SouthGobi Resources Ltd.
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010
(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., which comprise the consolidated statement of financial position as at December 31, 2010 and December 31, 2009, and the consolidated statements of comprehensive income, changes in equity, and cash flows for the years then ended, and 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 audits. We conducted our audits 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 audits 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 SouthGobi Resources Ltd. as at December 31, 2010 and December 31, 2009 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche LLP

Chartered Accountants
March 30, 2011
Vancouver, Canada

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SOUTHGOBI RESOURCES LTD.

Consolidated Statement of Comprehensive Income

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

	Notes	Year ended December 31, 2010	2009
CONTINUING OPERATIONS			
Revenue		**$ 79,777**	$ 36,038
Cost of sales	6	**(77,488)**	(29,425)
Income from mine operations		**2,289**	6,613
Administration expenses	7	**(30,497)**	(24,535)
Evaluation and exploration expenses	8	**(18,769)**	(5,399)
Operating loss from continuing operations		**(46,977)**	(23,321)
Finance costs	9	**(175,855)**	(63,754)
Finance income	9	**103,948**	920
Loss before tax		**(118,884)**	(86,155)
Current income tax expense	10	**(1,806)**	(509)
Deferred income tax recovery	10	**4,495**	6,947
Loss from continuing operations		**(116,195)**	(79,717)
Loss from discontinued operations	5	**-**	(31,088)
Net loss for the year		**(116,195)**	(110,805)
OTHER COMPREHENSIVE INCOME			
Gain on available-for-sale assets, net of tax	14	**27,761**	-
Net comprehensive loss attributable to equity holders of the Company		**$ (88,434)**	$ (110,805)
BASIC AND DILUTED LOSS PER SHARE FROM:			
Continuing operations	11	**$ (0.66)**	$ (0.60)
Discontinued operations	11	**-**	(0.23)
Continuing and discontinued operations		**$ (0.66)**	$ (0.83)

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

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

		As at December 31,	
	Notes	**2010**	**2009**
ASSETS			
Current assets			
Cash and cash equivalents	12	**$ 492,038**	$ 357,342
Trade and other receivables	13	**30,246**	12,328
Short term investments	14	**17,529**	14,999
Inventories	15	**26,160**	16,384
Prepaid expenses and deposits	16	**10,026**	8,119
Total current assets		**575,999**	409,172
Non-current assets			
Property, plant and equipment	17	**266,771**	82,705
Deferred listing costs		**-**	4,565
Deferred income tax assets	10	**11,442**	6,947
Long term investments	14	**107,416**	57,070
Other receivables		**238**	225
Total non-current assets		**385,867**	151,512
Total assets		**$ 961,866**	$ 560,684
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other payables	18	**$ 24,137**	$ 12,669
Amounts due under line of credit facility	19	**-**	3,009
Current portion of convertible debenture	20	**6,312**	4,712
Total current liabilities		**30,449**	20,390
Non-current liabilities			
Convertible debenture	20	**245,498**	542,351
Deferred income tax liabilities	10	**3,966**	-
Decommissioning liability	21	**3,063**	735
Total non-current liabilities		**252,527**	543,086
Total liabilities		**282,976**	563,476
Shareholders' equity/(deficiency)			
Common shares	22	**1,061,560**	296,419
Share option reserve	24	**32,360**	22,300
Investment revaluation reserve	24	**27,761**	-
Accumulated deficit	25	**(442,791)**	(321,511)
Total shareholders' equity/(deficiency)		**678,890**	(2,792)
Total shareholders' equity and liabilities		**$ 961,866**	$ 560,684
Net current assets		**$ 545,550**	$ 388,782
Total assets less current liabilities		**$ 931,417**	$ 540,294

Commitments for expenditure (Note 31)

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

APPROVED BY THE BOARD:

"Andre Deepwell"
Director

"Pierre Lebel"
Director

SOUTHGOBI RESOURCES LTD.
Consolidated Statement 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, 2009	133,193	$ 289,512	$ 12,775	$ -	$ (213,323)	$ 88,964
Shares issued for:						
Exercise of share options	1,324	6,907	(3,010)	-	-	3,897
Share-based compensation charged to operations	-	-	12,535	-	-	12,535
Sale of Metals Division	-	-	-	-	2,617	2,617
Net loss and comprehensive loss for the period	-	-	-	-	(110,805)	(110,805)
Balances, December 31, 2009	134,517	$ 296,419	$ 22,300	$ -	$ (321,511)	$ (2,792)
Shares issued for:						
Cash	**27,228**	**$ 441,130**	**$ -**	**$ -**	**$ -**	**$ 441,130**
Share issue costs	**-**	**(27,200)**	**-**	**-**	**-**	**(27,200)**
Conversion of convertible debenture	**21,471**	**347,643**	**-**	**-**	**-**	**347,643**
Interest settlement on convertible debenture	**90**	**1,436**	**-**	**-**	**-**	**1,436**
Exercise of share options	**1,090**	**7,434**	**(3,200)**	**-**	**-**	**4,234**
Share-based compensation charged to operations	**-**	**-**	**13,260**	**-**	**-**	**13,260**
Common shares repurchased and cancelled	**(911)**	**(5,272)**	**-**	**-**	**(5,085)**	**(10,357)**
Share buy-back costs	**-**	**(30)**	**-**	**-**	**-**	**(30)**
Net loss for the year	**-**	**-**	**-**	**-**	**(116,195)**	**(116,195)**
Other comprehensive income for the year	**-**	**-**	**-**	**27,761**	**-**	**27,761**
Balances, December 31, 2010	**183,485**	**$1,061,560**	**$ 32,360**	**$ 27,761**	**$ (442,791)**	**$ 678,890**

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

SOUTHGOBI RESOURCES LTD.

Consolidated Statement of Cash Flows

(Expressed in thousands of U.S. Dollars)

	Notes	Year ended December 31, 2010	2009
OPERATING ACTIVITIES			
Loss for the year from continuing operations before tax		**$ (118,884)**	$ (86,155)
Adjustments for:			
Depreciation and depletion		**13,219**	5,856
Share-based compensation	23	**13,260**	12,195
Fair value change on embedded derivative	9	**(100,637)**	44,980
Mark to market adjustment on investments		**(870)**	(843)
Interest income		**(2,441)**	(77)
Accrued interest expense		**24,425**	7,693
Transaction costs on issuance of convertible debenture		**-**	9,399
Interest paid		**(21,926)**	-
Loss on partial conversion of convertible debenture	9	**151,353**	-
Unrealized foreign exchange (gain)/loss		**(3,703)**	1,213
Loss on disposal of property, plant and equipment		**3,770**	245
Impairment of inventories	15	**5,751**	-
Impairment of property, plant and equipment	17	**1,833**	-
Accretion of decommissioning liability		**77**	40
Operating cash flows before movements in working capital		**(34,773)**	(5,454)
Increase in inventories		**(15,814)**	(3,443)
Increase in trade and other receivables		**(15,810)**	(8,379)
Increase in prepaid expenses and deposits		**(3,713)**	(6,322)
Increase in trade and other payables		**12,262**	7,595
Cash used in continuing operations		**(57,848)**	(16,003)
Cash used in discontinued operations	5	**-**	(19,227)
Cash used in operating activities		**(57,848)**	(35,230)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(199,770)**	(35,770)
Interest received		**2,336**	37
Proceeds from disposal of property, plant and equipment		**22**	26
Purchase of short term investments		**-**	(15,000)
Maturity of short term investments		**15,000**	-
Purchase of long term investments		**(65,280)**	(47,450)
Maturity of long term investments		**30,000**	-
Increase in other receivables		**(13)**	(225)
Cash used in continuing operations		**(217,705)**	(98,382)
Cash used in discontinued operations	5	**-**	(6,723)
Cash used in investing activities		**(217,705)**	(105,105)
FINANCING ACTIVITIES			
Proceeds from issuance of common shares and exercise of stock options, net of issue costs		**422,729**	3,897
Repurchase of common shares, net of transaction costs		**(10,387)**	-
Increase in deferred charges		**-**	(4,565)
Proceeds from issuance of convertible debenture, net of issue costs		**-**	485,000
Drawings under line of credit facilities		**46,700**	53,000
Repayments of line of credit facilities		**(49,700)**	(50,000)
Cash generated from financing activities		**$ 409,342**	$ 487,332
Effect of foreign exchange rate changes on cash		**907**	5
Increase in cash and cash equivalents		**134,696**	347,002
Cash and cash equivalents, beginning of year		**357,342**	10,340
Cash and cash equivalents, end of year		**$ 492,038**	$ 357,342
COMPRISED OF:			
Cash and cash equivalents of continuing operations		**$ 492,038**	$ 357,342
Cash and cash equivalents of discontinued operations		**-**	-
Total cash and cash equivalents		**$ 492,038**	$ 357,342
Cash		**$ 461,853**	$ 242,352
Money market instruments		**30,185**	114,990
Total cash and cash equivalents		**$ 492,038**	$ 357,342

Supplemental cash flow information (Note 30)

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

1. CORPORATE INFORMATION

SouthGobi Resources Ltd. (formerly SouthGobi Energy 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 and Hong Kong Stock Exchange. The company together with its subsidiaries (collectively referred to as the "Company") is an integrated coal mining, development and exploration company. The Company's parent is Ivanhoe Mines Ltd. (the "parent" or "Ivanhoe").

