SouthGobi Resources Ltd.
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012
(Expressed in U.S. Dollars)

Independent Auditor's Report

To the Shareholders of SouthGobi Resources Ltd.:

We have audited the accompanying consolidated financial statements of SouthGobi Resources Ltd. ("SouthGobi" or the "Company"), which comprise the consolidated statement of financial position as at December 31, 2012 and the consolidated statements of comprehensive income, cash flows and changes in equity for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2012 and its financial performance and its cash flows for the year ended December 31, 2012 in accordance with International Financial Reporting Standards.

Other Matters

The financial statements of the Company for the year ended December 31, 2011, were audited by another auditor who expressed an unmodified opinion on those statements on March 19, 2012.

(signed) PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, British Columbia
March 25, 2013

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Additional stock exchange information

SOUTHGOBI RESOURCES LTD.

Consolidated Statements of Comprehensive Income

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

	Notes	Year ended December 31, 2012	2011
Revenue		**$ 53,116**	$ 179,049
Cost of sales	5	**(97,118)**	(127,343)
Gross profit/(loss)		**(44,002)**	51,706
Other operating expenses	6	**(54,345)**	(29,189)
Administration expenses	7	**(24,637)**	(28,749)
Evaluation and exploration expenses	8	**(8,598)**	(31,768)
Loss from operations		**(131,582)**	(38,000)
Finance costs	9	**(15,385)**	(12,765)
Finance income	9	**39,942**	107,732
Share of earnings of joint venture	13	**635**	-
Income/(loss) before tax		**(106,390)**	56,967
Current income tax expense	10	**(354)**	(7,340)
Deferred income tax recovery	10	**3,725**	8,118
Net income/(loss) attributable to equity holders of the Company		**(103,019)**	57,745
OTHER COMPREHENSIVE INCOME/(LOSS)			
Loss on available-for-sale financial asset, net of tax		**-**	(11,202)
Reclassification of gain on available-for-sale financial asset, net of tax		**(16,559)**	-
Net comprehensive income/(loss) attributable to equity holders of the Company		**$(119,578)**	$ 46,543
BASIC INCOME/(LOSS) PER SHARE	11	**$ (0.57)**	$ 0.32
DILUTED LOSS PER SHARE	11	**$ (0.63)**	$ (0.19)

The accompanying notes are an integral part of these consolidated financial statements.

SOUTHGOBI RESOURCES LTD.
Consolidated Statements of Financial Position
(Expressed in thousands of U.S. Dollars)

	Notes	As at December 31, 2012	2011
ASSETS			
Current assets			
Cash		**$ 19,674**	$ 123,567
Trade and other receivables	12	**17,430**	80,285
Short term investments	13	**15,000**	-
Inventories	14	**53,661**	52,443
Prepaid expenses and deposits	15	**37,982**	38,308
Total current assets		**143,747**	294,603
Non-current assets			
Prepaid expenses and deposits	15	**16,778**	8,389
Property, plant and equipment	16	**521,473**	498,533
Long term investments	13	**24,084**	99,238
Deferred income tax assets	10	**23,285**	19,560
Total non-current assets		**585,620**	625,720
Total assets		**$ 729,367**	$ 920,323
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other payables	17	**$ 10,216**	$ 52,235
Current portion of convertible debenture	19	**6,301**	6,301
Total current liabilities		**16,517**	58,536
Non-current liabilities			
Convertible debenture	19	**99,667**	139,085
Deferred income tax liabilities	10	**-**	2,366
Decommissioning liability	20	**4,104**	4,156
Total non-current liabilities		**103,771**	145,607
Total liabilities		**120,288**	204,143
Equity			
Common shares		**1,059,710**	1,054,298
Share option reserve	23	**51,303**	44,143
Investment revaluation reserve	23	**-**	16,559
Accumulated deficit	21	**(501,934)**	(398,820)
Total equity		**609,079**	716,180
Total equity and liabilities		**$ 729,367**	$ 920,323
Net current assets		**$ 127,230**	$ 236,067
Total assets less current liabilities		**$ 712,850**	$ 861,787

Commitments for expenditure (Note 28) and contingencies (Note 29)

The accompanying notes are an integral part of these consolidated financial statements.

APPROVED BY THE BOARD:

"Andre Deepwell" ________________ *"Pierre Lebel"* ________________

Director Director

SOUTHGOBI RESOURCES LTD.

Consolidated Statements of Changes in Equity

(Expressed in thousands of U.S. Dollars and shares in thousands)

	Number of shares	Common shares	Share option reserve	Investment revaluation reserve	Accumulated deficit	Total
Balances, January 1, 2011	183,485	$ 1,061,560	$ 32,360	$ 27,761	$ (442,791)	$ 678,890
Shares issued for:						
Interest settlement on convertible debenture	375	4,011	-	-	-	4,011
Exercise of stock options, net of redemptions	743	7,819	(2,627)	-	-	5,192
Employee share purchase plan	17	187	-	-	-	187
Share-based compensation charged to operations	-	-	14,410	-	-	14,410
Common shares repurchased and cancelled	(3,300)	(19,167)	-	-	(13,774)	(32,941)
Common share repurchase costs	-	(112)	-	-	-	(112)
Net income for the year	-	-	-	-	57,745	57,745
Other comprehensive loss for the year	-	-	-	(11,202)	-	(11,202)
Balances, December 31, 2011	181,320	$ 1,054,298	$ 44,143	$ 16,559	$ (398,820)	$ 716,180
Balances, January 1, 2012	**181,320**	**$1,054,298**	**$ 44,143**	**$ 16,559**	**$ (398,820)**	**$ 716,180**
Shares issued for:						
Interest settlement on convertible debenture	**522**	**4,000**	**-**	**-**	**-**	**4,000**
Exercise of stock options, net of redemptions	**163**	**1,882**	**(1,368)**	**-**	**-**	**514**
Employee share purchase plan	**71**	**395**	**-**	**-**	**-**	**395**
Share-based compensation charged to operations	**-**	**-**	**8,528**	**-**	**-**	**8,528**
Common shares repurchased and cancelled	**(148)**	**(860)**	**-**	**-**	**(95)**	**(955)**
Common share repurchase costs	**-**	**(5)**	**-**	**-**	**-**	**(5)**
Net loss for the year	**-**	**-**	**-**	**-**	**(103,019)**	**(103,019)**
Reclassification of gain on available-for-sale financial asset, net of tax	**-**	**-**	**-**	**(16,559)**	**-**	**(16,559)**
Balances, December 31, 2012	**181,928**	**$1,059,710**	**$ 51,303**	**$ -**	**$ (501,934)**	**$ 609,079**

The accompanying notes are an integral part of these consolidated financial statements.

SOUTHGOBI RESOURCES LTD.

Consolidated Statements of Cash Flows

(Expressed in thousands of U.S. Dollars)

	Notes	Year ended December 31, 2012	2011
OPERATING ACTIVITIES			
Income/(loss) before tax		**$ (106,390)**	$ 56,967
Adjustments for:			
Depreciation and depletion		**39,935**	28,052
Share-based compensation	22	**8,528**	14,410
Finance costs	9	**15,385**	12,765
Finance income	9	**(39,942)**	(107,732)
Share of earnings of joint venture	13	**(635)**	-
Interest paid		**(16,322)**	(16,352)
Income taxes paid		**(2,349)**	(7,970)
Unrealized foreign exchange gain		**(532)**	(593)
Loss on disposal of property, plant and equipment		**720**	3,005
Provision for doubtful trade and other receivables	12	**18,430**	1,892
Impairment loss on available-for-sale financial asset	13	**19,184**	-
Impairment of inventories	14	**14,196**	2,396
Impairment of property, plant and equipment	16	**15,245**	16,605
Other adjustments		**-**	104
Operating cash flows before changes in non-cash working capital items		**(34,547)**	3,549
Net change in non-cash working capital items	27	**8,264**	(73,572)
Cash used in operating activities		**(26,283)**	(70,023)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(97,388)**	(282,967)
Proceeds from disposal of property, plant and equipment		**1,030**	1,285
Interest received		**400**	1,356
Proceeds from maturity or disposal of long term investments		**31,485**	62,532
Purchase of long term investments		**-**	(52,635)
Investment in joint venture		**(13,264)**	(3)
Cash used in investing activities		**(77,737)**	(270,432)
FINANCING ACTIVITIES			
Proceeds from issuance of common shares and exercise of stock options, net of issue costs		**909**	5,379
Repurchase of common shares, including transaction costs		**(960)**	(33,053)
Drawings under line of credit facility		**26,753**	131,500
Repayments of line of credit facility		**(26,753)**	(131,400)
Cash used in financing activities		**$ (51)**	$ (27,574)
Effect of foreign exchange rate changes on cash		**178**	(442)
Decrease in cash		**(103,893)**	(368,471)
Cash, beginning of year		**123,567**	492,038
Cash, end of year		**$ 19,674**	$ 123,567

Supplemental cash flow information (Note 27)

The accompanying notes are an integral part of these consolidated financial statements.

1. CORPORATE INFORMATION AND LIQUIDITY

SouthGobi Resources Ltd. is a publicly listed company incorporated in Canada with limited liability under the legislation of the Province of British Columbia and its shares are listed on the Toronto Stock Exchange (Symbol: SGQ) and Hong Kong Stock Exchange (Symbol: 1878). The company, together with its subsidiaries (collectively referred to as the "Company"), is an integrated coal mining, development and exploration company. The Company owns the following significant coal projects in Mongolia: the Ovoot Tolgoi open pit producing coal mine ("Ovoot Tolgoi Mine") and three development projects, the Soumber Deposit, the Zag Suuj Deposit and the Ovoot Tolgoi Underground Deposit.

The Company's immediate parent company is Turquoise Hill Resources Ltd. (formerly Ivanhoe Mines Ltd.) ("Turquoise Hill") and at December 31, 2012, Turquoise Hill owned approximately 58% of the outstanding common shares of the Company (Note 26). Turquoise Hill is controlled by Rio Tinto plc ("Rio Tinto").

The head office, principal address and registered and records office of the Company is located at 999 Canada Place, Suite 615, Vancouver, British Columbia, Canada, V6C 3E1.

The Company curtailed its mining activities at the Ovoot Tolgoi Mine during the three months ended June 30, 2012 to varying degrees to manage coal inventories and to maintain efficient working capital levels. As at June 30, 2012, mining activities had been fully curtailed. The Company's mining activities remained fully curtailed during the remainder of the year ended December 31, 2012.

