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(a company continued under the laws of British Columbia, Canada with limited liability)
(Stock Code: 1878)

**SOUTHGOBI RESOURCES ANNOUNCES FOURTH QUARTER AND
FULL YEAR 2013 FINANCIAL AND OPERATING RESULTS**

HONG KONG – SouthGobi Resources Ltd. (TSX: **SGQ**, HK: **1878**), (the “Company”) today announced its financial and operating results for the quarter and year ended December 31, 2013.

Please see the attached announcement for more details.

By order of the Board
SouthGobi Resources Ltd.
Ms. Kay Priestly
Chairperson

Hong Kong, March 24, 2014

As of the date of this announcement, the executive Director is Mr. Kenneth Ross Tromans, the non-executive Directors are Ms. Kay Priestly, Mr. Lindsay Dove, Mr. Sean Hinton, Mr. Bold Baatar, and Mr. Kelly Sanders, and the independent non-executive Directors are Mr. Pierre Bruno Lebel, Mr. Andre Henry Deepwell, and Mr. William Gordon Lancaster.

* *For identification purposes only*

SOUTHGOBI RESOURCES ANNOUNCES FOURTH QUARTER AND FULL YEAR 2013 FINANCIAL AND OPERATING RESULTS

HONG KONG – SouthGobi Resources Ltd. (**TSX: SGQ, HK: 1878**) (the “Company”). The Company today announced its financial and operating results for the quarter and the year ended December 31, 2013. All figures are in U.S. Dollars unless otherwise stated.

SIGNIFICANT EVENTS AND HIGHLIGHTS

The Company’s significant events and highlights for the year ended December 31, 2013 and subsequent period to March 24, 2014 are as follows:

- **Resumed operations at the Ovoot Tolgoi Mine on March 22, 2013 after having been fully curtailed since the end of the second quarter of 2012. The Company completed the fourth quarter of 2013 in line with the coal sales and production guidance provided in November 2013.**
- **Production increased to 3.06 million tonnes of raw coal in 2013 compared to production of 1.33 million tonnes of raw coal in 2012. The increase in production from 2012 to 2013 primarily related to the operations at the Ovoot Tolgoi Mine being fully curtailed in the second half of 2012.**
- **Sales volumes increased to 3.26 million tonnes in 2013 compared to 1.98 million tonnes in 2012, whereas revenue decreased to \$58.6 million in 2013 compared to \$78.1 million in 2012 primarily due to lower average selling prices for the Company’s coal products.**
- **On August 22, 2013, announced the withdrawal of the Notice of Investment Dispute on the Government of Mongolia in recognition of the fact that the dispute was resolved following the grant of three pre-mining agreements (“PMAs”) on August 14, 2013 relating to the Zag Suuj Deposit and certain areas associated with the Soumber Deposit, and the earlier grant of a PMA on January 18, 2013 pertaining to the Soumber Deposit.**

- **Announced the appointment of Bertrand Troiano as its Chief Financial Officer, Brett Salt as its Chief Commercial Officer and Enkh-Amgalan Sengee as President and Executive Director of SouthGobi Sands LLC, the Company's wholly-owned Mongolian operating subsidiary. Brett Salt resigned as a Non-Executive Director of the Company following his appointment as Chief Commercial Officer. Bold Baatar was appointed as a Non-Executive Director of the Company in 2013.**
- **Following an extensive review of the dry coal handling facility ("DCHF") at the Ovoot Tolgoi Mine and its contribution to the Company's product strategy, recorded a \$66.9 million non-cash impairment charge in the fourth quarter of 2013 related to the DCHF.**
- **Recorded a \$30.2 million impairment loss in the fourth quarter of 2013 related to the \$33.6 million of prepaid toll washing fees to Ejinaqi Jinda Coal Industry Co. Ltd ("Ejin Jinda"). The impairment followed the results of a trial sample from the wet washing facility and the delay in starting the commercial operations at the facility. The Company is cooperating with Ejin Jinda in reviewing the utilization of the facility.**

