3,125,851
For the nine months ended September 30, 2008 (unaudited) . . . . .	—	—	—	—	—
For the nine months ended September 30, 2009 . .	26,077,803	—	—	—	26,077,803
<b>CAPITAL EXPENDITURES</b>					
For the year ended December 31, 2006 . . . . .	162,700	—	139,988	33,287	335,975
For the year ended December 31, 2007 . . . . .	509,910	—	36,564	114,018	660,492
For the year ended December 31, 2008 . . . . .	53,959,779	480,757	53,398	15,666	54,509,600
For the nine months ended September 30, 2008 (unaudited) . . . . .	45,125,989	297,979	47,376	4,754	45,476,098
For the nine months ended September 30, 2009 . .	17,806,399	6,255,481	—	62,076	24,123,956
<b>DEPRECIATION AND DEPLETION EXPENSE</b>					
For the year ended December 31, 2006 . . . . .	43,653	—	29,437	26,167	99,257
For the year ended December 31, 2007 . . . . .	50,285	—	61,717	65,015	177,017
For the year ended December 31, 2008 . . . . .	395,499	—	55,318	98,028	548,845
For the nine months ended September 30, 2008 (unaudited) . . . . .	89,641	—	44,322	94,785	228,748
For the nine months ended September 30, 2009 . .	4,261,068	—	—	13,002	4,274,070

## A. FINANCIAL INFORMATION — continued

## NOTES TO THE FINANCIAL INFORMATION — continued

## 8. Segment Information — continued

	Mongolian Coal Division	Indonesian Coal Division	Discontinued Operations <sup>(i)</sup>	Unallocated <sup>(ii)</sup>	Consolidated Total
	US\$	US\$	US\$	US\$	US\$
<b>IMPAIRMENT CHARGE ON ASSETS</b>					
For the year ended December 31, 2006 . . . . .	—	—	132,366	—	132,366
For the year ended December 31, 2007 . . . . .	—	—	—	—	—
For the year ended December 31, 2008 . . . . .	—	—	493,360	—	493,360
For the nine months ended September 30, 2008 (unaudited) . . . . .	—	—	—	—	—
For the nine months ended September 30, 2009 (Note 7) . . . . .	—	23,029,013	—	—	23,029,013

(i) The Metals Division was treated as discontinued operations throughout the Relevant Periods and the assets and liabilities of the Metal Division were reclassified as held for sale as at December 31, 2008 (Note 6)

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

During the Relevant Periods, the Group operated in five geographical areas, being, Bulgaria, Canada, Hong Kong, Indonesia and Mongolia. The following is an analysis of the revenues and non-current assets by geographical area and reconciled to the Group's consolidated financial statements:

	Mongolia	Indonesia	Hong Kong	Canada	Bulgaria <sup>(i)</sup>	Consolidated Total
	US\$	US\$	US\$	US\$	US\$	US\$
<b>REVENUES</b>						
For the year ended December 31, 2006 . . . . .	—	—	—	—	—	—
For the year ended December 31, 2007 . . . . .	—	—	—	—	—	—
For the year ended December 31, 2008 . . . . .	3,125,851	—	—	—	—	3,125,851
For the nine months ended September 30, 2008 (unaudited) . . . . .	—	—	—	—	—	—
For the nine months ended September 30, 2009 . . . . .	26,077,803	—	—	—	—	26,077,803
<b>NON-CURRENT ASSETS</b>						
As at December 31, 2006 . . . . .	750,445	59,324	—	32,723	56,141	898,633
As at December 31, 2007 . . . . .	1,398,348	62,175	—	106,217	—	1,566,740
As at December 31, 2008 . . . . .	51,938,584	13,688,975	—	20,570	—	65,648,129
As at September 30, 2009 . . . . .	74,331,507	—	51,041	126,116	—	74,508,664

(i) Along with the disposal of Bulgarian assets in 2007, the Group then no longer had revenue and assets in Bulgaria

## A. FINANCIAL INFORMATION — continued

## NOTES TO THE FINANCIAL INFORMATION — continued

## 9. Cost of Sales

The cost of sales for the Group is analyzed as follows:

	Year ended December 31,			Nine months ended September 30,	
	2006 US\$	2007 US\$	2008 US\$	2008 US\$ (unaudited)	2009 US\$
Operating expenses . . . . .	—	—	1,863,684	—	16,746,097
Depreciation and depletion . . . . .	—	—	313,741	—	4,242,776
<b>COST OF SALES . . . . .</b>	<u>—</u>	<u>—</u>	<u>2,177,425</u>	<u>—</u>	<u>20,988,873</u>

## 10. Administration Expenses

The administration expenses for the Group are analyzed as follows:

	Year ended December 31,			Nine months ended September 30,	
	2006 US\$	2007 US\$	2008 US\$	2008 US\$ (unaudited)	2009 US\$
Corporate administration . . . . .	2,135,599	1,514,445	2,122,713	1,488,497	1,725,855
Legal . . . . .	293,810	281,010	345,747	290,990	423,638
Professional fees . . . . .	305,679	221,838	830,722	541,748	1,723,256
Listing expenses . . . . .	—	—	6,715,220	5,880,057	1,931,549
Salaries and benefits . . . . .	2,256,899	5,156,500	5,617,928	3,746,274	9,701,565
Depreciation . . . . .	26,167	65,015	98,028	94,785	13,002
Foreign exchange loss/(gain) . . . . .	20,393	(47,546)	4,579,797	808,417	1,264,483
<b>ADMINISTRATION EXPENSES . . . . .</b>	<u>5,038,547</u>	<u>7,191,262</u>	<u>20,310,155</u>	<u>12,850,768</u>	<u>16,783,348</u>

## 11. Evaluation and Exploration Expenses

The evaluation and exploration expenses for the Group are analyzed as follows:

	Year ended December 31,			Nine months ended September 30,	
	2006 US\$	2007 US\$	2008 US\$	2008 US\$ (unaudited)	2009 US\$
Mongolian Coal Division . . . . .	9,577,429	13,787,952	26,443,511	21,485,182	4,659,780
Indonesian Coal Division . . . . .	—	—	9,739,652	6,603,332	9,121,664
<b>EVALUATION AND EXPLORATION EXPENSES . . . . .</b>	<u>9,577,429</u>	<u>13,787,952</u>	<u>36,183,163</u>	<u>28,088,514</u>	<u>13,781,444</u>

## A. FINANCIAL INFORMATION — continued

## NOTES TO THE FINANCIAL INFORMATION — continued

## 12. Finance Costs

The finance costs for the Group are analyzed as follows:

	Year ended December 31,			Nine months ended September 30,	
	2006	2007	2008	2008	2009
	US\$	US\$	US\$	US\$ (unaudited)	US\$
Fair value change on embedded derivative (Note 28) . . . . .	—	63,286,039	7,223,399	7,223,399	—
Fair value change on warrant liabilities (Note 27) . . . . .	449,623	—	—	—	—
Interest accretion on line of credit facility . . . . .	—	6,480,703	598,408	598,408	—
Interest expense . . . . .	178,739	1,358,742	148,187	134,186	1,030,151
Accretion on asset retirement obligation . . . . .	—	—	19,498	10,278	30,990
<b>FINANCE COSTS</b> . . . . .	<u>628,362</u>	<u>71,125,484</u>	<u>7,989,492</u>	<u>7,966,271</u>	<u>1,061,141</u>

## 13. Taxes

The Company and its subsidiaries in Canada are subject to Canadian federal and provincial tax which are calculated at 34.12%, 34.12%, 31.00%, 31.00% and 30.00% of the estimated assessable profit for the years ended December 31, 2006, 2007, 2008 and the nine months ended September 30, 2008 and 2009, respectively. The Company and its subsidiaries in Canada had no assessable profit for the Relevant Periods.

No Hong Kong profits tax was provided for as the Group had no assessable profit arising in or derived from Hong Kong.

The current income tax expense of US\$711,855 for the nine months ended September 30, 2009 represents Mongolian income tax charged at 25% on the assessable profit.

Taxation for other relevant jurisdictions is calculated at the rates prevailing in each of those jurisdictions respectively.

## A. FINANCIAL INFORMATION — continued

## NOTES TO THE FINANCIAL INFORMATION — continued

## 13. Taxes — continued

The tax expense for the Group can be reconciled to the loss for the Relevant Periods per the consolidated statements of comprehensive income as follows:

	Year ended December 31,			Nine months ended September 30,	
	2006 US\$	2007 US\$	2008 US\$	2008 US\$ (unaudited)	2009 US\$
Loss from continuing operations before tax . . . . .	15,194,638	92,060,616	61,664,490	47,207,930	49,549,744
Loss from discontinued operations before tax . . . . .	<u>6,533,998</u>	<u>4,675,812</u>	<u>7,911,252</u>	<u>5,362,114</u>	<u>—</u>
Loss from operations before tax . . . . .	21,728,636	96,736,428	69,575,742	52,570,044	49,549,744
Statutory tax rate . . . . .	34.12%	34.12%	31.00%	31.00%	30.00%
Recovery of income taxes based on combined Canadian federal and provincial statutory rates . . . . .	7,413,811	33,006,469	21,568,480	16,296,714	14,864,923
Deduct:					
Lower effective tax rate in foreign jurisdictions . . . . .	(819,900)	(1,652,668)	(2,118,138)	(1,379,871)	(719,401)
Tax effect of tax losses and temporary differences not recognized . . . . .	(2,573,389)	(30,085,900)	(15,712,721)	(11,812,206)	357,611
Non-deductible expenses . . . . .	(3,869,515)	(387,023)	(2,902,080)	(2,182,318)	(6,036,726)
Effect of change in future tax rates . . . . .	<u>(151,007)</u>	<u>(880,878)</u>	<u>(835,541)</u>	<u>(922,319)</u>	<u>(569,496)</u>
<b>TAX CREDIT FOR THE YEAR/PERIOD . . . . .</b>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>7,896,911</u>

The following are the Group's deferred income tax assets recognized and movement thereon during the Relevant Periods:

	Tax loss carry- forwards US\$	Mineral properties, plant and equipment US\$	Other assets US\$	Total US\$
As at January 1, 2006, December 31, 2006, December 31, 2007 and December 31, 2008 . . . . .	—	—	—	—
Credit to profit for the period . . . . .	<u>7,588,799</u>	<u>1,003,720</u>	<u>16,247</u>	<u>8,608,766</u>
As at September 30, 2009 . . . . .	<u>7,588,799</u>	<u>1,003,720</u>	<u>16,247</u>	<u>8,608,766</u>



## A. FINANCIAL INFORMATION — continued

## NOTES TO THE FINANCIAL INFORMATION — continued

## 13. Taxes — continued

The Group's unrecognized deferred income tax assets are as follows:

	As at December 31,			As at September 30,
	2006 US\$	2007 US\$	2008 <sup>(i)</sup> US\$	2009 US\$
Tax loss carry-forwards . . . . .	7,081,800	14,976,932	13,732,021	10,288,493
Mineral properties, plant and equipment . . . . .	1,199,700	1,074,579	504,170	4,923,030
Share issue costs . . . . .	76,100	16,195	687,111	536,805
Unrealized foreign exchange losses . . . . .	—	1,009	2,318,860	4,859,417
Fair value of embedded derivative (Note 28) . . . . .	—	20,930,023	—	—
Other assets . . . . .	31,900	1,476,662	1,146,156	1,797,322
Total deferred income tax assets . . . . .	<u>8,389,500</u>	<u>38,475,400</u>	<u>18,388,318</u>	<u>22,405,067</u>

(i) 2008 figures exclude deferred income tax assets and liabilities associated with assets and liabilities classified as held for sale

The Group's unrecognized deferred income tax assets associated with assets held for sale are as follows:

	As at December 31, 2008 US\$
Tax loss carry-forwards . . . . .	3,892,160
Mineral properties, plant and equipment . . . . .	482,201
Total deferred income tax assets . . . . .	<u>4,374,361</u>

At December 31, 2006, 2007, 2008 and September 30, 2009, the Company and its subsidiaries have unrecognized capital and non-capital losses for income tax purposes of approximately US\$29 million, US\$56 million, US\$64 million and US\$77 million, respectively that may be used to offset future taxable income as follows:

		As at December 31, 2006		
		Local currency	U.S. Dollar equivalent US\$	Expiry dates
<b>NON-CAPITAL LOSSES</b>				
Canadian Dollar . . . . .	Cdn\$	7,006,498	6,009,500	2009-2026
Mongolian Tugrik . . . . .	MNT	18,936,837,689	16,255,000	(a)
Bulgarian Lev . . . . .	BGN	2,315,548	1,476,200	2010-2011
Indonesian Rupiah . . . . .	IDR	6,388,742,816	<u>707,900</u>	2011
			<u>24,448,600</u>	
<b>CAPITAL LOSSES</b>				
Canadian Dollar . . . . .	Cdn\$	5,423,519	<u>4,651,800</u>	indefinite

## A. FINANCIAL INFORMATION — continued

## NOTES TO THE FINANCIAL INFORMATION — continued

## 13. Taxes — continued

		As at December 31, 2007		
		Local currency	U.S. Dollar equivalent	Expiry dates
			US\$	
<b>NON-CAPITAL LOSSES</b>				
Canadian Dollar . . . . .	Cdn\$	12,551,409	12,590,300	2009-2027
Mongolian Tugrik . . . . .	MNT	47,327,915,489	40,485,800	(a)
Indonesian Rupiah . . . . .	IDR	26,958,622,095	<u>3,237,300</u>	2011-2012
			<u>56,313,400</u>	
<b>CAPITAL LOSSES</b>				
Canadian Dollar . . . . .	Cdn\$	—	<u>—</u>	(b)
		As at December 31, 2008		
		Local currency	U.S. Dollar equivalent	Expiry dates
			US\$	
<b>NON-CAPITAL LOSSES</b>				
Canadian Dollar . . . . .	Cdn\$	19,360,700	15,885,051	2009-2028
Mongolian Tugrik . . . . .	MNT	48,539,151,254	39,991,600	2009-2019
Indonesian Rupiah . . . . .	IDR	68,225,355,210	6,135,374	2011-2013
Singapore Dollar . . . . .	SGD	3,441,522	<u>2,406,491</u>	indefinite
			<u>64,418,516</u>	
<b>CAPITAL LOSSES</b>				
Canadian Dollar . . . . .	Cdn\$	—	<u>—</u>	(b)
		As at September 30, 2009		
		Local currency	U.S. Dollar equivalent	Expiry dates
			US\$	
<b>NON-CAPITAL LOSSES</b>				
Canadian Dollar . . . . .	Cdn\$	25,079,812	23,450,035	2009-2029
Mongolian Tugrik . . . . .	MNT	43,332,041,082	36,418,348	2009-2020
Indonesian Rupiah . . . . .	IDR	135,285,853,447	13,997,502	2011-2014
Singapore Dollar . . . . .	SGD	3,438,420	2,439,115	indefinite
Hong Kong Dollar . . . . .	HKD	3,177,344	<u>409,959</u>	indefinite
			<u>76,714,959</u>	
<b>CAPITAL LOSSES</b>				
Canadian Dollar . . . . .	Cdn\$	—	<u>—</u>	(b)

(a) These losses are carried forward until such time as production from a mine commences; thereafter, they can be carried forward for a period of five years.