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

The Company's financial statements and those of all of its controlled subsidiaries are presented in U.S. dollars and all values are rounded to the nearest thousand dollars except where otherwise indicated. Information related to shares and stock options is presented in thousands except for per share information, which is presented in U.S. cents.

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business.

2. BASIS OF PREPARATION

2.1 Statement of compliance

The Company's 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") and International Accounting Standards ("IAS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), effective for the Company's reporting for the year ended December 31, 2010.

2.2 Basis of presentation

The Company's Consolidated Financial Statements have been prepared on the historical cost basis except for certain non-current assets and financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 3.

2.3 Adoption of new and revised standards and interpretations

The IASB issued a number of new and revised IASs, IFRSs, amendments and related IFRICs (hereinafter collectively referred to as the "new IFRS") which are effective for the Company's financial year beginning on January 1, 2010. For the purpose of preparing and presenting the Consolidated Financial Statements, the Company has consistently adopted all these new standards for the years ended December 31, 2010 and 2009.

At the date of authorization of these Financial Statements, the IASB and IFRIC has issued the following new and revised standards, amendments and interpretations which are not yet effective during the year ended December 31, 2010.

- IFRS 7 (Amendment) Clarification of required level of disclosure (i)
- IFRS 9 New financial instruments standard that replaces IAS 39 for classification and measurement of financial assets (ii)
- IAS 1 (Amendment) Clarification of statement of changes in equity (i)
- IAS 24 (Revised) Related party disclosures (i)
- IAS 32 (Amendment) Classification of rights issues (iii)
- IAS 34 (Amendment) Disclosure requirements for significant events and transactions (i)
- IFRIC 14 (Amendment) Prepayment of a minimum funding requirement (i)
- IFRIC 19 Extinguishing financial liabilities with equity instruments (iv)

(i) Effective for annual periods beginning on or after January 1, 2011
(ii) Effective for annual periods beginning on or after January 1, 2013
(iii) Effective for annual periods beginning on or after February 1, 2010
(iv) Effective for annual periods beginning on or after July 1, 2010

The Company anticipates that the application of these standards, amendments and interpretations will not have a material impact on the results and financial position of the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of consolidation

The Consolidated Financial Statements include the financial statements of the Company and its controlled subsidiaries (Note 28). Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Statement of Comprehensive Income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Company's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination (see Note 3.2) and the minority interests' share of changes in equity since the date of the combination. Losses applicable to the minority interests in excess of their interest in the subsidiary's equity are allocated against the interests of the Company except to the extent that the minority interests have a binding obligation and are able to make an additional investment to cover the losses.

3.2 Business combinations

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Business combinations (continued)

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

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

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

The Consolidated Statement of Comprehensive Income includes the results of each of the combining businesses from the earliest date presented or since the date when the combining businesses first came under common control, where this is a shorter period, regardless of the date of common control combination.

3.3 Interest income

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Foreign currencies

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

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

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

3.5 Borrowing costs

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

3.6 Retirement benefit costs

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7 Inventories

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

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

3.8 Property, plant and equipment ("PPE")

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Property, plant and equipment ("PPE") (continued)

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

Mineral assets include deferred stripping costs and decommissioning liabilities related to the reclamation of mining properties.

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

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

3.9 Stripping costs

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

Future benefits arise when stripping activity increases the future output of the mine by providing access to a new ore body that the previously deferred stripping costs in an area did not give access to. When stripping activities give rise to a future economic benefit, the costs associated with these activities are capitalized into PPE. Capitalized stripping costs are depleted on a unit-of-production basis, using estimated reserves as the depletion base.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Mineral properties

All direct costs related to the acquisition of mineral property interests are capitalized into intangible assets on a property by property basis. Exploration costs, net of incidental revenues, are charged to operations in the period incurred until such time as it has been determined that a property has economically recoverable reserves, in which case subsequent exploration costs and the costs incurred to develop a property are capitalized into PPE. On the commencement of commercial production, depletion of each mining property will be provided on a unit-of-production basis using estimated resources as the depletion base.

The commencement of commercial production is deemed to occur on a determination made by management. 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 mine and plant equipment is completed
- operating results are being achieved in a consistent manner.

However, the production phase does not commence with the removal of *de minimis* saleable mineral materials that occur in conjunction with the removal of overburden or waste material for the purpose of obtaining access to an ore body.

3.11 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 and mineral assets under PPE, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a provision for a decommissioning liability (also referred to as an asset retirement obligation) 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 economic life of the asset using either the unit-of-production method or the straight-line method, as appropriate. Following the initial recognition of the decommissioning liability, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the current market-based discount rate and the amount or timing of the underlying cash flows needed to settle the obligation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12 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 some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of 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 equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense is recognized for equity-settled transactions at each reporting date until the vesting date reflects the Company's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in share option reserve. No expense is recognized for awards that do not ultimately vest.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 enacted or substantively enacted at the end of each reporting period.

Deferred income tax

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Taxation (continued)

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and loss.

Financial assets classified as loans-and-receivables and held-to-maturity are measured at amortized cost using the effective interest method less any allowance for impairment. The 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.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary or a significant or prolonged decline in the fair value of that investment below its cost.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 held-for-trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives, are also classified as held-for-trading 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.

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

Available for sale

If an available for sale 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 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.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.19 Cash and cash equivalents

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

3.20 Revenue recognition

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

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 interest expense.

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

The preparation of these financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions.

The most significant estimates relate to valuation of embedded derivatives and determination of their expected life; decommissioning liabilities; property, plant and equipment, including coal reserves and resources, depreciation and depletion; recoverability of trade and other receivables, inventory valuation; valuation of deferred income tax amounts, impairment testing and the calculation of share-based payments.

The most significant judgments relate to recoverability of capitalized amounts, accounting for stripping costs, recognition of deferred tax assets and liabilities, accounting for long-term investments, determination of the commencement of commercial production and the determination of the economic viability of a project.

4. SEGMENTED INFORMATION

At December 31, 2010, the Company has one reportable operating segment, being the Mongolian Coal Division. In prior periods, the Company's Indonesia Coal Division was a segment of the Company (Note 5).

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

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

For the Mongolian Coal Division, the Company receives discrete financial information that is used by the chief operating decision maker 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. As at December 31, 2010, the Mongolian Coal Division has achieved commercial production and is earning revenue through the sale of coal to external customers.

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

At December 31, 2010, the Mongolian Coal Division had four active customers with the largest customer accounting for 73% of trade receivables and the other customers accounting for the remaining 27% of trade receivables.

For the year ended December 31, 2010, the largest customer accounted for 57% of revenues, the second largest customer accounted for 40% of revenue and the other customers accounted for the remaining 3% of revenue.

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

4. SEGMENTED INFORMATION (Continued)

The following is an analysis of the carrying amounts of segment assets, segment liabilities and reported segment profit or loss, revenues, depreciation and depletion expense and impairment charge on assets analyzed by operating segment and reconciled to the Company's Consolidated Financial Statements:

	Mongolian Coal Division	Discontinued Operations (i)	Unallocated (ii)	Consolidated Total
Segment assets				
As at December 31, 2010	**$ 342,591**	**$ -**	**$ 619,275**	**$ 961,866**
As at December 31, 2009	129,454	-	431,230	560,684
Segment liabilities				
As at December 31, 2010	**$ 25,408**	**$ -**	**$ 257,568**	**$ 282,976**
As at December 31, 2009	7,300	-	556,176	563,476
Segment income/(losses)				
For the year ended December 31, 2010	**$ (20,022)**	**$ -**	**$ (96,173)**	**$ (116,195)**
For the year ended December 31, 2009	6,203	(31,088)	(85,920)	(110,805)
Segment revenues				
For the year ended December 31, 2010	**$ 79,777**	**$ -**	**$ -**	**$ 79,777**
For the year ended December 31, 2009	36,038	-	-	36,038
Capital expenditures				
For the year ended December 31, 2010	**$ 199,354**	**$ -**	**$ 416**	**$ 199,770**
For the year ended December 31, 2009	35,706	6,511	64	42,281
Depreciation and depletion expense				
For the year ended December 31, 2010	**$ 13,148**	**$ -**	**$ 71**	**$ 13,219**
For the year ended December 31, 2009	5,837	-	19	5,856
Impairment charge on assets (iii)(iv)				
For the year ended December 31, 2010	**$ 7,584**	**$ -**	**$ -**	**$ 7,584**
For the year ended December 31, 2009	-	15,135	-	15,135