OVERVIEW OF OPERATIONAL DATA AND FINANCIAL RESULTS

Summary of Annual Operational Data

	Year ended December 31,	
	2013	2012
Sales Volumes, Prices and Costs		
Premium semi-soft coking coal		
Coal sales (<i>millions of tonnes</i>)	0.54	0.78
Average realized selling price (<i>per tonne</i>) ⁽ⁱ⁾	\$ 36.61	\$ 66.87
Standard semi-soft coking coal		
Coal sales (<i>millions of tonnes</i>)	2.27	0.47
Average realized selling price (<i>per tonne</i>) ⁽ⁱ⁾	\$ 23.41	\$ 49.68
Thermal coal		
Coal sales (<i>millions of tonnes</i>)	0.45	0.73
Average realized selling price (<i>per tonne</i>) ⁽ⁱ⁾	\$ 13.43	\$ 25.65
Total		
Coal sales (<i>millions of tonnes</i>)	3.26	1.98
Average realized selling price (<i>per tonne</i>) ⁽ⁱ⁾	\$ 24.25	\$ 47.49
Raw coal production (<i>millions of tonnes</i>)	3.06	1.33
Direct cash costs of product sold (<i>per tonne</i>) ⁽ⁱⁱ⁾	\$ 10.58	\$ 16.86
Mine administration cash costs of product sold (<i>per tonne</i>) ⁽ⁱⁱ⁾	\$ 2.23	\$ 3.15
Total cash costs of product sold (<i>per tonne</i>) ⁽ⁱⁱ⁾	\$ 12.81	\$ 20.01

Other Operational Data

Production waste material moved (<i>millions of bank cubic meters</i>)	8.45	3.36
Strip ratio (<i>bank cubic meters of waste material per tonne of coal produced</i>)	2.76	2.52
Lost time injury frequency rate ⁽ⁱⁱⁱ⁾	—	—

(i) Average realized selling price excludes royalties and selling fees.

(ii) A non-International Financial Reporting Standards (“IFRS”) financial measure, refer to “Non-IFRS Financial Measures” section. Cash costs of product sold exclude idled mine asset cash costs.

(iii) Per 200,000 man hours.

Overview of Annual Operational Data

The Company resumed operations at the Ovoot Tolgoi Mine on March 22, 2013 after having been fully curtailed since the end of the second quarter of 2012. The 2013 mining activities reflected a safe and cost effective resumption of operations, designed to preserve liquidity and allow operations to continue on a sustainable basis. The Company ended 2013 without a lost time injury.

Raw coal production was 3.06 million tonnes in 2013 with a strip ratio of 2.76 compared to 1.33 million tonnes in 2012 with a strip ratio of 2.52. The rate of production in 2013 was paced to meet contracted sales volumes and adjust to market conditions. The strip ratios in both 2012 and 2013 were below the average life-of-mine trend.

Summary of Annual Financial Results

<i>\$ in thousands, except per share information</i>	Year ended December 31,	
	2013	2012
Revenue ^{(i),(ii)}	\$ 58,636	\$ 78,061
Cost of sales ⁽ⁱⁱⁱ⁾	(112,627)	(127,407)
Gross profit/(loss) excluding idled mine asset costs	(23,552)	3,612
Gross loss including idled mine asset costs	(53,991)	(49,346)
Other operating expenses	(126,040)	(41,645)
Administration expenses	(15,629)	(24,637)
Evaluation and exploration expenses	(1,169)	(8,598)
Loss from operations	(196,829)	(124,226)
Finance costs	(21,162)	(15,385)
Finance income	5,566	39,942
Income tax recovery/(expense)	(24,986)	1,532
Net loss	(237,464)	(97,502)
Basic loss per share	\$ (1.30)	\$ (0.54)
Diluted loss per share	\$ (1.30)	\$ (0.60)

(i) Revenue is presented net of royalties and selling fees.

(ii) Revenue and cost of sales relate to the Company's Ovoot Tolgoi Mine within the Mongolian Coal Division operating segment. Refer to note 2 of the "Selected Information from the Notes to the Consolidated Financial Statements" section for further analysis regarding the Company's reportable operating segments.

Overview of Annual Financial Results

The Company recorded a \$196.8 million loss from operations in 2013 compared to a \$124.2 million loss from operations in 2012 and a \$237.5 million net loss in 2013 compared to a \$97.5 million net loss in 2012. The 2013 loss from operations was negatively impacted by \$20.7 million of coal stockpile impairments (2012: \$20.5 million), \$30.4 million of idled mine asset costs (2012: \$53.0 million) and \$121.1 million of impairment losses recorded in other operating expenses (2012: \$35.5 million). The Company's loss from operations was \$24.6 million in 2013 excluding the impact of the above noted items (2012: \$15.2 million).