The Company had cash and short term investments of $34,674 and working capital of $127,230 at December 31, 2012. These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue operating for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. The Company has in place a planning, budgeting and forecasting process to help determine the funds required to support the Company's normal operations on an ongoing basis and its expansionary plans. The Company expects to have sufficient liquidity and capital resources to meet its ongoing obligations and future contractual commitments for at least twelve months from the end of the December 31, 2012 reporting period. The Company expects its liquidity to remain sufficient based on existing capital resources and income from mining operations. Liquidity beyond the twelve month period is dependent on the success of the recommencement of operations and ongoing demand and prices in the coal market. On March 22, 2013, the Company recommenced mining activities at the Ovoot Tolgoi Mine. The Company continues to minimize uncommitted capital expenditures and exploration expenditures in order to preserve the Company's financial resources.

2. BASIS OF PREPARATION

2.1 Statement of compliance

The consolidated financial statements, including comparatives, have been prepared in accordance with and using accounting policies in full compliance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the IFRS Interpretations Committee.

The consolidated financial statements of the Company for the year ended December 31, 2012 were approved and authorized for issue by the Board of Directors of the Company on March 25, 2013.

2.2 Basis of presentation

The consolidated financial statements have been prepared on a historical cost basis except for certain financial assets and financial liabilities which are measured at fair value. The Company's financial instruments are further disclosed in Note 25.

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 the Company operates.

2. BASIS OF PREPARATION (Continued)

2.3 Adoption of new and revised standards and interpretations

The IASB has issued the following new and revised standards and interpretations which are effective for annual periods beginning on or after January 1, 2013. The Company has performed a preliminary assessment of these new and revised standards and interpretations to determine the potential impact on the consolidated financial statements.

- IFRS 10 — New standard to establish principles for the presentation and preparation of consolidated financial statements when an entity controls multiple entities. No significant impact expected on the consolidated financial statements.
- IFRS 11 — New standard to account for the rights and obligations in accordance with a joint arrangement. No significant impact expected on the consolidated financial statements.
- IFRS 12 — New standard for the disclosure of interests in other entities not within the scope of IFRS 9/IAS 39. No significant impact is expected on the consolidated financial statements.
- IFRS 13 — New standard on the measurement and disclosure of fair value. No significant impact is expected on the consolidated financial statements.
- IAS 1 (Amendment) — Revised standard for the presentation of other comprehensive income. No significant impact is expected on the consolidated financial statements.
- IAS 19 (Amendment) — Revised guidance on the recognition and measurement of post-employment benefits. No significant impact is expected on the consolidated financial statements.
- IAS 28 (Amendment) — New standard issued that supercedes IAS 28 (2003) to prescribe the accounting for investments in associates and joint ventures. No significant impact is expected on the consolidated financial statements.
- IFRIC 20 — New interpretation to prescribe the accounting for stripping costs in the production phase of a surface mine. The Company has assessed its open-pit mining operations at the Ovoot Tolgoi Mine and concluded that as at January 1, 2012 there are identifiable coal seams with which the predecessor stripping activity related to. Therefore, no significant impact is expected on the consolidated financial statements.

The following new standard is effective for years beginning on or after January 1, 2015. The Company will assess the impact of this new standard closer to its implementation date.

- IFRS 9 — New financial instruments standard that replaces IAS 39 for classification and measurement of financial assets and financial liabilities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of consolidation

The consolidated financial statements include the financial statements of SouthGobi Resources Ltd. and its subsidiaries (Note 26).

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate. All intercompany transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Company's equity therein. Total comprehensive income of the Company's subsidiaries is attributed to the equity holders of the Company and to the non-controlling interests even if this results in the non-controlling interest having a deficit balance. The Company did not have any non-controlling interests in the net assets of consolidated subsidiaries during the years ended December 31, 2012 and 2011.

3.2 Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. At the acquisition date, the identifiable assets acquired and the liabilities assumed are, with limited exceptions, recognized at their fair value. Acquisition-related costs are expensed and included in profit or loss.

Any contingent consideration payable is recognized at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in profit or loss or as a change in other comprehensive income.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the fair value of the identifiable net assets acquired and liabilities assumed. If this consideration is lower than the fair value of the identifiable net assets of the business acquired, the difference is recognized in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Foreign currencies

The functional currency of all of the Company's operations is the U.S. Dollar as this is the principal currency of the economic environment in which the Company operates. Transactions in foreign currencies are initially recorded at the U.S. Dollar rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the U.S. Dollar 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 rate prevailing at the date of the transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value is determined.

3.4 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. All other borrowing costs are expensed and included in profit or loss.

3.5 Inventories

Coal stockpile inventories are measured at the lower of production cost and net realizable value. Production cost is determined by the weighted average cost method and includes direct and indirect labor, operating materials and supplies, processing costs, transportation costs and an appropriate portion of fixed and variable overhead expenses. Fixed and variable overhead expenses include depreciation and depletion. Net realizable value represents the future estimated selling price of the product, less estimated costs to complete production and costs necessary to bring the product to sale.

Materials and supplies inventory consists of consumable parts and supplies which are valued at the 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Property, plant and equipment ("PPE")

PPE includes the Company's operating equipment and infrastructure, construction in progress and mineral properties. PPE is stated at cost less accumulated depreciation and depletion and accumulated impairment losses.

Initial recognition

The cost of an item of operating equipment and infrastructure consists of the purchase price or construction cost, including vendor prepayments, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, an initial estimate of the decommissioning liability and capitalized borrowing costs (Note 3.4).

Construction in progress is classified to the appropriate category of PPE when it is completed and is ready for its intended use.

All direct costs related to the acquisition of mineral property interests are capitalized on a property by property basis. The cost of mineral properties also includes mineral property development costs (Note 3.7), certain production stripping costs (Note 3.8) and decommissioning liabilities related to the reclamation of the Company's mineral properties.

Depreciation and depletion

Depreciation and depletion are recorded based on the cost of an item of PPE, less its estimated residual value, using the straight-line method or unit-of-production method over the following estimated useful lives:

• Mobile equipment	5 to 7 years
• Other operating equipment	1 to 10 years
• Buildings and roads	5 to 20 years
• Construction in progress	not depreciated
• Mineral properties	unit-of-production basis based on proven and probable reserves (Note 3.7)

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 profit or loss.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7 Mineral properties

Evaluation and exploration expenses

Evaluation and exploration expenses are charged to profit or loss in the period incurred until such time as it has been determined that a mineral property has proven and probable reserves and management has determined that the mineral property will be developed.

Commencement of commercial production

On the commencement of commercial production, depletion of each mineral property is recorded on a unit-of-production basis using proven and probable reserves as the depletion base. Management's determination of when commercial production commences is based on several qualitative and quantitative factors including, but not limited to, the following:

- the elevation or bench where the coal to be mined has been reached
- the commissioning of major operating equipment and infrastructure is completed

3.8 Development and production stripping costs

Stripping costs incurred during the development phase of a mine are added to PPE as mineral property costs. Stripping costs incurred during the commercial production phase are variable production costs that are included in the costs of inventory produced during the period incurred, unless the stripping activity can be shown to give rise to future benefits, in which case the stripping costs are added to the cost of mineral properties.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Decommissioning, restoration and similar liabilities

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

3.10 Interests in joint ventures

A joint venture is a contractual arrangement whereby the Company and other parties undertake an economic activity that is subject to joint control. Joint control occurs when the strategic financial and operating policy decisions relating to the activities of the joint venture require unanimous consent of the parties sharing control.

Jointly controlled assets

A jointly controlled asset involves joint control and often joint ownership by the Company and other venturers of assets contributed to, or acquired for the purposes of, the joint venture, without the formation of a corporation, partnership or other entity.

Where the Company's activities are conducted through jointly controlled assets, the Company recognizes its proportionate share of the jointly controlled assets and liabilities it has incurred, its share of liabilities incurred jointly with the other venturers and related revenue and operating costs in the consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Interests in joint ventures (Continued)

Jointly controlled entities

A jointly controlled entity is a corporation, partnership or other entity in which each venturer holds an interest.

The Company accounts for its interests in jointly controlled entities under the equity method. The Company's investment in the joint venture is carried in the statement of financial position at cost plus post acquisition changes in the Company's share of the net assets of the joint venture. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The profit or loss reflects the Company's share of the results of operations of the joint venture. Unrealized gains and losses resulting from transactions between the Company and the joint venture are eliminated to the extent of the interest in the joint venture.

3.11 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 payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

In situations where equity instruments are issued to non-employees and the value of some or all of the goods or services received by the entity as consideration cannot be measured reliably, they are measured at the fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods 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 the awards are granted.

The costs of equity-settled transactions are recognized, together with a corresponding increase in the share option reserve, over the period in which the performance and/or service conditions are fulfilled and end on the date on which the relevant employees become fully entitled to the award. The cumulative expense recognized for equity-settled transactions at each reporting date reflects the Company's best estimate of the number of equity instruments that will ultimately vest. No expense is recognized for awards that do not ultimately vest.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11 Share-based payments (Continued)

When 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 the modification.

3.12 Earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of shares outstanding during the reporting period.

Diluted earnings per share is calculated by adjusting the profit or loss attributable to equity holders of the Company and the weighted average number of shares outstanding for the effects of all dilutive share equivalents. The Company’s dilutive share equivalents include stock options and convertible debt.

3.13 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 substantively enacted at the end of each reporting period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Taxation (Continued)

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, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled by the parent, investor or venturer 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, associates and joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Taxation (Continued)

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 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 profit or loss.

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.

3.14 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 or 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 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 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14 Financial assets (Continued)

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income except when there is objective evidence that the financial asset is impaired. Impairment losses on available-for-sale financial assets are recognized in profit or loss.

Transaction 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.

3.15 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 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.

Financial liabilities classified as FVTPL include financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives, are also classified as FVTPL unless they are designated as effective hedging instruments. Transaction costs on financial liabilities classified as FVTPL are expensed as incurred. At the end of each reporting period subsequent to initial recognition, financial liabilities classified as 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16 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 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.

Available-for-sale

A significant or prolonged decline in the fair value of an available-for-sale financial asset below its cost provides objective evidence that the asset is impaired. If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to profit or loss. Reversals of impairment losses in respect of equity instruments classified as available-for-sale are not recognized in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 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 Company 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.

Financial liabilities 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.