(i) The Indonesian Coal Division was treated as discontinued operations for the year ended December 31, 2009 (Note 5)
(ii) The unallocated amount contains all amounts associated with the Corporate Division
(iii) The impairment charge in the year ended December 31, 2010 relates to inventory (Note 15) and property, plant and equipment (Note 17)
(iv) The impairment charge in the year ended December 31, 2009 relates to the Indonesian Coal Division (Note 5)

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

4. SEGMENTED INFORMATION (Continued)

At December 31, 2010, the Company operates in three geographical areas, being Canada, Hong Kong and Mongolia. Prior to December 23, 2009, the Company had operations in Indonesia (Note 5). The following is an analysis of the revenues and non-current assets by geographical area and reconciled to the Company's Consolidated Financial Statements:

	Mongolia	Hong Kong	Canada	Consolidated Total
Revenues				
For the year ended December 31, 2010	**$ 79,777**	**$ -**	**$ -**	**$ 79,777**
For the year ended December 31, 2009	36,038	-	-	36,038
Non-current assets				
As at December 31, 2010	**$ 277,201**	**$ 401**	**$ 108,265**	**$ 385,867**
As at December 31, 2009	89,587	49	61,876	151,512

5. DISCONTINUED OPERATIONS

The Company sold the Indonesia Coal Division, which was composed entirely of the Mamahak Coal Project ("Mamahak"), effective December 15, 2009. The Company divested its 85% interest in Mamahak to Kangaroo Resources Limited ("Kangaroo") for consideration comprising of $1 million in cash and 50 million shares of Kangaroo with a fair value of $8,776. Kangaroo is listed on the Australian Securities Exchange (ASX: KRL). The transaction was completed on December 23, 2009 and the Company incurred transaction costs of $1 million related to the disposition of Mamahak. As a result of this transaction, the Company held 6.7% of the outstanding shares in Kangaroo on the closing date of the transaction and those shares were subject to a twelve month lock-up.

The Company disclosed Mamahak as a discontinued operation in the year ended December 31, 2009. The losses from discontinued operations for the year ended December 31, 2009 were $31,088. Included in the losses from discontinued operations for the year ended December 31, 2009 was an impairment charge of $15,135.

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

6. COST OF SALES

The cost of sales for the Company is broken down as follows:

	Year ended December 31, 2010	2009
Operating expenses	**$ 56,850**	$ 23,611
Depreciation and depletion	**13,054**	5,814
Impairment of inventories (Note 15)	**5,751**	-
Impairment of property, plant and equipment (Note 17)	**1,833**	-
Cost of sales	**$ 77,488**	$ 29,425

7. ADMINISTRATION EXPENSES

The administration expenses for the Company are broken down as follows:

	Year ended December 31, 2010	2009
Corporate administration	**$ 6,020**	$ 2,839
Legal	**957**	912
Professional fees	**2,795**	3,159
Listing fees	**-**	2,470
Salaries and benefits	**15,548**	14,024
Sustainability and community relations	**718**	-
Public infrastructure	**5,952**	-
Depreciation	**118**	19
Foreign exchange (gain)/loss	**(1,611)**	1,112
Administration expenses	**$ 30,497**	$ 24,535

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

8. EVALUATION AND EXPLORATION EXPENSES

The evaluation and exploration expenses for the Company are broken down as follows:

	Year ended December 31, 2010	2009
Assaying	**$ 341**	$ 273
Drilling and trenching	**11,705**	2,283
Geological	**876**	351
Geophysics	**1,697**	193
Surveying	**108**	14
License fees	**1,223**	1,543
Depreciation	**47**	23
Salaries	**1,051**	64
Overhead	**1,721**	655
Evaluation and exploration expenses	**$ 18,769**	$ 5,399

9. FINANCE COSTS AND INCOME

The finance costs for the Company are broken down as follows:

	Year ended December 31, 2010	2009
Loss on partial conversion of convertible debenture (Note 20)	**$ 151,353**	$ -
Fair value loss on embedded derivatives in convertible debenture (Note 20)	**-**	44,980
Interest expense on convertible debenture (Note 20)	**24,294**	7,684
Transaction costs on issuance of convertible debenture (Note 20)	**-**	9,399
Interest expense on line of credit facility (Note 19)	**131**	1,651
Accretion of decommissioning liability	**77**	40
Finance costs	**$ 175,855**	$ 63,754

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

9. FINANCE COSTS AND INCOME (Continued)

The finance income for the Company is broken down as follows:

	Year ended December 31,	
	2010	**2009**
Fair value gain on embedded derivatives in convertible debenture (Note 20)	**$ 100,637**	$ -
Mark to market gain on investments (Note 14)	**870**	843
Interest income	**2,441**	77
Finance income	**$ 103,948**	$ 920

10. TAXES

The Company and its subsidiaries in Canada are subject to Canadian federal and provincial tax for the estimated assessable profit for the years ended December 31, 2010 and 2009 at a rate of 28.5% and 30%, respectively. The Company had no assessable profit in Canada for the years ended December 31, 2010 and 2009.

The Company's subsidiaries in Hong Kong are subject to Hong Kong profits tax for the years ended December 31, 2010 and 2009 at a rate of 16.5%. No Hong Kong profits tax was provided for as the Company had no assessable profit arising in or derived from Hong Kong in the years ended December 31, 2010 and 2009.

The Company's subsidiaries in Mongolia are subject to Mongolian income tax for the years ended December 31, 2010 and 2009 at a rate of 25%. In the year ended December 31, 2010 the Company recorded a current income tax charge of $1,806 (2009: $509) related to assessable profit derived from Mongolia.

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

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

10. TAXES (Continued)

10.1 Income tax recognized in profit or loss

	Year ended December 31,	
	2010	**2009**
Current Tax		
Current tax expense in respect of the current year	**$ 1,806**	$ 509
Deferred Tax		
Deferred tax recovery recognized in the current year	**(4,495)**	(6,947)
Total income tax recovery recognized in the current year related to continuing operations	**$ (2,689)**	$ (6,438)

The tax recovery for the Company can be reconciled to the loss for the year per the Consolidated Statement of Comprehensive Income as follows:

	Year ended December 31,	
	2010	**2009**
Loss from continuing operations before tax	**$ 118,884**	$ 86,155
Statutory tax rate	**28.50%**	30.00%
Recovery of income taxes based on combined Canadian federal and provincial statutory rates	**(33,882)**	(25,847)
Deduct:		
Lower effective tax rate in foreign jurisdictions	**1,905**	463
Tax effect of tax losses and temporary differences not recognized	**2,789**	1,937
Non-deductible expenses	**24,708**	14,160
Effect of change in future tax rates	**1,791**	2,849
Tax recovery for the year	**$ (2,689)**	$ (6,438)

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

10. TAXES (Continued)

10.2 Income tax recognized in other comprehensive income

	Year ended December 31, 2010	2009
Deferred Tax		
Fair value remeasurement of available-for-sale assets	$ (3,966)	$ -
Total income tax recovery recognized in the current year in other comprehensive income	$ (3,966)	$ -

10.3 Deferred tax balances

The Company's deferred tax assets/(liabilities) are broken down as follows:

	As at December 31, 2010	2009
Deferred tax assets	$ 11,442	$ 6,947
Deferred tax liabilities	(3,966)	-
Deferred tax balances	$ 7,476	$ 6,947

The Company's deferred tax assets/(liabilities) are attributable to the following items:

	As at December 31, 2010	2009
Tax loss carry-forwards	$ 8,515	$ 5,793
Property, plant and equipment	2,880	1,135
Other assets	47	19
Available-for-sale financial assets	(3,966)	-
Deferred tax balances	$ 7,476	$ 6,947

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

10. TAXES (Continued)

10.4 Unrecognized deferred tax assets

The Company's unrecognized deductible temporary differences and unused tax losses are attributable to the following items:

	As at December 31, 2010	As at December 31, 2009
Non-capital losses	**$ 18,952**	$ 8,701
Capital losses	**3,168**	4,183
Deductible temporary differences	**5,369**	11,815
Deferred tax balances	**$ 27,489**	$ 24,699

10.5 Expiry dates

The Company's recognized and unrecognized deferred tax assets related to unused tax losses have the following expiry dates:

		As at December 31, 2010 Local currency	U.S. Dollar Equivalent	Expiry dates
Non-capital losses				
Canadian Dollar	Cdn$	71,451	**$ 71,065**	2011 - 2030
Mongolian Tugrik	MNT	42,793,003	**34,058**	2011 - 2021
Hong Kong Dollar	HK$	46,127	**5,953**	indefinite
Singapore Dollar	SG$	75	**58**	indefinite
			$ 111,134	
Capital losses				
Canadian Dollar	Cdn$	25,211	**$ 25,075**	indefinite

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

11. LOSS PER SHARE

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

	Year ended December 31, 2010	2009
Net loss from continuing operations for the purpose of basic and diluted loss per share	$ **116,195**	$ 79,717
Net loss from discontinued operations for the purpose of basic and diluted loss per share	$ **-**	$ 31,088
Weighted average number of shares for the purpose of basic and diluted loss per share	**176,529**	133,499

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the year. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options, share purchase warrants and convertible debentures, in the weighted average number of common shares outstanding during the year, if dilutive. All of the stock options and the convertible debenture were anti-dilutive for the years ended December 31, 2010 and 2009.