(b) All tax losses have been discarded as the Coal Transaction took place in 2007 and no tax losses carried forward at December 31, 2007 and 2008 and September 30, 2009.

## A. FINANCIAL INFORMATION — continued

## NOTES TO THE FINANCIAL INFORMATION — continued

## 14. Loss for the Year

	Year ended December 31,			Nine months ended September 30,	
	2006	2007	2008	2008	2009
	US\$	US\$	US\$	US\$ (unaudited)	US\$
Loss for the year/period has been arrived at after charging:					
Auditor's remuneration . . . . .	128,000	143,000	286,000	211,126	230,462
Loss on disposal of property, plant and equipment . . . . .	8,731	—	5,663	5,663	115,824
Depreciation					
Depreciation included in administration expenses . . . . .	26,167	65,015	98,028	94,785	13,002
Depreciation included in exploration expenses . . . . .	43,653	50,285	91,082	89,641	18,292
Depreciation included in cost of sales . . . . .	—	—	304,417	—	4,242,776
Total depreciation included in continuing operations . . . . .	69,820	115,300	493,527	184,426	4,274,070
Depreciation included in discontinued operations . . . . .	29,437	61,717	55,318	44,322	—
Total depreciation . . . . .	<u>99,257</u>	<u>177,017</u>	<u>548,845</u>	<u>228,748</u>	<u>4,274,070</u>
Staff costs					
Directors' emoluments (Note 15) . . . . .	194,643	2,541,623	2,219,091	1,619,160	2,004,545
Other staff costs . . . . .	2,054,201	2,598,923	3,381,180	2,111,787	7,681,166
Retirement benefit costs excluding directors . . . . .	8,055	15,954	17,657	15,327	15,854
Staff costs in administration expenses . . . . .	2,256,899	5,156,500	5,617,928	3,746,274	9,701,565
Staff costs included in exploration expenses . . . . .	<u>1,140,315</u>	<u>5,235,385</u>	<u>3,337,575</u>	<u>4,789,827</u>	<u>1,227,815</u>
Total staff costs . . . . .	<u>3,397,214</u>	<u>10,391,885</u>	<u>8,955,503</u>	<u>8,536,101</u>	<u>10,929,380</u>

## A. FINANCIAL INFORMATION — continued

## NOTES TO THE FINANCIAL INFORMATION — continued

## 15. Directors' and Employees' Emoluments

	Year ended December 31,			Nine months ended September 30,	
	2006	2007	2008	2008	2009
	US\$	US\$	US\$	US\$ (unaudited)	US\$
<b>DIRECTORS' EMOLUMENTS:</b>					
Directors' fees . . . . .	26,462	28,070	212,838	132,029	235,273
Other emoluments for non-executive directors and independent non-executive directors					
— salaries and other benefits . . . . .	41,898	—	—	—	—
— share-based compensation . . . . .	70,980	1,138,414	1,097,142	792,599	1,147,893
— retirement benefit contribution . . . . .	1,196	1,268	6,791	4,503	5,391
Other emoluments for executive directors					
— salaries and other benefits . . . . .	30,320	49,481	254,615	221,903	107,080
— share-based compensation . . . . .	23,366	1,323,925	647,201	467,622	508,562
— retirement benefit contribution . . . . .	421	465	504	504	346
	<u>194,643</u>	<u>2,541,623</u>	<u>2,219,091</u>	<u>1,619,160</u>	<u>2,004,545</u>

## A. FINANCIAL INFORMATION — continued

## NOTES TO THE FINANCIAL INFORMATION — continued

## 15. Directors' and Employees' Emoluments — continued

	Directors' fees	Salaries and other benefits	Retirement benefit contribution	Share based compensation	Total
	US\$	US\$	US\$	US\$	US\$
Year ended December 31, 2006					
Name of director					
Peter Graham Meredith . . . . .	—	30,320	421	23,366	54,107
John Anthony Macken . . . . .	—	—	—	—	—
Pierre Bruno Lebel . . . . .	15,877	24,173	748	23,807	64,605
Andre Henry Deepwell . . . . .	10,585	17,725	448	23,807	52,565
Raymond Edward Jr. Flood . . . . .	—	—	—	23,366	23,366
Robert Stuart Angus . . . . .	—	—	—	—	—
Robert William Hanson . . . . .	—	—	—	—	—
Doug Kirwin . . . . .	—	—	—	—	—
	<u>26,462</u>	<u>72,218</u>	<u>1,617</u>	<u>94,346</u>	<u>194,643</u>
Year ended December 31, 2007					
Name of director					
Peter Graham Meredith . . . . .	—	49,481	465	883,562	933,508
John Anthony Macken . . . . .	—	—	—	440,363	440,363
Pierre Bruno Lebel . . . . .	16,842	—	793	143,821	161,456
Andre Henry Deepwell . . . . .	11,228	—	475	99,785	111,488
Raymond Edward Jr. Flood . . . . .	—	—	—	139,545	139,545
Robert Stuart Angus . . . . .	—	—	—	375,221	375,221
Robert William Hanson . . . . .	—	—	—	375,221	375,221
Doug Kirwin (resigned on May 25, 2007) . . . . .	—	—	—	4,821	4,821
	<u>28,070</u>	<u>49,481</u>	<u>1,733</u>	<u>2,462,339</u>	<u>2,541,623</u>
Year ended December 31, 2008					
Name of director					
Peter Graham Meredith . . . . .	—	254,615	504	647,201	902,320
John Anthony Macken . . . . .	—	—	—	325,087	325,087
Pierre Bruno Lebel . . . . .	65,362	—	2,697	164,669	232,728
Andre Henry Deepwell . . . . .	48,027	—	2,182	139,959	190,168
Raymond Edward Jr. Flood . . . . .	17,851	—	—	155,763	173,614
Robert Stuart Angus . . . . .	41,932	—	1,912	155,832	199,676
Robert William Hanson . . . . .	39,666	—	—	155,832	195,498
	<u>212,838</u>	<u>254,615</u>	<u>7,295</u>	<u>1,744,343</u>	<u>2,219,091</u>
Nine months ended September 30, 2008 (unaudited)					
Name of director					
Peter Graham Meredith . . . . .	—	221,903	504	467,622	690,029
John Anthony Macken . . . . .	—	—	—	234,602	234,602
Pierre Bruno Lebel . . . . .	40,670	—	2,014	117,251	159,935
Andre Henry Deepwell . . . . .	31,224	—	1,385	95,732	128,341
Raymond Edward Jr. Flood . . . . .	11,260	—	—	109,036	120,296
Robert Stuart Angus . . . . .	24,880	—	1,104	117,989	143,973
Robert William Hanson . . . . .	23,995	—	—	117,989	141,984
	<u>132,029</u>	<u>221,903</u>	<u>5,007</u>	<u>1,260,221</u>	<u>1,619,160</u>

## A. FINANCIAL INFORMATION — continued

## NOTES TO THE FINANCIAL INFORMATION — continued

## 15. Directors' and Employees' Emoluments — continued

	Directors' fees	Salaries and other benefits	Retirement benefit contribution	Share based compensation	Total
	US\$	US\$	US\$	US\$	US\$
Nine months ended September 30, 2009					
Name of director					
Peter Graham Meredith . . . . .	—	107,080	346	508,562	615,988
John Anthony Macken . . . . .	—	—	—	256,744	256,744
Pierre Bruno Lebel . . . . .	76,679	—	672	183,990	261,341
Andre Henry Deepwell . . . . .	55,225	—	1,044	180,018	236,287
Raymond Edward Jr. Flood . . . . .	19,695	—	812	182,993	203,500
Robert Stuart Angus . . . . .	41,965	—	1,044	172,074	215,083
Robert William Hanson . . . . .	41,709	—	1,819	172,074	215,602
	<u>235,273</u>	<u>107,080</u>	<u>5,737</u>	<u>1,656,455</u>	<u>2,004,545</u>

*Five highest paid individuals*

The five highest paid individuals included one director of the Company for the year ended December 31, 2006, four directors for the year ended December 31, 2007 and two directors for the year ended December 31, 2008. For the nine months ended September 30, 2008, the five highest paid individuals included two directors of the Company, while for the nine months ended September 30, 2009, the five highest paid individuals included one director of the Company. The emoluments of the remaining four highest paid individuals for the year ended December 31, 2006, remaining one for the year ended December 31, 2007, remaining three for the year ended December 31, 2008, remaining three for the nine months ended September 30, 2008 and remaining four for the nine months ended September 30, 2009 are as follows:

	Year ended December 31,			Nine months ended September 30,	
	2006	2007	2008	2008	2009
	US\$	US\$	US\$	US\$	US\$
				(unaudited)	
EMPLOYEES					
— salaries and other benefits . . . . .	417,295	237,655	893,293	705,912	423,178
— retirement benefit contributions . . . . .	6,744	1,861	6,042	6,042	4,152
— share-based compensation . . . . .	294,336	1,500,884	759,273	415,406	2,385,337
	<u>718,375</u>	<u>1,740,400</u>	<u>1,658,608</u>	<u>1,127,360</u>	<u>2,812,667</u>

## A. FINANCIAL INFORMATION — continued

## NOTES TO THE FINANCIAL INFORMATION — continued

## 15. Directors' and Employees' Emoluments — continued

*Five highest paid individuals — continued*

Their emoluments were within the following bands:

	Year ended December 31,			Nine months ended September 30,	
	2006	2007	2008	2008 (unaudited)	2009
HK\$Nil to HK\$1,000,000 (equivalent to approximately US\$Nil to US\$128,205) . . . . .	1	—	—	—	—
HK\$1,000,001 to HK\$1,500,000 (equivalent to approximately US\$128,206 to US\$192,307) . . . . .	2	—	—	—	—
HK \$1,500,001 to HK\$2,000,000 (equivalent to approximately US\$192,308 to US\$256,410) . . . . .	1	—	—	1	—
HK\$2,000,001 to HK\$2,500,000 (equivalent to approximately US\$256,411 to US\$320,513) . . . . .	—	—	—	1	1
HK\$3,000,001 to HK\$3,500,000 (equivalent to approximately US\$384,616 to US\$448,718) . . . . .	—	—	2	—	—
HK\$3,500,001 to HK\$4,000,000 (equivalent to approximately US\$448,719 to US\$512,820) . . . . .	—	—	—	—	1
HK\$4,000,001 to HK\$4,500,000 (equivalent to approximately US\$512,821 to US\$576,923) . . . . .	—	—	—	—	1
HK\$4,500,001 to HK\$5,000,000 (equivalent to approximately US\$576,924 to US\$641,025) . . . . .	—	—	—	1	—
HK\$6,000,001 to HK\$6,500,000 (equivalent to approximately US\$769,231 to US\$833,333) . . . . .	—	—	1	—	—
HK \$11,000,001 to HK\$11,500,000 (equivalent to approximately US\$1,410,256 to US\$1,474,358) . . . . .	—	—	—	—	1
HK\$13,500,001 to HK\$14,000,000 (equivalent to approximately US\$1,730,769 to US\$1,794,872) . . . . .	—	1	—	—	—
	<u>4</u>	<u>1</u>	<u>3</u>	<u>3</u>	<u>4</u>

During the Relevant Periods, no emoluments were paid by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or the Company or as compensation for loss of office. None of the directors of the Company has waived any emoluments during the Relevant Periods.

## 16. Dividends

No dividends have been paid or declared by the Company during the Relevant Periods.

## A. FINANCIAL INFORMATION — continued

## NOTES TO THE FINANCIAL INFORMATION — continued

## 17. Loss Per Share

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

	Year ended December 31,			Nine months ended September 30,	
	2006	2007	2008	2008 (unaudited)	2009
Loss from continuing operation for the purpose of basic and diluted loss per share (US\$) . . . . .	<u>15,194,638</u>	<u>92,060,616</u>	<u>61,664,490</u>	<u>47,207,930</u>	<u>41,652,833</u>
Loss from discontinued operation for the purpose of basic and diluted loss per share (US\$) . . . . .	<u>6,533,998</u>	<u>4,675,812</u>	<u>7,911,252</u>	<u>5,362,114</u>	<u>—</u>
Weighted average number of common shares for the purpose of basic and diluted loss per share . . . . .	<u>16,647,940</u>	<u>51,070,891</u>	<u>128,353,692</u>	<u>126,775,043</u>	<u>133,341,543</u>

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the year/period. The diluted loss per share reflects the potential dilution of common share equivalents, such as preference shares, outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the year/period, if dilutive. All of the outstanding preference shares, stock options and warrants were anti dilutive for the Relevant Periods.