3.18 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 fair value less costs to sell, recent market transactions are taken into account. The Company also considers the results of an appropriate valuation model which would generally be determined based on the present value of estimated future cash flows arising from the continued use and eventual disposal of the asset. 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.

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 periods.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.19 Cash and cash equivalents

Cash and cash equivalents include cash at banks and short term money market instruments with original maturities of three months or less.

3.20 Revenue recognition

Revenue is recognized to the extent it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates or duties. Revenue from the sale of goods is recognized when the significant risks and rewards of ownership pass to the buyer, collection is reasonably assured and the selling price is reasonably determinable.

Revenue from the sale of coal is recognized when the significant risks and rewards of ownership and effective control of the coal is transferred to the buyer and the selling prices are known or can be reasonably estimated. Revenue recognition generally occurs when the coal is loaded into customer trucks at mine-gate or, depending on the terms of the sales contract, when the coal is made available for loading at a bonded stockyard.

Revenue is presented net of royalties and selling fees.

3.21 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 a finance cost.

3.22 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.23 Significant accounting judgments and estimates

Information about judgments and estimates in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

Liquidity and going concern assumption

In the determination of the Company's ability to meet its ongoing obligations and future contractual commitments for at least twelve months from the end of the December 31, 2012 reporting period, management relies on the Company's planning, budgeting and forecasting process to help determine the funds required to support the Company's normal operations on an ongoing basis and its expansionary plans. The key inputs used by the Company in this process include forecasted capital deployment, results from operations, results from the exploration and development of its properties and general industry conditions. Changes in these inputs may alter the Company's ability to meet its ongoing obligations and future contractual commitments and could result in adjustments to the amounts and classifications of assets and liabilities should the Company be unable to continue as a going concern (refer to Note 1).

Valuation of embedded derivatives

The embedded derivatives in the Company's convertible debenture are valued using a Monte Carlo simulation valuation model. A Monte Carlo simulation model is a valuation model that relies on random sampling and is often used when modeling systems with a large number of inputs and where there is significant uncertainty in the future value of inputs and where the movement of the inputs can be independent of each other. The key inputs used by the Company in its Monte Carlo simulation are further disclosed in Note 19.2 and Note 19.3. Changes in the inputs to the valuation model could impact the carrying value of the embedded derivatives in the convertible debenture and the amount of unrealized gains or losses recognized in profit or loss. The carrying value of the embedded derivatives in the Company's convertible debenture as at December 31, 2012 was a liability of $8,876 (2011: $48,389).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.23 Significant accounting judgments and estimates (Continued)

Review of carrying value of assets and impairment charges

In the determination of carrying values and impairment charges, management of the Company reviews the higher of the recoverable amount and the fair value less costs to sell or the value in use in the case of non-financial assets and at objective evidence indicating impairment in the case of financial assets. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period. Changes in these assumptions may alter the results of non-financial asset and financial asset impairment testing, impairment charges recognized in profit or loss and the resulting carrying amounts of assets.

As at December 31, 2012, the Company determined that the decline in the Company's common share price and continued curtailment of mining activities at the Ovoot Tolgoi Mine constituted impairment indicators. Therefore, the Company conducted an impairment test whereby the carrying values of the Company's property, plant and equipment, including mineral properties, related to the Ovoot Tolgoi Mine were compared to their "value-in-use" using a discounted future cash flow valuation model as at December 31, 2012. The Company's property, plant and equipment, including mineral properties, totaled $521,473 as at December 31, 2012.

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

- Inland Chinese coking coal market coal prices;
- Life-of-mine coal production and operating costs; and
- A discount rate based on an analysis of market, country and company specific factors

The impairment analysis did not result in the identification of an impairment loss and no charge was required as at December 31, 2012. The Company believes that the estimates and assumptions incorporated in the impairment analysis are reasonable; however, the estimates and assumptions are subject to significant uncertainties and judgments.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.23 Significant accounting judgments and estimates (Continued)

Estimated recoverable reserves

Reserve estimates involve expressions of judgment based on various factors such as knowledge, experience and industry practice, and the accuracy of these estimates may be affected by many factors, including estimates and assumptions with respect to coal prices, operating costs, mine plan and life, coal quality and recovery, foreign currency exchange rates and inflation rates. Reserve estimates are made by qualified persons, but will be impacted by changes in the above estimates and assumptions.

Estimated recoverable reserves are used to determine the depletion of mineral properties, in accounting for deferred production stripping costs, in performing impairment testing and for forecasting the timing of the payment of decommissioning, restoration and similar costs. Therefore, changes in the estimates and assumptions used to determine recoverable reserves could impact the carrying value of assets, depletion expense and impairment charges recognized in profit or loss and the carrying value of the decommissioning, restoration and similar liabilities.

Useful lives and depreciation rates for property, plant and equipment

Depreciation expense is allocated based on estimated property, plant and equipment useful lives and depreciation rates. Therefore, changes in the useful life or depreciation rates from the initial estimate could impact the carrying value of property, plant and equipment and an adjustment would recognized in profit or loss.

Income taxes and recoverability of deferred tax assets

Actual amounts of income tax expense are not final until tax returns are filed and accepted by the taxation authorities. Therefore, profit or loss in future reporting periods will be affected by the amount that income tax expense estimates differ from the final tax returns.

Judgment is required in determining whether deferred tax assets are recognized on the statement of financial position. Deferred tax assets, including those arising from unutilized tax losses, require management of the Company to assess the likelihood that the Company will generate sufficient taxable profit in future periods in order to utilize recognized deferred tax assets. Estimates of future taxable profit are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable profit differ from estimates, the ability of the Company to realize the deferred tax assets recorded on the statement of financial position could be impacted. The carrying value of the Company’s deferred income tax assets as at December 31, 2012 was $23,285 (2011: $19,560).

4. SEGMENTED INFORMATION

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

During the year ended December 31, 2012, the Mongolian Coal Division had 6 active customers with the largest customer accounting for 40% of revenues, the second largest customer accounting for 31% of revenue and the other customers accounting for the remaining 29% of revenue.

(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)

4. SEGMENTED INFORMATION (Continued)

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

	Mongolian Coal Division	Unallocated (i)	Consolidated Total
Segment assets			
As at December 31, 2012	**$ 673,896**	**$ 55,471**	**$ 729,367**
As at December 31, 2011	696,732	223,591	920,323
Segment liabilities			
As at December 31, 2012	**$ 11,315**	**$ 108,973**	**$ 120,288**
As at December 31, 2011	51,256	152,887	204,143
Segment income/(loss)			
For the year ended December 31, 2012	**$ (90,509)**	**$ (12,510)**	**$ (103,019)**
For the year ended December 31, 2011	(14,043)	71,788	57,745
Segment revenues			
For the year ended December 31, 2012	**$ 53,116**	**$ -**	**$ 53,116**
For the year ended December 31, 2011	179,049	-	179,049
Impairment charge on assets (ii), (iii)			
For the year ended December 31, 2012	**$ 47,871**	**$ 19,184**	**$ 67,055**
For the year ended December 31, 2011	20,893	-	20,893

(i) The unallocated amount contains all amounts associated with the Corporate Division
(ii) The impairment charge on assets for the year ended December 31, 2012 relates to trade and other receivables (Note 12), investments (Note 13), inventories (Note 14) and property, plant and equipment (Note 16)
(iii) The impairment charge on assets for the year ended December 31, 2011 relates to trade and other receivables (Note 12), inventories (Note 14) and property, plant and equipment (Note 16)

The operations of the Company are primarily located in Mongolia, Hong Kong and Canada.

	Mongolia	Hong Kong	Canada	Consolidated Total
Revenues				
For the year ended December 31, 2012	**$ 53,116**	**$ -**	**$ -**	**$ 53,116**
For the year ended December 31, 2011	179,049	-	-	179,049
Non-current assets				
As at December 31, 2012	**$ 564,930**	**$ 100**	**$ 20,591**	**$ 585,620**
As at December 31, 2011	519,003	283	106,434	625,720

(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)

5. COST OF SALES

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

	Year ended December 31,	
	2012	**2011**
Operating expenses	**$ 22,277**	$ 97,671
Share-based compensation expense (Note 22)	**1,205**	1,942
Depreciation and depletion	**6,482**	27,730
Impairment of inventories (Note 14)	**14,196**	-
Cost of sales during mine operations	**44,160**	127,343
Cost of sales during idled mine period [(i)]	**52,958**	-
Cost of sales	**$ 97,118**	$ 127,343

(i) Cost of sales during idled mine period for the year ended December 31, 2012 includes $33,358 of depreciation expense and other non-cash costs and $942 of share-based compensation expense. The depreciation expense relates to the Company's idled plant and equipment.

6. OTHER OPERATING EXPENSES

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

	Year ended December 31,	
	2012	**2011**
Public infrastructure	**$ 1,273**	$ 8,069
Sustainability and community relations	**894**	1,017
Foreign exchange (gain)/loss	**2,729**	(790)
Provision for doubtful trade and other receivables (Note 12)	**18,430**	1,892
Impairment loss on available-for-sale financial asset (Note 13)	**19,184**	-
Impairment of inventories (Note 14)	**-**	2,396
Impairment of property, plant and equipment (Note 16)	**15,245**	16,605
Other	**(3,410)**	-
Other operating expenses	**$ 54,345**	$ 29,189

(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)

7. ADMINISTRATION EXPENSES

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

	Year ended December 31, 2012	Year ended December 31, 2011
Corporate administration	**$ 5,525**	$ 7,136
Legal and professional fees	**7,293**	4,279
Salaries and benefits	**5,556**	5,538
Share-based compensation expense (Note 22)	**6,048**	11,474
Depreciation	**215**	322
Administration expenses	**$ 24,637**	$ 28,749

8. EVALUATION AND EXPLORATION EXPENSES

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

	Year ended December 31, 2012	Year ended December 31, 2011
Drilling and trenching	**$ 3,708**	$ 21,842
Other direct expenses	**1,428**	4,801
Share-based compensation expense (Note 22)	**333**	994
Overhead and other	**3,129**	4,131
Evaluation and exploration expenses	**$ 8,598**	$ 31,768

9. FINANCE COSTS AND INCOME

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

	Year ended December 31, 2012	Year ended December 31, 2011
Interest expense on convertible debenture (Note 19)	**$ 10,466**	$ 9,137
Unrealized loss on FVTPL investments	**4,482**	3,091
Interest expense on line of credit facility	**322**	351
Accretion of decommissioning liability	**115**	186
Finance costs	**$ 15,385**	$ 12,765