12. CASH AND CASH EQUIVALENTS

Cash and cash equivalents of the Company are comprised of bank balances and short term money market instruments with an original maturity of three months or less. The Company's bank balances and cash equivalents carry prevailing market interest rates which ranged from 0% to 0.35% as at December 31, 2010. The Company's cash and cash equivalents are denominated in the following currencies:

	As at December 31, 2010	2009
Denominated in U.S. dollars	$ **486,404**	$ 357,163
Denominated in Hong Kong dollars	**3,666**	263
Denominated in Canadian dollars	**1,182**	(136)
Others	**786**	52
Cash and cash equivalents	$ **492,038**	$ 357,342

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

13. TRADE AND OTHER RECEIVABLES

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

	As at December 31,	
	2010	**2009**
Trade receivables	**$ 15,297**	$ 5,200
VAT/GST receivable	**14,541**	7,029
Other receivables	**408**	99
Total trade and other receivables	**$ 30,246**	$ 12,328

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

	As at December 31,	
	2010	**2009**
Less than 1 month	**$ 15,604**	$ 5,730
1 to 3 months	**1,869**	3,463
3 to 6 months	**2,600**	2,613
Over 6 months	**10,173**	522
Total trade and other receivables	**$ 30,246**	$ 12,328

At December 31, 2010, 99% of the trade and other receivables that were outstanding over one month are VAT/GST receivables and 100% of the trade and other receivables that were outstanding over six months are VAT/GST receivables. The Company anticipates full recovery of these amounts and therefore no impairment has been recorded against these receivables. The credit risk on the VAT/GST receivable has been further discussed in Note 27.

The Company holds no collateral for any receivable amounts outstanding as at December 31, 2010.

Included in trade and other receivables of the Company are amounts due from related parties which are disclosed in Note 28. The amounts are unsecured, interest free and repayable upon written notice given from the Company.

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

14. INVESTMENTS

The Company's investments are broken down as follows:

	As at December 31,			
		2010		**2009**
Short term investments				
Money market investments [(i)]	**$**	**17,529**	$	14,999
Long term investments				
Investment in Kangaroo		**10,235**		9,876
Investment in Aspire		**52,008**		-
Money market investments [(ii)]		**45,173**		47,194
		107,416		57,070
Total short and long term investments	**$**	**124,945**	$	72,069

(i) Money market investments with maturities greater than ninety days and less than one year
(ii) Money market investments with maturities greater than one year

The Company has classified its investment in Kangaroo (Note 5) as FVTPL with any change in value being recognized through profit and loss. During the year ended December 31, 2010, the Company recognized an unrealized gain of $360 related to its investment in Kangaroo (2009: $1,099).

On December 23, 2010, the Company announced it had completed a private placement with Aspire Mining Limited ("Aspire"). Aspire is listed on the Australian Securities Exchange (ASX: AKM). Pursuant to the private placement, the Company acquired 105,860 shares at A$0.19 per share for an aggregate purchase price of $20,281. After giving effect to the transaction, the Company owns approximately 19.9% of Aspire. The Company has the right to nominate one member to the board of directors of Aspire and the right to maintain its proportionate 19.9% shareholding of Aspire for a period of two years.

The Company has classified its investment in Aspire as an available-for-sale financial asset. The Company has not treated Aspire as an associate because the Company does not have significant influence over Aspire and it is neither a subsidiary nor a joint venture. During the year ended December 31, 2010, the Company recognized an unrealized gain of $27,761, net of tax, in other comprehensive income related to its investment in Aspire (2009: $nil).

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

15. INVENTORIES

The Company's inventories are broken down as follows:

	As at December 31,	
	2010	**2009**
Stockpiles [(i)]	**$ 2,395**	$ 9,553
Materials and supplies	**23,765**	6,831
Total inventories	**$ 26,160**	$ 16,384

(i) Coal inventories are stated at the lower of production cost and net realizable value

The cost of inventories recognized as an expense during the year ended December 31, 2010 is $69,842 (2009: $22,035).

The cost of inventories recognized as an expense during the year ended December 31, 2010 included $5,246 (2009: $nil) in impairments of stockpile inventory and $505 (2009: $nil) in impairments of materials and supplies inventory to their respective net realizable values. As at December 31, 2010, the Company anticipates the entire stockpile balance of $2,395 will be realized within twelve months.

16. PREPAID EXPENSES AND DEPOSITS

The Company's prepaid expenses and deposits are broken down as follows:

	As at December 31,	
	2010	**2009**
Security deposits	**$ 913**	$ 619
Insurance	**933**	557
Prepaid exploration license costs	**832**	1,023
Prepaid income taxes	**-**	3,109
Vendor pre-payments	**7,209**	2,683
Other	**139**	128
Total prepaid expenses and deposits	**$ 10,026**	$ 8,119

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

17. PROPERTY, PLANT AND EQUIPMENT

The Company's property, plant and equipment is broken down as follows:

	Mobile equipment	Computer equipment	Furniture and fixtures	Machinery and equipment	Buildings and roads	Mineral assets	Construction in progress	Total
Cost								
As at January 1, 2009	$ 38,544	$ 526	$ 93	$ 2,211	$ 433	$ 3,422	$ 11,411	$ 56,640
Additions	28,900	98	409	538	1,663	5,669	6,225	43,502
Disposals	(756)	(37)	(7)	(125)	-	-	(7)	(932)
Sale of Indonesia Coal Division	-	-	-	-	(1,820)	(3,006)	(2,738)	(7,564)
Reclassifications	-	-	4	598	13,318	-	(13,920)	-
As at December 31, 2009	66,688	587	499	3,222	13,594	6,085	971	91,646
Additions	**156,462**	**278**	**856**	**1,840**	**655**	**31,969**	**15,398**	**207,458**
Disposals	**(5,948)**	**-**	**(5)**	**(13)**	**-**	**-**	**-**	**(5,966)**
Reclassifications	**231**	**-**	**-**	**-**	**-**	**-**	**(231)**	**-**
As at December 31, 2010	**$217,433**	**$ 865**	**$ 1,350**	**$ 5,049**	**$ 14,249**	**$ 38,054**	**$ 16,138**	**$293,138**
Accumulated depreciation and impairment								
As at January 1, 2009	$ (3,584)	$ (257)	$ (19)	$ (178)	$ (77)	$ (85)	$ -	$ (4,200)
Charge for the year	(4,003)	(76)	(57)	(405)	(834)	(85)	-	(5,460)
Eliminated on disposals	613	34	4	-	-	-	-	651
Sale of Indonesia Coal Division	-	-	-	-	28	40	-	68
As at December 31, 2009	(6,974)	(299)	(72)	(583)	(883)	(130)	-	(8,941)
Charge for the year	**(13,642)**	**(119)**	**(188)**	**(800)**	**(1,790)**	**(597)**	**-**	**(17,136)**
Impairment charges	**(1,833)**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,833)**
Eliminated on disposals	**1,534**	**-**	**2**	**7**	**-**	**-**	**-**	**1,543**
As at December 31, 2010	**$ (20,915)**	**$ (418)**	**$ (258)**	**$ (1,376)**	**$ (2,673)**	**$ (727)**	**$ -**	**$ (26,367)**
Net book value								
As at December 31, 2009	$ 59,714	$ 288	$ 427	$ 2,639	$ 12,711	$ 5,955	$ 971	$ 82,705
As at December 31, 2010	**$196,518**	**$ 447**	**$ 1,092**	**$ 3,673**	**$ 11,576**	**$ 37,327**	**$ 16,138**	**$266,771**

In the year ended December 31, 2010, the Company capitalized interest of $602 (2009: $nil) into construction in progress.

In the year ended December 31, 2010, the Company recorded an impairment charge of $1,833 (2009: $nil) related to certain Mobile equipment. The Company has decided to replace its Liebherr 994 shovel to increase fleet flexibility and has therefore recorded an impairment charge to reduce its net book value to its recoverable amount.

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

18. TRADE AND OTHER PAYABLES

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

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

	As at December 31,	
	2010	**2009**
Less than 1 month	**$ 24,006**	$ 9,630
1 to 3 months	**33**	892
3 to 6 months	**72**	705
Over 6 months	**26**	1,442
Total trade and other payables	**$ 24,137**	$ 12,669

Included in trade and other payables are amounts due to related parties which are disclosed in Note 28.