## 18. Property, Plant and Equipment

## THE GROUP

The property, plant and equipment for the Group is analyzed as follows:

	Mobile equipment	Computer equipment	Furniture and fixtures	Machinery and equipment	Buildings and roads	Mineral assets	Leasehold improvements	Construction in progress	Total
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
<b>COST</b>									
As at January 1, 2006 . . . . .	154,931	116,207	33,673	93,308	—	—	4,799	—	402,918
Additions . . . . .	63,650	79,067	28,159	15,099	—	—	—	150,000	335,975
Disposals . . . . .	(15,901)	—	—	—	—	—	(4,799)	—	(20,700)
As at December 31, 2006 . . . . .	202,680	195,274	61,832	108,407	—	—	—	150,000	718,193
Additions . . . . .	152,290	178,725	81,070	214,545	—	—	—	234,635	861,265
Disposals . . . . .	(43,483)	—	(14,063)	—	—	—	—	—	(57,546)
As at December 31, 2007 . . . . .	311,487	373,999	128,839	322,952	—	—	—	384,635	1,521,912
Additions . . . . .	38,283,037	272,147	31,934	1,907,359	432,491	3,421,803	—	11,026,184	55,374,955
Disposals . . . . .	(49,539)	(119,584)	(68,490)	(19,921)	—	—	—	—	(257,534)
As at December 31, 2008 . . . . .	38,544,985	526,562	92,283	2,210,390	432,491	3,421,803	—	11,410,819	56,639,333
Additions . . . . .	14,592,806	63,348	310,853	68,170	964,556	3,050,411	—	5,699,412	24,749,556
Disposals . . . . .	(585,927)	(37,287)	(6,530)	—	—	—	—	(6,565)	(636,309)
Reclassification . . . . .	—	—	—	213,626	13,702,882	—	—	(13,916,508)	—
As at September 30, 2009 . . . . .	52,551,864	552,623	396,606	2,492,186	15,099,929	6,472,214	—	3,187,158	80,752,580



## A. FINANCIAL INFORMATION — continued

## NOTES TO THE FINANCIAL INFORMATION — continued

## 18. Property, Plant and Equipment — continued

	Mobile equipment	Computer equipment	Furniture and fixtures	Machinery and equipment	Buildings and roads	Mineral assets	Leasehold improvements	Construction in progress	Total
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT</b>									
As at January 1, 2006 . . . . .	(33,523)	(54,032)	(5,272)	(36,680)	—	—	(1,342)	—	(130,849)
Charge for the year . . . . .	(32,100)	(40,990)	(5,780)	(20,387)	—	—	—	—	(99,257)
Eliminated on disposals . . . . .	5,844	—	—	—	—	—	1,342	—	7,186
As at December 31, 2006 . . . . .	(59,779)	(95,022)	(11,052)	(57,067)	—	—	—	—	(222,920)
Charge for the year . . . . .	(69,828)	(42,323)	(3,348)	(61,518)	—	—	—	—	(177,017)
Eliminated on disposals . . . . .	—	—	1,405	—	—	—	—	—	1,405
As at December 31, 2007 . . . . .	(129,607)	(137,345)	(12,995)	(118,585)	—	—	—	—	(398,532)
Charge for the year . . . . .	(3,465,315)	(204,031)	(23,228)	(68,787)	(76,744)	(84,937)	—	—	(3,923,042)
Eliminated on disposals . . . . .	11,122	84,148	17,452	9,430	—	—	—	—	122,152
As at December 31, 2008 . . . . .	(3,583,800)	(257,228)	(18,771)	(177,942)	(76,744)	(84,937)	—	—	(4,199,422)
Charge for the period . . . . .	(3,186,348)	(55,208)	(31,774)	(268,330)	(397,923)	(77,129)	—	—	(4,016,712)
Eliminated on disposals . . . . .	456,988	34,156	3,664	—	—	—	—	—	494,808
Impairment (Note 7) . . . . .	—	—	—	—	(1,791,284)	(2,965,948)	—	(2,482,457)	(7,239,689)
As at September 30, 2009 . . . . .	(6,313,160)	(278,280)	(46,881)	(446,272)	(2,265,951)	(3,128,014)	—	(2,482,457)	(14,961,015)
<b>NET BOOK VALUE</b>									
As at December 31, 2006 . . . . .	142,901	100,252	50,780	51,340	—	—	—	150,000	495,273
As at December 31, 2007 . . . . .	181,880	236,654	115,844	204,367	—	—	—	384,635	1,123,380
As at December 31, 2008 . . . . .	34,961,185	269,334	73,512	2,032,448	355,747	3,336,866	—	11,410,819	52,439,911
As at September 30, 2009 . . . . .	46,238,704	274,343	349,725	2,045,914	12,833,978	3,344,200	—	704,701	65,791,565

## A. FINANCIAL INFORMATION — continued

## NOTES TO THE FINANCIAL INFORMATION — continued

## 18. Property, Plant and Equipment — continued

THE COMPANY

The property, plant and equipment for the Company is analyzed as follows:

	<u>Computer equipment</u> US\$
<b>COST</b>	
As at January 1, 2006 . . . . .	53,266
Additions . . . . .	<u>33,288</u>
As at December 31, 2006 . . . . .	86,554
Additions . . . . .	<u>137,670</u>
As at December 31, 2007 . . . . .	224,224
Additions . . . . .	15,385
Disposals . . . . .	<u>(3,729)</u>
As at December 31, 2008 . . . . .	235,880
Additions . . . . .	6,390
Disposals . . . . .	<u>(44,777)</u>
As at September 30, 2009 . . . . .	<u>197,493</u>
<b>ACCUMULATED DEPRECIATION</b>	
As at January 1, 2006 . . . . .	(34,074)
Charge for the year . . . . .	<u>(20,323)</u>
As at December 31, 2006 . . . . .	(54,397)
Charge for the year . . . . .	<u>(63,610)</u>
As at December 31, 2007 . . . . .	(118,007)
Charge for the year . . . . .	(98,028)
Eliminated on disposals . . . . .	<u>725</u>
As at December 31, 2008 . . . . .	(215,310)
Charge for the period . . . . .	(8,356)
Eliminated on disposals . . . . .	<u>43,956</u>
As at September 30, 2009 . . . . .	<u>(179,710)</u>
<b>NET BOOK VALUE</b>	
As at December 31, 2006 . . . . .	<u>32,157</u>
As at December 31, 2007 . . . . .	<u>106,217</u>
As at December 31, 2008 . . . . .	<u>20,570</u>
As at September 30, 2009 . . . . .	<u><u>17,783</u></u>

## A. FINANCIAL INFORMATION — continued

## NOTES TO THE FINANCIAL INFORMATION — continued

## 19. Intangible Assets

The following table shows the cumulative expenditures made as of December 31, 2006, 2007, 2008 and September 30, 2009.

THE GROUP AND THE COMPANY

	Mineral properties - Indonesian Coal Division (d)	Mineral properties - Metals Division (a),(b),(c)	Total
	US\$	US\$	US\$
Balance, As at January 1, 2006 . . . . .	—	260,726	260,726
Additions . . . . .	—	275,000	275,000
Impairment . . . . .	—	(132,366)	(132,366)
Balance, As at December 31, 2006 . . . . .	—	403,360	403,360
Additions . . . . .	—	40,000	40,000
Balance, As at December 31, 2007 . . . . .	—	443,360	443,360
Additions . . . . .	13,208,218	50,000	13,258,218
Impairment . . . . .	—	(493,360)	(493,360)
Balance, As at December 31, 2008 . . . . .	13,208,218	—	13,208,218
Impairment . . . . .	(13,208,218)	—	(13,208,218)
Balance, As at September 30, 2009 . . . . .	—	—	—

The write-down of mineral property of US\$132,366 during the years ended December 31, 2006 mainly represented license costs for those licenses obtained in 2002 and 2003 that were determined not to have potential value to future exploration and evaluation activities. Therefore, the amounts were written off and charged to the consolidated statement of comprehensive income.

## (a) Mongolia

In September 2005, the Company entered into an earn-in agreement with Solomon Resources Ltd. (“Solomon”) to acquire an option to a 70% interest in 9 exploration licenses, including the Tsakhir license, representing 4 project areas located in the West Gobi region of southern Mongolia. Solomon held its interest in the properties through an underlying earn-in agreement with Gallant Minerals Ltd. (“Gallant”). Upon closing of the agreement, the Company paid Solomon US\$50,000 and issued to Solomon 100,000 common shares valued at US\$78,360 in consideration for the first earn-in right to acquire a 55% interest in specified licences, subject to earn-in obligations. The Company had two staged earn-in obligations each involving minimum work expenditures of US\$400,000 and US\$600,000, issues of common shares to Solomon to the value of US\$200,000 and US\$400,000 and cash payments of US\$75,000 and US\$100,000, respectively.

In 2006, as part of its initial earn-in obligations, the Company paid US\$75,000 to Solomon and issued 95,821 common shares valued at US\$200,000. During 2006, the number of projects was reduced to two and six licenses were returned.

**A. FINANCIAL INFORMATION — continued****NOTES TO THE FINANCIAL INFORMATION — continued****19. Intangible Assets — continued**

In April 2007, following Solomon's withdrawal from these arrangements and termination of the earn-in agreement with Solomon and Gallant, the Company entered into a new Option Agreement directly with Gallant pursuant to which the Company can earn 80% interest in a holding company to be incorporated in Bermuda to act as the holding company of a company which will own the Tsakhir licence. In order to exercise the option, the Company is required over the next two years to make cash payments of US\$70,000 in the aggregate, issue common shares of the Company valued at US\$50,000 and spend an aggregate of US\$600,000 on related work programs.

During the year ended December 31, 2007, the Company issued 3,060 shares to Gallant Minerals Ltd. with a market value of US\$20,000 and a cash payment of US\$20,000, correspondingly, mineral property with an amount of US\$40,000 has been recognized.

During the year ended December 31, 2008, the Company issued 1,818 shares to Gallant Minerals Ltd. with a market value of US\$30,000 and a cash payment of US\$20,000, correspondingly, mineral property with an amount of US\$50,000 has been recognized.

The write-down of mineral property of US\$493,360 during the year ended December 31, 2008 represented management's decision that the licenses associated with Gallant agreement did not have potential value to future exploration and evaluation activities. Therefore, the amounts were written off and charged to the consolidated statement of comprehensive income.

**(b) Indonesia**

Effective September 7, 2006 a definitive Joint Venture Agreement and Cooperation Agreement was signed with PT Harita Multi Karya Mineral ("HMKM"), pursuant to which, an entity, PT ASG Harita Mining Services was incorporated in March 2007, 85% of which is held by the Group, through Bacan Indonesia Holding Company Pte. Ltd and a 15% interest is held by HMKM. HMKM will not be responsible for any future funding through commercial mine production. The Group will be responsible for funding 100% of any project costs through to commercial mine production.

**(c) Bulgaria**

During the year 2005, the Group acquired from Ivanhoe an interest in a joint venture agreement with Hereward Ventures Bulgaria AD ("Hereward") concerning four mineral licenses in Bulgaria in exchange for granting Ivanhoe a 2% net profits royalty on any future mine development on the licenses. The Group could earn up to an 80% interest in the four licenses by incurring exploration expenditures of US\$4 million. Stage one requires the Group to complete expenditures of US\$2 million prior to May 27, 2007 in order to earn a 51% interest. A further 29% can be earned by completing additional expenditures of US\$2 million before May 27, 2009. An aggregate of US\$1.4 million of expenditures had been made with respect to the stage one commitment up to December 31, 2006, of which US\$590,000 was funded by the Group.

The Group terminated its mineral exploration activities in Bulgaria and formally notified Hereward that the Group was withdrawing from its Bulgarian Joint Venture with Hereward effective March 2, 2007. The Group recorded a loss of US\$35,009 in the first quarter of 2007 related to the withdrawal from Bulgaria of which US\$31,141 related to the write-down of plant and equipment.

## A. FINANCIAL INFORMATION — continued

## NOTES TO THE FINANCIAL INFORMATION — continued

## 19. Intangible Assets — continued

(d) Indonesia coal

The Group holds an interest in the Mamahak Coal Project in East Kalimantan, Indonesia. The Joint Venture Earn-in Agreement with Score Resources Ltd (“Score”) included a provision allowing for the Group to increase its working interest position based on a predetermined pricing mechanism. In 2008, the Group elected to increase its working interest from 56% to 85% by paying Score US\$13.2 million, comprised of US\$8,013,800 cash and US\$5,168,000 settled by 320,000 common shares of the Group at Cdn\$16.15 per share as specified in the agreement with Score. The impairment charge in mineral properties related to the Mamahak Coal project of US\$13,208,218 was made during the nine months ended September 30, 2009, and has been discussed in detail in Note 7.

## 20. Investments in Subsidiaries

THE COMPANY

	As at December 31,			As at
	2006	2007	2008	September 30,
	US\$	US\$	US\$	2009
Unlisted shares . . . . .	<u>3,704,763</u>	<u>11,274,841</u>	<u>22,070,689</u>	<u>23,464,896</u>

## 21. Inventories

The inventories for the Group are categorized as follows:

	As at December 31,			As at
	2006	2007	2008	September 30,
	US\$	US\$	US\$	2009
Stockpiles <sup>(i)</sup> . . . . .	—	—	13,158,009	9,922,300
Materials and supplies . . . . .	—	—	518,707	785,139
<b>TOTAL INVENTORIES</b> . . . . .	<u>—</u>	<u>—</u>	<u>13,676,716</u>	<u>10,707,439</u>

(i) Coal inventories are stated at production cost

The amount of inventories recognized as an expense for the year ended December 31, 2006, 2007, 2008 and nine months ended September 30, 2009 are \$Nil, \$Nil, US\$1,211,691 and US\$14,670,361, respectively. As at September 30, 2009, the Group anticipates the entire stockpiles balance of US\$9,922,300 will be realized within twelve months.

## A. FINANCIAL INFORMATION — continued

## NOTES TO THE FINANCIAL INFORMATION — continued

## 22. Trade and Other Receivables

THE GROUP

The Group's trade and other receivables arise from two main sources: trade receivables due from customers for coal sales and value added tax ("VAT") and goods and services tax ("GST") receivable due from various government taxation authorities. These are analyzed as follows:

	As at December 31,			As at
	2006	2007	2008	September 30,
	US\$	US\$	US\$	2009
				US\$
Trade receivables . . . . .	—	—	1,742,645	4,131,882
VAT/GST receivable . . . . .	132,510	720,146	5,357,330	10,074,384
Other receivables . . . . .	83,273	39,382	189,751	592,397
<b>TOTAL TRADE AND OTHER RECEIVABLES. . . . .</b>	<b>215,783</b>	<b>759,528</b>	<b>7,289,726</b>	<b>14,798,663</b>

Below is an aged analysis of the Group's trade and other receivables:

	As at December 31,			As at
	2006	2007	2008	September 30,
	US\$	US\$	US\$	2009
				US\$
Less than 1 month . . . . .	60,953	187,468	2,034,308	2,439,445
1 to 3 months . . . . .	112,482	299,735	442,854	2,616,301
3 to 6 months . . . . .	34,126	272,325	1,704,604	4,286,232
Over 6 months . . . . .	8,222	—	3,107,960	5,456,685
<b>TOTAL TRADE AND OTHER RECEIVABLES. . . . .</b>	<b>215,783</b>	<b>759,528</b>	<b>7,289,726</b>	<b>14,798,663</b>

At December 31, 2006, 2007, 2008 and September 30, 2009, 58%, 99%, 98% and 81%, respectively, of the trade and other receivables that were outstanding over 1 month were VAT/GST. At December 31, 2008 and September 30, 2009, 100% and 98%, respectively, of the trade and other receivables that were outstanding over 6 months are VAT/GST receivables. The Group anticipates full recovery of these amounts and therefore no impairment has been recorded against these receivables. The credit risk on the GST/VAT receivable has been further discussed in Note 34.

The Group holds no collateral for any receivable amounts outstanding as at September 30, 2009.

Included in the trade and other receivables of the Group are amounts from related parties which are disclosed in Note 35. The amounts are unsecured, interest free and repayable upon written notice given from the Company.