Revenue was \$58.6 million in 2013 compared to \$78.1 million in 2012. The Company sold 3.26 million tonnes of coal in 2013 at an average realized selling price of \$24.25 per tonne compared to sales of 1.98 million tonnes in 2012 at an average realized selling price of \$47.49 per tonne. Revenue decreased due to lower average realized selling prices for the Company's coal products. Following the softening of coal markets in mid-2012, the coal markets in China continued to be challenging in 2013 with certain coal price indices in China reaching four year lows during the year. The decrease in average realized selling prices for the Company's coal products was partially offset by higher sales volumes in 2013 compared to 2012.

The Company's revenue is presented net of royalties and selling fees. The Company is subject to a base royalty in Mongolia of 5% on all export coal sales. In addition, effective January 1, 2011, the Company is subject to an additional sliding scale royalty of up to 5%. The royalty is calculated using a set reference price per tonne published monthly by the Government of Mongolia.

Based on the reference prices for 2013, the Company was subject to an average 7% royalty based on a weighted average reference price of \$65.81 per tonne. The Company's effective royalty rate for 2013, based on the Company's average realized selling price of \$24.25 per tonne, was 19% or \$4.53 per tonne compared to 15% or \$7.12 per tonne in 2012.

During a trial period from October 1, 2012 to March 31, 2013, the royalty was determined using the actual contracted sales price per tonne, not the reference price. However, effective April 1, 2013, the royalty regime returned to the set reference price per tonne published monthly by the Government of Mongolia.

The Company, together with other Mongolian mining companies, continues the dialogue with the appropriate Government of Mongolia authorities with the goal of moving to a more equitable process for setting reference prices.

Cost of sales was \$112.6 million in 2013 compared to \$127.4 million in 2012. Cost of sales comprises operating expenses, share-based compensation expense, equipment depreciation, depletion of mineral properties, coal stockpile inventory impairments and idled mine asset costs. Operating expenses in cost of sales reflect the total cash costs of product sold (a non-IFRS financial measure, see Non-IFRS Financial Measures section) during the period.

<i>\$ in thousands</i>	Year ended December 31,	
	2013	2012
Operating expenses	\$ 41,746	\$ 39,671
Share-based compensation expense	(293)	1,205
Depreciation and depletion	20,000	13,042
Impairment of coal stockpile inventories	20,735	20,531
Cost of sales from mine operations	82,188	74,449
Cost of sales related to idled mine assets	30,439	52,958
Cost of sales	<u>\$ 112,627</u>	<u>\$ 127,407</u>

Operating expenses in cost of sales were \$41.7 million in 2013 compared to \$39.7 million in 2012. Operating expenses were largely consistent from 2012 to 2013 as the impact from higher sales volumes was partially offset by lower total cash costs of product sold in 2013 compared to 2012.

Cost of sales in 2013 and 2012 included coal stockpile impairments of \$20.7 million and \$20.5 million, respectively, to reduce the carrying value of the Company's coal stockpiles to their net realizable value. The coal stockpile impairments recorded in both 2013 and 2012 reflect the challenging coal market conditions and primarily related to the Company's higher-ash products.

Cost of sales related to idled mine asset costs primarily consisted of period costs, which were expensed as incurred and primarily included depreciation expense. Cost of sales related to idled mine assets in 2013 included \$25.1 million related to depreciation expenses for idled equipment (2012: \$33.2 million). Idled mine asset costs decreased in 2013 compared to 2012 as a result of the recommencement of mining operations at the Ovoot Tolgoi Mine on March 22, 2013. However, the 2013 production plan did not fully utilize the Company's existing mining fleet, therefore, idled mine asset costs continued to be incurred throughout 2013.

Other operating expenses were \$126.0 million in 2013 compared to \$41.6 million in 2012.

<i>\$ in thousands</i>	Year ended December 31,	
	2013	2012
Public infrastructure	\$ 7	\$ 1,273
Sustainability and community relations	235	894
Foreign exchange loss	1,659	3,226
Provision for doubtful trade and other receivables	200	1,032
Impairment loss on available-for-sale financial asset	3,067	19,184
Loss on disposal of property, plant and equipment	895	720
Impairment of property, plant and equipment	72,669	15,245
Impairment of prepaid expenses and deposits	30,152	—
Impairment of materials and supplies inventories	14,962	—
Other	2,194	791
Other operating expenses	<u>\$ 126,040</u>	<u>\$ 41,645</u>

The Company recognized an impairment loss of \$3.1 million in 2013 related to its investment in Aspire compared to an impairment loss of \$19.2 million in 2012. The Company's investment in Aspire is accounted for as an available-for-sale financial asset. In 2012, the Company determined that objective evidence of impairment in the Company's investment in Aspire existed. Therefore, the Company recorded impairment losses in 2013 and 2012 as a result of declines in the fair value of the Company's investment in Aspire.