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

19. LINE OF CREDIT FACILITY

On December 18, 2009, the Company established a line of credit facility with Golomt Bank in Mongolia. The line of credit facility was a twelve month revolving line of credit facility with a maximum draw-down available of $3,000. The facility bore interest at 13% per annum and was secured by equipment in Mongolia to a value of not less than 150% of the total facility amount. On December 18, 2010, the line of credit facility was extended to January 18, 2011. On January 18, 2011 the Company signed a new revolving line of credit facility with Golomt Bank for a twelve month period. Under the new agreement, the maximum draw-down available is $3,500 and MNT8.1 Billion (approximately $6,500) and bears interest at 11% for any U.S. Dollar amounts outstanding and 12% for any Mongolia Tugrik amounts outstanding. The line of credit is secured by equipment in Mongolia to a value of not less than 150% of the total facility amount.

The line of credit facility is used by the Company's Mongolian subsidiaries as part of their working capital management. As at December 31, 2010, the Company had no amounts outstanding under the line of credit facility.

The movement of the amounts due under the line of credit facility is as follows:

	Year ended December 31,	
	2010	**2009**
Balance, beginning of year	**$ 3,009**	**$ -**
Amounts advanced	**46,700**	**3,000**
Interest expense	**131**	**9**
Repayment of principal amounts	**(49,700)**	**-**
Interest paid	**(140)**	**-**
Balance, end of year	**$ -**	**$ 3,009**

20. CONVERTIBLE DEBENTURE

On November 19, 2009, the Company issued a convertible debenture to a wholly owned subsidiary of the China Investment Corporation ("CIC") for $500,000, which is secured and bears interest at 8.0% with a maximum term of 30 years. The financing is required primarily to support the accelerated investment program in Mongolia and up to $120,000 of the financing may also be used for working capital, repayment of debt due on funding, general and administrative expense and other general corporate purposes.

The key commercial terms of the financing include:

- Interest - 8% per annum (6.4% payable semi-annually in cash and 1.6% payable annually in the Company's shares, where the number of shares to be issued is calculated based on the 50-day volume-weighted average price ("VWAP").
- Term - Maximum of 30 years.
- Security - First charge over the Company's assets, including shares of its material subsidiaries.
- Conversion price - The conversion price is set as the lower of Cdn$11.88 or the 50-day VWAP at the date of conversion, with a floor price of Cdn$8.88 per share.
- Conversion timing - The Company and CIC each have various rights to call conversion of the debenture into common shares. CIC has the right to convert the debenture, in whole or in part, into common shares twelve months after the date of issue. The Company has the right to call for the conversion of up to $250 million of the debenture on the earlier of twenty four months after the issue date, if the conversion price is greater than Cdn$10.66, or upon the Company achieving a public float of 25% of its common shares under certain agreed circumstances, if the conversion price is greater than Cdn$10.66.
- Company's normal conversion right – After sixty months from the issuance date, at any time that the conversion price is greater than Cdn$10.66, the Company will be entitled to require conversion of the outstanding convertible debenture, in whole or in part, into common shares at the conversion price.
- Representation on the Company's Board - While the debenture loan is outstanding, or while CIC has a minimum 15% direct or indirect stake in the Company, CIC has the right to nominate one director to the Company's Board. The Company currently has eight Board members.
- Voting restriction - CIC has agreed that it will not have any voting rights in the Company beyond 29.9% if CIC ever acquires ownership of such a shareholder stake through exercising the debenture.

20. CONVERTIBLE DEBENTURE (Continued)

The key commercial terms of the financing include (continued):

- Pre-emption rights - While the debenture loan is outstanding, or while CIC has a 15% direct or indirect stake in the Company, CIC has certain pre-emption rights on a pro-rata basis to subscribe for any new shares to be allotted and issued by the Company for the period which the debenture is outstanding. The pre-emption rights will not apply to new shares issued pursuant to pro-rata public equity offerings made to all shareholders, exercise of stock options and shares issued to achieve a 25% public float.
- Right of first offer - While a portion of the debenture is outstanding, or while CIC has a 15% direct or indirect stake in the Company, CIC has the right of first offer for any direct and indirect sale of Ivanhoe's ownership stake in the Company. At December 31, 2010 Ivanhoe owned directly and indirectly approximately 57% 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 debenture.

The Company identified that the convertible debenture is a debt host contract to be presented as a liability and contains no equity components. The Company also concluded that 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 income. The difference between the debt host component and the principal amount of the loan outstanding will be accreted to income over the expected life of the convertible debenture.

The embedded derivative was 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 included: the floor and ceiling conversion prices, the risk-free rate of return, expected volatility of the stock price, forward foreign exchange rate curves (between the Cdn$ and U.S.$) and spot foreign exchange rates.

20. CONVERTIBLE DEBENTURE (Continued)

Based on the Company's valuation as at November 19, 2009, the closing date of the convertible debenture, the value of the embedded derivatives was $313,292 and the value of the debt component was $186,708. The transaction costs of $15,000 were applied on a pro-rata basis to the debt host and embedded derivatives and transaction costs of $9,399 associated with the embedded derivatives were expensed as financing costs and transaction costs of $5,601 associated with the debt host were netted against the debt host component.

Pursuant to the debenture conversion terms, the Company had the right to call for the conversion of up to $250,000 of the debenture upon achieving a public float of 25% of its common shares based on a conversion price of the lower of Cdn$11.88 and the 50-day volume-weighted average price ("VWAP"). On March 29, 2010, the Company exercised this 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). On March 29, 2010, the Company also settled the accrued interest payable in shares on the converted $250,000 by issuing 90 shares for the $1,436 in accrued interest converted at the 50-day VWAP conversion price of $15.97 (Cdn$16.29). On April 1, 2010, the Company also settled the outstanding accrued interest payable in cash on the converted debt of $250,000 with a cash payment of $5,742.

The fair value of the shares issued upon the partial conversion, based on their market value, was $347,643 compared to the carrying value of the debt host and embedded derivatives associated with the debt that was converted of $196,290. The difference of $151,353 was recognized in finance costs as a loss upon partial conversion during the year ended December 31, 2010.

Based on the Company's valuations as at December 31, 2010, the fair value of the embedded derivatives decreased by $100,637 compared to December 31, 2009. This decrease was recorded as a gain in finance income for the year ended December 31, 2010.

In the year ended December 31, 2010, the Company also recorded an interest expense of $24,294 (2009: $7,684) related to the convertible debenture. The interest expense is composed of the interest at the contract rate and the accretion of the debt host component of the convertible debenture. To calculate the interest expense, the Company has used the contract life of 30 years and an effective interest rate of 22.2%.

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

20. CONVERTIBLE DEBENTURE (Continued)

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

	Year ended December 31,	
	2010	**2009**
Balance, beginning of year	**$ 547,063**	$ -
Amounts advanced	**-**	500,000
Transaction costs	**-**	(5,601)
Interest expense on convertible debenture	**24,896**	7,684
Fair value (gain)/loss on embedded derivatives	**(100,637)**	44,980
Loss on conversion of convertible debenture	**151,353**	-
Conversion of convertible debenture	**(347,643)**	-
Interest paid	**(23,222)**	-
Balance, end of the year	**$ 251,810**	$ 547,063

The amounts due under the convertible debenture are further broken down as follows:

	As at December 31,	
	2010	**2009**
Debt host	**$ 90,621**	$ 184,079
Fair value of embedded derivatives	**154,877**	358,272
Interest payable	**6,312**	4,712
Convertible debenture	**$ 251,810**	$ 547,063

FINANCIAL STATEMENT PRESENTATION		
Current liabilities		
Current portion of convertible debenture	**$ 6,312**	$ 4,712
Non-current liabilities		
Convertible debenture	**245,498**	542,351
Convertible debenture	**$ 251,810**	$ 547,063

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

20. CONVERTIBLE DEBENTURE (Continued)

The assumptions used in the Company's valuation models as at December 31, 2010 and 2009 are as follows:

	As at December 31,	
	2010	**2009**
Floor conversion price	**Cdn$8.88**	Cdn$8.88
Ceiling conversion price	**Cdn$11.88**	Cdn$11.88
Historical volatility	**73%**	75%
Risk free rate of return	**3.48%**	4.09%
Foreign exchange spot rate (U.S.$ to Cdn$)	**1.01**	0.96
Forward foreign exchange rate curve (U.S.$ to Cdn$)	**0.97 - 1.14**	0.90 - 0.95

21. DECOMMISSIONING LIABILITY

Reclamation and closure costs have been estimated based on the Company's interpretation of current regulatory requirements and have been measured at fair value. Fair value is determined based on the net present value of future cash expenditures upon reclamation and closure. Reclamation and closure costs are capitalized into PPE dependant on the nature of the asset related to the obligation and amortized over the life of the related asset.

At December 31, 2010, the decommissioning liability relates to reclamation and closure costs of the Company's Ovoot Tolgoi project in Mongolia.

The decommissioning liability at Ovoot Tolgoi is calculated as the net present value of estimated future net cash outflows of the reclamation and closure costs, which at December 31, 2010 total $8,840 (2009: $3,449) and are required to satisfy the obligations, discounted at 8% per annum (2009: 10.78% per annum). The settlement of the obligations will occur through to 2024.

