SouthGobi Resources Ltd.
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
September 30, 2013
(Unaudited)
(Expressed in U.S. Dollars)

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SOUTHGOBI RESOURCES LTD.

Condensed Consolidated Interim Statements of Comprehensive Income

(Unaudited)

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

	Notes	Three months ended September 30, 2013	Three months ended September 30, 2012 (Restated - Note 2)	Nine months ended September 30, 2013	Nine months ended September 30, 2012 (Restated - Note 2)
Revenue		**$ 15,652**	$ 3,804	**$ 26,179**	$ 76,875
Cost of sales	5	**(33,486)**	(31,454)	**(72,268)**	(95,178)
Gross loss		**(17,834)**	(27,650)	**(46,089)**	(18,303)
Other operating expenses	6	**(1,003)**	(18,315)	**(16,358)**	(22,362)
Administration expenses	7	**(4,204)**	(5,178)	**(11,958)**	(18,556)
Evaluation and exploration expenses	8	**(186)**	(958)	**(680)**	(8,090)
Loss from operations		**(23,227)**	(52,101)	**(75,085)**	(67,311)
Finance costs	9	**(5,382)**	(5,164)	**(15,991)**	(9,846)
Finance income	9	**124**	12,947	**4,259**	39,236
Share of earnings/(loss) of joint venture	12	**(66)**	288	**(39)**	492
Loss before tax		**(28,551)**	(44,030)	**(86,856)**	(37,429)
Current income tax recovery/(expense)		**-**	859	**(1)**	(268)
Deferred income tax expense		**(13,377)**	(3,242)	**(11,876)**	(3,241)
Net loss attributable to equity holders of the Company		**(41,928)**	(46,413)	**(98,733)**	(40,938)
OTHER COMPREHENSIVE LOSS					
Items that may be reclassified to profit or loss:					
Gain/(loss) on available-for-sale financial asset, net of tax	12	**1,261**	8,950	**1,261**	(16,559)
Net comprehensive loss attributable to equity holders of the Company		**$ (40,667)**	$ (37,463)	**$ (97,472)**	$ (57,497)
BASIC LOSS PER SHARE	10	**$ (0.23)**	$ (0.26)	**$ (0.54)**	$ (0.23)
DILUTED LOSS PER SHARE	10	**$ (0.23)**	$ (0.26)	**$ (0.54)**	$ (0.35)

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

SOUTHGOBI RESOURCES LTD.

Condensed Consolidated Interim Statements of Financial Position

(Unaudited)

(Expressed in thousands of U.S. Dollars)

	Notes	As at September 30, 2013	December 31, 2012	January 1, 2012
ASSETS			(Restated - Note 2)	
Current assets				
Cash		**$ 16,070**	$ 19,674	$ 123,567
Trade and other receivables	11	**7,683**	3,292	16,234
Short term investments	12	**-**	15,000	-
Inventories	13	**48,540**	59,735	104,861
Prepaid expenses and deposits		**32,194**	47,432	44,760
Total current assets		**104,487**	145,133	289,422
Non-current assets				
Prepaid expenses and deposits		**16,778**	16,778	8,389
Property, plant and equipment	14	**485,676**	521,473	498,533
Long term investments	12	**27,203**	24,084	99,238
Deferred income tax assets		**13,107**	24,984	23,098
Total non-current assets		**542,764**	587,319	629,258
Total assets		**$ 647,251**	$ 732,452	$ 918,680
EQUITY AND LIABILITIES				
Current liabilities				
Trade and other payables	15	**$ 18,938**	$ 10,216	$ 43,552
Deferred revenue		**8,395**	8,181	17,653
Current portion of convertible debenture	16	**9,326**	6,301	6,301
Total current liabilities		**36,659**	24,698	67,506
Non-current liabilities				
Convertible debenture	16	**95,548**	99,667	139,085
Deferred income tax liabilities		**-**	-	2,366
Decommissioning liability		**4,284**	4,104	4,156
Total non-current liabilities		**99,832**	103,771	145,607
Total liabilities		**136,491**	128,469	213,113
Equity				
Common shares		**1,063,821**	1,059,710	1,054,298
Share option reserve		**51,441**	51,303	44,143
Investment revaluation reserve		**1,261**	-	16,559
Accumulated deficit	17	**(605,763)**	(507,030)	(409,433)
Total equity		**510,760**	603,983	705,567
Total equity and liabilities		**$ 647,251**	$ 732,452	$ 918,680
Net current assets		**$ 67,828**	$ 120,435	$ 221,916
Total assets less current liabilities		**$ 610,592**	$ 707,754	$ 851,174

Commitments for expenditure (Note 22) and contingencies (Note 23)

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

APPROVED BY THE BOARD:

"Andre Deepwell"
Director

"Pierre Lebel"
Director

SOUTHGOBI RESOURCES LTD.

Condensed Consolidated Interim Statements of Changes in Equity

(Unaudited)

(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, 2012 (Restated - Note 2)	181,320	$ 1,054,298	$ 44,143	$ 16,559	$ (409,433)	$ 705,567
Shares issued for:						
Interest settlement on convertible debenture	522	4,000	-	-	-	4,000
Exercise of stock options, net of redemptions	163	1,882	(1,368)	-	-	514
Employee share purchase plan	49	324	-	-	-	324
Share-based compensation charged to operations	-	-	9,671	-	-	9,671
Common shares repurchased and cancelled	(148)	(860)	-	-	(95)	(955)
Common share repurchase costs	-	(5)	-	-	-	(5)
Net loss for the period	-	-	-	-	(40,938)	(40,938)
Reclassification of loss on available-for-sale financial asset	-	-	-	(16,559)	-	(16,559)
Balances, September 30, 2012 (Restated - Note 2)	181,906	$ 1,059,639	$ 52,446	$ -	$ (450,466)	$ 661,619
Balances, January 1, 2013 (Restated - Note 2)	**181,928**	**$1,059,710**	**$ 51,303**	**$ -**	**$ (507,030)**	**$ 603,983**
Shares issued for:						
Interest settlement on convertible debenture	**1,847**	**4,000**	**-**	**-**	**-**	**4,000**
Employee share purchase plan	**56**	**111**	**-**	**-**	**-**	**111**
Share-based compensation charged to operations	**-**	**-**	**138**	**-**	**-**	**138**
Net loss for the period	**-**	**-**	**-**	**-**	**(98,733)**	**(98,733)**
Other comprehensive income for the period	**-**	**-**	**-**	**1,261**	**-**	**1,261**
Balances, September 30, 2013	**183,831**	**$1,063,821**	**$ 51,441**	**$ 1,261**	**$ (605,763)**	**$ 510,760**

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

SOUTHGOBI RESOURCES LTD.

Condensed Consolidated Interim Statements of Cash Flows

(Unaudited)

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

	Notes	Nine months ended September 30, 2013	2012 (Restated - Note 2)
OPERATING ACTIVITIES			
Loss before tax		**$ (86,856)**	$ (37,429)
Adjustments for:			
Depreciation and depletion		**25,127**	33,707
Share-based compensation	18	**138**	9,671
Finance costs	9	**15,991**	9,846
Finance income	9	**(4,259)**	(39,236)
Share of earnings of joint venture	12	**39**	(492)
Interest paid		**(8,119)**	(8,203)
Income taxes paid		**-**	(2,349)
Loss on disposal of property, plant and equipment		**952**	-
Unrealized foreign exchange gain/(loss)		**633**	(533)
Impairment loss on available-for-sale financial asset	12	**3,067**	16,109
Impairment of inventories	13	**22,727**	7,221
Impairment of property, plant and equipment	14	**4,299**	2,288
Other adjustments		**13**	344
Operating cash flows before changes in non-cash working capital items		**(26,247)**	(9,056)
Net change in non-cash working capital items	21	**22,972**	4,934
Cash used in operating activities		**(3,275)**	(4,122)
INVESTING ACTIVITIES			
Expenditures on property, plant and equipment		**(10,855)**	(94,342)
Proceeds from disposal of property, plant and equipment		**991**	-
Interest received		**86**	327
Proceeds from maturity or disposal of short and long term investments		**15,446**	16,500
Investment in joint venture		**(6,086)**	(8,450)
Cash used in investing activities		**(418)**	(85,965)
FINANCING ACTIVITIES			
Proceeds from issuance of common shares and exercise of stock options, net of issue costs		**111**	838
Repurchase of common shares, including transaction costs		**-**	(960)
Drawings under line of credit facility		**-**	24,527
Repayments of line of credit facility		**-**	(24,527)
Cash generated from/(used in) financing activities		**111**	(122)
Effect of foreign exchange rate changes on cash		**(22)**	186
Decrease in cash		**(3,604)**	(90,023)
Cash, beginning of period		**19,674**	123,567
Cash, end of period		**$ 16,070**	$ 33,544

Supplemental cash flow information (Note 21)

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

1. CORPORATE INFORMATION AND LIQUIDITY

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

The Company's immediate parent company is Turquoise Hill Resources Ltd. ("Turquoise Hill") and at September 30, 2013, Turquoise Hill owned approximately 57% of the outstanding common shares of the Company (Note 20). Turquoise Hill is controlled by Rio Tinto plc ("Rio Tinto").