The Company recorded \$72.7 million of impairment charges in 2013 to reduce various items of property, plant and equipment ("PP&E") to their recoverable amounts compared to \$15.2 million in 2012. The impairment charges in 2013 included \$66.4 million related to the DCHF at the Ovoot Tolgoi Mine. The impairment charge followed an extensive review of the DCHF and its contribution to the Company's product strategy. Refer to "Processing Infrastructure – Dry Coal Handling Facility" section for further analysis of the impairment charge related to the DCHF. The impairment charges also included \$6.3 million related to surplus capital spares not expected to be utilized with the Company's existing mining fleet.

An impairment of prepaid expenses and deposit of \$30.2 million was included in other operating expenses in 2013 related to prepaid toll washing fees under the Ejin Jinda contract. The impairment charge followed a trial sample from the wet washing facility and also related to the delay in starting the commercial operations at the wet washing facility. Refer to "Processing Infrastructure – Wet Washing Facility" section for further analysis of the impairment charge.

Other operating expenses in 2013 included a \$15.0 million impairment of materials and supplies inventories compared to \$nil in 2012. Following an extensive review of the Company's mining fleet in 2013, \$14.5 million of surplus materials and supplies inventories were identified. These items are not expected to be utilized with the Company's existing mining fleet and, therefore, were adjusted to their net realizable value in 2013. In addition, the Company has implemented further controls related to procurement and inventory warehousing to prevent future overstocking. The impairment of materials and supplies inventories in 2013 also included \$0.5 million of materials and supplies related to the DCHF.

Administration expenses were \$15.6 million in 2013 compared to \$24.6 million in 2012.

<i>\$ in thousands</i>	Year ended December 31,	
	2013	2012
Corporate administration	\$ 3,269	\$ 5,525
Legal and professional fees	8,252	7,293
Salaries and benefits	3,748	5,556
Share-based compensation expense	167	6,048
Depreciation	193	215
Administration expenses	<u>\$ 15,629</u>	<u>\$ 24,637</u>

Legal and professional fees remained high in 2013 as a result of ongoing regulatory issues. In particular, the internal and tripartite committees referred to in section "Regulatory Issues and Contingencies" resulted in \$4.3 million of legal and professional fees in 2013 compared to \$1.9 million of legal and professional fees in 2012. Corporate administration and salaries and benefits were lower in 2013 as the Company focused on cost-cutting initiatives and reduced headcount. Share-based compensation expense decreased in 2013 as certain employee stock options were terminated in late 2012 and early 2013 with the change in senior management.

Evaluation and exploration expenses were \$1.2 million in 2013 compared to \$8.6 million in 2012. The Company continued to minimize evaluation and exploration expenditures in 2013 in order to preserve the Company's financial resources. The 2013 exploration program focused on further defining the Soumber Deposit. Other exploration activities and expenditures were limited to ensuring that the Company met the Mongolian Minerals Law requirements in respect of its mining and exploration licenses.

Finance costs were \$21.2 million in 2013 compared to \$15.4 million in 2012. Finance costs in 2013 primarily consisted of \$20.3 million of interest expense on the \$250.0 million China Investment Corporation (“CIC”) convertible debenture compared to \$10.5 million in 2012. The increase in the interest expense is the result of \$nil interest capitalized to PP&E in 2013, compared to \$9.6 million capitalized in 2012, as the Company minimized uncommitted capital expenditures, including expenditures on construction projects. In addition, finance costs in 2012 included a \$4.5 million unrealized loss on the Company’s investment in Kangaroo Resources Limited (“Kangaroo”). The Company’s investment in Kangaroo is classified as fair value through profit or loss (“FVTPL”).

Finance income was \$5.6 million in 2013 compared to \$39.9 million in 2012. Finance income for 2013 and 2012 primarily consisted of a \$5.5 million and \$39.5 million unrealized gain on the fair value change of the embedded derivatives in the CIC convertible debenture, respectively. The fair value of the embedded derivatives in the CIC convertible debenture is driven by many factors including: the Company’s common share price, U.S. Dollar and Canadian Dollar exchange rates and share price volatility.