(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)

9. FINANCE COSTS AND INCOME (Continued)

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

	Year ended December 31,	
	2012	**2011**
Unrealized gain on embedded derivatives in convertible debenture (Note 19)	**$ 39,512**	$ 106,489
Interest income	**406**	1,243
Realized gain on disposal of FVTPL investments	**24**	-
Finance income	**$ 39,942**	$ 107,732

10. TAXES

10.1 Income tax recognized in profit or loss

A reconciliation between the Company's tax recovery and the product of the Company's income or loss before tax multiplied by the Company's domestic tax rate is as follows:

	Year ended December 31,	
	2012	**2011**
(Income)/loss before tax	**$ 106,390**	$ (56,967)
Statutory tax rate	**25.00%**	26.50%
Income tax (recovery)/expense based on combined Canadian federal and provincial statutory rates	**(26,598)**	15,096
Deduct:		
Lower effective tax rate in foreign jurisdictions	**323**	502
Tax effect of tax losses and temporary differences not recognized	**15,564**	12,281
Non-taxable (income)/non-deductible expenses	**7,340**	(28,657)
Income tax recovery	**$ (3,371)**	$ (778)

10.2 Income tax recognized in other comprehensive income

	Year ended December 31,	
	2012	**2011**
Fair value remeasurement of available-for-sale financial asset	**$ (2,366)**	$ (1,600)
Deferred tax recovery	**$ (2,366)**	$ (1,600)

(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)

10. TAXES (Continued)

10.3 Deferred tax balances

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

	As at December 31, 2012	As at December 31, 2011
Tax loss carryforwards	**$ 8,473**	$ -
Property, plant and equipment	**5,048**	8,647
Other assets	**9,764**	10,913
Available-for-sale financial assets	**-**	(2,366)
Total deferred tax balances	**$ 23,285**	$ 17,194

10.4 Unrecognized deductible temporary differences and unused tax losses

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

	As at December 31, 2012	As at December 31, 2011
Non-capital losses	**$ 46,130**	$ 119,212
Capital losses	**-**	63,649
Deductible temporary differences	**110,945**	107,997
Total unrecognized amounts	**$ 157,075**	$ 290,858

10.5 Expiry dates

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

	As at December 31, 2012 U.S. Dollar Equivalent	As at December 31, 2012 Expiry dates
Non-capital losses		
Canada	**$ 33,715**	2032
Mongolia	**33,892**	2016
Hong Kong	**12,302**	indefinite
Singapore	**113**	indefinite
	$ 80,022	

(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)

11. EARNINGS/(LOSS) PER SHARE

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

	Year ended December 31, 2012	2011
Net income/(loss)	**$ (103,019)**	$ 57,745
Weighted average number of shares	**181,859**	182,970
Basic income/(loss) per share	**$ (0.57)**	$ 0.32
Income/(loss)		
Net income/(loss)	**$ (103,019)**	$ 57,745
Interest expense on convertible debenture	**10,466**	9,137
Unrealized gain on embedded derivatives in convertible debenture	**(39,512)**	(106,489)
Diluted net loss	**$ (132,065)**	$ (39,607)
Number of shares		
Weighted average number of shares	**181,859**	182,970
Convertible debenture	**28,406**	20,931
Diluted weighted average number of shares	**210,265**	203,901
Diluted loss per share	**$ (0.63)**	$ (0.19)

Potentially dilutive items not included in the calculation of diluted earnings/(loss) per share for the year ended December 31, 2012 were 7,507 stock options that were anti-dilutive.

(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)

12. TRADE AND OTHER RECEIVABLES

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

	As at December 31, 2012	As at December 31, 2011
Trade receivables	**$ 15,577**	$ 64,051
VAT/HST receivable	**86**	144
Insurance proceeds receivable	**500**	12,913
Other receivables	**1,267**	3,177
Total trade and other receivables	**$ 17,430**	$ 80,285

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

	As at December 31, 2012	As at December 31, 2011
Less than 1 month	**$ 2,136**	$ 50,824
1 to 3 months	**95**	3,337
3 to 6 months	**159**	23,699
Over 6 months	**15,040**	2,425
Total trade and other receivables	**$ 17,430**	$ 80,285

Included in trade and other receivables are amounts due from related parties which are further disclosed in Note 26. The amounts due from related parties are unsecured, interest free and repayable upon written notice from the Company.

12.1 Impairment loss provisions

For the year ended December 31, 2012, the Company recorded a $18,430 loss provision on its trade and other receivables in other operating expenses (2011: $1,892). The loss provision relates to provisions for certain uncollectible trade receivables of $17,419 and a reduction in the expected insurance proceeds of $1,011. The Company anticipates full recovery of its remaining outstanding trade and other receivables; therefore, no further loss provisions have been recorded in respect of the Company's trade and other receivables.

(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)

13. INVESTMENTS

The Company's investments consist of the following amounts:

	As at December 31,	
	2012	**2011**
Short term investments at fair value		
Money market investments (i)	**$ 15,000**	$ -
Long term investments at fair value		
Money market investments (ii)	**-**	44,967
Investment in Kangaroo Resources Limited (iii)	**1,455**	7,431
Investment in Aspire Mining Limited (iv)	**8,727**	46,837
Equity-accounted investment in joint venture		
Investment in RDCC LLC	**13,902**	3
	24,084	99,238
Total short and long term investments	**$ 39,084**	$ 99,238

(i) Money market investments with original maturities greater than ninety days and maturing in less than one year
(ii) Money market investments with maturities greater than one year
(iii) At December 31, 2012, the Company owned 1.2% of Kangaroo's issued and outstanding shares
(iv) At December 31, 2012, the Company owned 19.9% of Aspire's issued and outstanding shares

13.1 Investment in Kangaroo Resources Limited

Kangaroo Resources Limited ("Kangaroo") is a company listed on the Australian Stock Exchange. Kangaroo's primary focus is its coal projects in Indonesia. The Company classifies its investment in Kangaroo as a FVTPL financial asset with any change in value being recognized in profit or loss. During the year ended December 31, 2012, the Company disposed of 10,000 shares of Kangaroo for gross proceeds of $1,500 and realized a gain of $39. For the year ended December 31, 2012, the Company recognized an unrealized mark to market loss of $4,515 related to its investment in Kangaroo (2011: loss of $2,804).

13.2 Investment in Aspire Mining Limited

Aspire Mining Limited ("Aspire") is a company listed on the Australian Stock Exchange. Aspire's primary focus is its mineral exploration and mining licenses in Mongolia, particularly those pertaining to the Ovoot Coking Coal Project. The Company classifies its investment in Aspire as an available-for-sale financial asset.

During the year ended December 31, 2012, it was determined that objective evidence of impairment in the Company's investment in Aspire existed. Therefore, an impairment loss of $19,184 was recognized for the year ended December 31, 2012 in other operating expenses.

(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)

13. INVESTMENTS (Continued)

13.2 Investment in Aspire Mining Limited (Continued)

The impairment loss represents the difference between the acquisition cost of the Company's investment in Aspire and its fair market value at December 31, 2012.

13.3 Investment in RDCC LLC

The Company has a 40% interest in RDCC LLC, a jointly controlled entity. RDCC LLC has signed a concession agreement with the State Property Committee of Mongolia to construct a paved highway from the Company's Ovoot Tolgoi Mine to the Mongolia-China border. The concession agreement is structured as a 17-year build, operate and transfer agreement.

RDCC LLC accounts for the concession agreement in accordance with IFRIC 12 "Service Concession Arrangements" under the intangible asset model. In accordance with IFRIC 12, infrastructure associated with the concession agreement is recorded by RDCC LLC as an intangible asset. Construction revenue is recognized during the construction phase of the concession agreement as an exchange of construction services for the intangible asset and toll revenue is recognized during the operational phase of the concession agreement.

The movement of the Company's investment in RDCC LLC is as follows:

	Year ended December 31,	
	2012	**2011**
Balance, beginning of year	**$ 3**	$ -
Funds advanced	**13,264**	3
Share of earnings of joint venture	**635**	-
Balance, end of year	**$ 13,902**	$ 3

(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)

13. INVESTMENTS (Continued)

13.3 Investment in RDCC LLC (Continued)

Summarized financial statement information of the Company's 40% interest in RDCC LLC is as follows:

	Year ended December 31, 2012	Year ended December 31, 2011
Construction revenue	**$ 8,081**	$ -
Gross profit margin	**735**	-
Other operating and finance costs	**(99)**	-
Income before tax	**635**	-
Net income	**$ 635**	$ -

	As at December 31, 2012	As at December 31, 2011
Current assets	**$ 740**	$ 3
Non-current assets	**8,030**	-
Total assets	**$ 8,770**	$ 3
Current liabilities	**$ 39**	$ -
Total liabilities	**$ 39**	$ -

14. INVENTORIES

The Company's inventories consist of the following amounts:

	As at December 31, 2012	As at December 31, 2011
Coal stockpiles	**$ 9,974**	$ 6,107
Materials and supplies	**43,687**	46,336
Total inventories	**$ 53,661**	$ 52,443

The cost of inventories recognized as an expense for the year ended December 31, 2012 is $19,663 (2011: $116,975). Cost of sales for the year ended December 31, 2012 includes an impairment loss of $14,196 related to the Company's coal stockpile inventories. As at December 31, 2012, the Company's coal stockpile inventories are carried at their net realizable value.

(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)

14. INVENTORIES (Continued)

Other operating expenses for the year ended December 31, 2011 includes an impairment loss of $2,396 related to materials and supplies inventories related to the Company's Liebherr 996 shovel and other mobile equipment derecognized during the year ended December 31, 2011.

15. PREPAID EXPENSES AND DEPOSITS

The Company's prepaid expenses and deposits consist of the following amounts:

	As at December 31, 2012	2011
Vendor prepayments	**$ 11,628**	$ 5,754
Ejin Jinda toll coal washing prepayment	**16,778**	25,168
Other prepaid expenses and deposits	**9,576**	7,386
Total short term prepaid expenses and deposits	**37,982**	38,308
Ejin Jinda toll coal washing prepayment	**16,778**	8,389
Total short and long term prepaid expenses and deposits	**$ 54,760**	$ 46,697

15.1 Ejin Jinda toll coal washing prepayment

During the year ended December 31, 2011, the Company entered into an agreement with Ejinaqi Jinda Coal Industry Co. Ltd ("Ejin Jinda"), a subsidiary of China Mongolia Coal Co. Ltd., to toll wash coal from the Ovoot Tolgoi Mine. The agreement has a duration of 5-years from commencement and provides for an annual wet washing capacity of approximately 3.5 million tonnes of input raw coal.