The head office, principal address and registered and records office of the Company is located at 354 – 200 Granville Street, Vancouver, British Columbia, Canada, V6C 1S4.

The Company curtailed its mining activities at the Ovoot Tolgoi Mine during the three months ended June 30, 2012 to varying degrees to manage coal inventories and to maintain efficient working capital levels. As at June 30, 2012, mining activities had been fully curtailed. The Company's mining activities remained fully curtailed until March 22, 2013, when the Company recommenced mining activities at the Ovoot Tolgoi Mine.

The Company had cash of $16,070 and working capital of $67,828 at September 30, 2013. These consolidated interim financial statements have been prepared on a going concern basis which assumes that the Company will continue operating for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due.

The Company has in place a planning, budgeting and forecasting process to help determine the funds required to support the Company's normal operations on an ongoing basis and its expansionary plans. The Company expects to have sufficient liquidity and capital resources to meet its ongoing obligations and future contractual commitments, including interest payments due on the CIC convertible debenture, for at least twelve months from the end of the September 30, 2013 reporting period. The Company expects its liquidity to remain sufficient based on existing capital resources and estimated cash flows from mining operations.

Estimated cash flows from mining operations are subject to a number of external market factors including supply and demand and pricing in the coal industry. The Company continues to minimize uncommitted capital expenditures and exploration expenditures in order to preserve the Company's financial resources.

1. CORPORATE INFORMATION AND LIQUIDITY (Continued)

While the Company expects to file the consolidated financial statements referred to in Note 2 as soon as possible, any delay in filing, could ultimately result in an event of default of the Company's convertible debenture held by the China Investment Corporation ("CIC"), which if not cured within applicable cure periods in accordance with the terms of such debenture, may result in the principal amount owing and all accrued and unpaid interest becoming immediately due and payable upon notice to the Company by CIC.

2. RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

The Company has determined that a restatement is required to its consolidated financial statements for 2011 and 2012, and consequently to its comparative consolidated interim financial statements for the three and nine months ended September 30, 2012. The Company has determined that certain revenue transactions were previously recognized in the Company's consolidated financial statements prior to meeting relevant revenue recognition criteria. The restatement is due to a change in the determination of when revenue should be recognized from its sales of coal previously recognized in the fourth quarter of 2010, full year 2011 and in the first half of 2012. These transactions relate to coal that had been delivered to the customer's stockpile in a stockyard located within the Ovoot Tolgoi mining license area ("the Stockyard"), the location at which title transferred, but from which the coal had not been collected by the customers. The restatement of the Company's consolidated financial statements reflects a correction in the point of revenue recognition from: (A) the delivery of coal to the customer stockpiles within the Stockyard to (B) the loading of coal onto the customer's trucks at the time of collection.

The impact on opening accumulated deficit at January 1, 2012 reflects the cumulative impact on net loss attributable to equity holders of the Company for the years ended 2010 and 2011 of $10,613 arising from the reversal of $67,658 of revenue, $52,418 of associated costs of sales, $1,090 of other operating expenses and $3,537 of income taxes expenses.

The following tables reflect the correction in the point of revenue recognition on the affected line items in the comparative financial statements presented in these consolidated interim financial statements.

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

2. RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS (Continued)

2.1 Effect on consolidated interim statements of comprehensive income

	Three months ended September 30, 2012			Nine months ended September 30, 2012		
	As previously reported	Adjustment	Restated	As previously reported	Adjustment	Restated
Revenue	$ 3,337	$ 467	$ 3,804	$ 51,902	$ 24,973	$ 76,875
Cost of sales	(30,869)	(585)	(31,454)	(70,569)	(24,609)	(95,178)
Gross profit/(loss)	(27,532)	(118)	(27,650)	(18,667)	364	(18,303)
Other operating expenses	(29,301)	10,986	(18,315)	(35,682)	13,320	(22,362)
Administration expenses	(5,178)	-	(5,178)	(18,557)	-	(18,557)
Evaluation and exploration expenses	(958)	-	(958)	(8,090)	-	(8,090)
Loss from operations	(62,969)	10,868	(52,101)	(80,996)	13,684	(67,312)
Finance costs	(5,164)	-	(5,164)	(9,846)	-	(9,846)
Finance income	12,947	-	12,947	39,236	-	39,236
Share of earnings/(loss) of joint venture	288	-	288	492	-	492
Income/ (loss) before tax	(54,898)	10,868	(44,030)	(51,113)	13,684	(37,429)
Current income tax expense	859	-	859	(268)	-	(268)
Deferred income tax recovery/(expense)	(525)	(2,717)	(3,242)	180	(3,421)	(3,241)
Net income/(loss) attributable to equity holders of the Company	(54,564)	8,151	(46,413)	(51,201)	- 10,263	(40,938)
Other comprehensive income/(loss)	8,950	-	8,950	(16,559)	-	(16,559)
Net comprehensive income/(loss) attributable to equity holders of the Company	$ (45,614)	$ 8,151	$ (37,463)	$ (67,760)	$ 10,263	$ (57,497)
Basic income/(loss) per share	$ (0.30)	$ 0.04	$ (0.26)	$ (0.28)	$ 0.05	$ (0.23)
Diluted income/(loss) per share	$ (0.30)	$ 0.04	$ (0.26)	$ (0.40)	$ 0.05	$ (0.35)

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

2. RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS (Continued)

2.2 Effect on consolidated interim statements of financial position

	As at December 31, 2012			As at January 1, 2012		
	As previously reported	Adjustment	Restated	As previously reported	Adjustment	Restated
ASSETS						
Current assets						
Cash	$ 19,674	$ -	$ 19,674	$ 123,567	$ -	$ 123,567
Trade and other receivables	17,430	(14,138)	3,292	80,285	(64,051)	16,234
Short term investments	15,000	-	15,000	-	-	-
Inventories	53,661	6,074	59,735	52,443	52,418	104,861
Prepaid expenses and deposits	37,982	9,450	47,432	38,308	6,452	44,760
Total current assets	143,747	1,386	145,133	294,603	(5,181)	289,422
Non-current assets						
Prepaid expenses and deposits	16,778	-	16,778	8,389	-	8,389
Property, plant and equipment	521,473	-	521,473	498,533	-	498,533
Long term investments	24,084	-	24,084	99,238	-	99,238
Deferred income tax assets	23,285	1,699	24,984	19,560	3,538	23,098
Total non-current assets	585,620	1,699	587,319	625,720	3,538	629,258
Total assets	$ 729,367	$ 3,085	$ 732,452	$ 920,323	$ (1,643)	$ 918,680
EQUITY AND LIABILITIES						
Current liabilities						
Trade and other payables	$ 10,216	$ -	$ 10,216	$ 52,235	$ (8,683)	$ 43,552
Deferred revenue	-	8,181	8,181	-	17,653	17,653
Current portion of long term debt	6,301	-	6,301	6,301	-	6,301
Total current liabilities	16,517	8,181	24,698	58,536	8,970	67,506
Non-current liabilities						
Convertible debenture	99,667	-	99,667	139,085	-	139,085
Deferred income tax liabilities	-	-	-	2,366	-	2,366
Decommissioning liability	4,104	-	4,104	4,156	-	4,156
Total non-current liabilities	103,771	-	103,771	145,607	-	145,607
Total liabilities	120,288	8,181	128,469	204,143	8,970	213,113
Equity						
Common shares	1,059,710	-	1,059,710	1,054,298	-	1,054,298
Share option reserve	51,303	-	51,303	44,143	-	44,143
Investment revaluation reserve	-	-	-	16,559	-	16,559
Accumulated deficit	(501,934)	(5,096)	(507,030)	(398,820)	(10,613)	(409,433)
Total equity	609,079	(5,096)	603,983	716,180	(10,613)	705,567
Total equity and liabilities	$ 729,367	$ 3,085	$ 732,452	$ 920,323	$ (1,643)	$ 918,680
Net current assets	$ 127,230	$ (6,795)	$ 120,435	$ 236,067	$ (14,151)	$ 221,916
Total assets less current liabilities	$ 712,850	$ (5,096)	$ 707,754	$ 861,787	$ (10,613)	$ 851,174

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

2. RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS (Continued)

2.3 Effect on consolidated interim statements of changes in equity

	Nine months ended September 30, 2012		
	As previously reported	Adjustment	Restated
Accumulated deficit			
Beginning balance	$ (398,820)	(10,613)	$ (409,433)
Net loss for the period	(51,201)	10,263	(40,938)
Closing balance	$ (450,116)	(350)	$ (450,466)
Total equity			
Beginning balance	$ 716,180	(10,613)	$ 705,567
Net loss for the period	(51,201)	10,263	(40,938)
Closing balance	$ 661,969	(350)	$ 661,619

2.4 Effect on consolidated interim statements of cash flows

	Nine months ended September 30, 2012		
	As previously reported	Correction	Restated
Loss before tax	$ (51,113)	$ 13,684	$ (37,429)
Operating cash flows before changes in non-cash working capital items	(15,755)	6,699	(9,056)
Net change in non-cash working capital items	11,633	(6,699)	4,934

3. BASIS OF PREPARATION

3.1 Statement of compliance

These consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) using accounting policies in full compliance with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations of the IFRS Interpretations Committee (“IFRIC”).