Income tax expense was \$25.0 million in 2013 (primarily deferred income taxes) compared to a recovery of \$1.5 million in 2012. As at December 31, 2013, the Company’s deferred income tax asset was reduced to \$nil (2012: \$25.0 million). Deferred income tax expense in 2013 included \$17.5 million related to the derecognition of deferred tax assets related to the Company’s Mongolian tax loss carry forwards and deductible temporary differences.

Summary of Quarterly Operational Data

Quarter Ended	2013				2012			
	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
Sales Volumes, Prices and Costs								
Premium semi-soft coking coal								
Coal sales (<i>millions of tonnes</i>)	0.21	0.04	0.21	0.08	0.03	–	0.42	0.33
Average realized selling price (<i>per tonne</i>) ⁽ⁱ⁾	\$ 37.54	\$ 37.50	\$ 32.46	\$ 45.81	\$ 47.86	\$ –	\$ 67.46	\$ 67.58
Standard semi-soft coking coal								
Coal sales (<i>millions of tonnes</i>)	1.40	0.87	–	–	–	0.01	0.36	0.10
Average realized selling price (<i>per tonne</i>) ⁽ⁱ⁾	\$ 24.49	\$ 21.67	\$ –	\$ –	\$ –	\$ 49.91	\$ 49.74	\$ 49.43
Thermal coal								
Coal sales (<i>millions of tonnes</i>)	0.11	0.03	0.11	0.20	–	0.31	0.28	0.15
Average realized selling price (<i>per tonne</i>) ⁽ⁱ⁾	\$ 12.60	\$ 13.07	\$ 13.98	\$ 13.67	\$ –	\$ 15.87	\$ 34.10	\$ 30.29
Total								
Coal sales (<i>millions of tonnes</i>)	1.72	0.94	0.32	0.28	0.03	0.32	1.06	0.58
Average realized selling price (<i>per tonne</i>) ⁽ⁱ⁾	\$ 25.30	\$ 22.05	\$ 26.26	\$ 22.75	\$ 47.86	\$ 16.98	\$ 52.86	\$ 54.60
Raw coal production								
(<i>millions of tonnes</i>)	1.73	1.13	0.17	0.02	–	–	0.27	1.07
Direct cash costs of product								
(<i>per tonne</i>) ⁽ⁱⁱ⁾	\$ 11.13	\$ 9.41	\$ 11.49	\$ 10.22	\$ 11.67	\$ 9.56	\$ 16.52	\$ 22.09
Mine administration cash costs of product sold (<i>per tonne</i>) ⁽ⁱⁱⁱ⁾								
	\$ 1.39	\$ 2.20	\$ 7.14	\$ 1.46	\$ 5.08	\$ 3.75	\$ 1.33	\$ 6.16
Total cash costs of product sold (<i>per tonne</i>) ⁽ⁱⁱⁱ⁾								
	\$ 12.52	\$ 11.61	\$ 18.63	\$ 11.68	\$ 16.75	\$ 13.31	\$ 17.85	\$ 28.25
Other Operational Data								
Production waste material moved (<i>millions of bank cubic meters</i>)								
	3.77	1.57	2.71	0.40	–	–	1.16	2.20
Strip ratio (<i>bank cubic meters of waste material per tonne of coal produced</i>)								
	2.18	1.39	15.55	26.21	–	–	4.31	2.07
Lost time injury frequency rate ⁽ⁱⁱⁱ⁾								
	–	–	–	–	0.1	0.2	0.2	0.3

(i) Average realized selling price excludes royalties and selling fees.

(ii) A non-IFRS financial measure, refer to “Non-IFRS Financial Measures” section. Cash costs of product sold exclude idled mine asset cash costs.

(iii) Per 200,000 man hours.

Overview of Quarterly Operational Data

Raw coal production was 1.73 million tonnes in the fourth quarter of 2013 with a strip ratio of 2.18. The Ovoot Tolgoi Mine had been fully curtailed since the end of the second quarter of 2012, and therefore there was no production in the fourth quarter of 2012. Raw coal production in the fourth quarter of 2013 was paced to meet contracted sales tonnages.