## A. FINANCIAL INFORMATION — continued

## NOTES TO THE FINANCIAL INFORMATION — continued

## 22. Trade and Other Receivables — continued

THE COMPANY

The Company does not have trade receivables. The other receivables mainly represent GST receivable due from government taxation authorities. These are analyzed as follows:

	As at December 31,			As at
	2006	2007	2008	September 30,
	US\$	US\$	US\$	2009
				US\$
GST receivable . . . . .	112,383	159,488	50,767	44,405
Other receivables . . . . .	8,222	13,357	23,208	114,565
<b>TOTAL OTHER RECEIVABLES . . . . .</b>	<b>120,605</b>	<b>172,845</b>	<b>73,975</b>	<b>158,970</b>

Below is an aged analysis of the Company's other receivables:

	As at December 31,			As at
	2006	2007	2008	September 30,
	US\$	US\$	US\$	2009
				US\$
Less than 1 month . . . . .	37,461	66,520	40,131	129,366
1 to 3 months . . . . .	74,922	106,325	33,844	29,604
3 to 6 months . . . . .	—	—	—	—
Over 6 months . . . . .	8,222	—	—	—
<b>TOTAL OTHER RECEIVABLES . . . . .</b>	<b>120,605</b>	<b>172,845</b>	<b>73,975</b>	<b>158,970</b>

## 23. Prepaid Expenses and Deposits

THE GROUP

The prepaid expenses and deposits for the Group are categorized as follows:

	As at December 31,			As at
	2006	2007	2008	September 30,
	US\$	US\$	US\$	2009
				US\$
Security deposits . . . . .	118,355	335,276	531,700	1,192,738
Insurance . . . . .	9,867	70,922	233,460	419,061
Prepaid exploration license costs . . . . .	72,759	1,208,985	1,110,971	611,290
Vendor pre-payments . . . . .	—	—	609,327	4,514,748
Others . . . . .	34,032	274,994	93,069	438,611
<b>TOTAL PREPAID EXPENSES AND DEPOSITS . . . . .</b>	<b>235,013</b>	<b>1,890,177</b>	<b>2,578,527</b>	<b>7,176,448</b>

**A. FINANCIAL INFORMATION — continued****NOTES TO THE FINANCIAL INFORMATION — continued****23. Prepaid Expenses and Deposits — continued****THE COMPANY**

The prepaid expenses and deposits for the Company are categorized as follows:

	As at December 31,			As at September 30,
	2006	2007	2008	2009
	US\$	US\$	US\$	US\$
Security deposits . . . . .	111,502	260,417	457,701	457,701
Insurance . . . . .	6,999	58,837	203,970	362,510
Others . . . . .	12,064	246,131	812	—
<b>TOTAL PREPAID EXPENSES AND DEPOSITS . . .</b>	<b>130,565</b>	<b>565,385</b>	<b>662,483</b>	<b>820,211</b>

**24. Amounts Due from Subsidiaries****THE COMPANY**

The amounts are for ongoing operations and are unsecured, interest free and repayable upon written notice given from the Company, and the Company does not intend to withdraw the funding in foreseeable future. Fair value adjustments have been made by the Company on the amounts due from subsidiaries using the effective interest rate with a corresponding increase in investments in subsidiaries. The average effective interest rate for the three years ended December 31, 2006, 2007, 2008 and the nine month ended September 30, 2008 and 2009, are 8.6%, 7.5%, 5.3%, 7.3% and 7.8% per annum, respectively.

**25. Bank Balances and Cash****THE GROUP AND THE COMPANY**

Cash and cash equivalents of the Group and the Company comprise cash and short term money market investments with an original maturity of three months or less. Cash and cash equivalents carry prevailing market interest rates which range from 1.90% to 4.65%, 1.90% to 3.75%, 0.65% to 4.13% and 0.01% to 0.25% for the years ended December 31, 2006, 2007, 2008 and the nine months ended September 30, 2009, respectively.



## A. FINANCIAL INFORMATION — continued

## NOTES TO THE FINANCIAL INFORMATION — continued

## 25. Bank Balances and Cash — continued

The Group's and the Company's cash and cash equivalents are mainly denominated in the following currencies:

	As at December 31,			As at
	2006	2007	2008	September 30,
	US\$	US\$	US\$	2009
				US\$
<b>THE GROUP</b>				
Denominated in U.S. dollars . . . . .	869,084	1,110,559	6,126,013	2,179,679
Denominated in Canadian dollars . . . . .	73,662	224,814	3,872,037	230,365
Others . . . . .	22,748	58,259	119,261	300,722
<b>TOTAL CASH AND CASH EQUIVALENTS . . . . .</b>	<b>965,494</b>	<b>1,393,632</b>	<b>10,117,311</b>	<b>2,710,766</b>
<b>THE COMPANY</b>				
Denominated in U.S. dollars . . . . .	629,298	896,886	3,311,212	1,740,153
Denominated in Canadian dollars . . . . .	73,662	224,814	3,790,344	230,365
<b>TOTAL CASH AND CASH EQUIVALENTS . . . . .</b>	<b>702,960</b>	<b>1,121,700</b>	<b>7,101,556</b>	<b>1,970,518</b>

## 26. Trade and Other Payables

Trade and other payables are principally comprised of amounts outstanding for trade purchases relating to coal exploration activities. The usual credit period taken for trade purchases is between 30 to 90 days.

The following is an aged analysis of the trade and other payables:

THE GROUP

	As at December 31,			As at
	2006	2007	2008	September 30,
	US\$	US\$	US\$	2009
				US\$
Less than 1 month . . . . .	210,711	74,968	4,722,917	9,361,533
1 to 3 months . . . . .	6,283	198,099	1,960,430	285,788
3 to 6 months . . . . .	234,546	210,376	700,740	106,096
Over 6 months . . . . .	—	1,284,341	15,922	1,457,097
<b>TOTAL TRADE AND OTHER PAYABLES . . . . .</b>	<b>451,540</b>	<b>1,767,784</b>	<b>7,400,009</b>	<b>11,210,514</b>

**A. FINANCIAL INFORMATION — continued****NOTES TO THE FINANCIAL INFORMATION — continued****26. Trade and Other Payables — continued****THE COMPANY**

	As at December 31,			As at
	2006	2007	2008	September 30,
	US\$	US\$	US\$	2009
				US\$
Less than 1 month . . . . .	172,080	308,919	1,865,943	2,873,107
1 to 3 months . . . . .	5,131	9,211	1,823,842	11,886
3 to 6 months . . . . .	191,546	343,861	—	—
Over 6 months . . . . .	—	—	—	1,440,553
<b>TOTAL TRADE AND OTHER PAYABLES . . . . .</b>	<b>368,757</b>	<b>661,991</b>	<b>3,689,785</b>	<b>4,325,546</b>

Included in the trade and other payables of the Group are amounts from related parties which are disclosed in Note 35.

**27. Warrant Liabilities****THE GROUP AND THE COMPANY**

On June 28, 2005, BHP Billiton World Exploration Inc. (“BHP”) purchased 1,153,998 units of the Company for US\$1 million. Each unit consisted of one common share and one warrant to purchase one-half a common share. Warrant liability as of December 31, 2005 amounted to US\$221,641. The warrants had a term of two years and an exercise price of Cdn\$1.395 per common share. Warrant liabilities as of June 26, 2006 amounted to US\$671,264. On June 26, 2006, 1,153,998 outstanding warrants were exercised into 576,999 common shares for gross proceeds of US\$715,797 (Cdn\$804,914) by BHP. Details of the key assumption and methodology of the valuation of warrants are disclosed in Note 32(b).

**28. Amounts Due Under Line of Credit Facilities****THE GROUP AND THE COMPANY****(a) First Funding Agreement**

On April 26, 2006, in conjunction with the coal transaction, the Company entered into a line of credit facility (the “First Funding Agreement”) with Ivanhoe whereby Ivanhoe agreed to make available to the Group an unsecured line of credit of up to US\$10 million which was extended to a maximum of US\$15 million on June 6, 2007. All amounts outstanding under the line of credit bear interest at a three-month London Interbank Offered Rate (“LIBOR”) plus two percent (a total of 7.4% and 6.7% at December 31, 2006 and 2007, respectively) and contain a conversion option which became effective upon the completion of the acquisition of the coal transaction. On May 28, 2007, the Company received final approval from TSX Venture Exchange on the coal transaction, and on May 29, 2007, the Company completed the purchase of the Ivanhoe coal division. Advances drawn under the First Funding Agreement were convertible into common shares at the election of either the Company or Ivanhoe. Until May 29, 2008, one year after the completion of the coal transaction, the Company had the right to require Ivanhoe to convert the outstanding amounts under the First Funding Agreement into common shares at a conversion price of Cdn\$2.09 per share. Until August 29, 2008, one year and three months after the completion of the coal transaction,

**A. FINANCIAL INFORMATION — continued****NOTES TO THE FINANCIAL INFORMATION — continued****28. Amounts Due Under Line of Credit Facilities — continued****(a) First Funding Agreement — continued**

Ivanhoe had the right to convert the outstanding amounts under the First Funding Agreement into common shares at a conversion price of Cdn\$2.35 per share. All advances pursuant to the line of credit would have matured and been repayable in full on April 25, 2008. However, on August 1, 2007, Ivanhoe and the Company mutually agreed to extend the maturity date for the repayment of the principal balance and all accrued and unpaid interest outstanding under the line of credit until June 30, 2009. All other terms and conditions of the funding agreement remained in full force and effect. Ivanhoe had the ability to accelerate the Company's obligation to repay all advances pursuant to the line of credit and all accrued and unpaid interest thereon in the event of a default by the Company. The Company had the right to prepay the outstanding advances and accrued and unpaid interest in whole or in part at any time without penalty. Conversion of shares took place at January 23, 2008, the amounts due under the line of credit facility owed to Ivanhoe on the First Funding Agreement were eliminated. At December 31, 2006, 2007 and 2008 and September 30, 2009, the principal amount outstanding under the line of credit facility was US\$5.7 million, US\$28.4 million \$Nil and \$Nil, respectively.

The accrued interest included in the amounts due under line of credit facilities from May 29, 2007 to December 31, 2007 is US\$1,089,389, and the total interest expense for the year ended December 31, 2006, 2007 and 2008 was US\$178,739, US\$1,358,742 and US\$134,186, respectively. The interest accretion on line of credit facility for the three years ended December 31, 2006, 2007 and 2008 was \$Nil, US\$6,480,703 and US\$598,408, respectively.

The Company has accounted for any amounts drawn on the credit facility from April 26, 2006 to May 1, 2007 as a liability recorded at amortized cost. On May 29, 2007, the conditions were satisfied and the entire indebtedness became convertible into ordinary shares of the Company at the election of either Ivanhoe or the Company.

The Group has identified that the conversion feature was an embedded derivative to be presented separately as a derivative liability in accordance with IAS 39 due to the variable number of shares that will be issued on conversion. This results from the debt being denominated in USD but being convertible at a fixed conversion rate into Canadian dollar denominated shares. The debt that was recorded prior to May 1, 2007 has been recorded at face value as a liability at amortized cost. The directors consider that the fair value of the conversion feature was not significant because the significant milestone mentioned below was not achieved prior to May 1, 2007. On May 1, 2007 the conversion feature was considered to have a significant value as significant milestones had been achieved surrounding the completion of the coal transaction. These significant milestones included (i) the signing of the definitive agreement with respect to the Company's acquisition of the coal transaction; (ii) approval of coal transaction by the minority shareholders of the Company; and (iii) transfer of coal mining licenses to the Company by Ivanhoe. From May 1, 2007 onwards, the conversion feature was thus recorded at fair value in addition to the value of the debt drawn before this date with the corresponding debit to the consolidated statement of comprehensive income. For advances subsequent to May 1, 2007, the proceeds received on each advance were allocated first to the embedded derivative. The excess of the fair value of the embedded derivative over the proceeds was recorded immediately as financing costs in statement of comprehensive income. Since the full value of the proceeds on each advance was fully allocated to the embedded derivative, the debt host contract had a value of \$Nil on inception. The difference between the debt host component of nil and the principal amount of the loan outstanding is being accreted to the statement of comprehensive income over the remaining term of the debt. At

## A. FINANCIAL INFORMATION — continued

## NOTES TO THE FINANCIAL INFORMATION — continued

## 28. Amounts Due Under Line of Credit Facilities — continued

(a) *First Funding Agreement — continued*

each reporting period the embedded derivative has been fair valued, with the movements recorded in the statement of comprehensive income.

The embedded derivative has been valued using the Black-Scholes option valuation model. The following variables were used to calculate the impact of the call and put option elements of the embedded derivative.

	Drawn down date					Cumulative at	
	May 10, 2007	May 29, 2007	July 4, 2007	August 21, 2007	October 1, 2007	December 31, 2007	January 23, 2008
Principal and interest borrowed . . . . .	US\$1,000,000	US\$13,212,395	US\$2,000,000	US\$ 2,500,000	US\$2,000,000	US\$29,855,178	US\$29,963,354
Stock price . . . . .	Cdn\$4.81	Cdn\$5.00	Cdn\$8.00	Cdn\$6.20	Cdn\$6.68	Cdn\$8.90	Cdn\$9.45
Dividend yield . . . . .	0%	0%	0%	0%	0%	0%	0%
<i>Call option</i>							
Interest rate . . . . .	4.60%	4.60%	4.68%	4.05%	4.21%	3.93%	3.41%
Volatility . . . . .	76.19%	76.19%	77.15%	76.62%	70.49%	58.66%	59.89%
Exercise price . . . . .	Cdn\$2.35	Cdn\$2.35	Cdn\$2.35	Cdn\$2.35	Cdn\$2.35	Cdn\$2.35	Cdn\$2.35
Expected life (years) . . . . .	0.91	0.91	1.16	1.02	0.91	0.66	0.60
<i>Put option</i>							
Interest rate . . . . .	4.61%	4.61%	4.68%	4.05%	4.21%	3.91%	3.41%
Volatility . . . . .	76.19%	76.19%	77.15%	75.09%	75.76%	50.58%	55.06%
Exercise price . . . . .	Cdn\$2.09	Cdn\$2.09	Cdn\$2.09	Cdn \$2.09	Cdn\$2.09	Cdn \$2.09	Cdn\$2.09
Expected life (years) . . . . .	0.91	0.91	0.81	0.77	0.66	0.41	0.35
<b>NET EMBEDDED DERIVATIVE . . . . .</b>	<u>\$1,185,033</u>	<u>\$15,657,121</u>	<u>\$4,893,436</u>	<u>\$ 4,279,665</u>	<u>\$3,787,946</u>	<u>\$83,998,434</u>	<u>\$91,221,833</u>

For the year ended December 31, 2007, US\$63,286,039 had been recorded as a charge against income relating to the excess of the fair value of the embedded derivative over the proceeds of US\$9,090,806 and the fair value change in embedded derivative of US\$54,195,233. For the year ended December 31, 2008, US\$7,223,399 has been recorded as charges against income relating to the fair value changes on embedded derivative before conversion on January 23, 2008.

On January 23, 2008, at the Company's request, Ivanhoe converted the then principal balance of US\$29,963,354 into 14,709,701 common shares of the Company. As a result of this conversion, the amounts due under the line of credit facility were eliminated.