The following is an analysis of the decommissioning liability:

	Year ended December 31,	
	2010	**2009**
Balance, beginning of year	**$ 735**	$ 329
Additions	**2,251**	366
Accretion	**77**	40
Balance, end of the year	**$ 3,063**	$ 735

22. SHARE CAPITAL

The Company has authorized an unlimited number of common and preferred shares with no par value. At December 31, 2010, the Company had 183,604 common shares outstanding (2009: 134,517) and no preferred shares outstanding (2009: nil).

During the year ended December 31, 2010, the Company repurchased 911 common shares on the Toronto Stock Exchange and Hong Kong Stock Exchange (2009: nil) for an average price of $11.37 per share. As at December 31, 2010, the Company had cancelled 792 of the 911 repurchased common shares. The remaining 119 common shares were cancelled in January 2011.

The weighted average share price during the year ended December 31, 2010 was Cdn$13.72 (2009: Cdn$12.09).

23. SHARE-BASED PAYMENTS

23.1 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 Amended Equity Incentive Plan, approved on May 11, 2010, provides for a rolling rather than a fixed maximum number of common shares which may be issued pursuant to incentive stock options and other equity incentives, awards and issuances. The Compensation and Benefits Committee determines and makes recommendations to the Board of Directors as to the recipients of, and nature and size of, share-based compensation awards in compliance with applicable securities law, stock exchange and other regulatory requirements. The Company is authorized to issue 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 amended plan include a maximum exercise period of 5 years and a vesting period of 3 years with one-third of the grant vesting on the first anniversary of the grant, one-third vesting on the second anniversary of the grant and one-third vesting on the third anniversary of the grant. The options granted in the year ended December 31, 2010, were granted with a weighted average maximum exercise period of 5.00 years (2009: 5.95 years) and a weighted average vesting period of 1.88 years (2009: 1.82 years).

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

23. SHARE-BASED PAYMENTS (Continued)

23.1 Stock option plan (continued)

During the year ended December 31, 2010, the Company granted 3,446 stock options (2009: 2,671) to officers, employees, directors and other eligible persons at exercise prices ranging from Cdn$9.79 to Cdn$15.09 (2009: Cdn$7.94 to Cdn$14.25) and expiry dates ranging from February 8, 2015 to November 15, 2015 (2009: May 6, 2014 to February 6, 2016). The weighted average fair value of the options granted in the year ended December 31, 2010, was estimated at $5.83 (Cdn$6.07) (2009: $5.95, Cdn$6.56) per option at the grant date using the Black-Scholes option pricing model. The weighted average assumptions used for the calculation were:

	Year ended December 31,	
	2010	**2009**
Risk free interest rate	**1.99%**	2.17%
Expected life	**3.4 years**	3.6 years
Expected volatility [(i)]	**72.15%**	79.54%
Expected dividend per share	**$nil**	$nil

(i) Expected volatility has been based on historical volatility of the Company's publicly traded shares

A share-based compensation cost of $19,867 for the options granted in the year ended December 31, 2010 (2009: $14,872) will be amortized over the vesting period, of which $5,097 was recognized in the year ended December 31, 2010 (2009: $5,125).

The total share-based compensation calculated for the year ended December 31, 2010 was $13,260 (2009: $12,535). Share-based compensation of $10,820 (2009: $10,471) has been allocated to Administration expenses, $1,516 (2009: $1,590) has been allocated to Cost of sales and $924 (2009: $474) has been allocated to Evaluation and exploration expenses.

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

23. SHARE-BASED PAYMENTS (Continued)

23.2 Outstanding stock options

The following is a summary of option transactions under the Company's stock option plan for the years ended December 31, 2010 and 2009:

	Year ended December 31, 2010		Year ended December 31, 2009	
	Number of options	Weighted average exercise price (Cdn$)	Number of options	Weighted average exercise price (Cdn$)
Balance, beginning of year	**7,254**	**$ 9.11**	6,586	$ 7.18
Options granted	**3,446**	**12.48**	2,671	11.13
Options exercised	**(1,099)**	**4.04**	(1,324)	3.16
Options forfeited	**(325)**	**13.31**	(679)	9.96
Balance, end of year	**9,276**	**$ 10.82**	7,254	$ 9.11

The following table summarizes information about stock options outstanding and exercisable as at December 31, 2010:

	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)
$0.86 - $2.85	**184**	**$ 2.10**	**0.47**	**184**	**$ 2.10**	**0.47**
$3.70 - $6.00	**1,883**	**5.55**	**2.15**	**1,561**	**5.64**	**1.99**
$7.16 - $10.21	**1,669**	**9.11**	**4.31**	**689**	**8.61**	**3.99**
$11.46 - $13.80	**4,488**	**12.69**	**4.10**	**784**	**12.96**	**3.05**
$15.07 - $18.86	**1,052**	**16.48**	**2.87**	**573**	**16.83**	**2.57**
	9,276	**$ 10.82**	**3.53**	**3,791**	**$ 9.21**	**2.59**

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

24. RESERVES

The reserves of the Company net of income tax are broken down as follows:

	As at December 31, 2010	As at December 31, 2009
Share option reserve	**$ 32,360**	$ 22,300
Investment revaluation reserve	**27,761**	-
Total reserves	**$ 60,121**	$ 22,300

24.1 Share option reserve

The Company's share option reserve relates to share 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 set out in Note 23.

The following is an analysis of the share option reserve:

	Year ended December 31, 2010	Year ended December 31, 2009
Balance, beginning of year	**$ 22,300**	$ 12,775
Share-based compensation charged to operations	**13,260**	12,535
Exercise of share options	**(3,200)**	(3,010)
Balance, end of year	**$ 32,360**	$ 22,300

24.2 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 following is an analysis of the investment revaluation reserve:

	Year ended December 31,	
	2010	**2009**
Balance, beginning of year	**$ -**	$ -
Gain arising on revaluation of available-for-sale financial assets (Note 14)	**31,727**	-
Income tax relating to gain arising on revaluation of available-for-sale financial assets	**(3,966)**	-
Balance, end of year	**$ 27,761**	$ -

25. ACCUMULATED DEFICIT AND DIVIDENDS

The Company has incurred losses since inception and at December 31, 2010, the Company has accumulated a deficit of $442,791 (2009: $321,511).

No dividends have been paid or declared by the Company since inception.

26. CAPITAL RISK MANAGEMENT

The Company's 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, 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, 2010, the Company's capital structure consists of convertible debt (Note 20) and the equity of the Company (Note 22). The Company is not subject to any externally imposed capital requirements. In order to maximize ongoing development efforts, the Company does not pay dividends.

In the year ended December 31, 2010, there were no significant changes in the processes used by the Company's or in the Company's objectives and policies for managing its capital. As at December 31, 2010, the Company's available capital resources, consisting of cash and cash equivalents, short-term money market investments and long-term money market investments, total $554,740. As at December 31, 2010, the Company's total liabilities are $282,976. The Company believes that sufficient capital resources are available to support further expansion and development of its mining assets.

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

27. FINANCIAL INSTRUMENTS

Details of the significant accounting policies and methods adopted by the Company for each class of financial asset, financial liability and equity instrument are disclosed in Note 3 of the financial statements.

27.1 Categories of financial instruments

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

	As at December 31,	
	2010	**2009**
Financial assets		
Loans-and-receivables		
Cash and cash equivalents	**$ 492,038**	$ 357,342
Trade and other receivables	**30,246**	12,328
Other receivables	**238**	225
Available-for-sale		
Investment in Aspire (Note 14)	**52,008**	-
Fair value through profit and loss (FVTPL)		
Investment in Kangaroo (Note 14)	**10,235**	9,876
Money market investments (Note 14)	**62,702**	62,193
Total financial assets	**$ 647,467**	$ 441,964
Financial liabilities		
Fair value through profit and loss (FVTPL)		
Convertible debenture - embedded derivatives	**$ 154,877**	$ 358,272
Other-financial-liabilities		
Trade and other payables	**24,137**	12,669
Amounts due under line of credit facilities	**-**	3,009
Convertible debenture - debt host	**96,933**	188,791
Total financial liabilities	**$ 275,947**	$ 562,741

27. FINANCIAL INSTRUMENTS (Continued)

27.2 Fair value

The fair value of financial assets and financial liabilities at amortized cost is determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions. The Company considers that the carrying amount of all its financial assets and financial liabilities recognized at amortized cost in the financial statements 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 were 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 20) were determined using a Monte Carlo simulation. None of the fair value change on the embedded derivatives for the year ended December 31, 2010 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, 2010, the Company does not have any Level 3 financial instruments.

