SouthGobi Resources Ltd.
Condensed Consolidated Interim Financial Statements

March 31, 2014
(Expressed in U.S. Dollars)
(Unaudited)

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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 March 31, 2014	Three months ended March 31, 2013 (Restated - Note 2)
Revenue		**$ 5,137**	$ 4,398
Cost of sales	5	**(18,366)**	(21,305)
Gross loss		**(13,229)**	(16,907)
Other operating expenses	6	**(1,073)**	(431)
Administration expenses	7	**(2,237)**	(3,733)
Evaluation and exploration expenses	8	**(172)**	(273)
Loss from operations		**(16,711)**	(21,344)
Finance costs	9	**(5,025)**	(4,996)
Finance income	9	**1,007**	775
Share of losses of joint venture	13	**(26)**	(17)
Loss before tax		**(20,755)**	(25,582)
Current income tax expense		**-**	(1)
Deferred income tax recovery		**-**	1,917
Net loss attributable to equity holders of the Company		**(20,755)**	(23,666)
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods			
Change in value of available-for-sale financial asset, net of tax		**(514)**	930
Net comprehensive loss attributable to equity holders of the Company		**$ (21,269)**	$ (22,736)
Basic loss per share	10	**$ (0.11)**	$ (0.13)
Diluted loss per share	10	**$ (0.11)**	$ (0.13)

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

SouthGobi Resources Ltd.

Condensed Consolidated Interim Statements of Financial Position

(Unaudited)
(Expressed in thousands of U.S. Dollars)

		As at	
	Notes	March 31, 2014	December 31, 2013
Assets			
Current assets			
Cash		**$ 9,915**	$ 21,837
Trade and other receivables	11	**910**	2,578
Inventories	12	**40,838**	40,288
Prepaid expenses and deposits		**10,082**	11,506
Total current assets		**61,745**	76,209
Non-current assets			
Property, plant and equipment	14	**392,447**	399,395
Long term investments	13	**28,589**	30,602
Total non-current assets		**421,036**	429,997
Total assets		**$ 482,781**	$ 506,206
Equity and liabilities			
Current liabilities			
Trade and other payables	15	**$ 24,637**	$ 31,241
Deferred revenue		**940**	997
Current portion of convertible debenture	16	**7,233**	2,301
Total current liabilities		**32,810**	34,539
Non-current liabilities			
Convertible debenture	16	**93,335**	94,302
Decommissioning liability		**2,692**	2,308
Total non-current liabilities		**96,027**	96,610
Total liabilities		**128,837**	131,149
Equity			
Common shares		**1,067,843**	1,067,839
Share option reserve		**51,350**	51,198
Investment revaluation reserve		**-**	514
Accumulated deficit	17	**(765,249)**	(744,494)
Total equity		**353,944**	375,057
Total equity and liabilities		**$ 482,781**	$ 506,206
Net current assets		**$ 28,935**	$ 41,670
Total assets less current liabilities		**$ 449,971**	$ 471,667

Corporate information and going concern (Note 1), commitments for expenditure (Note 22) and contingencies (Note 23)

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

APPROVED BY THE BOARD:

"Andre Deepwell"	***"Pierre Lebel"***
Director	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, 2013	181,928	$ 1,059,710	$ 51,303	$ -	$ (507,030)	$ 603,983
Shares issued for:						
Employee share purchase plan	19	41	-	-	-	41
Share-based compensation charged to operations	-	-	154	-	-	154
Net loss for the period	-	-	-	-	(23,666)	(23,666)
Change in value of available-for-sale financial asset, net of tax	-	-	-	930	-	930
Balances, March 31, 2013 (Restated - Note 2)	181,947	$ 1,059,751	$ 51,457	$ 930	$ (530,696)	$ 581,442
Balances, January 1, 2014	**187,309**	**1,067,839**	**51,198**	**514**	**(744,494)**	**$ 375,057**
Shares issued for:						
Employee share purchase plan	**4**	**4**	**-**	**-**	**-**	**4**
Share-based compensation charged to operations	**-**	**-**	**152**	**-**	**-**	**152**
Net loss for the period	**-**	**-**	**-**	**-**	**(20,755)**	**(20,755)**
Change in value of available-for-sale financial asset, net of tax	**-**	**-**	**-**	**(514)**	**-**	**(514)**
Balances, March 31, 2014	**187,313**	**$ 1,067,843**	**$ 51,350**	**$ -**	**$ (765,249)**	**$ 353,944**

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

SouthGobi Resources Ltd.

Condensed Consolidated Interim Statements of Cash Flows

(Unaudited)
(Expressed in thousands of U.S. Dollars)