The consolidated interim financial statements of the Company for the nine months ended September 30, 2013 and the nine months ended September 30, 2012 (Restated – Note 2) were approved and authorized for issue by the Board of Directors of the Company on November 14, 2013.

3. BASIS OF PREPARATION (Continued)

3.2 Adoption of new and revised standards and interpretations

The Company has adopted the new and revised standards and interpretations issued by the IASB listed below effective January 1, 2013. These changes were made in accordance with the transitional provisions outlined in the respective standards and interpretations.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces IAS 27 "Consolidated and Separate Financial Statements" and SIC 12 "Consolidation – Special Purpose Entities". IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls multiple entities. The new consolidation standard changes the definition of control so that the same criteria apply to all entities, both operating and special purpose entities, to determine control. The revised definition focuses on the need to have both power over the investee and exposure to variable returns before control is present. The adoption of IFRS 10 did not result in any change in the consolidation status of any of the Company's subsidiaries and investees.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 "Interests in Joint Ventures". IFRS 11 classifies joint arrangements as either joint operations or joint ventures, depending on the rights and obligations of the parties involved in the joint arrangement. Joint arrangements that are classified as joint operations require the venturers to recognize the individual assets, liabilities, revenues and expenses to which they have legal rights or are responsible. Joint arrangements that are classified as a joint venture are accounted for using the equity method of accounting.

As a result of the adoption of IFRS 11, the Company's 40% interest in RDCC LLC is now classified as a joint venture (previously classified as a jointly-controlled entity under IAS 31). Prior to the adoption of IFRS 11, the Company accounted for its investment in RDCC LLC under the equity method of accounting. Therefore, the adoption of IFRS 11 did not have an impact on the consolidated financial statements for the current or prior periods presented.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 outlines the disclosure requirements for interests in subsidiaries and other entities. The adoption of IFRS 12 will result in incremental disclosures in the Company's consolidated annual financial statements.

3. BASIS OF PREPARATION (Continued)

3.2 Adoption of new and revised standards and interpretations (Continued)

IFRS 13 Fair Value Measurement

IFRS 13 provides a definition of fair value, sets out a single IFRS framework for measuring fair value and outlines disclosure requirements for fair value measurements. The adoption of IFRS 13 has resulted in additional fair value measurement disclosures in these consolidated interim financial statements (refer to Note 19) and will result in incremental disclosures in the Company's annual consolidated financial statements.

IAS 1 Presentation of Financial Statements (Amendment)

The amendments to IAS 1 requires companies preparing financial statements under IFRS to group items within other comprehensive income that may be reclassified to profit or loss and those that will not be reclassified. The consolidated statement of comprehensive income in these consolidated interim financial statements has been amended to reflect the presentation requirements under the amended IAS 1.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

IFRIC 20 provides guidance on the accounting for the costs of stripping activities during the production phase of a surface mine. Under IFRIC 20, stripping activity assets are recognized when the following three criteria are met:

- it is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;
- the entity can identify the component of the ore body for which access has been improved; and
- the costs relating to the stripping activity associated with that component can be measured reliably

If not all of the criteria are met, the stripping activity costs are included in the costs of inventory produced during the period incurred.

The Company assessed its open-pit mining operations at the Ovoot Tolgoi Mine and concluded that as at January 1, 2012 there are identifiable coal seams with which the predecessor stripping activity related to. Therefore, no adjustment to the consolidated financial statements was required upon initial transition to IFRIC 20.

3. BASIS OF PREPARATION (Continued)

3.2 Adoption of new and revised standards and interpretations (Continued)

The adoption of IFRIC 20 has not resulted in a change in the Company's capitalization of stripping activity costs, and therefore no adjustment was required to the Company's consolidated financial statements in the current or prior periods presented. The Company classifies stripping activity assets capitalized under IFRIC 20 as mineral property costs within property, plant and equipment and these costs are amortized on a units-of-production basis based on proven and probable reserves.

Other

The IASB also amended IAS 19 "Post-Employment Benefits" and IAS 28 "Investments in Associates" (2003) effective January 1, 2013. The amendments to these standards did not impact the Company's consolidated financial statements.

The IASB has suspended the originally planned effective date of January 1, 2015 for IFRS 9 "Financial Instruments". The IASB issued IFRS 9 as the first step in its project to replace IAS 39 "Financial Instruments: Recognition and Measurement". The Company will commence assessing the impact of this new standard upon the announcement of its new effective date.

3.3 Summary of significant accounting policies

Basis of consolidation

The consolidated financial statements include the financial statements of SouthGobi Resources Ltd. and its subsidiaries.

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

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Company's equity therein. Total comprehensive income of the Company's subsidiaries is attributed to the equity holders of the Company and to the non-controlling interests even if this results in the non-controlling interest having a deficit balance. The Company did not have any non-controlling interests in the net assets of consolidated subsidiaries during the periods presented in these consolidated financial statements.

3. BASIS OF PREPARATION (Continued)

3.3 Summary of significant accounting policies (Continued)

Business combinations

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

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

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

Foreign currencies

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

3. BASIS OF PREPARATION (Continued)

3.3 Summary of significant accounting policies (Continued)

Borrowing costs

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

Inventories

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

Materials and supplies inventory consists of consumable parts and supplies which are valued at the lower of weighted average cost and net realizable value. Supplies used in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost.

Property, plant and equipment ("PPE")

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

Initial recognition

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

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

3. BASIS OF PREPARATION (Continued)

3.3 Summary of significant accounting policies (Continued)

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

<u>Depreciation and depletion</u>

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

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

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

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

Mineral properties

<u>Evaluation and exploration expenses</u>

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

3. BASIS OF PREPARATION (Continued)

3.3 Summary of significant accounting policies (Continued)

Commencement of commercial production

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

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

Development and production stripping costs

Refer to Note 3.2 regarding the adoption of IFRIC 20 effective January 1, 2013.

Decommissioning, restoration and similar liabilities

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

Joint Arrangements

Refer to Note 3.2 regarding the adoption of IFRS 11 effective January 1, 2013.

3. BASIS OF PREPARATION (Continued)

3.3 Summary of significant accounting policies (Continued)

Share-based payments

Share-based payment transactions

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

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

Equity-settled transactions

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

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

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

Earnings per share

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

3. BASIS OF PREPARATION (Continued)

3.3 Summary of significant accounting policies (Continued)

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

Taxation

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

Current income tax

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

Deferred income tax

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

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

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

3. BASIS OF PREPARATION (Continued)

3.3 Summary of significant accounting policies (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, associates and joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in profit or loss.

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

3. BASIS OF PREPARATION (Continued)

3.3 Summary of significant accounting policies (Continued)

Financial assets

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

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

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

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

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

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.

3. BASIS OF PREPARATION (Continued)

3.3 Summary of significant accounting policies (Continued)

Financial liabilities classified as FVTPL include financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives, are also classified as FVTPL unless they are designated as effective hedging instruments. Transaction costs on financial liabilities classified as FVTPL are expensed as incurred. At the end of each reporting period subsequent to initial recognition, financial liabilities classified as FVTPL are measured at fair value, with changes in fair value recognized directly in profit or loss in the period in which they arise. The net gain or loss recognized in profit or loss excludes any interest paid on the financial liabilities.

Impairment of financial assets

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

Assets carried at amortized cost

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in profit or loss.