Summary of Quarterly Financial Results

\$ in thousands, except per share information

Quarter Ended	2013				2012			
	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
Financial Results								
Revenue ^{(i), (ii)}	\$ 32,457	\$ 15,652	\$ 6,129	\$ 4,398	\$ 1,186	\$ 3,804	\$ 46,575	\$ 26,497
Cost of sales ⁽ⁱⁱ⁾	(40,359)	(33,486)	(17,477)	(21,305)	(32,229)	(31,454)	(41,884)	(21,839)
Gross profit/(loss) excluding idled mine asset costs	(4,141)	(13,323)	(5,593)	(494)	(12,601)	(8,719)	20,277	4,657
Gross profit/(loss) including idled mine asset costs	(7,900)	(17,834)	(11,348)	(16,908)	(31,043)	(27,650)	4,690	4,657
Other operating expenses	(109,682)	(1,003)	(14,925)	(431)	(19,282)	(18,315)	(1,344)	(2,702)
Administration expenses	(3,668)	(4,204)	(4,024)	(3,733)	(6,080)	(5,178)	(7,497)	(5,882)
Evaluation and exploration expenses	(489)	(186)	(221)	(273)	(508)	(958)	(2,099)	(5,033)
Loss from operations	(121,740)	(23,227)	(30,518)	(21,344)	(56,913)	(52,101)	(6,250)	(8,961)
Finance costs	(5,167)	(5,382)	(5,617)	(4,996)	(4,718)	(5,164)	(4,006)	(1,497)
Finance income	1,301	124	3,366	775	(116)	12,947	26,875	236
Income tax recovery/(expense)	(13,109)	(13,377)	(415)	1,915	5,040	(2,383)	(867)	(258)
Net income/(loss)	(138,730)	(41,928)	(33,140)	(23,666)	(56,564)	(46,413)	15,955	(10,480)
Basic income/(loss) per share	\$ (0.75)	\$ (0.23)	\$ (0.18)	\$ (0.13)	\$ (0.31)	\$ (0.26)	\$ 0.09	\$ (0.06)
Diluted loss per share	\$ (0.75)	\$ (0.23)	\$ (0.18)	\$ (0.13)	\$ (0.31)	\$ (0.26)	\$ (0.04)	\$ (0.06)

(i) Revenue is presented net of royalties and selling fees.

(ii) Revenue and cost of sales relate to the Company's Ovoot Tolgoi Mine within the Mongolian Coal Division operating segment. Refer to note 2 of the Selected Information from the "Notes to the Consolidated Financial Statements" section for further analysis regarding the Company's reportable operating segments.

Overview of Quarterly Financial Results

The Company recorded a \$121.7 million loss from operations in the fourth quarter of 2013 compared to a \$56.9 million loss from operations in the fourth quarter of 2012 and a \$138.7 million net loss in the fourth quarter of 2013 compared to a \$56.6 million net loss in the fourth quarter of 2012. The fourth quarter 2013 loss from operations was negatively impacted by \$4.9 million of coal stockpile impairments (2012: \$13.3 million), \$3.8 million of idled mine asset costs (2012: \$18.4 million) and \$106.8 million of impairment losses recorded in other operating expenses (2012: \$17.1 million). The Company's loss from operations was \$6.2 million in the fourth quarter of 2013 excluding the impact of the above noted items (2012: \$8.1 million).

Revenue was \$32.5 million in the fourth quarter of 2013 compared to \$1.2 million in the fourth quarter of 2012. The Company sold 1.72 million tonnes of coal in the fourth quarter of 2013 at an average realized selling price of \$25.30 per tonne compared to sales of 0.03 million tonnes from stockpile in the fourth quarter of 2012 at an average realized selling price of \$47.86. The average realized selling price decreased as a result of the product mix in the fourth quarter of 2013. The fourth quarter of 2013 product mix primarily included Standard semi-soft coking coal compared to entirely Premium semi-soft coking coal in the fourth quarter of 2012. While certain coal price indices in China reached four year lows during 2013, Chinese coal price indices recovered slightly in the fourth quarter of 2013 compared to the third quarter of 2013. This resulted in an increase in the average realized selling price from \$22.05 in the third quarter of 2013 to \$25.30 in the fourth quarter of 2013.

Based on the royalty reference prices for the fourth quarter of 2013, the Company was subject to an average 7% royalty based on a weighted average reference price of \$69.17 per tonne. The Company's effective royalty rate for the fourth quarter of 2013, based on the Company's average realized selling price of \$25.30 per tonne, was 19% or \$4.84 per tonne compared to 6% or \$2.87 per tonne in the fourth quarter of 2012. The fourth quarter 2012 royalty per tonne benefitted from the trial royalty period from October 1, 2012 to March 31, 2013 whereby the royalty was determined using the actual contracted sales price per tonne, not the reference price.