At the date of conversion, the fair value of the embedded derivative and the carrying amount of the debt host amounted to US\$107,551,903 in aggregate which was converted and recorded as common share capital. All preferred shares were also converted into commons shares at that date.

(b) *Second Funding Agreement*

On October 25, 2007, Ivanhoe and the Company entered into a second interim funding agreement (the "Second Funding Agreement"). The Second Funding Agreement provided for an additional unsecured non-convertible line of credit of up to US\$32.5 million. One tranche of funding for US\$15 million could be used for

**A. FINANCIAL INFORMATION — continued****NOTES TO THE FINANCIAL INFORMATION — continued****28. Amounts Due Under Line of Credit Facilities — continued****(b) *Second Funding Agreement — continued***

general corporate purposes. The availability of the second tranche of US\$17.5 million was contingent upon Ivanhoe having drawn down funds under a credit agreement between Ivanhoe and Rio Tinto International Holdings Limited (“Rio Tinto”). Use of the proceeds from the second tranche was restricted to expenditures in respect of the Group’s activities in Mongolia. All amounts advanced under the Second Funding Agreement bore interest at an annual rate equal to LIBOR plus three and three-tenths percent (3.3%) (a total of 8.0% at December 31, 2007) and mature on June 30, 2009.

At December 31, 2007, the Group received advances of US\$6.0 million against the second line of credit and incurred interest expenses of US\$51,460. The amounts advanced under the Second Funding Agreement were fully settled in January 2008 and the Second Funding Agreement was cancelled.

**(c) *Credit Facility***

On December 30, 2008, the Group established a credit facility (the “Credit Facility”) with Ivanhoe which allows the Group to obtain advances from Ivanhoe to an aggregate maximum of \$30 million. The Credit Facility is for a term of one year and the Group may request a one year extension. Such an extension shall be at the sole discretion of Ivanhoe. The Credit Facility is unsecured, non-convertible and carries an interest rate equal to LIBOR plus 750 basis points. At December 31, 2008, the Group had not drawn down on the Credit Facility.

In July, 2009, the Group and Ivanhoe agreed to increase the Credit Facility from US\$30 million to US\$60 million. The amended credit facility (the “Credit Facility”) will mature on December 31, 2010, is unsecured and bears interest at LIBOR plus 750 basis points. The amended facility also requires repayment in the event that the Group acquires additional financing from a third party source and provides for an extension fee of US\$1.5 million payable in the event any portion of the facility is outstanding past March 31, 2010. Management is of the opinion that additional financing will be available to repay all amounts outstanding on the Credit Facility prior to March 31, 2010 and therefore the Credit Facility has been classified as a current liability on the statement of financial position as at September 30, 2009.

The effective interest rate on the Credit Facility at September 30, 2009 was 7.8%. At September 30, 2009, the Group had received advances of US\$36 million against the credit facility and has accrued interest expense of US\$1,030,151 for the nine months ended September 30, 2009.

## A. FINANCIAL INFORMATION — continued

## NOTES TO THE FINANCIAL INFORMATION — continued

## 28. Amounts Due Under Line of Credit Facilities — continued

## (c) Credit Facility — continued

The movement of all the amounts due under line of credit facilities is set out below:

	First Funding Agreement	Second Funding Agreement	Credit Facility	Total
	US\$	US\$	US\$	US\$
Balance at January 1, 2006 . . . . .	—	—	—	—
Amounts advanced . . . . .	5,656,762	—	—	5,656,762
Interest expense . . . . .	178,739	—	—	178,739
Balance at December 31, 2006 . . . . .	5,835,501	—	—	5,835,501
Amounts advanced . . . . .	22,712,395	6,000,000	—	28,712,395
Interest expense . . . . .	1,307,282	51,460	—	1,358,742
Interest accretion on line of credit facility . . . . .	6,480,703	—	—	6,480,703
Fair value change on embedded derivative . . . . .	63,286,039	—	—	63,286,039
Balance at December 31, 2007 . . . . .	99,621,920	6,051,460	—	105,673,380
Amounts advanced . . . . .	—	2,000,000	—	2,000,000
Interest expense . . . . .	108,176	26,010	—	134,186
Interest accretion on line of credit facility . . . . .	598,408	—	—	598,408
Fair value change on embedded derivative . . . . .	7,223,399	—	—	7,223,399
Repayment of line of credit facility . . . . .	—	(8,077,470)	—	(8,077,470)
Conversion of line of credit facility . . . . .	(107,551,903)	—	—	(107,551,903)
Balance at December 31, 2008 . . . . .	—	—	—	—
Amounts advanced . . . . .	—	—	36,000,000	36,000,000
Interest expense . . . . .	—	—	1,030,151	1,030,151
Balance at September 30, 2009 . . . . .	—	—	37,030,151	37,030,151

## A. FINANCIAL INFORMATION — continued

## NOTES TO THE FINANCIAL INFORMATION — continued

## 28. Amounts Due Under Line of Credit Facilities — continued

## (c) Credit Facility — continued

Further, the following are the analysis of the balances as at December 31, 2006, 2007, 2008 and September 30, 2009:

	As at December 31,			As at
	2006	2007	2008	September 30, 2009
	US\$	US\$	US\$	US\$
First Funding Agreement:				
Debt host . . . . .	5,656,762	7,656,762	—	—
Interest payable . . . . .	178,739	1,486,021	—	—
Interest accretion on line of credit facility . . . . .	—	6,480,703	—	—
Fair value of embedded derivative . . . . .	—	83,998,434	—	—
	<u>5,835,501</u>	<u>99,621,920</u>	<u>—</u>	<u>—</u>
Second Funding Agreement:				
Principal amount . . . . .	—	6,000,000	—	—
Interest payable . . . . .	—	51,460	—	—
	<u>—</u>	<u>6,051,460</u>	<u>—</u>	<u>—</u>
Credit Facility:				
Principal amount . . . . .	—	—	—	36,000,000
Interest payable . . . . .	—	—	—	1,030,151
	<u>—</u>	<u>—</u>	<u>—</u>	<u>37,030,151</u>
Total amounts due under line of credit facilities . . . . .	<u>5,835,501</u>	<u>105,673,380</u>	<u>—</u>	<u>37,030,151</u>
Financial statement presentation				
<b>CURRENT LIABILITIES</b>				
Amounts due under line of credit facilities . . . . .	—	—	—	37,030,151
<b>NON-CURRENT LIABILITIES</b>				
Amounts due under line of credit facilities . . . . .	<u>5,835,501</u>	<u>105,673,380</u>	<u>—</u>	<u>—</u>
	<u>5,835,501</u>	<u>105,673,380</u>	<u>—</u>	<u>37,030,151</u>

## 29. Asset Retirement Obligation

Reclamation and closure costs have been estimated based on the Group's interpretation of current regulatory requirements. The provision is determined based on the net present value of future cash expenditures upon

**A. FINANCIAL INFORMATION — continued****NOTES TO THE FINANCIAL INFORMATION — continued****29. Asset Retirement Obligation — continued**

reclamation and closure. Reclamation and closure costs are capitalized into PPE dependant on the nature of the asset related to the obligation and amortized over the life of the related asset.

The asset retirement obligations relate to reclamation and closure costs of the Group's Ovoot Tolgoi project in Mongolia and Mamahak project in Indonesia.

The asset retirement obligations at Ovoot Tolgoi are calculated as the net present value of estimated future net cash flows of the reclamation and closure costs, which at December 31, 2008 total US\$2,115,817 and are required to satisfy the obligations, discounted at 10.95% per annum; while at September 30, 2009 total US\$2,141,405 and are required to satisfy the obligations, discounted at 10.55% per annum. The settlement of the obligations will occur through to 2025.

The asset retirement obligations at Mamahak are calculated as the net present value of estimated future net cash flows of the reclamation and closure costs, which at September 30, 2009 total US\$1,568,838 and are required to satisfy the obligations, discounted at 10.55% per annum. The settlement of the obligations will occur through to 2019.

The following is an analysis of the asset retirement obligation:

	<u>US\$</u>
Balance, As at January 1, 2006,	
December 31, 2006 and	
December 31, 2007 . . . . .	—
Additions . . . . .	308,731
Accretion . . . . .	<u>19,498</u>
Balance, As at December 31, 2008 . . . . .	328,229
Additions . . . . .	625,603
Accretion . . . . .	<u>30,990</u>
Balance, As at September 30, 2009 . . . . .	<u><u>984,822</u></u>



## A. FINANCIAL INFORMATION — continued

## NOTES TO THE FINANCIAL INFORMATION — continued

## 30. Share Capital

THE GROUP AND THE COMPANY

	Common shares		Preferred shares		Total
	Number of Shares	Amount US\$	Number of Shares	Amount US\$	
Authorised:					
At December 31, 2006, 2007, 2008 and September 30, 2009	Unlimited common shares with no par value		Unlimited preferred shares with no par value		
Balances, January 1, 2006 . . . . .	15,895,580	15,142,440	—	—	15,142,440
Shares issued for:					
Mineral property . . . . .	95,821	200,000	—	—	200,000
Exercise of warrants . . . . .	576,999	1,387,061	—	—	1,387,061
Exercise of stock options . . . . .	215,631	271,920	—	—	271,920
Balances, December 31, 2006 . . . .	<u>16,784,031</u>	<u>17,001,421</u>	<u>—</u>	<u>—</u>	<u>17,001,421</u>
Shares issued for:					
Mineral properties . . . . .	3,060	20,000	—	—	20,000
Coal transaction . . . . .	57,000,000	9,336,023	25,576,383	4,189,154	13,525,177
Exercise of stock options . . . . .	1,145,566	3,872,341	—	—	3,872,341
Balances, December 31, 2007 . . . .	<u>74,932,657</u>	<u>30,229,785</u>	<u>25,576,383</u>	<u>4,189,154</u>	<u>34,418,939</u>
Shares issued for: . . . . .	—				
Cash . . . . .	16,211,111	139,642,368	—	—	139,642,368
Share issue costs . . . . .	—	(3,303,418)	—	—	(3,303,418)
Mineral properties . . . . .	321,818	5,198,000	—	—	5,198,000
Conversion of line of credit . . . .	14,709,071	107,551,903	—	—	107,551,903
Conversion of preferred shares . . .	25,576,383	4,189,154	(25,576,383)	(4,189,154)	—
Exercise of stock options . . . . .	1,442,242	6,004,282	—	—	6,004,282
Balances, December 31, 2008 . . . .	<u>133,193,282</u>	<u>289,512,074</u>	<u>—</u>	<u>—</u>	<u>289,512,074</u>
Shares issued for:					
Exercise of stock options . . . . .	349,767	1,808,916	—	—	1,808,916
Balances, September 30, 2009 . . . .	<u>133,543,049</u>	<u>291,320,990</u>	<u>—</u>	<u>—</u>	<u>291,320,990</u>

*Preferred Shares*

On May 29, 2007, upon completion of the coal transaction, the Company issued 25,576,383 preferred shares to Ivanhoe. Each preferred share issued to Ivanhoe is convertible into one common share but only if, upon any such conversion, the total number of common shares held by Ivanhoe and all other insiders of the Company or any of their respective associates or affiliates does not exceed 90% of the total number of common shares then issued and outstanding. The preferred shares are non-voting and have a preference over the common shares with respect to the payment of dividends and distribution of assets in the event of a liquidation, dissolution or winding up of the Company.

On January 23, 2008, Ivanhoe converted 25,576,383 preferred shares into common shares of the Company on a one for one basis. The Company has no outstanding preferred shares at December 31, 2008 and September 30, 2009.

**A. FINANCIAL INFORMATION — continued****NOTES TO THE FINANCIAL INFORMATION — continued****31. Accumulated Deficit****THE COMPANY**

	<u>US\$</u>
As at January 1, 2006. . . . .	(7,741,375)
Loss for the year . . . . .	<u>(4,153,107)</u>
As at December 31, 2006 . . . . .	(11,894,482)
Loss for the year . . . . .	<u>(83,782,688)</u>
As at December 31, 2007 . . . . .	(95,677,170)
Loss for the year . . . . .	<u>(29,063,711)</u>
As at December 31, 2008 . . . . .	(124,740,881)
Loss for the period . . . . .	<u>(41,070,604)</u>
As at September 30, 2009 . . . . .	<u><u>(165,811,485)</u></u>

**32. Share-Based Payments****THE GROUP AND THE COMPANY****(a) *Stock option plan***

The Company has a stock option plan which permits the Board of Directors of the Group to grant options to acquire common shares of the Group at the greater of the 15% discounted closing trading price on the date of the grant or the volume weighted average closing price for the five days preceding the date of grant. The Amended Equity Incentive Plan, approved on May 29, 2007, provides for a rolling rather than a fixed maximum number of common shares which may be issued pursuant to incentive stock options and other equity incentives, awards and issuances. The Compensation and Benefits Committee determines and makes recommendations to the Board of Directors as to the recipients of, and nature and size of, share-based compensation awards in compliance with applicable securities law, stock exchange and other regulatory requirements. The stock option plan permits the Board of Directors of the company to set the terms for each stock option grant, however, the general terms of stock options granted under the amended plan include a maximum exercise period of 5 years and a vesting period of 3 years with one-third of the grant vesting on the first anniversary of the grant, one-third vesting on the second anniversary of the grant and one-third vesting on the third anniversary of the grant.

The Group is authorized to issue options for a maximum of 10% of the issued and outstanding common shares pursuant to the stock option plan. At December 31, 2006, 2007, 2008 and September 30, 2009, there were 11,434 options, 2,498,635 options, 6,733,273 options and 4,880,686 options, respectively, available for future grants. The Group recognized the total expense of US\$687,555, US\$6,777,099, US\$7,238,471, US\$4,773,140 (unaudited) and US\$9,741,174 for the years ended December 31, 2006, 2007, 2008 and the nine months ended September 30, 2008 and 2009, respectively, in relation to share options granted by the Company.