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

Available-for-sale

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

3. BASIS OF PREPARATION (Continued)

3.3 Summary of significant accounting policies (Continued)

Derecognition of financial assets and financial liabilities

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

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

Impairment of non-financial assets

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing fair value less costs to sell, recent market transactions are taken into account. The Company also considers the results of an appropriate valuation model which would generally be determined based on the present value of estimated future cash flows arising from the continued use and eventual disposal of the asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

3. BASIS OF PREPARATION (Continued)

3.3 Summary of significant accounting policies (Continued)

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

Cash and cash equivalents

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

Revenue recognition

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

Revenue from the sale of coal is recognized when the significant risks and rewards of ownership and effective control of the coal is transferred to the buyer and the selling prices are known or can be reasonably estimated. Revenue recognition occurs when the coal is loaded into customer trucks at mine-gate.

Revenue is presented net of royalties and selling fees.

Provisions

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

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

3. BASIS OF PREPARATION (Continued)

3.3 Summary of significant accounting policies (Continued)

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.

Significant accounting judgments and estimates

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

Liquidity and going concern assumption

In the determination of the Company's ability to meet its ongoing obligations and future contractual commitments for at least twelve months from the end of the September 30, 2013 reporting period, management relies on the Company's planning, budgeting and forecasting process to help determine the funds required to support the Company's normal operations on an ongoing basis and its expansionary plans. The key inputs used by the Company in this process include forecasted capital deployment, results from operations, results from the exploration and development of its properties and general industry conditions.

Changes in these inputs may alter the Company's ability to meet its ongoing obligations and future contractual commitments and could result in adjustments to the amounts and classifications of assets and liabilities should the Company be unable to continue as a going concern (refer to Note 1).

3. BASIS OF PREPARATION (Continued)

3.3 Summary of significant accounting policies (Continued)

Valuation of embedded derivatives

The embedded derivatives in the Company's convertible debenture are valued using a Monte Carlo simulation valuation model. A Monte Carlo simulation model is a valuation model that relies on random sampling and is often used when modeling systems with a large number of inputs and where there is significant uncertainty in the future value of inputs and where the movement of the inputs can be independent of each other. The key inputs used by the Company in its Monte Carlo simulation are further disclosed in Note 16.2. Changes in the inputs to the valuation model could impact the carrying value of the embedded derivatives in the convertible debenture and the amount of unrealized gains or losses recognized in profit or loss. The carrying value of the embedded derivatives in the Company's convertible debenture as at September 30, 2013 was a liability of $4,672 (2012: $8,876).

Review of carrying value of assets and impairment charges

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

The Company determined that an indicator of impairment existed for its Ovoot Tolgoi Mine cash generating unit as at September 30, 2013. The impairment indicator was the continued weakness in the Company's share price during the three months ended September 30, 2013 and the fact that the market capitalization of the Company, as at September 30, 2013, was less than the carrying value of its net assets.

Therefore, the Company conducted an impairment test whereby the carrying value of the Company's Ovoot Tolgoi Mine cash generating unit was compared to its "value-in-use" using a discounted future cash flow valuation model as at September 30, 2013. The Company's Ovoot Tolgoi Mine cash generating unit carrying value was $517,502 as at September 30, 2013.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Significant accounting judgments and estimates (Continued)

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

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

The impairment analysis did not result in the identification of an impairment loss and no charge was required as at September 30, 2013. The Company believes that the estimates and assumptions incorporated in the impairment analysis are reasonable; however, the estimates and assumptions are subject to significant uncertainties and judgments.

Estimated recoverable reserves

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

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

Useful lives and depreciation rates for property, plant and equipment

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Significant accounting judgments and estimates (Continued)

Income taxes and recoverability of deferred tax assets

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

Judgment is required in determining whether deferred tax assets are recognized on the statement of financial position. Deferred tax assets, including those arising from unutilized tax losses, require management of the Company to assess the likelihood that the Company will generate sufficient taxable profit in future periods in order to utilize recognized deferred tax assets. Estimates of future taxable profit are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable profit differ from estimates, the ability of the Company to realize the deferred tax assets recorded on the statement of financial position could be impacted. The carrying value of the Company's deferred income tax assets as at September 30, 2013 was $13,107 (2012: $24,984 (Restated – Note 2)).

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

4. SEGMENTED INFORMATION

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

During the nine months ended September 30, 2013, the Mongolian Coal Division had 7 active customers with the largest customer accounting for 56% of revenues, the second largest customer accounting for 30% of revenue and the other customers accounting for the remaining 14% of revenue. The carrying amounts of the Company's assets, liabilities, reported income or loss and revenues analyzed by operating segment are as follows:

	Mongolian Coal Division	Unallocated (ii)	Consolidated Total
Segment assets			
As at September 30, 2013	**$ 622,413**	**$ 24,838**	**$ 647,251**
As at December 31, 2012 (i)	676,981	55,471	732,452
Segment liabilities			
As at September 30, 2013	**$ 23,547**	**$ 112,945**	**$ 136,492**
As at December 31, 2012 (i)	19,496	108,973	128,469
Segment loss			
For the three months ended September 30, 2013	**$ (33,859)**	**$ (8,069)**	**$ (41,928)**
For the three months ended September 30, 2012 (i)	(30,722)	(15,691)	(46,413)
For the nine months ended September 30, 2013	**$ (75,823)**	**$ (22,909)**	**$ (98,733)**
For the nine months ended September 30, 2012 (i)	(35,718)	(5,220)	(40,938)
Segment revenues			
For the three months ended September 30, 2013	**$ 15,652**	**$ -**	**$ 15,652**
For the three months ended September 30, 2012 (i)	3,804	-	3,804
For the nine months ended September 30, 2013	**$ 26,179**	**$ -**	**$ 26,179**
For the nine months ended September 30, 2012 (i)	76,875	-	76,875
Impairment charge on assets (iii)			
For the three months ended September 30, 2013	**$ 10,827**	**$ -**	**$ 10,827**
For the three months ended September 30, 2012 (i)	9,509	16,109	25,618
For the nine months ended September 30, 2013	**$ 27,028**	**$ 3,067**	**$ 30,095**
For the nine months ended September 30, 2012 (i)	9,383	16,109	25,492

(i) Restated, refer to Note 2.
(ii) The unallocated amount contains all amounts associated with the Corporate Division.
(iii) The impairment charge on assets for the three and nine months ended September 30, 2013 and 2012 relates to trade and other receivables (Note 11), investments (Note 12), inventories (Note 13) and property, plant and equipment (Note 14).

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

4. SEGMENTED INFORMATION (Continued)

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

	Mongolia	Hong Kong	Canada	Consolidated Total
Revenues				
For the three months ended September 30, 2013	**$ 15,652**	**$ -**	**$ -**	**$ 15,652**
For the three months ended September 30, 2012 [i]	3,804	-	-	3,804
For the nine months ended September 30, 2013	**$ 26,179**	**$ -**	**$ -**	**$ 26,179**
For the nine months ended September 30, 2012 [i]	76,875	-	-	76,875
Non-current assets				
As at September 30, 2013	**$ 525,034**	**$ 69**	**$ 17,661**	**$ 542,764**
As at December 31, 2012 [i]	566,629	100	20,590	587,319

(i) Restated, refer to Note 2.

5. COST OF SALES

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

	Three months ended September 30, 2013	Three months ended September 30, 2012 (i)	Nine months ended September 30, 2013	Nine months ended September 30, 2012 (i)
Operating expenses	**$ 10,926**	$ 4,274	**$ 20,207**	$ 39,472
Share-based compensation expense (Note 18)	**(167)**	-	**(320)**	1,205
Depreciation and depletion	**7,389**	1,027	**9,904**	12,763
Impairment of coal stockpile inventories (Note 13)	**10,826**	7,221	**15,797**	7,221
Cost of sales from mine operations	**28,975**	12,523	**45,589**	60,661
Cost of sales related to idled mine assets [ii]	**4,511**	18,931	**26,679**	34,517
Cost of sales	**$ 33,486**	$ 31,454	**$ 72,268**	$ 95,178

(i) Restated, refer to Note 2.

(ii) Cost of sales related to idled mine assets for the three months ended September 30, 2013 includes $4,460 of depreciation expense and $nil share-based compensation expense. Cost of sales related to idled mine assets for the nine months ended September 30, 2013 includes $21,332 of depreciation expense and $nil share-based compensation expense. Cost of sales during idled mine period for the three months ended September 30, 2012 includes $12,506 of depreciation expense and $835 of share-based compensation. Cost of sales related to idled mine assets for the nine months ended September 30, 2012 includes $21,290 of depreciation expense and $1,799 of share-based compensation expense.

The 2012 idled mine asset depreciation expense relates to the Company's idled plant and equipment during the full curtailment of its mining activities at the Ovoot Tolgoi Mine during the three months ended June 30, 2012. The 2013 idled mine asset depreciation expense relates to the Company's idled plant and equipment as the 2013 production plan does not fully utilize the Company's existing mining fleet.