	Notes	Three months ended March 31, 2014	Three months ended March 31, 2013 (Restated - Note 2)
Operating activities			
Loss before tax		**$ (20,755)**	(25,582)
Adjustments for:			
Depreciation and depletion		**5,505**	11,792
Share-based compensation	18	**152**	154
Finance costs	9	**5,025**	4,996
Finance income	9	**(1,007)**	(775)
Share of losses of joint venture	13	**26**	17
Interest paid		**-**	(4,011)
Unrealized foreign exchange gain		**(780)**	(38)
Loss on disposal of property, plant and equipment		**-**	57
Impairment loss on available-for-sale financial asset	13	**1,766**	-
Impairment of inventories	12	**7,281**	1,121
Other adjustments		**-**	16
Operating cash flows before changes in non-cash working capital items		**(2,787)**	(12,253)
Net change in non-cash working capital items	21	**(5,819)**	3,987
Cash used in operating activities		**(8,606)**	(8,266)
Investing activities			
Expenditures on property, plant and equipment		**(3,243)**	(436)
Proceeds from disposal of property, plant and equipment		**-**	9
Interest received		**3**	25
Proceeds from maturity or disposal of short and long term investments		**5**	15,000
Investment in joint venture		**-**	(1,415)
Cash generated from/(used in) investing activities		**(3,235)**	13,183
Financing activities			
Proceeds from issuance of common shares		**4**	41
Cash generated from financing activities		**4**	41
Effect of foreign exchange rate changes on cash		**(85)**	181
Increase/(decrease) in cash		**(11,922)**	5,139
Cash, beginning of period		**21,837**	19,674
Cash, end of period		**$ 9,915**	$ 24,813

Supplemental cash flow information (Note 21)

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

1. CORPORATE INFORMATION AND GOING CONCERN

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's immediate parent company is Turquoise Hill Resources Ltd. ("Turquoise Hill") and at March 31, 2014, Turquoise Hill owned approximately 56% of the outstanding common shares of the Company (Note 20). Turquoise Hill is controlled by Rio Tinto plc ("Rio Tinto").

The Company owns the following significant coal projects in Mongolia: the Ovoot Tolgoi open pit producing coal mine ("Ovoot Tolgoi Mine") and the following significant development projects, the Soumber Deposit, the Zag Suuj Deposit and the Ovoot Tolgoi Underground Deposit. These projects are located in the Umnugobi Aimag (South Gobi Province) of Mongolia, within 150 kilometers of each other and in close proximity to the Mongolia-China border. The Company owns a 100% interest in these coal projects.

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.

<u>Going concern assumption</u>

Several adverse conditions and material uncertainties cast significant doubt upon the going concern assumption. The Company had cash of $9,915 and working capital of $28,935 at March 31, 2014. However, the Company anticipates that coal prices in China will remain under pressure in 2014, which will continue to impact the Company's margins and liquidity. The Company is in discussions with various parties regarding a potential loan; however, there is no guarantee that an agreement will be reached. As of the date hereof, the Company expects to be able to secure such funding in order to pay the interest due under the CIC convertible debenture on May 19, 2014. If it does not do so, or if it fails to secure additional capital or otherwise restructure or refinance its business in order to address its cash requirements through March 31, 2015, then the Company is unlikely to have sufficient capital resources or cash flows from mining operations in order to satisfy its ongoing obligations and future contractual commitments, including cash interest payments due on the China Investment Corporation ("CIC") convertible debenture. As a result, the Company may not be able to continue as a going concern. Therefore, the Company is actively seeking additional sources of financing to continue operating and meet its objectives.

1. CORPORATE INFORMATION AND GOING CONCERN (CONTINUED)

The Company's consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue operating until at least March 31, 2015 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due; however, in order to continue as a going concern, the Company must generate sufficient operating cash flows, secure additional capital or otherwise pursue a strategic restructuring, refinancing or other transaction to provide it with additional liquidity. If the Company fails to generate sufficient operating cash flows, secure additional capital or otherwise restructure or refinance its business in order to pay the interest due under the CIC convertible debenture on May 19, 2014, or if it fails to generate sufficient operating cash flows, secure additional capital or otherwise restructure or refinance its business in order to address its cash requirements through March 31, 2015, it will not have adequate liquidity to fund its operations and meet its obligations (including its debt payment obligations), it may not be able to continue as a going concern. If for any reason, the Company is unable to secure the additional sources of financing and continue as a going concern, then this could result in adjustments to the amounts and classifications of assets and liabilities in the Company's consolidated financial statements and such adjustments could be material.

While the Company intends to secure additional sources of financing as soon as possible, a continued delay in securing additional financing could ultimately result in an event of default of the $250,000 CIC convertible debenture, 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 comparative interim condensed consolidated financial statements and notes thereto for the three months ended March 31, 2013 have been restated to reflect a correction in the point of revenue recognition subsequent to the original issuance of the financial statements for that period, as more fully described below.

During 2013, the Company determined that certain revenue transactions were previously recognized in the Company's consolidated financial statements prior to meeting relevant revenue recognition criteria. These transactions related 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.

As a result, on December 12, 2013, the Company issued restated consolidated annual financial statements as of and for the years ended December 31, 2012 and 2011 and the statement of financial position as at January 1, 2011.

The following tables reflect the correction in the point of revenue recognition on the affected line items in the previously issued interim condensed consolidated financial statements for the three months ended March 31, 2013:

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

2. RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS (CONTINUED)

Effect on consolidated statement of comprehensive income

	Three months ended March 31, 2013		
	As previously reported	Adjustment	Restated
Revenue	$ 3,259	$ 1,139	$ 4,398
Cost of sales	(21,860)	555	(21,305)
Gross loss	(18,601)	1,694	(16,907)
Other operating expenses	(383)	(48)	(431)
Administration expenses	(3,733)	-	(3,733)
Evaluation and exploration expenses	(273)	-	(273)
Loss from operations	(22,990)	1,646	(21,344)
Finance costs	(4,996)	-	(4,996)
Finance income	775	-	775
Share of loss of joint venture	(17)	-	(17)
Loss before tax	(27,228)	1,646	(25,582)
Current income tax expense	(1)	-	(1)
Deferred income tax recovery	2,328	(411)	1,917
Net loss attributable to equity holders of the Company	(24,901)	1,235	(23,666)
Other comprehensive income	930	-	930
Net comprehensive loss attributable to equity holders of the Company	(23,971)	1,235	(22,736)
Basic loss per share	$ (0.14)	$ 0.01	$ (0.13)
Diluted loss per share	$ (0.14)	$ 0.01	$ (0.13)