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

27. FINANCIAL INSTRUMENTS (Continued)

27.2 Fair value (continued)

	Level 1		Level 2		Total	
Financial assets at fair value						
Investment in Aspire	$	52,008	$	-	$	52,008
Investment in Kangaroo		10,235		-		10,235
Money market investments		62,702		-		62,702
Total financial assets at fair value	$	124,945	$	-	$	124,945
Financial liabilities at fair value						
Convertible debenture - embedded derivatives	$	-	$	154,877	$	154,877
Total financial liabilities at fair value	$	-	$	154,877	$	154,877

There were no transfers between Level 1 and 2 in the year ended December 31, 2010.

27.3 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 manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

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

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

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

27. FINANCIAL INSTRUMENTS (Continued)

27.3 Financial risk management objectives and policies (continued)

The carrying amounts of the Company's foreign currency denominated monetary assets are as follows:

	As at December 31, 2010	2009
Assets		
Canadian Dollars (Cdn$)	**$ 1,182**	$ (136)
Hong Kong Dollars (HK$)	**3,666**	262
Australian Dollars (A$)	**639**	-
Mongolian Tugriks (MNT)	**147**	53
	$ 5,634	$ 179

Foreign currency sensitivity analysis

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

	As at December 31, 2010	2009
Decrease in		
Loss for the year	**$ 282**	$ 9

<u>Interest rate risk</u>

The Company is exposed to interest rate risk on the variable rate of interest earned on some of its short and long term money market investments. The fair value interest rate risk on cash and cash equivalents is insignificant as the deposits are either short-term or pay interest at rates of 1.0% or less.

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

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

27. FINANCIAL INSTRUMENTS (Continued)

27.3 Financial risk management objectives and policies (continued)

Interest rate sensitivity analysis

The following table details the Company's sensitivity to a 50 basis points increase or decrease in the interest rate earned on the Company's money market investments with floating rates of return. 50 basis points represents management's assessment of the reasonable possible change in earned interest rates. The sensitivity analysis assumes the financial instruments outstanding at the end of each reporting period were outstanding throughout the whole year. A positive number indicates an increase in the loss for the year where the interest rate has decreased, while the opposite number will result if the interest rate increased.

	As at December 31,	
	2010	**2009**
Decrease in		
Loss for the year	**$ 87**	$ 87

Credit risk

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

The credit risk on trade receivables is managed through an internal process whereby any potential customer is investigated before a sales contract is signed. Risk is further mitigated as the payment terms for all customers range from 10 days to 14 days, which allows the Company to actively monitor the amounts owed by customers and identify any credit risks in a timely manner and reduce the risk of a credit related loss. In addition, the Company reviews the recoverable amount of its receivables at the end of each reporting period to ensure that adequate impairment losses are made for unrecoverable amounts. In this regard, the Company considers that the credit risk associated with trade receivables is significantly reduced.

27. FINANCIAL INSTRUMENTS (Continued)

27.3 Financial risk management objectives and policies (continued)

The VAT/GST receivable includes amounts that have been accumulated to date in various subsidiaries. At December 31, 2010, 99% of the VAT/GST receivable was due from the Mongolian Government Taxation Authority. As per Mongolia tax laws, a tax payer may offset future taxes and royalties payable to the Government against VAT amounts receivable from the Government.

The Company had previously reported that in July 2009, the Mongolia Tax Laws were amended to preclude producers and exporters of unfinished mineral products from claiming back VAT, however the Mongolian Government had not defined what products would qualify as finished mineral products. Effective November 10, 2010, the Mongolian Government defined the list of finished mineral products and the Company's current coal products do not qualify as finished mineral products. Therefore, as of November 10, 2010, the Company no longer qualifies to receive any VAT refunds, the application of this law is prospective and any amounts accumulated until November 9, 2010 are still refundable. Any amounts paid for VAT from November 10, 2010 onwards have either been expensed directly through profit or loss or capitalized as part of the related asset. Verification by the Mongolian Government Taxation Authority of the collectability of the funds is conducted on an annual basis and any outstanding VAT receivable amounts at December 31, 2010 will be available to the Company to offset future taxes and royalties or will be refunded by the Mongolian Government Taxation Authority.

With the completion of the Company's previously announced coal handling facility the Company is confident its coal products will qualify for VAT and from that point forward the Company will once again be eligible to reclaim any paid VAT amounts. The coal handling facility is scheduled to be commissioned by the end of 2011.

The credit risk on cash equivalents is limited because the cash equivalents and short and long term money market investments are composed of money market investments issued by banks and other institutions with high credit ratings as assigned by international credit-rating agencies.

The Company is not exposed to significant credit risk and overall the Company's credit risk has not changed significantly during the year ended December 31, 2010.

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

27. FINANCIAL INSTRUMENTS (Continued)

27.3 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. In the management of liquidity risk, the Company maintains a balance between continuity of funding and the flexibility through the use of borrowings. Management closely monitors the liquidity position and expects to have adequate sources of funding to finance the Company's projects and operations. The directors of the Company are of the opinion that, taking into account the Company cash reserves and external financial resources, the Company has sufficient working capital for its present obligations, that is for at least the next twelve months commencing from December 31, 2010.

The following table details the Company's current and expected remaining contractual maturities for its financial liabilities with agreed repayment periods. The table is based on 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, 2010				
Trade and other payables	**$ 24,137**	**$ -**	**$ -**	**$ 24,137**
Convertible debenture - cash interest (Note 20)	**8,000**	**8,000**	**48,000**	**64,000**
	$ 32,137	**$ 8,000**	**$ 48,000**	**$ 88,137**
As at December 31, 2009				
Trade and other payables	$ 12,669	$ -	$ -	$ 12,669
Amounts due under line of credit facilities	170	3,206	-	3,376
Convertible debenture - cash interest (Note 20)	-	21,874	64,000	85,874
	$ 12,839	$ 25,080	$ 64,000	$ 101,919

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

27. FINANCIAL INSTRUMENTS (Continued)

27.3 Financial risk management objectives and policies (continued)

Commodity price risk

Profitability of the Company depends on the coal prices it is able to realize. 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 a significant decrease in the price of 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.

28. RELATED PARTY TRANSACTIONS

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

Name	Country of incorporation	% equity interest As at December 31, 2010	2009
Asia Gold International Holding Company Ltd.	British Virgin Islands	100%	100%
SouthGobi Resources (Hong Kong) Ltd.	Hong Kong	100%	100%
Dayarbulag LLC	Mongolia	100%	100%
SouthGobi Sands LLC	Mongolia	100%	100%
Transbaikal Gold	Russia	100%	100%
SGQ Coal Investment Pte. Ltd.	Singapore	100%	100%
SGQ Dayarcoal Mongolia Pte. Ltd.	Singapore	100%	100%

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

28. RELATED PARTY TRANSACTIONS (Continued)

For the year ended December 31, 2010, the Company had related party transactions with the following Companies related by way of directors or shareholders in common:

- Ivanhoe Mines Ltd. ("Ivanhoe Mines") – Ivanhoe Mines is the Company parent company and at December 31, 2010 owned approximately 57% of the outstanding common shares of the Company. Ivanhoe Mines provides various administrative services to the Company on a cost-recovery basis. The Company also provides some office services to Ivanhoe Mines in the Company's Hong Kong office and recovers the costs for those services on a cost-recovery basis.
- Global Mining Management ("GMM") – GMM is a private Company owned equally by seven companies, two of which include the Company and Ivanhoe Mines. GMM provides administration, accounting and other office services to the Company on a cost-recovery basis.
- Ivanhoe Capital Aviation LLC ("Ivanhoe Aviation") – Ivanhoe Aviation is a private company 100% owned by Ivanhoe's Executive Chairman. Ivanhoe Aviation operates aircraft which are rented by the Company on a cost-recovery basis.
- I2MS.NET Pte. Ltd. ("I2MS") – I2MS is a private company 100% owned by Ivanhoe Mines. 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 with two directors in common with the Company. The Company provides some office services to Ivanhoe Energy in the Company's Hong Kong office and recovers the costs for those services on a cost-recovery basis.