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

6. OTHER OPERATING EXPENSES

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

	Three months ended September 30,		Nine months ended September 30,	
	2013	**2012 (i)**	**2013**	**2012 (i)**
Public infrastructure	**$ -**	$ 37	**$ 6**	$ 1,222
Sustainability and community relations	**37**	$ 249	**118**	681
Foreign exchange (gain)/loss	**637**	(111)	**1,028**	2,098
Loss on disposal of property, plant and equipment	**329**	-	**895**	-
Impairment loss on available-for-sale financial asset (Note 12)	**-**	16,109	**3,067**	16,109
Impairment of materials and supplies inventories (Note 13)	**-**	-	**6,930**	-
Impairment of property, plant and equipment (Note 14)	**-**	2,288	**4,299**	2,288
Other	**-**	(257)	**15**	(36)
Other operating expenses	**$ 1,003**	$ 18,315	**$ 16,358**	$ 22,362

(i) Restated, refer to Note 2.

7. ADMINISTRATION EXPENSES

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

	Three months ended September 30,		Nine months ended September 30,	
	2013	**2012**	**2013**	**2012**
Corporate administration	**$ 857**	$ 988	**$ 2,980**	$ 4,021
Legal and professional fees	**2,338**	2,531	**5,968**	4,211
Salaries and benefits	**807**	1,072	**2,414**	3,929
Share-based compensation expense (Note 18)	**167**	534	**440**	6,232
Depreciation	**35**	53	**156**	163
Administration expenses	**$ 4,204**	$ 5,178	**$ 11,958**	$ 18,556

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

8. EVALUATION AND EXPLORATION EXPENSES

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

	Three months ended September 30,		Nine months ended September 30,	
	2013	**2012**	**2013**	**2012**
Drilling and trenching	**$ -**	$ 190	**$ -**	$ 3,660
Other direct expenses	**11**	49	**40**	636
License fees	**158**	191	**503**	596
Share-based compensation expense (Note 18)	**5**	121	**18**	435
Overhead and other	**12**	407	**119**	2,763
Evaluation and exploration expenses	**$ 186**	$ 958	**$ 680**	$ 8,090

9. FINANCE COSTS AND INCOME

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

	Three months ended, September 30,		Nine months ended, September 30,	
	2013	**2012**	**2013**	**2012**
Interest expense on convertible debenture	**$ 5,186**	3,859	**$ 15,217**	5,676
Interest expense on line of credit facility	**-**	79	**11**	266
Unrealized loss on FVTPL investments	**128**	1,197	**596**	3,818
Realized loss on disposal of FVTPL investments (Note 12)	**38**	-	**82**	-
Accretion of decommissioning liability	**30**	29	**85**	86
Finance costs	**$ 5,382**	$ 5,164	**$ 15,991**	$ 9,846

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

	Three months ended, September 30,		Nine months ended, September 30,	
	2013	**2012**	**2013**	**2012**
Unrealized gain on embedded derivatives in convertible debenture (Note 16)	**$ 113**	$ 12,856	**$ 4,204**	$ 38,851
Interest income	**11**	91	**55**	346
Realized gain on disposal of investments	**-**	-	**-**	39
Finance income	**$ 124**	$ 12,947	**$ 4,259**	$ 39,236

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

10. LOSS PER SHARE

	Three months ended September 30,		Nine months ended September 30,	
	2013	**2012 (i)**	**2013**	**2012 (i)**
Net loss	**$ (41,928)**	$ (46,413)	**$ (98,733)**	$ (40,938)
Weighted average number of shares	**182,204**	181,904	**182,038**	181,836
Basic loss per share	**$ (0.23)**	$ (0.26)	**$ (0.54)**	$ (0.23)
Loss				
Net loss	**$ (41,928)**	$ (46,413)	**$ (98,733)**	$ (40,938)
Interest expense on convertible debenture	**-**	3,859	**-**	5,676
Unrealized gain on embedded derivatives in convertible debenture	**-**	(12,856)	**-**	(38,851)
Diluted net loss	**$ (41,928)**	$ (55,410)	**$ (98,733)**	$ (74,113)
Number of shares				
Weighted average number of shares	**182,204**	181,904	**182,038**	181,836
Convertible debenture (ii)	**-**	28,690	**-**	28,406
Diluted weighted average number of shares	**182,204**	210,594	**182,038**	210,242
Diluted loss per share	**$ (0.23)**	$ (0.26)	**$ (0.54)**	$ (0.35)

(i) Restated, refer to Note 2.
(ii) The convertible debenture was anti-dilutive for the three and nine months ended September 30, 2013.

The diluted loss per share reflects the potential dilution of common share equivalents, such as the convertible debenture and outstanding stock options, in the weighted average number of common shares outstanding during the period, if dilutive.

Potentially dilutive items not included in the calculation of diluted loss per share for the three and nine months ended September 30, 2013 were 3,056 stock options that were anti-dilutive.

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

11. TRADE AND OTHER RECEIVABLES

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

	As at	
	September 30, 2013	**December 31, 2012 (i)**
Trade receivables	**$ 6,723**	$ 1,439
Other receivables	**960**	1,853
Total trade and other receivables	**$ 7,683**	$ 3,292

(i) Restated, refer to Note 2.

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

	As at	
	September 30, 2013	**December 31, 2012 (i)**
Less than 1 month	**$ 6,909**	$ 2,376
1 to 3 months	**30**	95
3 to 6 months	**14**	159
Over 6 months	**730**	662
Total trade and other receivables	**$ 7,683**	$ 3,292

(i) Restated, refer to Note 2.

Included in trade and other receivables are amounts due from related parties which are further disclosed in Note 20. The Company anticipates full recovery of its outstanding trade and other receivables; therefore, no loss provisions have been recorded in respect of the Company's trade and other receivables.

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

12. INVESTMENTS

The Company's investments consist of the following amounts:

	As at September 30, 2013	As at December 31, 2012
Short term investments at fair value		
Money market investments [(i)]	$ -	$ 15,000
Long term investments at fair value		
Investment in Kangaroo Resources Limited [(ii)]	331	1,455
Investment in Aspire Mining Limited [(iii)]	6,923	8,727
Investment in joint venture		
Investment in RDCC LLC	19,949	13,902
	27,203	24,084
Total short and long term investments	$ 27,203	$ 39,084

(i) Money market investments with original maturities greater than ninety days and maturing in less than one year.
(ii) At September 30, 2013, the Company owned 0.6% of Kangaroo Resources Limited's issued and outstanding common shares.
(iii) At September 30, 2013, the Company owned 18.8% of Aspire Mining Limited's issued and outstanding common shares.

12.1 Investment in Kangaroo Resources Limited

Kangaroo Resources Limited ("Kangaroo") is a company listed on the Australian Securities Exchange. Kangaroo's primary focus is its coal projects in Indonesia. The Company classifies its investment in Kangaroo as a FVTPL financial asset with any change in value being recognized in profit or loss. During the three months ended September 30, 2013, the Company disposed of 11,782 shares of Kangaroo for gross proceeds of $221 and realized a loss of $38. During the nine months ended September 30, 2013, the Company disposed of 19,147 shares of Kangaroo for gross proceeds of $446 and realized a loss of $82. During the nine months ended September 30, 2012, the Company disposed of 10,000 shares of Kangaroo for gross proceeds of $1,500 and realized a gain of $39.

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

12. INVESTMENTS (Continued)

12.2 Investment in Aspire Mining Limited

Aspire Mining Limited ("Aspire") is a company listed on the Australian Securities Exchange. Aspire's primary focus is its mineral exploration and mining licenses in Mongolia, particularly those pertaining to the Ovoot Coking Coal Project. The Company classifies its investment in Aspire as an available-for-sale financial asset. For the three months ended September 30, 2013, the Company recognized a gain, net of tax, of $1,261 in other comprehensive income. For the nine months ended September 30, 2013, the Company recognized an impairment loss of $3,067 in other operating expenses and a gain, net of tax, of $1,261 in other comprehensive income. For the three and nine months ended September 30, 2012, an impairment loss of $16,109 was recognized in other operating expenses.

12.3 Investment in RDCC LLC

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

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2013	**2012**	**2013**	**2012**
Balance, beginning of period	**$ 15,508**	$ 6,657	**$ 13,902**	$ 3
Funds advanced	**4,507**	2,000	**6,086**	8,450
Share of earnings of joint venture	**(66)**	288	**(39)**	492
Balance, end of period	**$ 19,949**	$ 8,945	**$ 19,949**	$ 8,945

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

12. INVESTMENTS (Continued)

For the three and nine months ended September 30, 2013, RDCC LLC recognized construction revenue of $11,346 and $12,822, respectively, with a profit margin/(loss) of $(122) and $12, respectively, related to the construction of the paved highway. For the three and nine months ended September 30, 2012, RDCC LLC recognized construction revenue of $8,514 and $15,589, respectively, with a profit margin of $774 and $1,417, respectively, related to the construction of the paved highway.