Pursuant to the terms of the agreement, the Company prepaid $33,556 of toll coal washing fees of which $16,778 is expected to be applied against toll coal washing fees in 2013, with the remaining $16,778 to be applied against fees in 2014.

(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)

16. PROPERTY, PLANT AND EQUIPMENT

The Company's property, plant and equipment consist of the following amounts:

	Mobile equipment	Other operating equipment	Buildings and roads	Mineral properties	Construction in progress	Total
Cost						
As at December 31, 2011	$ 333,245	$ 10,253	$ 31,155	$ 94,641	$ 82,569	$ 551,863
Additions	**46,375**	**1,677**	**2,844**	**20,215**	**29,022**	**100,133**
Disposals	**(13,461)**	**(1,279)**	**(10)**	**-**	**-**	**(14,750)**
Reclassifications	**-**	**17,392**	**35,933**	**1,228**	**(54,553)**	**-**
As at December 31, 2012	**$366,159**	**$ 28,043**	**$ 69,922**	**$ 116,084**	**$ 57,038**	**$ 637,246**
Accumulated depreciation and impairment charges						
As at December 31, 2011	$ (41,498)	$ (3,465)	$ (4,631)	$ (3,736)	$ -	$ (53,330)
Charge for the year	**(39,509)**	**(4,873)**	**(4,677)**	**(734)**	**-**	**(49,793)**
Impairment charges	**(14,119)**	**-**	**-**	**-**	**(1,126)**	**(15,245)**
Eliminated on disposals	**1,607**	**979**	**9**	**-**	**-**	**2,595**
As at December 31, 2012	**$ (93,519)**	**$ (7,359)**	**$ (9,299)**	**$ (4,470)**	**$ (1,126)**	**$ (115,773)**
Carrying amount						
As at December 31, 2011	$ 291,747	$ 6,788	$ 26,524	$ 90,905	$ 82,569	$ 498,533
As at December 31, 2012	**$272,640**	**$ 20,684**	**$ 60,623**	**$ 111,614**	**$ 55,912**	**$ 521,473**

16.1 Borrowing costs

For the year ended December 31, 2012, the Company capitalized borrowing costs of $9,628 into construction in progress (2011: $10,939).

16.2 Prepayments on property, plant and equipment

As at December 31, 2012, the cost of the Company's property, plant and equipment includes $81,370 of prepayments to vendors (2011: $143,377). The prepayments primarily relate to ordered but not yet delivered mobile equipment or mobile equipment delivered to the location of its intended use but not yet commissioned.

(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

16.3 Impairment charges

For the year ended December 31, 2012, the Company recorded $15,245 of impairment charges to reduce various items of property, plant and equipment to their recoverable amounts. The impairments relate to the following items of property, plant and equipment:

- Prepayments on mobile equipment – the Company cancelled certain mobile equipment purchase contracts during the year ended December 31, 2012 to preserve the Company's financial resources. As a result of the purchase contract cancellations, the Company was required to forego $12,978 of non-refundable prepayments made to a vendor which resulted in a corresponding impairment to reduce the carrying amount of mobile equipment.
- Tires held for sale - the Company recorded an impairment provision of $1,141 on certain mobile equipment tires held for sale. The tires were sold during the year end December 31, 2012.
- Construction in progress - various capitalized construction projects were reviewed for impairment and it was determined that certain costs associated with these projects were not expected to be recovered. The Company recorded an impairment charge of $1,126 to reduce the carrying amount of these construction projects to $nil.

For the year ended December 31, 2011, the Company recorded $16,605 of impairment charges, net of insurance proceeds receivable, to reduce various items of property, plant and equipment to their recoverable amounts.

17. TRADE AND OTHER PAYABLES

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

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

	As at December 31,	
	2012	**2011**
Less than 1 month	**$ 8,999**	$ 52,032
1 to 3 months	**176**	76
3 to 6 months	**-**	105
Over 6 months	**1,041**	22
Total trade and other payables	**$ 10,216**	$ 52,235

17. TRADE AND OTHER PAYABLES (Continued)

Included in trade and other payables are amounts due to related parties which are further disclosed in Note 26.

18. LINE OF CREDIT FACILITY

As at December 31, 2012, the Company had a twelve month revolving line of credit facility with Golomt Bank in Mongolia. The maximum draw-down available was $3,500 and 8.1 billion Mongolian Tugriks (approximately $5,800) and the line of credit incurred interest at 11% for any U.S. Dollar amounts outstanding and 12% for any Mongolian Tugrik amounts outstanding. The line of credit was secured by operating equipment in Mongolia to a value of not less than 150% of the total facility amount.

The line of credit facility was used by the Company's Mongolian Coal Division as part of its working capital management. There were no amounts due under the line of credit facility at both December 31, 2012 and December 31, 2011.

Subsequent to December 31, 2012, the line of credit facility expired and was not renewed.

19. CONVERTIBLE DEBENTURE

19.1 Key commercial terms

On November 19, 2009, the Company issued a convertible debenture to a wholly owned subsidiary of the China Investment Corporation ("CIC") for $500,000. The key commercial terms of the financing include:

- Interest - 8% per annum (6.4% payable semi-annually in cash and 1.6% payable annually in the Company's common 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. An event of default on the convertible debenture can be triggered as a result of certain encumbrances on the Company's assets (refer to Note 31.1).
- 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.
- CIC's conversion right - CIC has the right to convert the convertible debenture, in whole or in part, into common shares twelve months after the date of issue.
- Company's normal conversion right – After sixty months from the issuance date, and when the conversion price is greater than Cdn$10.66, the Company is entitled to force conversion of the outstanding convertible debenture, in whole or in part, into common shares at the conversion price.

19. CONVERTIBLE DEBENTURE (Continued)

19.1 Key commercial terms (Continued)

- Representation on the Company's Board - While the convertible debenture 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 of Directors. The Company currently has nine Board of Directors members of which none were elected by CIC.
- 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.
- Pre-emption rights - While the convertible debenture 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 convertible 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 convertible 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 Turquoise Hill's ownership stake in the Company. At December 31, 2012, Turquoise Hill owned directly and indirectly approximately 58% of the Company's 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 convertible debenture.

The Company had the right to call for the conversion of up to $250,000 of the debenture on the earlier of twenty four months after the issue date, if the conversion price was 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 conversion price was greater than Cdn$10.66. On March 29, 2010, pursuant to the debenture conversion terms, the Company exercised this conversion right and completed the conversion of $250,000 of the convertible debenture into 21,471 shares at a conversion price of $11.64 (Cdn$11.88).

(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)

19. CONVERTIBLE DEBENTURE (Continued)

19.2 Debt host and embedded derivatives

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

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

19.3 Valuation assumptions

The assumptions used in the Company's valuation models are as follows:

	As at December 31,	
	2012	**2011**
Floor conversion price	**Cdn$8.88**	Cdn$8.88
Ceiling conversion price	**Cdn$11.88**	Cdn$11.88
Common share price	**Cdn$2.05**	Cdn$6.00
Historical volatility	**70%**	71%
Risk free rate of return	**2.26%**	2.41%
Foreign exchange spot rate (U.S. Dollar to Cdn$)	**1.01**	0.98
Forward foreign exchange rate curve (U.S. Dollar to Cdn$)	**0.96- 1.01**	0.96 - 1.01

(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)

19. CONVERTIBLE DEBENTURE (Continued)

19.4 Presentation

Based on the Company's valuation as at December 31, 2012, the fair value of the embedded derivatives decreased by $39,512 compared to December 31, 2011. The decrease was recorded as finance income for the year ended December 31, 2012.

For the year ended December 31, 2012, the Company recorded interest expense of $20,094 (2011: $20,076) related to the convertible debenture of which $9,628 was capitalized as borrowing costs and the remaining $10,466 was recorded as a finance cost. The interest expense consists of the interest at the contract rate and the accretion of the debt host component of the convertible debenture. To calculate the accretion expense, the Company uses the contract life of 30 years and an effective interest rate of 22.2%.

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

	Year ended December 31,			
		2012		**2011**
Balance, beginning of year	**$**	**145,386**	$	251,810
Interest expense on convertible debenture		**20,094**		20,076
Decrease in fair value of embedded derivatives		**(39,512)**		(106,489)
Interest paid		**(20,000)**		(20,011)
Balance, end of year	**$**	**105,968**	$	145,386

The convertible debenture balance consists of the following amounts:

	As at December 31,			
		2012		**2011**
Debt host	**$**	**90,791**	$	90,696
Fair value of embedded derivatives		**8,876**		48,389
Interest payable		**6,301**		6,301
Convertible debenture	**$**	**105,968**	$	145,386

(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)

20. DECOMMISSIONING LIABILITY

At December 31, 2012, the decommissioning liability primarily relates to reclamation and closure costs of the Company's Ovoot Tolgoi Mine.

The Ovoot Tolgoi Mine decommissioning liability is calculated as the net present value of the estimated future reclamation and closure costs, which at December 31, 2012 total $23,577 (2011: $15,211). The estimated future reclamation and closure costs are discounted at 9.6% per annum (2011: 10.5% per annum) to determine the year end decommissioning liability. The settlement of the decommissioning liability will occur through to 2031.

The decommissioning liability transactions during the years ended December 31, 2012 and 2011 were as follows:

	Year ended December 31,	
	2012	**2011**
Balance, beginning of year	**$ 4,156**	$ 3,063
Additions	**(167)**	907
Accretion	**115**	186
Balance, end of year	**$ 4,104**	$ 4,156

21. EQUITY

21.1 Share capital

The Company has authorized an unlimited number of common and preferred shares with no par value. At December 31, 2012, the Company had 181,928 common shares outstanding (2011: 181,364) and no preferred shares outstanding (2011: nil).

During the year ended December 31, 2012, the Company repurchased 148 common shares on the Toronto Stock Exchange and Hong Kong Stock Exchange (2011: 3,300 common shares) at an average price of Cdn$6.44 per share (2011: Cdn$9.98 per share). The share repurchase program concluded on June 14, 2012. The Company cancelled all of the repurchased common shares.