## A. FINANCIAL INFORMATION — continued

## NOTES TO THE FINANCIAL INFORMATION — continued

## 32. Share-Based Payments — continued

(a) *Stock option plan — continued*

The following is a summary of option transactions under the Company's stock option plan:

	Year Ended December 31,					
	2006		2007		2008	
	Number of options	Weighted-average exercise price (expressed in Cdn \$)	Number of options	Weighted-average exercise price (expressed in Cdn \$)	Number of options	Weighted-average exercise price (expressed in Cdn \$)
Balance, beginning of year . . . . .	2,199,000	1.82	2,953,702	1.94	4,994,632	3.55
Options granted . . . . .	985,000	2.01	3,252,500	4.55	3,184,000	11.27
Options exercised . . . . .	(215,631)	1.00	(1,145,566)	2.31	(1,442,244)	2.80
Options forfeited . . . . .	(14,667)	2.09	(66,004)	2.15	(150,333)	15.25
Balance, end of year . . . . .	<u>2,953,702</u>	<u>1.94</u>	<u>4,994,632</u>	<u>3.55</u>	<u>6,586,055</u>	<u>7.18</u>

	Nine months ended September 30,			
	2008		2009	
	Number of options	Weighted-average exercise price (expressed in Cdn \$)	Number of options	Weighted-average exercise price (expressed in Cdn \$)
Balance, beginning of period . . . . .	4,994,632	3.55	6,586,055	7.18
Options granted . . . . .	2,034,000	14.76	2,656,000	11.11
Options exercised . . . . .	(1,408,546)	2.80	(349,767)	3.25
Options forfeited . . . . .	(145,332)	15.57	(418,669)	8.46
Balance, end of period . . . . .	<u>5,474,754</u>	<u>7.59</u>	<u>8,473,619</u>	<u>8.51</u>

## A. FINANCIAL INFORMATION — continued

## NOTES TO THE FINANCIAL INFORMATION — continued

## 32. Share-Based Payments — continued

(a) *Stock option plan — continued*

The following table summarizes information about stock options outstanding and exercisable at December 31, 2006, 2007, 2008 and September 30, 2009:

Options outstanding			Options exercisable	
Number outstanding at December 31, 2006	Expiry date	Exercise price (expressed in Cdn \$)	Number exercisable at December 31, 2006	Exercise price (expressed in Cdn \$)
797,000	November 28, 2008	3.00	797,000	3.00
100,000	January 22, 2009	3.00	100,000	3.00
5,000	March 11, 2009	2.14	5,000	2.14
30,000	March 29, 2009	2.00	30,000	2.00
30,000	April 26, 2009	2.07	30,000	2.07
5,000	May 24, 2009	1.65	5,000	1.65
53,334	August 24, 2009	1.06	53,334	1.06
654,000	March 21, 2010	0.86	429,293	0.86
7,000	May 26, 2010	0.70	332	0.70
15,000	August 30, 2010	0.95	10,000	0.95
182,368	September 13, 2010	1.00	87,357	1.00
90,000	November 17, 2010	1.24	56,660	1.24
25,000	January 5, 2011	1.26	8,333	1.26
25,000	January 11, 2011	1.20	8,333	1.20
50,000	February 9, 2011	1.16	16,665	1.16
885,000	June 19, 2011	2.10	294,975	2.10
<u>2,953,702</u>		<u>1.94</u>	<u>1,932,282</u>	<u>2.11</u>

## A. FINANCIAL INFORMATION — continued

## NOTES TO THE FINANCIAL INFORMATION — continued

## 32. Share-Based Payments — continued

## (a) Stock option plan — continued

Options outstanding			Options exercisable	
Number outstanding at December 31, 2007	Expiry date	Exercise price (expressed in Cdn \$)	Number exercisable at December 31, 2007	Exercise price (expressed in Cdn \$)
477,500	November 28, 2008	3.00	477,500	3.00
70,000	January 22, 2009	3.00	70,000	3.00
5,000	March 15, 2009	2.14	5,000	2.14
30,000	March 29, 2009	2.00	30,000	2.00
30,000	April 26, 2009	2.07	30,000	2.07
465,000	March 21, 2010	0.86	465,000	0.86
5,000	May 26, 2010	0.70	5,000	0.70
10,000	August 30, 2010	0.95	10,000	0.95
130,214	September 13, 2010	1.00	130,214	1.00
60,000	November 17, 2010	1.24	26,660	1.24
9,000	January 5, 2011	1.26	666	1.26
16,700	February 9, 2011	1.16	30	1.16
656,737	June 19, 2011	2.10	375,027	2.10
1,000,000	June 30, 2011	2.30	583,290	2.30
70,000	August 29, 2011	3.00	36,660	3.00
22,500	September 7, 2011	2.85	14,166	2.85
15,000	February 20, 2012	2.10	5,000	2.10
3,400	March 29, 2012	3.70	1,666	3.70
216,667	April 17, 2012	4.81	66,660	4.81
1,634,414	June 22, 2012	6.00	501,047	6.00
67,500	October 18, 2012	7.16	—	7.16
<u>4,994,632</u>		<u>3.55</u>	<u>2,833,586</u>	<u>2.81</u>

## A. FINANCIAL INFORMATION — continued

## NOTES TO THE FINANCIAL INFORMATION — continued

## 32. Share-Based Payments — continued

(a) *Stock option plan — continued*

Options outstanding			Options exercisable	
Number outstanding at December 31, 2008	Expiry date	Exercise price (expressed in Cdn \$)	Number exercisable at December 31, 2008	Exercise price (expressed in Cdn \$)
10,600	January 22, 2009	3.00	10,600	3.00
30,000	March 29, 2009	2.00	30,000	2.00
20,000	April 26, 2009	2.07	20,000	2.07
247,000	March 21, 2010	0.86	247,000	0.86
66,800	September 13, 2010	1.00	66,800	1.00
30,000	November 17, 2010	1.24	30,000	1.24
2,000	January 5, 2011	1.26	2,000	1.26
452,166	June 19, 2011	2.10	452,166	2.10
920,000	June 30, 2011	2.30	553,333	2.30
53,500	August 29, 2011	3.00	20,167	3.00
15,000	September 7, 2011	2.85	6,667	2.85
10,000	February 20, 2012	2.10	5,000	2.10
1,738	March 29, 2012	3.70	72	3.70
167,667	April 17, 2012	4.81	92,667	4.81
1,435,084	June 22, 2012	6.00	873,417	6.00
67,500	October 18, 2012	7.16	22,500	7.16
100,000	January 7, 2013	7.16	—	—
100,000	January 23, 2013	9.95	—	—
339,000	March 20, 2013	12.52	—	—
75,000	March 30, 2013	12.58	—	—
12,000	March 31, 2013	13.32	—	—
6,000	April 14, 2013	13.52	—	—
175,000	May 21, 2013	13.80	—	—
100,000	June 5, 2013	16.57	—	—
400,000	July 9, 2013	18.86	—	—
600,000	August 27, 2013	15.07	—	—
1,150,000	November 27, 2013	5.10	—	—
<u>6,586,055</u>		<u>7.18</u>	<u>2,432,389</u>	<u>3.54</u>

## A. FINANCIAL INFORMATION — continued

## NOTES TO THE FINANCIAL INFORMATION — continued

## 32. Share-Based Payments — continued

## (a) Stock option plan — continued

Options outstanding			Options exercisable	
Number outstanding at September 30, 2009	Expiry date	Exercise price (expressed in Cdn \$)	Number exercisable at September 30, 2009	Exercise price (expressed in Cdn \$)
246,000	March 21, 2010	0.86	246,000	0.86
45,000	September 13, 2010	1.00	45,000	1.00
20,000	November 17, 2010	1.24	20,000	1.24
2,000	January 5, 2011	1.26	2,000	1.26
413,166	June 19, 2011	2.10	413,166	2.10
830,000	June 30, 2011	2.30	830,000	2.30
15,000	September 7, 2011	2.85	15,000	2.85
1,738	March 29, 2012	3.70	1,738	3.70
67,667	April 17, 2012	4.81	67,667	4.81
1,371,048	June 22, 2012	6.00	1,371,048	6.00
67,500	October 18, 2012	7.16	22,500	7.16
100,000	January 7, 2013	7.16	33,333	7.16
83,500	January 23, 2013	9.95	16,833	9.95
321,000	March 20, 2013	12.52	107,000	12.52
75,000	March 30, 2013	12.58	25,000	12.58
12,000	March 31, 2013	13.32	4,000	13.32
6,000	April 14, 2013	13.52	2,000	13.52
175,000	May 21, 2013	13.80	175,000	13.80
100,000	June 5, 2013	16.57	33,333	16.57
400,000	July 9, 2013	18.86	133,333	18.86
466,000	August 27, 2013	15.07	199,333	15.07
1,000,000	November 27, 2013	5.10	—	—
625,000	February 6, 2016	7.94	156,250	7.94
250,000	May 6, 2014	10.21	—	—
175,000	May 6, 2014	10.21	—	—
150,000	June 5, 2014	11.46	—	—
100,000	June 17, 2014	10.00	—	—
1,256,000	August 5, 2014	12.99	—	—
100,000	September 28, 2014	11.81	—	—
<u>8,473,619</u>		<u>8.51</u>	<u>3,919,534</u>	<u>6.04</u>

The weighted average share price during the years ended December 31, 2006, 2007, 2008 and the nine months ended September 30, 2008 and 2009 were Cdn\$2.26, Cdn\$6.07, Cdn\$11.15 Cdn\$13.19 and Cdn\$11.18, respectively.

The weighted average fair value of the stock options granted during the years ended December 31, 2006, 2007, 2008 and the nine months ended September 30, 2008 and 2009, were Cdn\$1.08, Cdn\$3.33, Cdn\$6.31,

## A. FINANCIAL INFORMATION — continued

## NOTES TO THE FINANCIAL INFORMATION — continued

## 32. Share-Based Payments — continued

(a) *Stock option plan — continued*

Cdn\$7.86 (unaudited) and Cdn\$6.56, respectively. The weighted average remaining contractual life of the stock options outstanding as at September 30, 2009 is 3.63 years.

The fair value of options granted was determined using the Black-Scholes option pricing model with the following weighted average assumptions:

	Year ended December 31,			Nine months ended September 30,	
	2006	2007	2008	2008	2009
				(unaudited)	
Risk free interest rate . . . . .	4.30%	4.50%	2.81%	3.11%	2.17%
Expected life . . . . .	3.1 yrs	2.9 yrs	3.5 yrs	3.5 yrs	3.6 yrs
Expected volatility . . . . .	77.60%	78.60%	75.52%	73.45%	79.57%
Expected dividend per share . . . . .	—	—	—	—	—

Option pricing models require the input of highly subjective assumptions regarding the expected volatility. Changes in assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a realistic measure of the fair value of the Company's stock options at the date of the grant or thereafter.

(b) *Warrants*

The following is a summary of warrants outstanding:

	Exercise price (expressed in Cdn \$)	Expiry date	Number of warrants outstanding as at January 1	Issued	Exercised	Number of warrants outstanding as at December 31/ September 30
2006 . . . . .	1.395	July 28, 2007	1,153,998	—	(1,153,998)	—
2007 . . . . .	—	—	—	—	—	—
2008 . . . . .	—	—	—	—	—	—
2009 . . . . .	—	—	—	—	—	—

Effective June 26, 2006, 1,153,998 outstanding warrants were exercised into 576,999 common shares for gross proceeds of US\$715,797 (Cdn\$804,914).



## A. FINANCIAL INFORMATION — continued

## NOTES TO THE FINANCIAL INFORMATION — continued

## 32. Share-Based Payments — continued

*(b) Warrants — continued*

The fair value of warrants granted was determined using the Black-Scholes option pricing model, using the following weighted average assumptions:

	At June 28, 2005 (grant date)	At December 31, 2005	At June 26, 2006 (exercise date)
Risk free interest rate . . . . .	3.10%	3.88%	4.56%
Expected life . . . . .	2 yrs	1.57 yrs	1.08 yrs
Expected volatility . . . . .	69.73%	79.98%	89.43%
Expected dividend per share . . . . .	—	—	—

Option pricing models require the input of highly subjective assumptions regarding the expected volatility. Changes in assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a realistic measure of the fair value of the Company's stock options and warrants at the date of the grant or thereafter.

## 33. Capital Risk Management

The Group includes as capital its common shares and has no externally imposed capital requirements. The Group's objectives are to safeguard the Group's ability to continue as a going concern in order to support the Group's normal operating requirements, continue the development and exploration of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Group manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents. In order to facilitate the management of its capital requirements, the Group prepares annual expenditure budgets that are updated as necessary depending on various factors, including capital deployment, results from operations, results from the exploration and development of its properties and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

In order to maximize ongoing development efforts, the Group does not pay dividends. The Group's investment policy is to invest its cash in highly liquid, short-term, interest-bearing investments with maturities of 90 days or less from the original date of acquisition, selected with regard to the expected timing of expenditures.

## A. FINANCIAL INFORMATION — continued

## NOTES TO THE FINANCIAL INFORMATION — continued

## 34. Financial Instruments

## (a) Categories of financial instruments

THE GROUP

	As at December 31,			As at
	2006	2007	2008	September 30,
	US\$	US\$	US\$	2009
				US\$
<b>FINANCIAL ASSETS</b>				
Cash and cash equivalents . . . . .	965,494	1,393,632	10,117,311	2,710,766
Trade and other receivables . . . . .	215,783	759,528	7,289,726	14,798,663
Other receivables . . . . .	—	—	—	108,333
<b>TOTAL FINANCIAL ASSETS</b> . . . . .	<u>1,181,277</u>	<u>2,153,160</u>	<u>17,407,037</u>	<u>17,617,762</u>
<b>FINANCIAL LIABILITIES</b>				
Trade and other payables . . . . .	451,540	1,767,784	7,400,009	11,210,514
Deposit received for sale of Metals Division . . . . .	—	—	3,000,000	—
Amounts due under line of credit facilities				
— At amortized cost . . . . .	5,835,501	21,674,946	—	37,030,151
— At fair value . . . . .	—	83,998,434	—	—
<b>TOTAL FINANCIAL LIABILITIES</b> . . . . .	<u>6,287,041</u>	<u>107,441,164</u>	<u>10,400,009</u>	<u>48,240,665</u>

THE COMPANY

	As at December 31,			As at
	2006	2007	2008	September 30,
	US\$	US\$	US\$	2009
				US\$
<b>FINANCIAL ASSETS</b>				
Cash and cash equivalents . . . . .	702,960	1,121,700	7,101,556	1,970,518
Trade and other receivables . . . . .	120,605	172,845	73,975	158,970
Amounts due from subsidiaries . . . . .	8,243,915	38,889,483	141,098,563	162,037,806
Other receivables . . . . .	—	—	—	108,333
<b>TOTAL FINANCIAL ASSETS</b> . . . . .	<u>9,067,480</u>	<u>40,184,028</u>	<u>148,274,094</u>	<u>164,275,627</u>
<b>FINANCIAL LIABILITIES</b>				
Trade and other payables . . . . .	368,757	661,991	3,689,785	4,325,546
Deposit received for sale of Metals Division . . . . .	—	—	3,000,000	—
Amounts due under line of credit facilities				
— At amortized cost . . . . .	5,835,501	21,674,946	—	37,030,151
— At fair value . . . . .	—	83,998,434	—	—
<b>TOTAL FINANCIAL LIABILITIES</b> . . . . .	<u>6,204,258</u>	<u>106,335,371</u>	<u>6,689,785</u>	<u>41,355,697</u>

**A. FINANCIAL INFORMATION — continued****NOTES TO THE FINANCIAL INFORMATION — continued****34. Financial Instruments — continued****(b) Fair value**

The fair value of financial assets and financial liabilities at amortized cost is determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions.

The warrant liabilities and the embedded derivative of the line of credit facilities are measured at fair value by using the option pricing model as detailed in Note 27 and 28.