28.1 Related party expenses

The Company's related party expenses are broken down as follows:

	Year ended December 31,	
	2010	**2009**
Corporate administration	**$ 3,832**	$ 1,176
Salaries and benefits	**2,120**	1,321
Interest	**-**	1,642
Total related party expenses	**$ 5,952**	$ 4,139

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

28. RELATED PARTY TRANSACTIONS (Continued)

28.1 Related party expenses (continued)

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

	Year ended December 31, 2010	Year ended December 31, 2009
GMM	**$ 2,840**	$ 1,844
Ivanhoe Mines	**252**	1,787
Ivanhoe Aviation	**1,725**	-
I2MS	**1,135**	508
Total related party expenses	**$ 5,952**	$ 4,139

28.2 Related party expense recoveries

The Company's expenses recovered from related parties are broken down as follows:

	Year ended December 31, 2010	Year ended December 31, 2009
Corporate administration	**$ 233**	$ -

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

	Year ended December 31, 2010	Year ended December 31, 2009
Ivanhoe Mines	**$ 156**	$ -
Ivanhoe Energy	**77**	-
Total related party expense recoveries	**$ 233**	$ -

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

28. RELATED PARTY TRANSACTIONS (Continued)

28.3 Related party assets

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

	As at December 31, 2010	2009
Amounts due from GMM	$ 238	$ 225
Amounts due from Ivanhoe Mines	156	-
Amounts due from Ivanhoe Energy	38	-
Total assets due from related parties	$ 432	$ 225

28.4 Related party liabilities

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

	As at December 31, 2010	2009
Amounts payable to GMM	$ 549	$ 240
Accounts payable to Ivanhoe Mines	1	158
Accounts payable to I2MS	367	211
Total liabilities due to related parties	$ 917	$ 609

29. KEY MANAGEMENT PERSONNEL COMPENSATION

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

	Year ended December 31, 2010	2009
Short-term benefits	$ 2,336	$ 1,820
Share-based payments	4,517	5,425
Total renumeration	$ 6,853	$ 7,245

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

30. SUPPLEMENTAL CASH FLOW INFORMATION

30.1 Non-cash financing and investing activities

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

	Year ended December 31, 2010	2009
Conversion of convertible debenture	**$ 347,643**	$ -
Interest settlement on convertible debenture	**1,436**	-
Transfer of share option reserve upon exercise of options	**3,200**	3,010
Acquisition of shares of Kangaroo	**-**	8,776
Total non-cash financing and investing activities	**$ 352,279**	$ 11,786

30.2 Cash payments for interest and taxes

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

	Year ended December 31, 2010	2009
Interest paid	**$ 21,926**	$ 1,642
Taxes paid (i)	**-**	-
Total cash payments	**$ 21,926**	$ 1,642

(i) As per Mongolian tax laws the Company offsets current taxes payable against VAT amounts receivable

31. COMMITMENTS FOR EXPENDITURE

As at December 31, 2010, the Company had the following commitments that have not been disclosed elsewhere in the Consolidated Financial Statements:

	As at December 31, 2010			
	Within 1 year	2-3 years	Over 3 years	Total
Capital expenditure commitments	**$ 126,694**	**$ 18,000**	**$ -**	**$ 144,694**
Minimum rental and lease payments	**2,066**	**2,696**	**-**	**4,762**
Commitments	**$ 128,760**	**$ 20,696**	**$ -**	**$ 149,456**

32. CONTINGENCIES

Due to the size, complexity and nature of the Company's operations, various legal and tax matters arise in the ordinary course of business. The Company accrues for such items when a liability is both probable and the amount can be reasonably estimated. In the opinion of management, these matters will not have a material effect on the Consolidated Financial Statements of the Company.

33. APPROVAL OF THE FINANCIAL STATEMENTS

The Consolidated Financial Statements of SouthGobi Resources Ltd. for the year ended December 31, 2010 were approved and authorized for issue by the Board of Directors on March 30, 2011.

(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. LOSS FOR THE YEAR

Loss for the year has been arrived at after charging the following items:

	Year ended December 31,			
	2010		2009	
Auditor's remuneration	**$**	**279**	$	198
Loss on disposal of property, plant and equipment		**3,770**		245
Depreciation				
Depreciation included in administration expenses		**118**		19
Depreciation included in exploration expenses		**47**		23
Depreciation included in cost of sales		**13,054**		5,814
Total depreciation	**$**	**13,219**	$	5,856
Staff costs				
Directors' emoluments - executive directors (Note A2)	**$**	**1,798**	$	703
Directors' emoluments - non-executive directors (Note A2)		**2,439**		2,640
Other staff costs		**11,288**		10,660
Retirement benefit costs excluding directors		**23**		20
Staff costs in administration expenses		**15,548**		14,023
Staff costs included in exploration expenses		**1,051**		198
Total staff costs	**$**	**16,599**	$	14,221

(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 are broken down as follows:

	Year ended December 31, 2010	Year ended December 31, 2009
Directors' fees	$ 377	$ 330
Other emoluments for executive and non-executive directors		
Salaries and other benefits	900	372
Stock-based compensation	2,950	2,633
Retirement benefit contribution	10	8
Directors' emoluments	**$ 4,237**	$ 3,343

Details of the directors' emoluments are as follows:

Year ended December 31, 2010

Name of director	Directors' fees	Salaries and other benefits	Stock-based compensation	Retirement benefit contribution	Total
Executive directors					
Alexander Molyneux	$ -	$ 802	$ 994	$ 2	$ 1,798
Non-executive directors					
Peter Meredith	$ -	$ 98	$ 659	$ -	$ 757
John Macken	-	-	296	-	296
Pierre Lebel	104	-	139	2	245
André Deepwell	86	-	139	2	227
R. Edward Flood	34	-	139	1	174
R. Stuart (Tookie) Angus	65	-	139	2	206
Robert Hanson	57	-	139	-	196
Gordon Lancaster	31	-	306	1	338
	$ 377	$ 98	$ 1,956	$ 8	$ 2,439
Total	$ 377	$ 900	$ 2,950	$ 10	$ 4,237

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

A2. DIRECTOR AND EMPLOYEE EMOLUMENTS (Continued)

Year ended December 31, 2009

Name of director	Directors' fees	Salaries and other benefits	Stock-based compensation	Retirement benefit contribution	Total
Executive directors					
Alexander Molyneux [i]	$ -	$ 181	$ 522	$ -	$ 703
Non-executive directors					
Peter Meredith	$ -	$ 191	$ 661	$ -	$ 852
John Macken	-	-	332	-	332
Pierre Lebel	104	-	229	2	335
André Deepwell	77	-	225	2	304
R. Edward Flood	29	-	228	1	258
R. Stuart (Tookie) Angus	61	-	218	2	281
Robert Hanson	59	-	218	1	278
	$ 330	$ 191	$ 2,111	$ 8	$ 2,640
	$ 330	$ 372	$ 2,633	$ 8	$ 3,343

(i) Alexander Molyneux was appointed as a director and the CEO of the Company on October 11, 2009

Five highest paid individuals

The five highest paid individuals included one director of the Company for the year ended December 31, 2010 and two directors for the year ended December 31, 2009. The emoluments of the remaining four and three highest paid individuals for the years ended December 31, 2009 and 2008, respectively are as follows:

	Year ended December 31, 2010	Year ended December 31, 2009
Salaries and other benefits	**$ 1,511**	$ 695
Retirement benefit contribution	**2**	2
Stock-based compensation	**2,813**	1,738
Total emoluments	**$ 4,326**	$ 2,435

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

A2. DIRECTOR AND EMPLOYEE EMOLUMENTS (Continued)

Their emoluments were within the following bands:

	Year ended December 31, 2010	2009
HK$ 5,000,001 to HK$ 5,500,000	**-**	1
HK$ 6,000,001 to HK$ 6,500,000	**1**	1
HK$ 7,500,001 to HK$ 8,000,000	**-**	1
HK$ 8,500,001 to HK$ 9,000,000	**1**	-
HK$ 9,000,001 to HK$ 9,500,000	**2**	-
	4	3

During the years ended December 31, 2010 and 2009, no emoluments were paid by the Company to the directors or the five highest paid individuals as an inducement to join or upon joining the Company or as compensation for loss of office. None of the directors of the Company has waived any emoluments during the years ended December 31, 2010 and 2009.

A3. FIVE YEAR SUMMARY

Below is a five year summary of the Company's results, assets and liabilities:

	Year ended December 31, 2010	2009	2008	2007	2006
Revenue	**$ 79,777**	$ 36,038	$ 3,126	$ -	$ -
Income from mine operations	**2,289**	6,613	949	-	-
Net loss and comprehensive loss attributable to equity holders of the Company	**$ (88,434)**	$ (110,805)	$ (69,576)	$ (96,736)	$ (21,729)
Basic and diluted loss per share from continuing and discontinued operations	**(0.66)**	(0.83)	(0.54)	(1.89)	(1.31)

	As at December 31, 2010	2009	2008	2007	2006
Total assets	**$ 961,866**	$ 560,684	$ 99,948	$ 5,610	$ 2,315
Less: Total liabilities	**(282,976)**	(563,476)	(10,984)	(107,441)	(6,287)
Total net (liabilities)/assets	**$ 678,890**	$ (2,792)	$ 88,964	$ (101,831)	$ (3,972)

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

A4. SHARE REPURCHASE

During the year ended December 31, 2010, the Company repurchased its own shares through 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
August 2010	**49**	**10.51**	**10.29**	**$**	**509**
September 2010	**203**	**10.46**	**9.44**		**2,011**
October 2010	**9**	**10.03**	**10.03**		**85**
November 2010	**227**	**11.69**	**10.60**		**2,540**
December 2010	**423**	**13.86**	**11.67**		**5,212**
	911			**$**	**10,357**

As at December 31, 2010, the Company had cancelled 792 of the 911 shares repurchased and the remaining 119 common shares were cancelled in January 2011. None of the Company's subsidiaries repurchased, sold or redeemed any of the Company's shares during the year.