The Company's volume weighted average share price for the year ended December 31, 2012 was Cdn$5.45 (2011: Cdn$11.74).

21.2 Accumulated deficit and dividends

At December 31, 2012, the Company has accumulated a deficit of $501,934 (December 31, 2011: $398,820). No dividends have been paid or declared by the Company since inception.

22. SHARE-BASED PAYMENTS

22.1 Stock option plan

The Company has a stock option plan which permits the Board of Directors of the Company to grant options to acquire common shares of the Company at the volume weighted average closing price for the five days preceding the date of grant. The Company is authorized to issue stock options for a maximum of 10% of the issued and outstanding common shares pursuant to the stock option plan. 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 plan include a maximum exercise period of 5 years and a vesting period of 3 years with 33% of the grant vesting on the first anniversary of the grant, 33% vesting on the second anniversary of the grant and 34% vesting on the third anniversary of the grant.

(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)

22. SHARE-BASED PAYMENTS (Continued)

22.1 Stock option plan (Continued)

For the year ended December 31, 2012, the Company granted 2,066 stock options (2011: 3,493) to officers, employees, directors and other eligible persons at exercise prices ranging from Cdn$1.92 to Cdn$6.16 (2011: exercise prices ranging from Cdn$9.43 to Cdn$14.09) and expiry dates ranging from March 21, 2017 to December 6, 2017 (2011: expiry dates ranging from January 8, 2016 to August 15, 2016). The weighted average fair value of the options granted in the year ended December 31, 2012 was estimated at $2.28 (Cdn$2.26) (2011: $5.59, Cdn$5.47) per option at the grant date using the Black-Scholes option pricing model.

The weighted average assumptions used for the Black-Scholes option pricing model were as follows:

	Year ended December 31,	
	2012	**2011**
Risk free interest rate	**1.51%**	1.66%
Expected life	**3.4 years**	3.5 years
Expected volatility [(i)]	**59%**	68%
Expected dividend per share	**$nil**	$nil

(i) Expected volatility has been calculated based on historical volatility of the Company's publicly traded shares over a period equal to the expected life of the options

A share-based compensation expense of $4,383 for the options granted in the year ended December 31, 2012 (2011: $18,218) will be amortized over the vesting period, of which $1,905 was recognized in the year ended December 31, 2012 (2011: $6,077).

The total share-based compensation expense recognized for the year ended December 31, 2012 was $8,528 (2011: $14,410). Share-based compensation expense of $6,048 (2011: $11,474) has been allocated to administration expenses, $2,147 (2011: $1,942) has been allocated to cost of sales and $333 (2011: $994) has been allocated to evaluation and exploration expenses.

(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)

22. SHARE-BASED PAYMENTS (Continued)

22.2 Outstanding stock options

The option transactions under the stock option plan are as follows:

	Year ended December 31, 2012		Year ended December 31, 2011	
	Number of options	Weighted average exercise price (Cdn$)	Number of options	Weighted average exercise price (Cdn$)
Balance, beginning of year	**10,768**	**$ 10.73**	9,276	$ 10.82
Options granted	**2,066**	**4.95**	3,493	10.54
Options exercised	**(433)**	**5.81**	(743)	6.89
Options forfeited	**(2,099)**	**9.92**	(1,258)	13.13
Options expired	**(2,795)**	**10.53**	-	-
Balance, end of year	**7,507**	**$ 9.72**	10,768	$ 10.73

The stock options outstanding and exercisable as at December 31, 2012 are as follows:

	Options Outstanding			Options Exercisable		
Exercise price (Cdn$)	Options outstanding	Weighted average exercise price (Cdn$)	Weighted average remaining contractual life (years)	Options outstanding and exercisable	Weighted average exercise price (Cdn$)	Weighted average remaining contractual life (years)
$1.92 - $6.16	**1,728**	**$ 4.48**	**3.13**	**619**	**$ 5.52**	**0.50**
$7.16 - $10.79	**2,752**	**9.16**	**1.66**	**2,190**	**9.08**	**1.18**
$11.51 - $14.25	**2,562**	**12.78**	**1.69**	**2,249**	**12.80**	**1.54**
$15.07 - $18.86	**465**	**15.61**	**0.40**	**465**	**15.61**	**0.40**
	7,507	**$ 9.72**	**1.93**	**5,523**	**$ 10.75**	**1.19**

(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)

23. RESERVES

23.1 Share option reserve

The Company's share option reserve relates to stock options granted by the Company to officers, employees, directors and other eligible persons under its stock option plan. Details about the Company's share-based payments are further disclosed in Note 22.

The share option reserve transactions for the years ended December 31, 2012 and 2011 are as follows:

	Year ended December 31,	
	2012	**2011**
Balance, beginning of year	**$ 44,143**	$ 32,360
Share-based compensation charged to operations	**8,528**	14,410
Exercise of share options	**(1,368)**	(2,627)
Balance, end of year	**$ 51,303**	$ 44,143

23.2 Investment revaluation reserve

The Company's investment revaluation reserve represents the cumulative gains and losses arising on the revaluation of available-for-sale financial assets that have been recognized in other comprehensive income.

The investment revaluation reserve transactions for the years ended December 31, 2012 and 2011 are as follows:

	Year ended December 31,	
	2012	**2011**
Balance, beginning of year	**$ 16,559**	$ 27,761
Loss arising on revaluation of available-for-sale financial asset	**(35,034)**	(12,802)
Deferred income tax relating to revaluation of available-for-sale financial asset	**2,366**	1,600
Reclassification of impairment loss on available-for-sale financial asset	**16,109**	-
Balance, end of year	**$ -**	$ 16,559

24. CAPITAL RISK MANAGEMENT

The Company's capital risk management objectives are to safeguard the Company's ability to continue as a going concern in order to support the Company'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 Company manages its 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 Company may issue new shares, acquire previously issued 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 Company 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.

At December 31, 2012, the Company's capital structure consists of convertible debt (Note 19) and the equity of the Company (Note 21). The Company is not subject to any externally imposed capital requirements. In order to maximize ongoing development efforts, the Company does not pay dividends.

For the year ended December 31, 2012, there were no significant changes in the processes used by the Company or in the Company's objectives and policies for managing its capital. As at December 31, 2012, the Company had cash and short term investments of $34,674 and working capital of $127,230.

The Company expects to have sufficient liquidity and capital resources to meet its ongoing obligations and future contractual commitments for at least twelve months from the end of the December 31, 2012 reporting period. The Company expects its liquidity to remain sufficient based on existing capital resources and income from mining operations. Liquidity beyond the twelve month period is dependent on the success of the recommencement of operations and ongoing demand and prices in the coal market. On March 22, 2013, the Company recommenced mining activities at the Ovoot Tolgoi Mine. The Company continues to minimize uncommitted capital expenditures and exploration expenditures in order to preserve the Company's financial resources.

(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)

25. FINANCIAL INSTRUMENTS

25.1 Categories of financial instruments

The Company's financial assets and financial liabilities are categorized as follows:

	As at December 31,	
	2012	**2011**
Financial assets		
Loans-and-receivables		
Cash	**$ 19,674**	$ 123,567
Trade and other receivables (Note 12)	**17,430**	80,285
Available-for-sale		
Investment in Aspire (Note 13)	**8,727**	46,837
Fair value through profit or loss		
Investment in Kangaroo (Note 13)	**1,455**	7,431
Money market investments (Note 13)	**15,000**	44,967
Total financial assets	**$ 62,286**	$ 303,087
Financial liabilities		
Fair value through profit or loss		
Convertible debenture - embedded derivatives (Note 19)	**$ 8,876**	$ 48,389
Other-financial-liabilities		
Trade and other payables (Note 17)	**10,216**	52,235
Convertible debenture - debt host (Note 19)	**97,092**	96,997
Total financial liabilities	**$ 116,184**	$ 197,621

25. FINANCIAL INSTRUMENTS (Continued)

25.2 Fair value

The fair value of financial assets and financial liabilities measured at amortized cost is determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions. The Company considers that the carrying amount of all its financial assets and financial liabilities measured at amortized cost approximates their fair value.

The fair values of the Company's financial instruments classified as FVTPL or available-for-sale are determined as follows:

- The fair value of financial instruments that are traded on an active liquid market are determined with reference to the quoted market prices. The fair value of the Company's investment in the shares of Kangaroo, shares of Aspire and its money market investments are determined using this methodology.
- The fair value of financial instruments that are not traded in an active market are determined using generally accepted valuation models using inputs that are directly (i.e. prices) or indirectly (i.e. derived from prices) observable. The fair value of the embedded derivatives within the convertible debenture (Note 19) is determined using a Monte Carlo simulation. None of the fair value change in the embedded derivatives for the year ended December 31, 2012 is related to a change in the credit risk of the convertible debenture. All of the change in fair value is associated with changes in market conditions.

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

The following table provides an analysis of the Company's financial instruments that are measured subsequent to initial recognition at fair value, grouped into Level 1 to 3 based on the degree to which the inputs used to determine the fair value are observable.

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1, that are observable either directly or indirectly.
- Level 3 fair value measurements are those derived from valuation techniques that include inputs that are not based on observable market data. As at December 31, 2012, the Company does not have any Level 3 financial instruments.

(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)

25. FINANCIAL INSTRUMENTS (Continued)

25.2 Fair value (Continued)

	Level 1	Level 2	Total
Financial assets at fair value			
Investment in Aspire	$ 8,727	$ -	$ 8,727
Investment in Kangaroo	1,455	-	1,455
Money market investments	15,000	-	15,000
Total financial assets at fair value	**$ 25,182**	**$ -**	**$ 25,182**
Financial liabilities at fair value			
Convertible debenture - embedded derivatives	$ -	$ 8,876	$ 8,876
Total financial liabilities at fair value	**$ -**	**$ 8,876**	**$ 8,876**

There were no transfers between Level 1, 2 and 3 for the year ended December 31, 2012.

25.3 Financial risk management objectives and policies

The financial risk arising from the Company's operations are currency risk, interest rate risk, credit risk, liquidity risk and commodity price risk. These risks arise from the normal course of operations and all transactions undertaken are to support the Company's ability to continue as a going concern. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management of the Company manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

The Company is exposed to foreign currency risk on its sales or purchases in currencies other than the U.S. Dollar. The Company manages this risk by matching receipts and payments in the same currency and through monitoring.