The fair value of all the other financial instruments of the Group and Company approximates their carrying value because of the demand nature or short-term maturity of these instruments.

**(c) Financial risk management objectives and policies**

The Group's financial instruments include cash, short-term money market investments, trade and other receivables, trade and other payables and amounts due under line of credit facilities. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

*Currency risk*

The Group's borrowings, major operating expenses and acquisition costs are denominated in U.S. dollars and a minor portion of the expenses of the Group are in Canadian dollars. The Group's corporate office is based in Canada and the exposure to exchange rate fluctuations arise mainly on foreign currencies against the functional currency of the relevant Group entities which is the U.S. dollar. The Group does not have any significant foreign currency denominated monetary liabilities. The Group is principally engaged in the acquisition, exploration and development of mineral properties in Mongolia and Indonesia.

The Group has not entered into any derivative instruments to manage foreign exchange fluctuations; however, management monitors foreign exchange exposure.

## A. FINANCIAL INFORMATION — continued

## NOTES TO THE FINANCIAL INFORMATION — continued

## 34. Financial Instruments — continued

(c) *Financial risk management objectives and policies — continued*

The carrying amount of the Group's foreign currency denominated monetary assets at the end of the respective reporting periods are as follows:

THE GROUP AND THE COMPANY

	As at December 31,			As at
	2006	2007	2008	September 30,
	US\$	US\$	US\$	2009
				US\$
<b>ASSETS</b>				
Canadian Dollars . . . . .	73,662	224,814	3,872,037	230,365
Hong Kong Dollars . . . . .	—	—	—	134,121
Mongolian Tugriks . . . . .	1,273	6,460	103,825	112,582
Indonesian Rupiah . . . . .	<u>20,337</u>	<u>51,799</u>	<u>15,436</u>	<u>54,019</u>
	<u>95,272</u>	<u>283,073</u>	<u>3,991,298</u>	<u>531,087</u>

*Foreign currency sensitivity analysis*

The following table details the Group's sensitivity to a 5% increase or decrease in the U.S. dollar against the foreign currency denominated monetary items above. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 5% change in foreign currency rates. A positive number indicates a decrease in loss for the year where the foreign currencies strengthen against the U.S. dollar. The opposite number will result if the foreign currencies depreciate against the U.S. dollar.

THE GROUP AND THE COMPANY

	As at December 31,			As at
	2006	2007	2008	September 30,
	US\$	US\$	US\$	2009
				US\$
<b>DECREASE IN</b>				
Loss for the year/period . . . . .	<u>4,764</u>	<u>14,154</u>	<u>199,565</u>	<u>26,554</u>

*Interest rate risk*

The Group is exposed to interest rate risk on the variable rate of interest incurred on the amounts due under the line of credit facilities and on interest earned on short term money market investments. The weighted average interest rate incurred by the Group in the nine months ended September 30, 2009 was 8.14%. The fair value interest rate risk on cash and cash equivalents is insignificant as they are short-term.

## A. FINANCIAL INFORMATION — continued

## NOTES TO THE FINANCIAL INFORMATION — continued

## 34. Financial Instruments — continued

(c) *Financial risk management objectives and policies — continued*

The Group has not entered into any derivative instruments to manage interest rate fluctuations, however, management closely monitors interest rate exposure and the risk exposure is limited.

*Interest rate sensitivity analysis*

The following table details the Group's sensitivity to a 500 basis points increase or decrease in the interest rate charged on the Group's outstanding debt. The sensitivity analysis assumes the financial instruments outstanding at the end of each reporting period were outstanding throughout the whole year/period. A positive number indicates an increase in the loss for the year/period where the interest rate has increased, while the opposite number will result if the interest rate decreases.

**THE GROUP AND THE COMPANY**

	<u>As at December 31,</u>			<u>As at</u>
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>September 30,</u>
	<u>US\$</u>	<u>US\$</u>	<u>US\$</u>	<u>2009</u>
				<u>US\$</u>
<b>INCREASE IN</b>				
Loss for the year/period . . . . .	<u>282,838</u>	<u>1,718,458</u>	<u>—</u>	<u>1,800,000</u>

*Credit risk*

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. Credit risk for the Group is primarily associated with trade receivable, value added tax ("VAT") receivable, goods and services tax ("GST") receivable and cash equivalents.

The credit risk on trade receivable is managed through an internal process whereby any potential customer is investigated before a sales contract is signed. Risk is further mitigated as the payment terms for all customers range from 10 days to 14 days, which allows the Group to actively monitor the amounts owed by customers and identify any credit risks in a timely manner and reduce the risk of a credit related loss. In addition, the Group reviews the recoverable amount of its receivables at the end of each reporting period to ensure that adequate impairment losses are made for unrecoverable amounts. In this regard, the Group considers that the credit risk is significantly reduced. At September 30, 2009, the Mongolian Coal Division had three active customers, with one customer accounting for 69% of trade receivable and the other customers accounting for the remaining 31% of trade receivable.

The VAT/GST receivable includes amounts that have been accumulated to date in various subsidiaries. At December 31, 2006, 2007, 2008 and September 30, 2009, Nil%, 68%, 97% and 92%, respectively of the VAT/GST receivable was due from the Mongolian Government Taxation Authority. Verification by the Mongolian Government Taxation Authority of the collectability of the funds was conducted in the fourth quarter of 2008. In July 2009, the Mongolia Tax Laws were amended to preclude producers and exporters of unfinished mineral products from claiming back VAT. The Mongolian government has yet to define what products will qualify as finished mineral products and any VAT amounts impacted will be prospective from the effective date of the law,

**A. FINANCIAL INFORMATION — continued****NOTES TO THE FINANCIAL INFORMATION — continued****34. Financial Instruments — continued****(c) *Financial risk management objectives and policies — continued***

August 16, 2009. Based on current available information the Group anticipates full recoverability of amounts due on account.

The credit risk on cash equivalents is limited because the cash equivalents are composed of short term money market investments issued by Canadian banks with high credit ratings as assigned by international credit-rating agencies. Therefore, the Group is not exposed to significant credit risk and overall the Group's credit risk has not changed significantly during the Relevant Periods.

*Liquidity risk*

The Group has net current liabilities amounting to US\$12,847,349 at September 30, 2009 and is exposed to liquidity risk of being unable to raise sufficient funds to meet its financial obligations when they fall due.

In the management of liquidity risk of the Group, the Group maintains a balance between continuity of funding and the flexibility through the use of borrowings. Management closely monitors the liquidity position and expects to have adequate sources of funding to finance the Group's projects and operations. The directors of the Company are of the opinion that, taking into account the group presently available Credit Facility as disclosed in Note 28 and external financial resources as disclosed in Section C of this Accountant's Report, the Group has sufficient working capital for its present obligations, that is for at least next twelve months commencing from September 30, 2009.

## A. FINANCIAL INFORMATION — continued

## NOTES TO THE FINANCIAL INFORMATION — continued

## 34. Financial Instruments — continued

(c) *Financial risk management objectives and policies — continued*

The following table details the Group's and the Company's expected remaining contractual maturities for its non-derivative financial liabilities. The table is based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to satisfy the liabilities.

**THE GROUP**

	Weighted average interest rate	0 to 6 months US\$	6 to 12 months US\$	1 to 2 years US\$	Total undiscounted cash flows US\$	Total US\$
As at December 31, 2006						
Trade and other payables . .	—	451,540	—	—	451,540	451,540
Amounts due under line of credit facilities						
— At amortized cost . . .	7.4%	—	—	6,411,270	6,411,270	5,835,501
		451,540	—	6,411,270	6,862,810	6,287,041
As at December 31, 2007						
Trade and other payables . .	—	1,767,784	—	—	1,767,784	1,767,784
Amounts due under line of credit facilities						
— At amortized cost . . .	6.7%	—	—	24,095,316	24,095,316	21,674,946
		1,767,784	—	24,095,316	25,863,100	23,442,730
As at December 31, 2008						
Trade and other payables . .	—	7,400,009	—	—	7,400,009	7,400,009
Deposit received for sale of Metals Division . . . . .	—	3,000,000	—	—	3,000,000	3,000,000
		10,400,009	—	—	10,400,009	10,400,009
As at September 30, 2009						
Trade and other payables . .	—	9,888,659	1,321,855	—	11,210,514	11,210,514
Amounts due under line of credit facilities						
— At amortized cost . . .	7.8%	—	38,440,946	—	38,440,946	37,030,151
		9,888,659	39,762,801	—	49,651,460	48,240,665

## A. FINANCIAL INFORMATION — continued

## NOTES TO THE FINANCIAL INFORMATION — continued

## 34. Financial Instruments — continued

(c) *Financial risk management objectives and policies — continued*THE COMPANY

	Weighted average interest rate	0 to 6 months US\$	6 to 12 months US\$	1 to 2 years US\$	Total undiscounted cash flows US\$	Total US\$
As at December 31, 2006						
Trade and other payables . . .	—	368,757	—	—	368,757	368,757
Amounts due under line of credit facilities						
— At amortized cost . . . .	7.4%	—	—	6,411,270	6,411,270	5,835,501
		<u>368,757</u>	<u>—</u>	<u>6,411,270</u>	<u>6,780,027</u>	<u>6,204,258</u>
As at December 31, 2007						
Trade and other payables . . .	—	661,991	—	—	661,991	661,991
Amounts due under line of credit facilities						
— At amortized cost . . . .	6.7%	—	—	24,095,316	24,095,316	21,674,946
		<u>661,991</u>	<u>—</u>	<u>24,095,316</u>	<u>24,757,307</u>	<u>22,336,937</u>
As at December 31, 2008						
Trade and other payables . . .	—	3,689,785	—	—	3,689,785	3,689,785
Deposit received for sale of Metals Division . . . . .	—	3,000,000	—	—	3,000,000	3,000,000
		<u>6,689,785</u>	<u>—</u>	<u>—</u>	<u>6,689,785</u>	<u>6,689,785</u>
As at September 30, 2009						
Trade and other payables . . .	—	3,003,691	1,321,855	—	4,325,546	4,325,546
Amounts due under line of credit facilities						
— At amortized cost . . . .	7.8%	—	38,440,946	—	38,440,946	37,030,151
		<u>3,003,691</u>	<u>39,762,801</u>	<u>—</u>	<u>42,766,492</u>	<u>41,355,697</u>

*Commodity price risk*

Profitability of the Group depends on the coal prices. Coal prices are affected by numerous factors such as interest rates, exchange rates, inflation or deflation and global and regional supply and demand.

The Group enters into sales contracts with its customers to manage the risk of a significant decrease in the price of coal. The Group has not entered into any coal hedging instruments to manage its exposure to fluctuations in coal prices. As coal sales are the only source of revenue for the Group, a 5% increase or decrease in coal prices will result in a corresponding increase or decrease in revenue.



## A. FINANCIAL INFORMATION — continued

## NOTES TO THE FINANCIAL INFORMATION — continued

## 35. Related Party Transactions

(a) *Related party expenses*

The Group incurred the following expenses with Ivanhoe, I2MS.NET PTE LTD (“I2MS”) and Global Mining Management (“GMM”), companies related by way of directors or shareholders in common. As at September 30, 2009, Ivanhoe owned approximately 79% of the outstanding shares of the Group.

	Year ended December 31,			Nine months ended September 30,	
	2006	2007	2008	2008	2009
	US\$	US\$	US\$	US\$	US\$
				(unaudited)	
Corporate administration . . . . .	360,560	725,716	1,893,424	1,494,120	773,140
Salaries and benefits . . . . .	704,617	1,415,785	1,823,798	1,505,726	970,036
Interest (Note 28) . . . . .	178,739	1,358,742	134,186	134,186	1,030,151
<b>TOTAL RELATED PARTY EXPENSES . . . . .</b>	<u>1,243,916</u>	<u>3,500,243</u>	<u>3,851,408</u>	<u>3,134,032</u>	<u>2,773,327</u>

The corporate administration and salaries and benefits have been recorded on a cost recovery basis and the interest expense has been recorded on the contractual amount basis.

The breakdown of the expenses between the different related parties is as follows:

	Year ended December 31,			Nine months ended September 30,	
	2006	2007	2008	2008	2009
	US\$	US\$	US\$	US\$	US\$
				(unaudited)	
GMM . . . . .	1,065,177	2,141,501	2,455,334	1,987,307	1,358,756
Ivanhoe . . . . .	178,739	1,358,742	134,186	134,186	1,030,151
I2MS . . . . .	—	—	1,261,888	1,012,539	384,420
<b>TOTAL RELATED PARTY EXPENSES . . . . .</b>	<u>1,243,916</u>	<u>3,500,243</u>	<u>3,851,408</u>	<u>3,134,032</u>	<u>2,773,327</u>

(b) *Related party asset*

The assets of the Group include the following amounts due from a related party:

	As at December 31,			As at September 30,
	2006	2007	2008	2009
	US\$	US\$	US\$	US\$
Amounts due from Ivanhoe . . . . .	49,148	—	—	—
Amounts due from GMM . . . . .	—	—	—	108,333
<b>ASSET DUE FROM A RELATED PARTY . . . . .</b>	<u>49,148</u>	<u>—</u>	<u>—</u>	<u>108,333</u>

## A. FINANCIAL INFORMATION — continued

## NOTES TO THE FINANCIAL INFORMATION — continued

## 35. Related Party Transactions — continued

(c) *Related party liabilities*

The liabilities of the Group include the following amounts due to related parties:

	As at December 31,			As at
	2006	2007	2008	September 30,
	US\$	US\$	US\$	2009
Amounts due to GMM . . . . .	107,222	211,045	230,712	204,592
Accounts payable to Ivanhoe . . . . .	42,009	52,045	60,682	58,900
Accounts payable to I2MS . . . . .	—	—	285,372	109,070
Deposit received for sale of Metals Division . . . . .	—	—	3,000,000	—
Amounts due under line of credit facilities . . . . .	<u>5,835,501</u>	<u>105,673,380</u>	<u>—</u>	<u>37,030,151</u>
<b>TOTAL LIABILITIES DUE TO RELATED PARTIES . . . . .</b>	<u><b>5,984,732</b></u>	<u><b>105,936,470</b></u>	<u><b>3,576,766</b></u>	<u><b>37,402,713</b></u>

Amounts due under line of credit facilities include the following amounts due to Ivanhoe:

	As at December 31,			As at
	2006	2007	2008	September 30,
	US\$	US\$	US\$	2009
Principal amount due to Ivanhoe . . . . .	5,656,762	34,369,157	—	36,000,000
Interest payable to Ivanhoe . . . . .	178,739	8,018,184	—	1,030,151
Fair value change on embedded derivative . . . . .	—	63,286,039	—	—
<b>Total amounts due under line of credit facilities . . . . .</b>	<u><b>5,835,501</b></u>	<u><b>105,673,380</b></u>	<u><b>—</b></u>	<u><b>37,030,151</b></u>