For the three and nine months ended September 30, 2013, RDCC LLC had a net loss of $165 and $98, respectively. For the three and nine months ended September 30, 2012, RDCC LLC had net earnings of $721 and $1,230, respectively.

13. INVENTORIES

The Company's inventories consist of the following amounts:

	As at	
	September 30, 2013	December 31, 2012 (i)
Coal stockpiles	$ 11,854	$ 16,048
Materials and supplies	36,686	43,687
Total inventories	$ 48,540	$ 59,735

(i) Restated, refer to Note 2.

Cost of sales for the three and nine months ended September 30, 2013 included impairment losses of $10,826 and $15,797, respectively, related to the Company's coal stockpile inventories. Cost of sales for the three and nine months ended September 30, 2012 included an impairment loss $7,221 related to the Company's coal stockpile inventories. As at September 30, 2013, the Company's coal stockpile inventories are carried at their net realizable value.

Other operating expenses for the three and nine months ended September 30, 2013 includes an impairment loss of $nil and $6,930, respectively, related to surplus materials and supplies inventories not expected to be utilized with the Company's existing mining fleet.

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

14. PROPERTY, PLANT AND EQUIPMENT

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

	Mobile equipment	Other operating equipment	Buildings and roads	Mineral properties	Construction in progress	Total
Cost						
As at December 31, 2012	$ 352,040	$ 28,044	$ 69,923	$ 116,083	$ 55,912	$ 622,001
Additions and adjustments	**2,258**	**167**	**2,129**	**12,892**	**106**	**17,552**
Disposals	**(2,965)**	**(486)**	**-**	**-**	**-**	**(3,451)**
As at September 30, 2013	**$ 351,333**	**$ 27,725**	**$ 72,052**	**$ 128,975**	**$ 56,018**	**$ 636,102**
Accumulated depreciation						
As at December 31, 2012	$ (79,400)	$ (7,359)	$ (9,299)	$ (4,470)	$ -	$ (100,528)
Charge for the period	**(29,304)**	**(3,438)**	**(4,912)**	**(9,453)**	**-**	**(47,107)**
Impairment charges	**(4,299)**	**-**	**-**	**-**	**-**	**(4,299)**
Eliminated on disposals	**1,052**	**456**	**-**	**-**	**-**	**1,508**
As at September 30, 2013	**$ (111,951)**	**$ (10,341)**	**$ (14,211)**	**$ (13,923)**	**$ -**	**$ (150,426)**
Carrying amount						
As at December 31, 2012	$ 272,640	$ 20,684	$ 60,624	$ 111,613	$ 55,912	$ 521,473
As at September 30, 2013	**$ 239,382**	**$ 17,383**	**$ 57,841**	**$ 115,052**	**$ 56,018**	**$ 485,676**

14.1 Borrowing costs

For the three and nine months ended September 30, 2013, the Company capitalized borrowing costs of $nil into construction in progress. For the three and nine months ended September 30, 2012, the Company capitalized borrowing costs of $1,192 and $9,359, respectively.

14.2 Prepayments on property, plant and equipment

As at September 30, 2013, the cost of the Company's property, plant and equipment includes $41,936 of prepayments to vendors (December 31, 2012: $81,370). The prepayments primarily relate to ordered but not yet delivered mobile equipment or mobile equipment delivered to the location of its intended use but not yet commissioned.

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

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

14.3 Impairment charges

For the three and nine months ended September 30, 2013, the Company recorded $nil and $4,299, respectively, of impairment charges to reduce various items of property, plant and equipment to their recoverable amounts. The impairments relate to surplus capital spares not expected to be utilized with the Company's existing mining fleet.

For the three and nine months ended September 30, 2012, the Company recorded $2,288 of impairment charges. The impairments consisted of a $1,162 provision on tires held for sale and $1,126 on certain construction in progress expenditures that were not expected to be recovered.

15. TRADE AND OTHER PAYABLES

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

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

	As at	
	September 30, 2013	**December 31, 2012 (i)**
Less than 1 month	**$ 16,384**	$ 8,999
1 to 3 months	**550**	176
3 to 6 months	**1,798**	-
Over 6 months	**206**	1,041
Total trade and other payables	**$ 18,938**	$ 10,216

(i) Restated, refer to Note 2.

Included in trade and other payables are amounts due to related parties which are further disclosed in Note 20.

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

16. CONVERTIBLE DEBENTURE

16.1 Debt host and embedded derivatives

On November 19, 2009, the Company issued a convertible debenture to a wholly owned subsidiary of the CIC for $500,000. The convertible debenture bears interest at 8.0% per annum (6.4% payable semi-annually in cash and 1.6% payable annually in the Company's shares) and has a maximum term of 30 years. The convertible debenture is secured by a first charge over the Company's assets, including shares of its material subsidiaries. An event of default on the convertible debenture can be triggered as a result of certain encumbrances on the Company's assets (refer to Note 23.2).

On March 29, 2010, pursuant to the debenture conversion terms, the Company exercised its conversion right and completed the conversion of $250,000 of the convertible debenture into 21,471 shares at a conversion price of $11.64 (Cdn$11.88).

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

16.2 Valuation assumptions

The assumptions used in the Company's valuation models as at September 30, 2013 and December 31, 2012 are as follows:

	As at	
	September 30, 2013	**December 31, 2012**
Floor conversion price	**Cdn$8.88**	Cdn$8.88
Ceiling conversion price	**Cdn$11.88**	Cdn$11.88
Common share price	**Cdn$1.15**	Cdn$2.05
Historical volatility	**69%**	70%
Risk free rate of return	**2.97%**	2.26%
Foreign exchange spot rate (Cdn$ to U.S. Dollar)	**0.97**	1.01
Forward foreign exchange rate curve (Cdn$ to U.S. Dollar)	**0.94 - 0.97**	0.96- 1.01

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

16. CONVERTIBLE DEBENTURE (Continued)

16.3 Presentation

Based on the Company's valuations as at September 30, 2013, the fair values of the embedded derivatives decreased by $113 and $4,204 compared to June 30, 2013 and December 31, 2012, respectively. The decreases were recorded as finance income for the three and nine months ended September 30, 2013.

For the three months ended September 30, 2013, the Company recorded interest expense of $5,186 (2012: $5,051) related to the convertible debenture of which $nil (2012: $1,192) was capitalized as borrowing costs. For the nine months ended September 30, 2013, the Company recorded interest expense of $15,217 (2012: $15,035) related to the convertible debenture of which $nil (2012: $9,359) was capitalized as borrowing costs.

The interest expense consists of the interest at the contract rate and the accretion of the debt host component of the convertible debenture. To calculate the accretion expense, the Company uses the contract life of 30 years and an effective interest rate of 22.2%.

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

	Three months ended September 30,		Nine months ended September 30,	
	2013	**2012**	**2013**	**2012**
Balance, beginning of period	**$ 107,909**	$ 117,418	**$ 105,968**	$ 145,386
Interest expense on convertible debenture	**5,186**	5,051	**15,217**	15,035
Decrease in fair value of embedded derivatives	**(113)**	(12,856)	**(4,204)**	(38,851)
Interest paid	**(8,108)**	-	**(12,108)**	(11,957)
Balance, end of period	**$ 104,874**	$ 109,613	**$ 104,874**	$ 109,613

During the three months ended June 30, 2013, the Company and the CIC mutually agreed upon a three month deferral of the convertible debenture semi-annual $7,934 cash interest payment due on May 19, 2013. The Company and the CIC subsequently agreed to an additional deferral of one month, and the cash interest payment became due on September 19, 2013.

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

16. CONVERTIBLE DEBENTURE (Continued)

16.3 Presentation (Continued)

On September 19, 2013, the Company settled the $7,934 amount, plus additional accrued interest of $173, as follows:

- the Company issued 1,846 common shares to the CIC for the November 19, 2012 1.6% share interest payment, where the number of common shares was based on the 50-day volume-weighted average share price on November 19, 2012 of $2.16Cdn;
- in consideration of the common share issue, the CIC applied the $4,000 in cash already paid by the Company in the three months ended March 31, 2013 for the November 19, 2012 share interest payment against the amount due on September 19, 2013; and
- the Company paid the remaining $4,107 balance in cash.