(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)

25. FINANCIAL INSTRUMENTS (Continued)

25.3 Financial risk management objectives and policies (Continued)

The sensitivity of the Company's comprehensive income due to changes in the carrying values of monetary assets and liabilities denominated in foreign currencies is as follows. A positive number indicates an increase in comprehensive income, whereas a negative number indicates a decrease in comprehensive income.

	As at December 31,	
	2012	**2011**
Increase / decrease in foreign exchange rate		
+5%	**$ 850**	$ 4,414
−5%	**$ (850)**	$ (4,414)

Interest rate risk

The Company is exposed to interest rate risk on the variable rate of interest earned on its cash and short term money market investments. However, the rate of interest earned on these instruments is below 3%; therefore, the interest rate risk is not significant.

The Company's convertible debenture (Note 19) and line of credit facility (Note 18) accrue interest at fixed rates; therefore the Company is not exposed to interest rate risk on these instruments.

Credit risk

The Company is exposed to credit risk associated with its cash, short term money market investments and trade and other receivables. The Company's maximum exposure to credit risk is equal to the carrying amount of these instruments.

The Company's credit risk on cash and short term money market investments arises from default of the counterparty. The Company limits its exposure to counterparty credit risk on these assets by only dealing with financial institutions with high credit ratings.

The Company seeks to manage its credit risk on trade and other receivables by trading with third party customers it considers to be creditworthy. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, the trade and other receivables balances are monitored on an ongoing basis and, if appropriate, the Company records provisions for uncollectible trade and other receivables.

(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)

25. FINANCIAL INSTRUMENTS (Continued)

25.3 Financial risk management objectives and policies (Continued)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to settle or manage its obligations associated with financial liabilities. The Board of Directors of the Company is of the opinion that the Company has sufficient liquidity and capital resources to meet its ongoing obligations and future contractual commitments for at least twelve months from the end of the December 31, 2012 reporting period. The Company expects its liquidity to remain sufficient based on existing capital resources and income from mining operations.

The Company's current and expected remaining contractual maturities for its financial liabilities with agreed repayment periods are as follows. Refer to Note 31.1 for details of events occurring subsequent to December 31, 2012 related to the Company's convertible debenture. The table includes the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to satisfy the liabilities.

	0 to 6 months	6 to 12 months	1 to 5 years	Total
As at December 31, 2012				
Trade and other payables	**$ 10,216**	**$ -**	**$ -**	**$ 10,216**
Convertible debenture - cash interest (Note 19) [(i)]	**8,000**	**8,000**	**16,000**	**32,000**
	$ 18,216	**$ 8,000**	**$ 16,000**	**$ 42,216**
As at December 31, 2011				
Trade and other payables	$ 52,235	$ -	$ -	$ 52,235
Convertible debenture - cash interest (Note 19) [(i)]	8,000	8,000	32,000	48,000
	$ 60,235	$ 8,000	$ 32,000	$ 100,235

(i) The convertible debenture cash interest payments presented assume that the convertible debenture is converted in to common shares by the Company on November 19, 2014. (refer to Note 19).

Commodity price risk

The Company is exposed to the risk of fluctuations in prevailing market prices for its coal products. Coal prices are affected by numerous factors such as interest rates, exchange rates, inflation or deflation and global and regional supply and demand.

The Company enters into sales contracts with its customers to manage the risk of off-take of coal at prevailing market prices by, in most cases, entering into short term coal contracts which fix the quantity and price of the Company's coal. The Company 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 Company, a 5% increase or decrease in coal prices will result in a corresponding increase or decrease in revenue.

(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)

26. RELATED PARTY TRANSACTIONS

The consolidated financial statements include the financial statements of SouthGobi Resources Ltd. and its significant subsidiaries listed in the following table:

Name	Country of incorporation	% equity interest As at December 31, 2012	2011
SouthGobi Resources (Hong Kong) Limited	Hong Kong	100%	100%
SouthGobi Sands LLC	Mongolia	100%	100%
SGQ Coal Investment Pte. Ltd.	Singapore	100%	100%

During the year ended December 31, 2012 and 2011, the Company had related party transactions with the following companies related by way of directors or shareholders in common:

- Turquoise Hill – Turquoise Hill is the Company's immediate parent company and at December 31, 2012 owned approximately 58% of the outstanding common shares of the Company. Turquoise Hill provides various administrative services to the Company on a cost-recovery basis. The Company also provided some office and investor relations services to Turquoise Hill in the Company's Hong Kong office and recovered the costs for those services on a cost-recovery basis. The Company's provision of office and investor relations services to Turquoise Hill ceased on June 30, 2012.
- Rio Tinto – Rio Tinto is the Company's ultimate parent company and at December 31, 2012 Rio Tinto controlled Turquoise Hill. The Company recovers administration and other costs incurred on behalf of Rio Tinto on a cost-recovery basis. Rio Tinto recovers from the Company the costs of salaries and benefits of employees assigned to work for the Company.
- Global Mining Management ("GMM") – GMM is a private company owned equally by seven companies, two of which include the Company and Turquoise Hill. GMM provides administration, accounting and other office services to the Company on a cost-recovery basis.
- I2MS.NET Pte. Ltd. ("I2MS") – I2MS is a private company 100% owned by Turquoise Hill. I2MS provides information technology and other related services to the Company on a cost-recovery basis.
- Ivanhoe Energy Inc. ("Ivanhoe Energy") – Ivanhoe Energy is a publicly listed company and previously had two directors in common with the Company. During the year ended December 31, 2012, Ivanhoe Energy ceased being a related party. The Company provided some office and investor relations services to Ivanhoe Energy in the Company's Hong Kong office and recovered the costs for those services on a cost-recovery basis. The Company's provision of office and investor relations services to Ivanhoe Energy ceased on June 30, 2012.

(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)

26. RELATED PARTY TRANSACTIONS (Continued)

26.1 Related party expenses

The Company's related party expenses consist of the following amounts:

	Year ended December 31,	
	2012	**2011**
Corporate administration	**$ 1,309**	$ 1,990
Salaries and benefits	**919**	1,389
Related party expenses	**$ 2,228**	$ 3,379

The Company's related party expenses relate to the following related parties:

	Year ended December 31,	
	2012	**2011**
GMM	**$ 1,012**	$ 2,014
Turquoise Hill	**7**	94
Rio Tinto	**68**	-
I2MS	**1,141**	1,271
Related party expenses	**$ 2,228**	$ 3,379

26.2 Related party expense recoveries

The Company's expenses recovered from related parties consist of the following amounts:

	Year ended December 31,	
	2012	**2011**
Corporate administration	**$ 589**	$ 465

The Company's related party expense recoveries relate to the following related parties:

	Year ended December 31,	
	2012	**2011**
Turquoise Hill	**$ 479**	$ 311
Ivanhoe Energy	**77**	154
Rio Tinto	**33**	-
Related party expense recoveries	**$ 589**	$ 465

(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)

26. RELATED PARTY TRANSACTIONS (Continued)

26.3 Related party assets

The assets of the Company include the following amounts due from related parties:

	As at December 31,	
	2012	**2011**
Amounts due from GMM	**$ 420**	$ 539
Amounts due from Turquoise Hill	**317**	26
Amounts due from Ivanhoe Energy	**-**	13
Amounts due from I2MS	**2**	-
Total assets due from related parties	**$ 739**	$ 578

26.4 Related party liabilities

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

	As at December 31,	
	2012	**2011**
Amounts payable to GMM	**$ -**	$ 255
Amounts payable to Rio Tinto	**35**	-
Amounts payable to I2MS	**-**	189
Total liabilities due to related parties	**$ 35**	$ 444

26.5 Key management personnel compensation

The remuneration of the Company's directors and other members of key management, who have the authority and responsibility for planning, directing and controlling the activities of the Company, consists of the following amounts:

	Year ended December 31,	
	2012	**2011**
Salaries, fees and other benefits	**$ 3,788**	$ 3,493
Share-based compensation	**2,132**	9,147
Total remuneration	**$ 5,920**	$ 12,640

(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)

27. SUPPLEMENTAL CASH FLOW INFORMATION

27.1 Non-cash financing and investing activities

The Company's non-cash investing and financing transactions are as follows:

	Year ended December 31, 2012	2011
Interest settlement on convertible debenture	**$ 4,000**	$ 4,011
Transfer of share option reserve upon exercise of options	**$ 1,368**	$ 2,627

27.2 Net change in non-cash working capital items

The net change in the Company's non-cash working capital items is as follows:

	Year ended December 31, 2012	2011
Decrease/(increase) in inventories	**$ 2,509**	$ (27,672)
Decrease/(increase) in trade and other receivables	**39,709**	(49,550)
Increase in prepaid expenses and deposits	**(8,064)**	(36,433)
Increase/(decrease) in trade and other payables	**(25,890)**	40,083
Net change in non-cash working capital items	**$ 8,264**	$ (73,572)

28. COMMITMENTS FOR EXPENDITURE

As at December 31, 2012, the Company's commitments for expenditure that have not been disclosed elsewhere in the consolidated financial statements are as follows:

	As at December 31, 2012			
	Within 1 year	**2-3 years**	**Over 3 years**	**Total**
Capital expenditure commitments	**$ 13,105**	**$ 21,406**	**$ -**	**$ 34,511**
Operating expenditure commitments (i)	**23,226**	**1,820**	**-**	**25,045**
Commitments	**$ 36,331**	**$ 23,226**	**$ -**	**$ 59,556**

(i) Operating expenditure commitments include $17,500 in break fees related to the Company's toll wash plant agreement with Ejin Jinda.

29. CONTINGENCIES

29.1 Governmental, regulatory and internal investigations

The Company is subject to continuing investigations by the Mongolian Independent Authority Against Corruption ("IAAC") and other governmental and regulatory authorities in the Republic of Mongolia regarding allegations against the Company and some of its employees involving possible breaches of Mongolian laws, including anti-corruption and taxation laws.

Neither the Company nor any of its employees have been charged in connection with the IAAC's investigation, but certain current and former employees have been advised that they are suspects. The IAAC has imposed orders placing a travel ban on those employees, and administrative restrictions on certain of the Company's Mongolian assets, including local bank accounts, in connection with its continuing investigation of those allegations.

Through its Audit Committee (comprised solely of independent directors), the Company is conducting an internal investigation into possible breaches of law, internal corporate policies and codes of conduct arising from the allegations that have been raised.