Effect on consolidated statement of changes in equity

	Three months ended March 31, 2013		
	As previously reported	Adjustment	Restated
Accumulated deficit			
Beginning balance	$ (501,934)	$ (5,096)	$ (507,030)
Net loss for the period	(24,901)	1,235	(23,666)
Closing balance	(526,835)	(3,861)	(530,696)
Total equity			
Beginning balance	$ 609,079	$ (5,096)	$ 603,983
Net loss for the period	(24,901)	1,235	(23,666)
Closing balance	585,303	(3,861)	581,442

The impact on opening accumulated deficit at January 1, 2013 reflects the cumulative impact on net loss attributable to equity holders of the Company for the years ended December 31, 2010, 2011 and 2012 of $5,096.

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

2. RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS (CONTINUED)

Effect on consolidated statement of cash flows

	Three months ended March 31, 2013		
	As previously reported	Adjustment	Restated
Loss before tax	$ (27,228)	$ 1,646	$ (25,582)
Operating cash flows before changes in non-cash working capital items	(13,350)	1,097	(12,253)
Net change in non-cash working capital items	5,084	(1,097)	3,987

3. BASIS OF PREPARATION

3.1 Statement of compliance

These condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” using accounting policies in 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 condensed consolidated interim financial statements of the Company for the three months ended March 31, 2014 were approved and authorized for issue by the Board of Directors of the Company on May 12, 2014.

3.2 Basis of presentation

These condensed consolidated interim financial statements have been prepared using accounting policies and methods of computation consistent with those applied in the Company’s December 31, 2013 consolidated annual financial statements, except for those accounting policies which have changed as a result of the adoption of new and revised standards and interpretations as described below. These condensed consolidated interim financial statements do not include all the information and note disclosures required by IFRS for annual financial statements and therefore should be read in conjunction with the Company’s annual consolidated financial statements for the year ended December 31, 2013.

The Company’s reporting currency and the functional currency of all of its operations is the U.S. Dollar as this is the principal currency of the economic environment in which the Company operates.

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

3. BASIS OF PREPARATION (CONTINUED)

3.3 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, 2014. The adoption of these standards did not have a material impact on the financial statements of the Company.

IFRS 10, IFRS 12 and IAS 27 (2011) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (2011) – Investment Entities
IAS 32 Amendments	Amendments to IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
IAS 39 Amendments	Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting
IFRIC 21	Levies

3.4 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 Company's consolidated financial statements are included in Note 3.22 to the Company's December 31, 2013 consolidated annual financial statements. Except for the significant accounting judgments and estimates disclosed below, the significant accounting judgments and estimates remain unchanged from December 31, 2013.

Liquidity and going concern assumption

In the determination of the Company's ability to meet its ongoing obligations and future contractual commitments, 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.

Several adverse conditions and material uncertainties cast significant doubt upon the going concern assumption. In order to continue as a going concern, the Company must generate sufficient operating cash flows, secure additional capital or otherwise pursue a strategic restructuring, refinancing or other transaction to provide it with additional liquidity. If the Company fails to generate sufficient operating cash flows, secure additional capital or otherwise restructure or refinance its business in order to pay the interest due under the CIC convertible debenture on May 19, 2014, or if it fails to generate sufficient operating cash flows, secure additional capital or otherwise restructure or refinance its business in order to address its cash requirements through March 31, 2015, it will not have adequate liquidity to fund its operations and meet its obligations (including its debt payment obligations), it may not be able to continue as a going concern (refer to Note 1).

If for any reason, the Company is unable to continue as a going concern, then this could result in adjustments to the amounts and classifications of assets and liabilities in the Company's consolidated financial statements and such adjustments could be material.

3. BASIS OF PREPARATION (CONTINUED)

Review of carrying value of assets and impairment charges

In the determination of carrying values and impairment charges, management of the Company reviews the 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.

Ovoot Tolgoi Mine cash generating unit

The Company determined that an indicator of impairment existed for its Ovoot Tolgoi Mine cash generating unit as at March 31, 2014. The impairment indicator was the continued weakness in the Company's share price during the three months ended March 31, 2014 and the fact that the market capitalization of the Company, as at March 31, 2014, 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. The Company's Ovoot Tolgoi Mine cash generating unit carrying value was $414,620 as at March 31, 2014.

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

- Long term real selling price of $109 per tonne for semi-soft coking coal FOB Australia;
- Life-of-mine coal production and operating costs; and
- A discount rate of 12.8% based on an analysis of market, country and company specific factors.

Key sensitivities in the valuation model are as follows:

- For each 1% increase/(decrease) in the long term real selling price of semi-soft coal FOB Australia, the calculated fair value of the cash generating unit increases/(decreases) by approximately $34,000/($34,000); and
- For each 1% increase/(decrease) in the discount rate, the calculated fair value of the cash generating unit (decreases)/increases by approximately ($41,000)/$46,000.

The impairment analysis did not result in the identification of an impairment loss and no charge was required as at March 31, 2014. 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.