The mutually agreed upon deferral of the cash interest payment, and subsequent settlement in cash and common shares of the Company, did not trigger an event of default and all other terms of the convertible debenture remain unchanged.

The convertible debenture balance consists of the following amounts:

	As at	
	September 30, 2013	**December 31, 2012**
Current convertible debenture		
Interest payable	**$ 9,326**	6,301
Non-current convertible debenture		
Debt host	**90,876**	$ 90,791
Fair value of embedded derivatives	**4,672**	8,876
	95,548	99,667
Total convertible debenture	**$ 104,874**	$ 105,968

16.4 Convertible debenture share interest payment and application of Mongolian Foreign Investment Law

On May 17, 2012, the Parliament of Mongolia approved a Law on Regulation of Foreign Investment in Business Entities Operating in Sectors of Strategic Importance ("Foreign Strategic Sectors Law") that regulates foreign direct investment into a number of key sectors of strategic importance, which includes mineral resources.

16. CONVERTIBLE DEBENTURE (Continued)

16.4 Convertible debenture share interest payment and application of Mongolian Foreign Investment Law (Continued)

As a result of the Foreign Strategic Sectors Law, the Company expected it would require parliamentary approval for the shares to be issued for the November 19, 2012 share interest payment. As a result, during the three months ended March 31, 2013, the Company settled the 1.6% share interest payment of $4,000 in cash.

Following amendments to the Foreign Strategic Sectors Law, passed in the three months ended June 30, 2013, the requirement for parliamentary approval was limited to circumstances where a state owned entity is to exceed 49% share ownership of a strategic asset, irrespective of the amount of investment. As a result, the Company is only required to give notice, rather than obtaining parliamentary or other approval, under the Foreign Strategic Sectors Law for the 1.6% share interest payment to the CIC.

On October 3, 2013 Mongolia's foreign investment environment changed again when the Parliament of Mongolia passed the Foreign Investment Law to repeal and replace the Foreign Strategic Sectors Law. The Foreign Investment Law regulates, amongst other things, investment by Foreign State Owned Entities ("FSOEs") in sectors of strategic importance, which includes mineral resources, by requiring that FSOEs obtain a permit from Mongolia's Ministry of Economic Development if they are to acquire 33% or more of the shareholding of a Mongolian entity operating in a sector of strategic importance. The Company understands that it will not be required to obtain a permit from the Ministry of Economic Development in connection with the 1.6% share interest payment to CIC, unless such share interest payment will result in CIC acquiring 33% or more of the shareholding in the Company. The Company will fully comply with the requirements of the Foreign Investment Law in connection with share interest payments.

17. EQUITY

17.1 Share capital

The Company has authorized an unlimited number of common and preferred shares with no par value. At September 30, 2013, the Company had 183,831 common shares outstanding (December 31, 2012: 181,928) and no preferred shares outstanding (December 31, 2012: nil).

During the nine months ended September 30, 2012, the Company repurchased 148 common shares at an average price of Cdn$6.44 per share. The share repurchase program concluded on June 14, 2012. The Company cancelled all of the repurchased common shares.

The Company's volume weighted average share price for the nine months ended September 30, 2013 was Cdn$1.85 (2012: Cdn$5.73).

17.2 Accumulated deficit and dividends

At September 30, 2013, the Company has accumulated a deficit of $605,763 (December 31, 2012: $507,030 (Restated – Note 2)). No dividends have been paid or declared by the Company since inception.

18. SHARE-BASED PAYMENTS

18.1 Stock option plan

The Company has a stock option plan which permits the Board of Directors of the Company to grant options to acquire common shares of the Company at the volume weighted average closing price for the five days preceding the date of grant. The Company is authorized to issue stock options for a maximum of 10% of the issued and outstanding common shares pursuant to the stock option plan.

For the nine months ended September 30, 2013, the Company granted 282 stock options, (2012: 1,475) to officers, employees, directors and other eligible persons at exercise prices ranging from Cdn$1.16 to Cdn$2.10 (2012: exercise price of Cdn$6.16) and expiry dates ranging from March 27, 2018 to August 14, 2018 (2012: expiry date of March 21, 2017). The weighted average fair value of the options granted in the nine months ended September 30, 2013 was estimated at $0.60 (Cdn$0.62) (2012: $2.87, Cdn$2.85) per option at the grant date using the Black-Scholes option pricing model.

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

18. SHARE-BASED PAYMENTS (Continued)

18.1 Stock option plan (Continued)

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

	Nine months ended September 30,	
	2013	**2012**
Risk free interest rate	**1.56%**	1.62%
Expected life	**3 years**	3.5 years
Expected volatility (i)	**56%**	60%
Expected dividend per share	**$nil**	$nil

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

A share-based compensation expense of $151 for the options granted in the nine months ended September 30, 2013 (2012: $3,950) will be amortized over the vesting period, of which $31 was recognized in the nine months ended September 30, 2013 (2012: $1,276).

The total share-based compensation recognized for the three months ended September 30, 2013 was an expense of $5 (2012: $1,490 expense). Share-based compensation expense of $167 (2012: $534 expense) has been allocated to administration expenses, a recovery of $167 (2012: $835 expense) has been allocated to cost of sales and an expense of $5 (2012: $121 expense) has been allocated to evaluation and exploration expenses.

The total share-based compensation recognized for the nine months ended September 30, 2013 was an expense of $138 (2012: $9,671). Share-based compensation expense of $440 (2012: $6,232 expense) has been allocated to administration expenses, recovery of $320 (2012: $3,004 expense) has been allocated to cost of sales and an expense of $18 (2012: $435 expense) has been allocated to evaluation and exploration expenses.

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

18. SHARE-BASED PAYMENTS (Continued)

18.2 Outstanding stock options

The option transactions under the stock option plan for the nine months ended September 30, 2013 and 2012 are as follows:

	Nine months ended September 30, 2013		**Nine months ended September 30, 2012**	
	Number of options	Weighted average exercise price (Cdn$)	Number of options	Weighted average exercise price (Cdn$)
Balance, beginning of period	**7,507**	**$ 9.72**	10,768	$ 10.73
Options granted	**282**	**1.37**	1,475	6.16
Options excercised	**-**	**-**	(433)	5.81
Options forfeited	**(626)**	**7.32**	(1,214)	9.72
Options expired	**(4,107)**	**10.67**	(1,783)	10.14
Balance, end of period	**3,056**	**$ 8.16**	8,813	$ 10.46

The stock options outstanding and exercisable as at September 30, 2013 are as follows:

	Options Outstanding			**Options Exercisable**		
Exercise price (Cdn$)	Options outstanding	Weighted average exercise price (Cdn$)	Weighted average remaining contractual life (years)	Options outstanding and exercisable	Weighted average exercise price (Cdn$)	Weighted average remaining contractual life (years)
1.16 to 2.10	**730**	**$ 1.71**	**4.42**	**-**	**$ -**	**-**
5.10 to 10.21	**1,225**	**7.98**	**2.49**	**928**	**8.12**	**2.26**
11.51 to 14.25	**1,101**	**12.65**	**1.66**	**1,084**	**12.67**	**1.64**
	3,056	**$ 8.16**	**2.65**	**2,012**	**$ 10.57**	**1.93**

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

19. FAIR VALUE MEASUREMENTS

Certain of the Company's financial assets and liabilities are measured at fair value on a recurring basis. The following table provides an analysis of the Company's financial assets and liabilities 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 September 30, 2013 and December 31, 2012, the Company did not have any financial assets or liabilities measured using Level 3 inputs.

As at September 30, 2013	**Level 1**	**Level 2**	**Total**
Financial assets at fair value			
Investment in Aspire	$ 6,923	$ -	$ 6,923
Investment in Kangaroo	331	-	331
Total financial assets at fair value	**$ 7,254**	**$ -**	**$ 7,254**
Financial liabilities at fair value			
Convertible debenture - embedded derivatives (i)	$ -	$ 4,674	$ 4,674
Total financial liabilities at fair value	**$ -**	**$ 4,674**	**$ 4,674**

(i) The assumptions used in the Company's valuation models as at September 30, 2013 and December 31, 2012 are further disclosed in Note 16.2.

As at December 31, 2012	**Level 1**	**Level 2**	**Total**
Financial assets at fair value			
Investment in Aspire	$ 8,727	$ -	$ 8,727
Investment in Kangaroo	1,455	-	1,455
Money market investments	15,000	-	15,000
Total financial assets at fair value	$ 25,182	$ -	$ 25,182
Financial liabilities at fair value			
Convertible debenture - embedded derivatives	$ -	$ 8,876	$ 8,876
Total financial liabilities at fair value	$ -	$ 8,876	$ 8,876

There were no transfers between Level 1, 2 and 3 for the nine months ended September 30, 2013.