The Chair of the Audit Committee is also participating in a tripartite committee, comprised of the Audit Committee Chairs of the Company and Turquoise Hill and a representative of Rio Tinto, which is focused on the investigation of those allegations, including possible violations of anti-corruption laws. All of these investigations are ongoing but are not yet complete. Information that has been provided to the IAAC by the Company has also been provided by the tripartite committee to Canadian and United States regulatory authorities that are monitoring the Mongolian investigations. The Company continues to cooperate with all relevant regulatory agencies in respect of the ongoing investigations.

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

In the opinion of management of the Company, at December 31, 2012 a provision for this matter is not required.

30. PROPORTIONAL TAKEOVER BID

On April 2, 2012, the Company announced a cooperation agreement with the Aluminum Corporation of China Limited ("CHALCO") and received official notification of CHALCO's intention to make a proportional takeover bid for up to 60% of the issued and outstanding common shares of the Company at Cdn$8.48 per share ("Proportional Offer"). The Company was also informed by its 58% major shareholder, Turquoise Hill, that Turquoise Hill had signed a lock-up agreement with CHALCO, committing to tender all of its shares held or thereafter acquired by it during the offer period of CHALCO into the Proportional Offer. CHALCO's obligations under the cooperation agreement were to become effective upon CHALCO acquiring a shareholding in the Company.

CHALCO had stated that it expected to mail the takeover bid circular in connection with the Proportional Offer on or about July 5, 2012. On July 3, 2012, CHALCO and Turquoise Hill announced a 30 day extension for CHALCO to mail the takeover bid circular.

Subsequently, on August 2, 2012, an additional 30 day extension was announced by CHALCO and Turquoise Hill. CHALCO had agreed to mail the takeover bid circular on or before September 4, 2012.

On September 3, 2012, the Company was notified that CHALCO's Proportional Offer had been terminated, which also resulted in the termination of the cooperation agreement.

31. SUBSEQUENT EVENTS

31.1 Mongolian IAAC investigation

Subsequent to December 31, 2012, the IAAC informed the Company that orders, placing restrictions on certain of its Mongolian assets, had been imposed in connection with its continuing investigation.

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

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

31.2 CIC convertible debenture share interest payment and application of Mongolian Foreign Investment Law

On May 17, 2012, the Parliament of Mongolia approved a Foreign Investment Law that regulates foreign direct investment into a number of key sectors of strategic importance, which includes mineral resources. If foreign shareholding exceeds 49% of an asset and the amount of the investment at the time is to exceed 100 billion Mongolian Tugriks (approximately $71,500), then parliamentary approval is required. In the case of state owned entities there is no minimum threshold and all proposed investments from state owned entities require parliamentary approval. In addition, if a foreign entity wants to acquire one third or more of the shares in an investment in a strategic sector, then the 100 billion Mongolian Tugrik threshold is not applicable and cabinet approval for the investment is required regardless of the value.

The terms of the convertible debenture provide for the 1.6% share interest payment of $4,000 to be paid annually in common shares of the Company. As a result of the Foreign Investment Law, the Company expected it would require parliamentary approval for the shares to be issued for the November 19, 2012 share interest payment. Subsequent to December 31, 2012, the Company settled the 1.6% share interest payment of $4,000 in cash.

(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)

ADDITIONAL STOCK EXCHANGE INFORMATION

Additional information required by the Hong Kong Stock Exchange and not shown elsewhere in this report is as follows:

A1. INCOME/(LOSS) FOR THE YEAR

Income/(loss) for the year has been arrived at after charging the following items:

	Year ended December 31,			
	2012		2011	
Auditor's remuneration	**$**	**420**	$	275
Loss on disposal of property, plant and equipment	**$**	**720**	$	3,005
Depreciation and depletion				
Depreciation included in administration expenses	**$**	**212**	$	322
Depreciation included in evaluation and exploration expenses		**40**		-
Depreciation and depletion included in cost of sales		**39,705**		27,730
Total depreciation and depletion	**$**	**39,957**	$	28,052
Staff costs				
Directors' emoluments - executive directors (Note A2)	**$**	**1,183**	$	2,928
Directors' emoluments - non-executive directors (Note A2)		**1,366**		1,900
Other staff costs		**9,055**		12,184
Staff costs included in administration expenses		**11,604**		17,012
Staff costs included in evaluation and exploration expenses		**437**		1,155
Total staff costs	**$**	**12,041**	$	18,167

(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)

A2. DIRECTOR AND EMPLOYEE EMOLUMENTS

Directors' emoluments

The Company's directors' emoluments consist of the following amounts:

	Year ended December 31, 2012	Year ended December 31, 2011
Directors' fees	$ 719	$ 421
Other emoluments for executive and non-executive directors		
Salaries and other benefits	799	926
Share-based compensation	1,031	3,481
Directors' emoluments	**$ 2,549**	$ 4,828

Name of director	Directors' fees	Salaries and other benefits	Share-based compensation	Total
Executive directors				
K. Ross Tromans	$ -	$ 124	$ -	$ 124
Alexander Molyneux (i)	-	473	586	1,059
	$ -	$ 597	$ 586	$ 1,183
Non-executive directors				
Kay Priestly	$ 39	$ -	$ -	$ 39
Sean Hinton	29	202	37	268
Kelly Sanders	17	-	-	17
Brett Salt	13	-	-	13
Lindsay Dove	23	-	37	60
Peter Meredith (i)	18	-	70	88
John Macken (i)	-	-	41	41
Pierre Lebel	153	-	62	215
André Deepwell	128	-	62	190
R. Edward Flood (i)	69	-	41	110
R. Stuart (Tookie) Angus (i)	22	-	-	22
Robert Hanson (i)	100	-	41	141
W. Gordon Lancaster	108	-	54	162
	$ 719	$ 202	$ 445	$ 1,366
Directors' emoluments	$ 719	$ 799	$ 1,031	$ 2,549

(i) Resigned from the Board of Directors during the year ended December 31, 2012.

(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)

A2. DIRECTOR AND EMPLOYEE EMOLUMENTS (Continued)

Directors' emoluments (Continued)

Year ended December 31, 2011

Name of director	Directors' fees	Salaries and other benefits	Share-based compensation	Total
Executive directors				
Alexander Molyneux	$ -	$ 926	$ 2,002	$ 2,928
Non-executive directors				
Peter Meredith	$ -	$ -	$ 286	$ 286
John Macken	-	-	167	167
Pierre Lebel	110	-	191	301
André Deepwell	88	-	167	255
R. Edward Flood	42	-	167	209
R. Stuart (Tookie) Angus	70	-	167	237
Robert Hanson	64	-	167	231
W. Gordon Lancaster	47	-	167	214
	$ 421	$ -	$ 1,479	$ 1,900
Directors' emoluments	$ 421	$ 926	$ 3,481	$ 4,828

Salaries and other benefits paid to Alexander Molyneux during the year ended December 31, 2011 includes a bonus of $425 paid in accordance with the Company's annual incentive plans.

Five highest paid individuals

The five highest paid individuals included one director of the Company for the years ended December 31, 2012 and 2011. The emoluments of the five highest paid individuals are as follows:

	Year ended December 31, 2012	2011
Salaries and other benefits	**$ 2,571**	$ 2,754
Share-based compensation	**1,743**	9,066
Compensation for loss of office	**424**	-
Total emoluments	**$ 4,738**	$ 11,820

(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)

A2. DIRECTOR AND EMPLOYEE EMOLUMENTS (Continued)

Five highest paid individuals (Continued)

The emoluments for the five highest paid individuals were within the following bands:

	Year ended December 31,	
	2012	**2011**
HK$ 4,500,001 to HK$ 5,000,000	**1**	-
HK$ 6,500,001 to HK$ 7,000,000	**1**	1
HK$ 7,000,001 to HK$ 7,500,000	**1**	-
HK$ 8,000,001 to HK$ 8,500,000	**1**	-
HK$ 9,500,001 to HK$ 10,000,000	**1**	-
HK$ 15,000,001 to HK$ 15,500,000	**-**	1
HK$ 21,000,001 to HK$ 21,500,000	**-**	1
HK$ 22,500,001 to HK$ 23,000,000	**-**	1
HK$ 25,000,001 to HK$ 25,500,000	**-**	1
	5	5

A3. FIVE YEAR SUMMARY

The following table contains a five year summary of the Company's results, assets and liabilities:

	Year ended December 31,				
	2012	**2011**	**2010**	**2009**	**2008**
Revenue	**$ 53,116**	$ 179,049	$ 79,777	$ 36,038	$ 3,126
Gross profit/(loss)	**(44,002)**	51,706	9,873	6,613	949
Net comprehensive income/(loss) attributable to equity holders of the Company	**$ (119,578)**	$ 46,543	$ (88,434)	$ (110,805)	$ (69,576)
Basic income/(loss) per share from continuing and discontinued operations	**$ (0.57)**	$ 0.32	$ (0.66)	$ (0.83)	$ (0.54)
Diluted loss per share from continuing and discontinued operations	**$ (0.63)**	$ (0.19)	$ (0.66)	$ (0.83)	$ (0.54)

	As at December 31,				
	2012	**2011**	**2010**	**2009**	**2008**
Total assets	**$ 729,367**	$ 920,323	$ 961,866	$ 560,684	$ 99,948
Less: total liabilities	**(120,288)**	(204,143)	(282,976)	(563,476)	(10,984)
Total net assets/(liabilities)	**$ 609,079**	$ 716,180	$ 678,890	$ (2,792)	$ 88,964

(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)

A4. SHARE REPURCHASES

During the year ended December 31, 2012, the Company repurchased its own shares on the Toronto Stock Exchange and Hong Kong Stock Exchange as follows:

Month of repurchase	Shares repurchased	Price per share Highest	Price per share Lowest	Aggregate consideration paid
March 2012	**148**	**Cdn$6.58**	**Cdn$6.36**	**$ 955**

As at December 31, 2012, the Company had cancelled all of the repurchased common shares. None of the Company's subsidiaries repurchased, sold or redeemed any of the Company's shares during the year ended December 31, 2012.

A5. CASH

The Company's cash is denominated in the following currencies:

	As at December 31, 2012	As at December 31, 2011
Denominated in U.S. Dollars	**$ 18,107**	$ 114,941
Denominated in Hong Kong Dollars	**396**	3,757
Denominated in Canadian Dollars	**260**	3,027
Denominated in Mongolian Tugriks	**911**	1,440
Others	**-**	402
Total cash	**$ 19,674**	$ 123,567