(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 three months ended March 31, 2014, the Mongolian Coal Division had 3 active customers with the largest customer accounting for 50% of revenues, the second largest customer accounting for 26% of revenue and the third largest customer accounting for 24% 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 (i)	Consolidated Total
Segment assets			
As at March 31, 2014	**$ 473,372**	**$ 9,409**	**$ 482,781**
As at December 31, 2013	490,949	15,257	506,206
Segment liabilities			
As at March 31, 2014	**$ 20,048**	**$ 108,789**	**$ 128,837**
As at December 31, 2013	25,393	105,756	131,149
Segment loss			
For the three months ended March 31, 2014	**$ (13,218)**	**$ (7,537)**	**$ (20,755)**
For the three months ended March 31, 2013	(16,610)	(7,056)	(23,666)
Segment revenues			
For the three months ended March 31, 2014	**$ 5,137**	**$ -**	**$ 5,137**
For the three months ended March 31, 2013	4,398	-	4,398
Impairment charge on assets (ii) (iii)			
For the three months ended March 31, 2014	**$ 7,281**	**$ 1,766**	**$ 9,047**
For the three months ended March 31, 2013	1,121	-	1,121

(i) The unallocated amount contains all amounts associated with the Corporate Division.
(ii) The impairment charge on assets for the three months ended March 31, 2014 relates to inventories (Note 12) and investments (Note 13).
(iii) The impairment charge on assets for the three months ended March 31, 2013 inventories (Note 12).

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 March 31, 2014	**$ 5,137**	**$ -**	**$ -**	**$ 5,137**
For the three months ended March 31, 2013	4,398	-	-	4,398
Non-current assets				
As at March 31, 2014	**$ 416,059**	**$ 65**	**$ 4,912**	**$ 421,036**
As at December 31, 2013	422,679	81	7,237	429,997

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

5. COST OF SALES

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

	Three months ended March 31, 2014	2013
Operating expenses	**$ 5,564**	$ 3,221
Share-based compensation expense (Note 18)	**15**	-
Depreciation and depletion	**2,479**	549
Impairment of coal stockpile inventories (Note 12)	**7,281**	1,121
Cost of sales from mine operations	**15,339**	4,891
Cost of sales related to idled mine assets (i)	**3,027**	16,414
Cost of sales	**$ 18,366**	$ 21,305

(i) Cost of sales related to idled mine assets for the three months ended March 31, 2014 includes $2,989 of depreciation expense (2013: $11,156 of depreciation expenses). The depreciation expense relates to the Company's idled plant and equipment.

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 and remained curtailed for the remainder of 2012. The Company's mining activities remained fully curtailed until March 22, 2013, when the Company recommenced mining activities at the Ovoot Tolgoi Mine. The idled mine asset depreciation expense for the three months ended March 31, 2013 relates to the Company's idled plant and equipment during the curtailment of its mining activities. The idled mine asset depreciation expense for the three months ended March 31, 2014 relates to the Company's idled plant and equipment as the production plan during the three months ended March 31, 2014 did not fully utilize the Company's existing mining fleet.

6. OTHER OPERATING EXPENSES

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

	Three months ended March 31, 2014	2013
Foreign exchange loss/(gain)	**$ (764)**	$ 366
Mark-to-market loss on available-for-sale financial asset (Note 13)	**1,766**	-
Other	**71**	65
Other operating expenses	**$ 1,073**	$ 431

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

7. ADMINISTRATION EXPENSES

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

	Three months ended March 31,	
	2014	**2013**
Corporate administration	**$ 659**	$ 918
Professional fees	**686**	1,418
Salaries and benefits	**729**	1,162
Share-based compensation expense (Note 18)	**131**	148
Depreciation	**32**	87
Administration expenses	**$ 2,237**	$ 3,733

8. EVALUATION AND EXPLORATION EXPENSES

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

	Three months ended March 31,	
	2014	**2013**
Direct expenses	**$ 94**	$ 21
License fees	**-**	177
Share-based compensation expense (Note 18)	**6**	6
Overhead and other	**72**	69
Evaluation and exploration expenses	**$ 172**	$ 273

9. FINANCE COSTS AND INCOME

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

	Three months ended, March 31,	
	2014	**2013**
Interest expense on convertible debenture (Note 16)	**$ 4,965**	$ 4,958
Unrealized loss on FVTPL investments (i)	**40**	-
Interest expense on line of credit facility	**-**	11
Accretion of decommissioning liability	**20**	27
Finance costs	**$ 5,025**	$ 4,996

(i) FVTPL is defined as "fair value through profit or loss".

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

9. FINANCE COSTS AND INCOME (CONTINUED)

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

	Three months ended, March 31, 2014	Three months ended, March 31, 2013
Unrealized gain on embedded derivatives in convertible debenture (Note 16)	**$ 1,000**	$ 748
Interest income	**7**	22
Unrealized gain on FVTPL investments	**-**	5
Finance income	**$ 1,007**	$ 775

10. LOSS PER SHARE

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

	Three months ended March 31, 2014	Three months ended March 31, 2013
Net loss	**$ (20,755)**	$ (23,666)
Weighted average number of shares	**187,312**	181,945
Basic and diluted loss per share	**$ (0.11)**	$ (0.13)

Potentially dilutive items not included in the calculation of diluted loss per share include the convertible debenture (Note 16) and stock options (Note 18) that were anti-dilutive.