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

20. RELATED PARTY TRANSACTIONS

During the nine months ended September 30, 2013 and 2012, the Company had related party transactions with the following companies related by way of directors or shareholders in common:

- Turquoise Hill – Turquoise Hill is the Company's immediate parent company and at September 30, 2013 owned approximately 57% of the outstanding common shares of the Company. Turquoise Hill provides various administrative services to the Company on a cost-recovery basis. The Company also provided some office and investor relations services to Turquoise Hill in the Company's Hong Kong office and recovered the costs for those services on a cost-recovery basis. The Company's provision of office and investor relations services to Turquoise Hill ceased on June 30, 2012.
- Rio Tinto – Rio Tinto is the Company's ultimate parent company and at September 30, 2013 Rio Tinto controlled Turquoise Hill. The Company recovers administration and other costs incurred on behalf of Rio Tinto on a cost-recovery basis. Rio Tinto recovers from the Company the costs of salaries and benefits of employees assigned to work for the Company.
- Global Mining Management ("GMM") – GMM is a private company owned equally by seven companies, two of which include the Company and Turquoise Hill. GMM provides administration, accounting and other office services to the Company on a cost-recovery basis.
- Turquoise Hill Resources Singapore Pte. Ltd. ("Turquoise Hill Singapore") – Turquoise Hill Singapore (formerly I2MS.NET Pte. Ltd.) is a private company 100% owned by Turquoise Hill. Turquoise Hill Singapore provides information technology and other related services to the Company on a cost-recovery basis.
- Ivanhoe Energy Inc. ("Ivanhoe Energy") – Ivanhoe Energy is a publicly listed company and in 2012 had two directors in common with the Company. The Company provided some office and investor relations services to Ivanhoe Energy in the Company's Hong Kong office and recovered the costs for those services on a cost-recovery basis. The Company's provision of office and investor relations services to Ivanhoe Energy ceased on June 30, 2012.

20.1 Related party expenses

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

	Three months ended September 30,		Nine months ended September 30,	
	2013	**2012**	**2013**	**2012**
Corporate administration	**$ 214**	$ 260	**$ 595**	$ 1,107
Salaries and benefits	**685**	186	**1,167**	757
Related party expenses	**$ 899**	$ 446	**$ 1,762**	$ 1,864

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

20. RELATED PARTY TRANSACTIONS (Continued)

20.1 Related party expenses (Continued)

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

	Three months ended September 30,		Nine months ended September 30,	
	2013	**2012**	**2013**	**2012**
GMM	**$ 2**	$ 213	**$ 59**	$ 950
Turquoise Hill	**93**	-	**192**	7
Rio Tinto	**611**	-	**1,001**	-
Turquoise Hill Singapore	**193**	233	**510**	907
Related party expenses	**$ 899**	$ 446	**$ 1,762**	$ 1,864

20.2 Related party expense recoveries

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

	Three months ended September 30,		Nine months ended September 30,	
	2013	**2012**	**2013**	**2012**
Corporate administration	**$ 7**	$ 169	**$ 14**	$ 682

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

	Three months ended September 30,		Nine months ended September 30,	
	2013	**2012**	**2013**	**2012**
Turquoise Hill	**$ -**	$ 169	**$ -**	$ 605
Ivanhoe Energy	**-**	-	**-**	77
Rio Tinto	**7**	-	**14**	-
Related party expense recoveries	**$ 7**	$ 169	**$ 14**	$ 682

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

20. RELATED PARTY TRANSACTIONS (Continued)

20.3 Related party assets

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

	As at	
	September 30, 2013	**December 31, 2012**
Amounts due from GMM	**$ 63**	$ 420
Amounts due from Turquoise Hill	**-**	317
Amounts due from Turquoise Hill Singapore	**-**	2
Total assets due from related parties	**$ 63**	$ 739

20.4 Related party liabilities

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

	As at	
	September 30, 2013	**December 31, 2012**
Amounts payable to Rio Tinto	**$ 921**	$ 35
Accounts payable to Turquoise Hill Singapore	**132**	-
Accounts payable to Turquoise Hill	**29**	-
Total liabilities due to related parties	**$ 1,082**	$ 35

21. SUPPLEMENTAL CASH FLOW INFORMATION

21.1 Non-cash financing and investing activities

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

	Nine months ended September 30,	
	2013	**2012**
Convertible debenture interest settlement in shares	**$ 4,000**	$ 4,000
Tranfer of share option reserve upon exercise of stock options	**-**	1,368

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

21. SUPPLEMENTAL CASH FLOW INFORMATION (Continued)

21.2 Net change in non-cash working capital items

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

	Nine months ended September 30, 2013	Nine months ended September 30, 2012 (i)
Decrease/(increase) in trade and other receivables	**$ (4,776)**	9,885
Decrease in inventories	**5,751**	35,802
Decrease in prepaid expenses and deposits	**11,300**	10,338
Increase/(decrease) in trade and other payables	**10,483**	(41,626)
Increase/(decrease) in deferred revenue	**214**	(9,465)
Net change in non-cash working capital items	**$ 22,972**	$ 4,934

(i) Restated, refer to Note 2.

22. COMMITMENTS FOR EXPENDITURE

As at September 30, 2013, the Company's commitments for expenditure that have not been disclosed elsewhere in the consolidated interim financial statements are as follows:

	As at September 30, 2013			
	Within 1 year	**2-3 years**	**Over 3 years**	**Total**
Capital expenditure commitments	**$ 15,080**	**$ 12,469**	**$ -**	**$ 27,549**
Operating expenditure commitments [(i)]	**23,574**	**2,241**	**161**	**25,976**
Commitments	**$ 38,654**	**$ 14,710**	**$ 161**	**$ 53,525**

(i) Operating expenditure commitments include $17,883 of fees related to the Company's toll wash plant agreement with Ejinaqi Jinda Coal Industry Co. Ltd. This amount reflects the minimum expenditure due under this agreement.

23. CONTINGENCIES

23.1 Governmental, regulatory and internal investigations

The Company is subject to investigations by Mongolia's Independent Authority against Corruption ("the IAAC") and the Mongolian State Investigation Office (the "SIA") regarding allegations against the Company and some of its former employees. The IAAC investigation concerns possible breaches of Mongolia's anti-corruption laws, while the SIA investigation concerns possible breaches of Mongolia's money laundering and taxation laws.

While the IAAC investigation into allegations of possible breaches of Mongolian anti-corruption laws has been suspended, the Company has not received notice that the IAAC investigation is complete. To date, four former Company employees have been named as suspects in the IAAC investigation and are subject to a continuing travel ban imposed by the IAAC. The IAAC has not formally accused any current or former Company employees of breach of Mongolia's anti-corruption laws.

The SIA has not accused any current or former Company employees of money laundering. However, three former Company employees have been informed that they have each been designated as "accused" in connection with the allegations of tax evasion, and are subject to a travel ban. The Company has been designated as a "civil defendant" in connection with the tax evasion allegations, and it may potentially be held financially liable for the criminal misconduct of its former employees under Mongolian Law. The Company has shown full cooperation with the investigation by providing relevant information. The relevant authorities are yet to conclude on this information. Accordingly, the likelihood or consequences for the Company of a judgment against its former employees is unclear at this time. The SIA also continues to enforce administrative restrictions, which were initially imposed by the IAAC investigation, on certain of the Company's Mongolian assets, including local bank accounts, in connection with its continuing investigation of these allegations.

23. CONTINGENCIES (Continued)

23.1 Governmental, regulatory and internal investigations (Continued)

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

The Chair of the Audit Committee is also participating in a tripartite committee, comprised of the Audit Committee Chairs of the Company and Turquoise Hill and a representative of Rio Tinto, which is focused on the investigation of a number of those allegations, including possible violations of anti-corruption laws. Independent legal counsel and forensic accountants have been engaged by this committee to assist it with its investigation. The tripartite committee substantially completed the investigative phase of its activities during the three months ended September 30, 2013. The Company continues to cooperate with the IAAC, SIA and with Canadian and United States government and regulatory authorities that are monitoring the Mongolian investigations. It is possible that these authorities may subsequently conduct their own review or investigation or seek further information from the Company and until all such reviews or investigations are complete the Audit Committee's and the tripartite committee's work may be considered ongoing.

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

In the opinion of management of the Company, at September 30, 2013 a provision for this matter is not required.

23.2 Mongolian IAAC investigation

During the three months ended March 31, 2013, the IAAC informed the Company that orders, placing restrictions on certain of its Mongolian assets, had been imposed in connection with its continuing investigation.

23. CONTINGENCIES (Continued)

23.2 Mongolian IAAC investigation (Continued)

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

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