(d) *Key management personnel compensation*

The remuneration of directors and other members of key management is as follows:

	Year ended December 31,			Nine months ended	
	2006	2007	2008	2008	2009
	US\$	US\$	US\$	US\$	US\$
Short-term benefits . . . . .	739,265	927,914	1,360,745	1,024,589	775,421
Share-based payments . . . . .	<u>328,991</u>	<u>2,759,626</u>	<u>2,503,617</u>	<u>1,675,626</u>	<u>4,041,792</u>
<b>TOTAL REMUNERATION . . . . .</b>	<u><b>1,068,256</b></u>	<u><b>3,687,540</b></u>	<u><b>3,864,362</b></u>	<u><b>2,700,215</b></u>	<u><b>4,817,213</b></u>

## A. FINANCIAL INFORMATION — continued

## NOTES TO THE FINANCIAL INFORMATION — continued

## 36. Supplemental Cash Flow Information

(a) *Non-cash financing and investing activities*

The Group incurred the following non-cash investing and financing transactions:

	Year ended December 31,			Nine months ended September 30,	
	2006	2007	2008	2008	2009
	US\$	US\$	US\$	US\$	US\$
	(unaudited)				
Acquisition of mineral properties through the issue of common shares . . . . .	200,000	20,000	5,198,000	30,000	—
Carrying amount of warrant liabilities transferred to common shares upon exercise . . . . .	671,264	—	—	—	—
Increase in line of credit facility for coal transaction expenditures . . . . .	—	13,212,395	—	—	—
Transfer of share option reserve upon exercise of options . . . . .	81,247	1,307,536	1,960,086	1,925,691	802,935
Conversion of line of credit facility to common shares under the First Funding Agreement . . . . .	—	—	107,551,903	107,551,903	—
Conversion of preferred shares to common shares . . . . .	—	—	4,189,154	4,189,154	—
	<u>952,511</u>	<u>14,539,931</u>	<u>118,899,143</u>	<u>113,696,748</u>	<u>802,935</u>

(b) *Cash payments for interest and taxes*

The Group made the following cash payments for interest and income taxes:

	Year ended December 31,			Nine months ended September 30,	
	2006	2007	2008	2008	2009
	US\$	US\$	US\$	US\$	US\$
	(unaudited)				
Interest paid . . . . .	—	—	77,470	77,470	—
Taxes paid . . . . .	—	—	—	—	—
	<u>—</u>	<u>—</u>	<u>77,470</u>	<u>77,470</u>	<u>—</u>

**A. FINANCIAL INFORMATION — continued****NOTES TO THE FINANCIAL INFORMATION — continued****37. Commitments for Expenditure**

At September 30, 2009, the Group had outstanding commitments of US\$28.7 million for coal mining equipment and buildings. Included in the US\$28.7 million is US\$24.1 million for the purchase of a second and third fleet of coal mining equipment for the development of its Ovoot Tolgoi Project in Mongolia. Delivery and commissioning of the second fleet of equipment is scheduled for the fourth quarter of 2009 and of the third fleet of equipment is scheduled for mid-2010. The Group also has the option to purchase truck and shovel fleets for delivery in 2010 and 2011 with prices to be negotiated at the time of the orders.

At December 31, 2008, the Group had outstanding commitments of US\$16 million for coal mining equipment and buildings. At December 31, 2007, the Group had committed to approximately US\$16 million for the purchase of a fleet of coal mining equipment for the initial development of its Ovoot Tolgoi Project in Mongolia. At December 31, 2006, the Group did not have outstanding commitments.

**38. Summary of Differences Between IFRS and Canadian Generally Accepted Accounting Principles (“Canadian GAAP”)**

The Group adopted IFRS for Canadian reporting purposes as of January 1, 2009 with a transition date of January 1, 2005. In prior periods the reporting for Canadian purposes was done under Canadian GAAP. The consolidated financial information prepared under IFRS and those prepared under Canadian GAAP for periods beginning before January 1, 2009 have the following major differences:

- (i) As disclosed in Note 2, the acquisition of Ivanhoe’s coal division on May 29, 2007 has been treated as a business combination between entities under common control and has been accounted for using the principles of merger accounting as if the entities had always been combined. Under Canadian GAAP, the acquisition of the coal division has been accounted for as a related party transaction at the carrying value.
- (ii) As disclosed in Note 28 to the financial statements, the line of credit that the Company had with Ivanhoe became convertible into a floating number of shares on May 29, 2007. Under IFRS, the conversion feature is an embedded derivative liability that must be recorded at its fair value upon initial measurement and revalued at each subsequent reporting period. The difference between the debt host component and the principal amount of the loan outstanding is being accreted to income over the remaining term of the debt. Under Canadian GAAP, the conversion feature has been recorded as a separate component of equity.
- (iii) Under IFRS, stock based compensation which is subject to graded vesting should have the separate tranches valued and amortized over the respective vesting periods separately as if each tranche was a separate award. Canadian GAAP allows the entire award to be valued together and to be amortized on a straight line basis over the vesting time of the entire award.
- (iv) As disclosed in Note 27, the exercise price of the warrant is fixed in Canadian dollars. The functional currency of the Company is in US\$ and therefore the conversion option is regarded as derivative as the Group will receive a variable amount of cash when the warrants expired. As a result, the BHP warrants meet the definition of a financial liability under IAS 39 and were recorded as a financial liability. At each date of the statement of financial position, the warrants are stated at

## A. FINANCIAL INFORMATION — continued

## NOTES TO THE FINANCIAL INFORMATION — continued

## 38. Summary of Differences Between IFRS and Canadian Generally Accepted Accounting Principles (“Canadian GAAP”) — continued

fair value in accordance with IAS 39. Under Canadian GAAP, the warrants have been accounted for at carrying value.

- (v) Under IFRS, a change in the current market-based discount rate will result in a change in the measurement of an asset retirement obligation. Under Canadian GAAP, a change in discount rate alone does not result in a remeasurement of the asset retirement obligation.

The differences between IFRS and Canadian GAAP are summarized as follows:

	<u>As at December 31,</u>		
	<u>2006</u>	<u>2007</u>	<u>2008</u>
	US\$	US\$	US\$
Total assets under Canadian GAAP . . . . .	2,052,235	5,610,077	100,132,144
Adjustments for different accounting treatments:			
(i) Inclusion of coal division results . . . . .	262,688	—	—
(v) Adjustment for asset retirement obligation . . . . .	—	—	(184,135)
Total assets under IFRS . . . . .	<u>2,314,923</u>	<u>5,610,077</u>	<u>99,948,009</u>

	<u>As at December 31,</u>		
	<u>2006</u>	<u>2007</u>	<u>2008</u>
	US\$	US\$	US\$
Total liabilities under Canadian GAAP . . . . .	6,287,041	36,875,588	11,167,453
Adjustments for different accounting treatments:			
(ii) Fair value of embedded derivative and debt host . . . . .	—	70,565,576	107,551,903
(ii) Conversion of debt . . . . .	—	—	(107,551,903)
(iv) Adjustment for warrant liabilities . . . . .	221,641	—	—
(iv) Conversion of warrant liabilities . . . . .	(221,641)	—	—
(v) Adjustment for asset retirement obligation . . . . .	—	—	(184,135)
Total liabilities under IFRS . . . . .	<u>6,287,041</u>	<u>107,441,164</u>	<u>10,983,318</u>

	<u>As at December 31,</u>		
	<u>2006</u>	<u>2007</u>	<u>2008</u>
	US\$	US\$	US\$
Total equity under Canadian GAAP . . . . .	(4,234,806)	(31,265,511)	88,964,691
Adjustments for different accounting treatments:			
(i) Inclusion of coal division results . . . . .	262,688	—	—
(ii) Fair value of embedded derivative and debt host . . . . .	—	(70,565,576)	(107,551,903)
(ii) Conversion of debt . . . . .	—	—	107,551,903
Total equity under IFRS . . . . .	<u>(3,972,118)</u>	<u>(101,831,087)</u>	<u>88,964,691</u>

**A. FINANCIAL INFORMATION — continued****NOTES TO THE FINANCIAL INFORMATION — continued****38. Summary of Differences Between IFRS and Canadian Generally Accepted Accounting Principles (“Canadian GAAP”) — continued**

	<u>Year ended December 31,</u>		
	<u>2006</u>	<u>2007</u>	<u>2008</u>
	US\$	US\$	US\$
Loss for the year/period under Canadian GAAP . . . . .	9,361,815	26,729,932	62,385,848
Adjustments for different accounting treatments:			
(i) Inclusion of coal division results . . . . .	12,167,928	2,546,367	—
(ii) Fair value of embedded derivative . . . . .	—	63,286,039	7,223,400
(ii) Interest accretion on line of credit facility . . . . .	—	4,224,179	319,360
(iii) Adjustments on share-based compensation . . . . .	(250,730)	(50,089)	(352,866)
(iv) Fair values of warrant liability . . . . .	<u>449,623</u>	<u>—</u>	<u>—</u>
Loss for the year under IFRS . . . . .	<u>21,728,636</u>	<u>96,736,428</u>	<u>69,575,742</u>

**B. DIRECTORS' REMUNERATION**

Save as disclosed in Section A Note 15 above, remuneration has been paid in respect of the Relevant Periods to the directors of the Company. Under the arrangement presently in force, the estimate aggregate amount of the Company's directors' remuneration payable for year ending December 31, 2009 is approximately US\$460,000, excluding management bonuses and share-based compensation which are payable at the Company's discretion.

**C. SUBSEQUENT EVENTS****(i) Investment of China Investment Corporation (“CIC”)**

On November 19, 2009, we issued a convertible debenture to a wholly owned subsidiary of CIC for US\$500 million which is secured and bears interest at 8.0% with a maximum term of 30 years. The financing is required primarily to support the accelerated investment program in Mongolia and up to US\$120 million of the financing may also be used for working capital, repayment of debt due on funding, general and administrative expense and other general corporate purposes.

The key commercial terms of the financing include:

- Interest — 8% per annum (6.4% payable in cash and 1.6% payable in the Company's shares, where the number of shares to be issued is calculated based on the 50-day volume-weighted average price (“VWAP”).
- Term — Maximum of 30 years.
- Security — First charge over the Company's assets, including shares of its material subsidiaries.
- Conversion price — The conversion price is set as the lower of Cdn\$11.88 or the 50-day VWAP at the date of conversion, with a floor price of Cdn\$8.88 per share. Assuming full conversion at the base price of Cdn\$11.88 and that any conversion occurs following the Company achieving a 25% public float (on

**C. SUBSEQUENT EVENTS — continued**

an as converted for the debenture loan basis), CIC's overall shareholding interest in the Company would be approximately 22%.

- Conversion timing — the Company and CIC each have various rights to call conversion of the debenture into common shares. CIC has the right to convert the debenture, in whole or in part, into common shares 12 months after the date of issue. The Company has the right to call for the conversion of up to US\$250 million of the debenture on the earlier of 24 months after the issue date, if the market price of its common shares is greater than Cdn\$10.66, or upon the Company achieving a public float of 25% of its common shares under certain agreed circumstances. If the Company fully exercises its conversion right immediately following its achieving a 25% public float (on an as converted for the debenture loan basis) and assuming conversion at the Cdn\$11.88 base price, CIC's initial shareholding interest in the Company would be approximately 11%.
- Company's normal conversion right — After 60 months from the issuance date, at any time that the VWAP of the Company's shares for the 50 business days is 20% higher than the floor price, the Company will be entitled to require conversion of all outstanding convertible debentures into common shares at the conversion price.
- Representation on the Company Board — While the debenture loan is outstanding, or while CIC has a minimum 15% direct or indirect stake in the Company, CIC has the right to nominate one director to the Company's Board. The Company currently has eight Board members.
- Voting restriction — CIC has agreed that it will not have any voting rights in the Company beyond 29.9% if CIC ever acquires ownership of such a shareholder stake through exercising the debenture.
- Pre-emption rights — While the debenture loan is outstanding, or while CIC has a 15% direct or indirect stake in the Company, CIC has certain pre-emption rights on a pro-rata basis to subscribe for any new shares to be allotted and issued by the Company for the period which the debenture is outstanding. The pre-emption rights will not apply to new shares issued pursuant to pro-rata public equity offerings made to all shareholders, exercise of stock options and shares issued to achieve a 25% public float.
- Right of first offer — While a portion of the debenture is outstanding, or while CIC has a 15% direct or indirect stake in the Company, CIC has the right of first offer for any direct and indirect sale of Ivanhoe's ownership stake in the Company. Ivanhoe currently owns directly and indirectly approximately 105.8 million of the Company shares, or approximately 79% of the Company's current issued and outstanding shares.
- Registration Rights — CIC has registration rights under applicable Canadian provincial securities laws in connection with the common shares issuable upon conversion of the debenture.

The Company also entered into a mutual co-operation agreement with a subsidiary of CIC. Under the terms of the agreement, CIC's subsidiary will provide advice and services to the Company on matters that include sales to China, procurement and logistics, and will receive a customary commercial payment for such services based on product sales from Mongolia to China.

Based on the accounting analysis conducted by the Company, the convertible debenture is a hybrid instrument, containing a debt component and three embedded derivatives - the investor's conversion option,

**C. SUBSEQUENT EVENTS — continued**

the issuer's conversion option and the equity based interest payment provision (the 1.6% share interest payment). The debt component will be measured at amortized cost using the effective interest method. The embedded derivatives will be measured at fair value and all changes in fair value will be recognized in profit or loss immediately.

Based on the Company's valuation as at November 19, 2009, the closing date of the convertible debenture financing, the value of the embedded derivatives is estimated to be US\$269.4 million and the value of the debt component is estimated to be US\$230.6 million (prior to transaction costs).

**(ii) Disposal of Mamahak**

On December 15, 2009, the Company entered into an agreement to divest its 85% interest in Mamahak to Kangaroo Resources Limited ("Kangaroo"), for consideration comprising US\$1 million in cash and 50 million shares of Kangaroo. Kangaroo is listed on the Australian Securities Exchange (KRL: ASX). During the nine months ended September 30, 2009, the Company had recorded an impairment charge on Mamahak of US\$23.0 million as a result of the suspension of this project. Based on the terms of the agreement with Kangaroo, the estimated net recoverable value, determined by the estimated fair value of Mamahak less costs to sell, has been revised and the recognised impairment charge will be decreased by approximately US\$10.5 million. The transaction was completed on December 23, 2009. As a result of this transaction, the Company would hold approximately 6.7% of the outstanding shares in Kangaroo, which will be subject to a 12 month lock-up.

**D. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements of the companies now comprising the Group have been prepared in respect of any period subsequent to September 30, 2009.

Yours faithfully,

**Deloitte Touche Tohmatsu**  
Certified Public Accountants  
Hong Kong