11. TRADE AND OTHER RECEIVABLES

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

	As at March 31, 2014	As at December 31, 2013
Trade receivables	**$ 623**	$ 1,818
Other receivables	**287**	760
Total trade and other receivables	**$ 910**	$ 2,578

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

	As at March 31, 2014	As at December 31, 2013
Less than 1 month	**$ 80**	$ 396
1 to 3 months	**23**	1,321
3 to 6 months	**49**	141
Over 6 months	**758**	720
Total trade and other receivables	**$ 910**	$ 2,578

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

11. TRADE AND OTHER RECEIVABLES (CONTINUED)

Included in trade and other receivables are amounts due from related parties which are further disclosed in Note 20. The amounts due from related parties are unsecured, interest free and repayable upon written notice from the Company.

Trade receivables are normally due within 30 days from the date of billing. Customers with balances that are more than 30 days past due are normally requested to settle all outstanding balances before any further credit is granted.

12. INVENTORIES

The Company's inventories consist of the following amounts:

	As at	
	March 31, 2014	**December 31, 2013**
Coal stockpiles	**$ 10,113**	$ 8,305
Materials and supplies	**30,725**	31,983
Total inventories	**$ 40,838**	$ 40,288

Cost of sales for the three months ended March 31, 2014 includes an impairment loss of $7,281 related to the Company's coal stockpile inventories (2013: $1,121). As at March 31, 2014, $9,020 of the Company's coal stockpile inventories are carried at their net realizable value (December 31, 2013: $4,853).

13. INVESTMENTS

The Company's investments consist of the following amounts:

	As at	
	March 31, 2014	**December 31, 2013**
Non-current investments at fair value		
Investment in Kangaroo Resources Limited (i)	**$ 177**	$ 222
Investment in Aspire Mining Limited (ii)	**3,895**	6,175
Non-current investment in joint venture		
Investment in RDCC LLC	**24,517**	24,205
	28,589	30,602
Total investments	**$ 28,589**	$ 30,602

(i) At March 31, 2014, the Company owned 0.5% of Kangaroo's issued and outstanding shares.
(ii) At March 31, 2014, the Company owned 18.8% of Aspire's issued and outstanding shares.

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

13. INVESTMENTS (CONTINUED)

13.1 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 March 31, 2014, the Company disposed of 367 shares of Kangaroo for gross proceeds of $5. For the three months ended March 31, 2014, the Company recognized an unrealized mark to market loss of $40 related to its investment in Kangaroo (2013: unrealized gain of $5).

13.2 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. During the year ended December 31, 2012, it was determined that objective evidence of impairment in the Company's investment in Aspire existed and such evidence continued to exist during the three months ended March 31, 2014. Therefore, an impairment loss of $1,766 was recognized for the three months ended March 31, 2014 in other operating expenses (2013: unrealized gain of $930 recognized in other comprehensive income).

13.3 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 is 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 March 31,	
	2014	**2013**
Balance, beginning of period	**$ 24,205**	$ 13,902
Funds advanced	**338**	1,415
Share of losses of joint venture	**(26)**	(17)
Balance, end of period	**$ 24,517**	$ 15,300

For the three months ended March 31, 2014 and 2013, RDCC LLC recognized construction revenue of $nil with a profit margin of $nil related to the construction of the paved highway. For the three months ended March 31, 2014, RDCC LLC had a net loss of $65 (2013: net loss of $43).

(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, 2013	$ 363,689	$ 28,350	$ 72,214	$ 127,068	$ 6,276	$ 597,597
Additions	**1,319**	**77**	**-**	**4,880**	**-**	**6,276**
Disposals	**(826)**	**(9)**	**-**	**-**	**-**	**(835)**
As at March 31, 2014	**$ 364,182**	**$ 28,418**	**$ 72,214**	**$ 131,948**	**$ 6,276**	**$ 603,038**
Accumulated depreciation						
As at December 31, 2013	$ (138,627)	$ (17,231)	$ (27,454)	$ (14,890)	$ -	$ (198,202)
Charge for the period	**(10,627)**	**(710)**	**(1,475)**	**(412)**	**-**	**(13,224)**
Eliminated on disposals	**826**	**9**	**-**	**-**	**-**	**835**
As at March 31, 2014	**$ (148,428)**	**$ (17,932)**	**$ (28,929)**	**$ (15,302)**	**$ -**	**$ (210,591)**
Carrying amount						
As at December 31, 2013	$ 225,062	$ 11,119	$ 44,760	$ 112,178	$ 6,276	$ 399,395
As at March 31, 2014	**$ 215,754**	**$ 10,486**	**$ 43,285**	**$ 116,646**	**$ 6,276**	**$ 392,447**

14.1 Prepayments on property, plant and equipment

As at March 31, 2014, the cost of the Company's property, plant and equipment includes $41,275 of prepayments to vendors (December 31, 2013: $41,240). 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.

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	
	March 31, 2014	**December 31, 2013**
Less than 1 month	**$ 17,576**	$ 28,786
1 to 3 months	**2,379**	554
3 to 6 months	**2,719**	367
Over 6 months	**1,963**	1,534
Total trade and other payables	**$ 24,637**	$ 31,241

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

16. CONVERTIBLE DEBENTURE

16.1 Key commercial terms

On November 19, 2009, the Company issued a convertible debenture to a wholly owned subsidiary of 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).

The Company had the right to call for the conversion of up to $250,000 of the debenture on the earlier of twenty four months after the issue date, if the conversion price was greater than Cdn$10.66, or upon the Company achieving a public float of 25% of its common shares under certain agreed circumstances, if the conversion price was greater than Cdn$10.66. On March 29, 2010, pursuant to the debenture conversion terms, the Company exercised this conversion right and completed the conversion of $250,000 of the convertible debenture into 21,471 shares at a conversion price of $11.64 (Cdn$11.88).

Under certain conditions, including the non-payment of interest amounts as the same become due, amounts outstanding under the CIC convertible debenture may be accelerated. Bankruptcy and insolvency events with respect to the Company or its material subsidiaries will result in an automatic acceleration of the indebtedness under the CIC convertible debenture. Subject to notice and cure periods, certain events of default under the CIC convertible debenture will result in acceleration of the indebtedness under such debenture at the option of CIC. Such other events of default include, but are not limited to, non-payment, breach of warranty, non-performance of obligations under the convertible debenture, default on other indebtedness and certain adverse judgments.

16.2 Debt host and embedded derivatives

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

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

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

16. CONVERTIBLE DEBENTURE (CONTINUED)

16.3 Valuation assumptions

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

	As at	
	March 31, 2014	**December 31, 2013**
Floor conversion price	**Cdn$8.88**	Cdn$8.88
Ceiling conversion price	**Cdn$11.88**	Cdn$11.88
Common share price	**Cdn$0.65**	Cdn$0.84
Historical volatility	**70%**	71%
Risk free rate of return	**2.82%**	3.11%
Foreign exchange spot rate (Cdn$ to U.S. Dollar)	**0.90**	0.94
Forward foreign exchange rate curve (Cdn$ to U.S. Dollar)	**0.89 - 0.90**	0.92 - 0.94

16.4 Presentation

Based on the Company's valuation as at March 31, 2014, the fair value of the embedded derivatives decreased by $1,000 compared to December 31, 2013. The decrease was recorded as finance income for the three months ended March 31, 2014.

For the three months ended March 31, 2014, the Company recorded interest expense of $4,965 related to the convertible debenture as a finance cost (2013: $4,958). 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 March 31,	
	2014	**2013**
Balance, beginning of period	**$ 96,603**	$ 105,968
Interest expense on convertible debenture	**4,965**	4,958
Decrease in fair value of embedded derivatives	**(1,000)**	(748)
Interest paid	**-**	(4,000)
Balance, end of period	**$ 100,568**	$ 106,178

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

16. CONVERTIBLE DEBENTURE (CONTINUED)

The convertible debenture balance consists of the following amounts:

	As at	
	March 31, 2014	**December 31, 2013**
Current convertible debenture		
Interest payable	**$ 7,233**	$ 2,301
Non-current convertible debenture		
Debt host	**90,940**	90,907
Fair value of embedded derivatives	**2,395**	3,395
	93,335	94,302
Total convertible debenture	**$ 100,568**	$ 96,603

17. EQUITY

17.1 Share capital

The Company has authorized an unlimited number of common and preferred shares with no par value. At March 31, 2014, the Company had 187,313 common shares outstanding (December 31, 2013: 187,309) and no preferred shares outstanding (December 31, 2013: nil). The Company's volume weighted average share price for the three months ended March 31, 2014 was Cdn$0.75 (2013: Cdn$2.29).

17.2 Accumulated deficit and dividends

At March 31, 2014, the Company has accumulated a deficit of $765,249 (December 31, 2013: $744,494). 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. The stock option plan permits the Board of Directors of the Company to set the terms for each stock option grant; however, the general terms of stock options granted under the plan include a maximum exercise period of 5 years and a vesting period of 3 years with 33% of the grant vesting on the first anniversary of the grant, 33% vesting on the second anniversary of the grant and 34% vesting on the third anniversary of the grant.

For the three months ended March 31, 2014, the Company granted 482 stock options (2013: 62) to officers, employees, directors and other eligible persons at exercise prices ranging from Cdn$0.65 to Cdn$0.84 (2013: exercise price of Cdn$2.10) and expiry dates ranging from January 13, 2019 to March 26, 2019 (2013: expiry date of March 27, 2018). The weighted average fair value of the options granted in the three months ended March 31, 2014 was estimated at $0.29 (Cdn$0.32) (2013: $0.76, Cdn$0.78) 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)

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

	Three months ended March 31, 2014	Three months ended March 31, 2013
Risk free interest rate	1.43%	1.20%
Expected life	3.5 years	3 years
Expected volatility (i)	56%	58%
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 $17 for the options granted in the three months ended March 31, 2014 (2013: $44) will be amortized over the vesting period, of which $2 was recognized in the three months ended March 31, 2014 (2013: $1).

The total share-based compensation expense for the three months ended March 31, 2014 was $152 (2013: $154). Share-based compensation expense of $131 (2013: $148) has been allocated to administration expenses, $15 (2013: $nil) has been allocated to cost of sales and $6 (2013: $6) has been allocated to evaluation and exploration expenses.

18.2 Outstanding stock options

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

	Three months ended March 31, 2014			Three months ended March 31, 2013		
	Number of options		Weighted average exercise price (Cdn$)	Number of options		Weighted average exercise price (Cdn$)
Balance, beginning of period	2,583	$	8.48	7,507	$	9.72
Options granted	482		0.68	62		2.10
Options forfeited	(17)		5.46	(192)		7.47
Options expired	(681)		11.36	(3,094)		10.24
Balance, end of period	2,367	$	6.09	4,282	$	9.33

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

18. SHARE-BASED PAYMENTS (CONTINUED)

The stock options outstanding and exercisable as at March 31, 2014 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$)	Weighted average remaining contractual life (years)
0.65 to 2.10	**1,130**	**$ 1.25**	**4.38**	**288**	**$ 1.96**	**3.75**
6.16 to 10.21	**601**	**8.31**	**2.33**	**477**	**8.40**	**2.25**
11.51 to 12.99	**636**	**12.58**	**1.23**	**620**	**12.61**	**1.20**
	2,367	**$ 6.09**	**3.01**	**1,385**	**$ 8.94**	**2.10**

19. FAIR VALUE MEASUREMENTS

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

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

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1, that are observable either directly or indirectly.
- Level 3 fair value measurements are those derived from valuation techniques that include inputs that are not based on observable market data. As at March 31, 2014 and December 31, 2013, the Company did not have any Level 3 financial instruments.

	As at March 31, 2014			
Recurring measurements	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value				
Investment in Aspire	**$ 3,895**	**$ -**	**$ -**	**$ 3,895**
Investment in Kangaroo	**177**	**-**	**-**	**177**
Total financial assets at fair value	**$ 4,072**	**$ -**	**$ -**	**$ 4,072**
Financial liabilities at fair value				
Convertible debenture - embedded derivatives	**$ -**	**$ 2,395**	**$ -**	**$ 2,395**
Total financial liabilities at fair value	**$ -**	**$ 2,395**	**$ -**	**$ 2,395**

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

19. FAIR VALUE MEASUREMENTS (CONTINUED)

	As at December 31, 2013			
Recurring measurements	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value				
Investment in Aspire	$ 6,175	$ -	$ -	$ 6,175
Investment in Kangaroo	222	-	-	222
Total financial assets at fair value	$ 6,397	$ -	$ -	$ 6,397
Financial liabilities at fair value				
Convertible debenture - embedded derivatives	$ -	$ 3,395	$ -	$ 3,395
Total financial liabilities at fair value	$ -	$ 3,395	$ -	$ 3,395

There were no transfers between Level 1, 2 and 3 for the three months ended March 31, 2014.

20. RELATED PARTY TRANSACTIONS

During the three months ended March 31, 2014 and 2013, 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 March 31, 2014 owned approximately 56% of the outstanding common shares of the Company. Turquoise Hill provides various administrative services to the Company on a cost-recovery basis.
- Rio Tinto – Rio Tinto is the Company's ultimate parent company and at March 31, 2014 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 and recovers legal and professional fees from the Company in respect of the internal and tripartite committees referred to in Note 23.3.
- Global Mining Management ("GMM") – On October 31, 2013, the Company and Turquoise Hill ceased being shareholders of GMM, a private company. GMM was owned equally by seven companies, two of which included the Company and Turquoise Hill. GMM provided administration, accounting and other office services to the Company on a cost-recovery basis. The provision of these services ceased on October 31, 2013.
- 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.

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

20. RELATED PARTY TRANSACTIONS (CONTINUED)

20.1 Related party expenses

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

	Three months ended March 31, 2014	Three months ended March 31, 2013
Corporate administration	**$ 212**	$ 153
Salaries and benefits	**550**	187
Related party expenses	**$ 762**	$ 340

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

	Three months ended March 31, 2014	Three months ended March 31, 2013
GMM	**$ -**	$ 52
Turquoise Hill	**14**	37
Rio Tinto	**553**	114
Turquoise Hill Singapore	**195**	137
Related party expenses	**$ 762**	$ 340

20.2 Related party expense recoveries

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

	Three months ended March 31, 2014	Three months ended March 31, 2013
Corporate administration	**$ -**	$ 7

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

	Three months ended March 31, 2014	Three months ended March 31, 2013
Rio Tinto	**-**	7
Related party expense recovery	**$ -**	$ 7

(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	
	March 31, 2014	December 31, 2013
Amounts due from GMM	$ 72	$ 74
Total assets due from related parties	$ 72	$ 74

20.4 Related party liabilities

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

	As at	
	March 31, 2014	December 31, 2013
Amounts payable to Rio Tinto	$ 7,184	$ 1,375
Accounts payable to Turquoise Hill Singapore	91	-
Accounts payable to Turquoise Hill	70	34
Total liabilities due to related parties	$ 7,345	$ 1,409

21. SUPPLEMENTAL CASH FLOW INFORMATION

21.1 Net change in non-cash working capital items

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

	Three months ended March 31,	
	2014	2013
Increase in inventories	$ (2,338)	$ (1,750)
Decrease/(increase) in trade and other receivables	1,282	(186)
Decrease in prepaid expenses and deposits	1,424	4,126
Increase/(decrease) in trade and other payables	(6,130)	2,047
Decrease in deferred revenue	(57)	(250)
Net change in non-cash working capital items	$ (5,819)	$ 3,987

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

22. COMMITMENTS FOR EXPENDITURE

As at March 31, 2014, the Company's commitments for expenditure that have not been disclosed elsewhere in the consolidated financial statements are as follows:

	As at March 31, 2014			
	Within 1 year	2-3 years	Over 3 years	Total
Capital expenditure commitments	$ 15,169	$ 11,639	$ -	$ 26,808
Operating expenditure commitments (i)	23,959	1,669	154	25,782
Commitments	**$ 39,128**	**$ 13,308**	**$ 154**	**$ 52,590**

(i) Operating expenditure commitments include $17,600 of fees related to the Company's toll wash plant agreement Ejinaqi Jinda Coal Industry Co. Ltd. This amount reflects the minimum expenditure due under this agreement.

23. CONTINGENCIES

23.1 Governmental and regulatory 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 formal notice that the IAAC investigation is completed. The IAAC has not formally accused any current or former Company employees of breach of Mongolia's anti-corruption laws.

A report issued by the experts appointed by the SIA on June 30, 2013 and again in January 2014 has recommended that the accusations of money laundering as alleged against the Company's three former employees be withdrawn. However, to date, the Company has not received notice or legal document confirming such withdrawal as recommended by the experts appointed by the SIA.

A third investigation ordered by the SIA and conducted by the National Forensic Center ("NFC") into alleged violations of Mongolian taxation law was concluded at the end of January 2014. The Company has received notice that the report with conclusions of the investigations by the NFC have been provided to the Prosecutor General of Mongolia. The Company has been advised that the Prosecutor General has issued criminal charges against the three former employees and the Company's Mongolian subsidiary SouthGobi Sands LLC may be held liable as "civil defendant" for alleged violations of Mongolian taxation law. The case was transferred to a Court of Justice for review by a judge in April 2014. On May 12, 2014, the Company was advised that the appointed judge has concluded that the investigation on the case was incomplete and has ordered to return the case to the General Prosecutor for additional investigation.

23. CONTINGENCIES (CONTINUED)

The likelihood or consequences of an outcome or any action taken against SouthGobi Sands LLC as "civil defendant" are uncertain and 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.

The Company, including its Mongolian subsidiary SouthGobi Sands LLC, has prepared its financial statements in compliance with IFRS, and lodged all its tax returns in the required format under Mongolian tax law. During the investigative period, which has been ongoing since May 2012, the Company devoted considerable internal resources in reviewing and responding to the allegations raised through the investigations by the relevant authorities. The Company views these allegations as unfounded and will vigorously defend itself against any potential claim.

At this point, the three former employees remain designated as "accused" in connection with the allegations of tax evasion, and continue to be subject to a travel ban. SouthGobi Sands LLC remains designated as a "civil defendant" in connection with the tax evasion allegations, and may potentially be held financially liable for the alleged criminal misconduct of its former employees under Mongolian Law.

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. While the orders restrict the use of in-country funds pending the outcome of the investigation, they are not expected to have a material impact on the Company's activities in the short term, although they could create potential difficulties for the Company in the medium to long term. The Company will continue to take all appropriate steps to protect its ability to conduct its business activities in the ordinary course.

In the opinion of management of the Company, at March 31, 2014 a provision for this matter is not required.

23.2 Mongolian IAAC investigation

In the first quarter of 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. The orders were imposed on the Company in connection with the IAAC's investigation of the Company. The SIA also continues to enforce the orders on the Company.

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. Following a review by the Company and its advisers, it is the Company's view that this does not result in an event of default as defined under the CIC convertible debenture terms. However, if an event of default of the Company's CIC convertible debenture occurs 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.

23. CONTINGENCIES (CONTINUED)

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.

23.3 Internal investigations

Through its Audit Committee (comprised solely of independent directors), the Company has conducted an internal investigation into possible breaches of law, internal corporate policies and codes of conduct arising from the allegations which have been raised through the investigations in Mongolia. The Chair of the Audit Committee has also participated in a tripartite committee, comprised of the Audit Committee Chairs of the Company and Turquoise Hill and a representative of Rio Tinto, which focused on the investigation of a number of those allegations, including possible violations of anti-corruption laws. The tripartite committee substantially completed the investigative phase of its activities during the three months ended September 30, 2013. There have been no significant developments in respect of the internal investigations since the completion of the investigative phase during the three months ended September 30, 2013.

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 March 31, 2014 a provision for this matter is not required.

23.4 Class action lawsuit

On or about January 6, 2014, Siskinds LLP, a Canadian law firm, filed a proposed securities class action (the "Ontario Action") against the Company, certain of its former senior officers and current directors, and its former auditors, Deloitte LLP, in the Ontario Superior Court of Justice in relation to the Company's restatement of financial statements as previously disclosed in the Company's public filings.

23. CONTINGENCIES (CONTINUED)

The plaintiff seeks leave to bring a claim under applicable Canadian securities legislation and seeks certification of a class action with respect to a class of persons who purchased shares of the Company between March 30, 2011 and November 7, 2013, alleging that the financial reporting of the Company during that period contained misrepresentations giving rise to liability at common law and under applicable Canadian securities legislation. The Ontario Action also seeks general damages against all defendants in the sum of Cdn$30 million, without particulars as to how such amount was determined, or such other amount that the Court deems appropriate. Assuming that leave is granted, the action is certified as a class proceeding, and there is a finding of liability, the actual quantum of damages will depend upon the evidence which is adduced in the court proceedings.

Named in the Ontario Action as individual defendants are the Company's former Chief Executive Officer, former Chief Financial Officers and the members of its Audit Committee.

The Company disputes and will vigorously defend itself against these claims through independent Canadian litigation counsel retained by the Company and the other defendants for this purpose. Due to the inherent uncertainties of litigation, it is not possible to predict the final outcome of the Ontario Action or determine the amount of any potential losses, if any. However, in the opinion of management of the Company, at March 31, 2014 a provision for this matter is not required.