Cost of sales was \$40.4 million in the fourth quarter of 2013 compared to \$32.2 million in the fourth quarter of 2012.

<i>\$ in thousands</i>	Three months ended December 31,	
	2013	2012
Operating expenses	\$ 21,537	\$ 199
Share-based compensation expense	28	—
Depreciation and depletion	10,096	279
Impairment of coal stockpile inventories	4,938	13,310
Cost of sales from mine operations	36,599	13,788
Cost of sales related to idled mine assets	3,760	18,441
Cost of sales	<u>\$ 40,359</u>	<u>\$ 32,229</u>

Operating expenses in cost of sales were \$21.5 million in 2013 compared to \$0.2 million in the fourth quarter of 2012. The increase in operating expenses was due to the increase in coal sales in the fourth quarter of 2013 compared to the fourth quarter of 2012.

The coal stockpile impairments recorded in both the fourth quarter of 2013 and fourth quarter of 2012 of \$4.9 million and \$13.3 million, respectively, related to the Company's higher-ash products. Cost of sales related to idled mine assets in the fourth quarter of 2013 included \$3.7 million related to depreciation expenses for idled equipment compared to \$12.1 million in the fourth quarter of 2012.

Other operating expenses were \$109.7 million in the fourth quarter of 2013 compared to \$19.3 million in the fourth quarter of 2012.

<i>\$ in thousands</i>	Three months ended December 31,	
	2013	2012
Public infrastructure	\$ 1	\$ 50
Sustainability and community relations	117	213
Foreign exchange loss	631	1,128
Provision for doubtful trade and other receivables	200	1,032
Impairment loss on available-for-sale financial asset	—	3,075
Impairment of property, plant and equipment	68,370	12,957
Impairment of prepaid expenses and deposits	30,152	—
Impairment of materials and supplies inventories	8,032	—
Other	2,179	827
Other operating expenses	<u>\$ 109,682</u>	<u>\$ 19,282</u>

The Company recorded \$68.4 million of impairment charges in the fourth quarter of 2013 to reduce various items of PP&E to their recoverable amounts (2012: \$13.0 million). The impairment charges included \$66.4 million related to the DCHF (refer to section “Processing Infrastructure – Dry Coal Handling Facility” for further analysis).

An impairment of prepaid expenses and deposit of \$30.2 million was included in other operating expenses in the fourth quarter of 2013 related to prepaid toll washing fees under the Ejin Jinda contract (refer to section “Processing Infrastructure – Wet Washing Facility” for further analysis).

Other operating expenses included an \$8.0 million impairment of materials and supplies inventories. Following a review of the Company’s mining fleet that continued in the fourth quarter of 2013, \$7.5 million of additional surplus materials and supplies inventories were identified. These items are not expected to be utilized with the Company’s existing mining fleet and, therefore, were adjusted to their net realizable value in the fourth quarter of 2013. The impairment of materials and supplies inventories in the fourth quarter of 2013 also included \$0.5 million of materials and supplies related to the DCHF.

Administration expenses were \$3.7 million in the fourth quarter of 2013 compared to \$6.1 million in the fourth quarter of 2012.

<i>\$ in thousands</i>	Three months ended	
	December 31,	
	2013	2012
Corporate administration	\$ 1,052	\$ 1,504
Legal and professional fees	2,075	3,082
Salaries and benefits	780	1,626
Share-based compensation recovery	(275)	(184)
Depreciation	36	52
Administration expenses	<u>\$ 3,668</u>	<u>\$ 6,080</u>

Legal and professional fees remained high in the fourth quarter of 2013. In particular, the internal and tripartite committees referred to in section “Regulatory Issues and Contingencies” resulted in \$1.8 million of legal and professional fees in the fourth quarter of 2013 compared to \$1.9 million in the fourth quarter of 2012. Meanwhile, corporate administration and salaries and benefits were lower in the fourth quarter of 2013 as a result of the Company’s cost-cutting initiatives throughout 2013.

Evaluation and exploration expenses were \$0.5 million in the fourth quarters of 2013 and 2012 as the Company continued to minimize evaluation and exploration expenditures in these periods.

Finance costs were \$5.2 million in the fourth quarter of 2013 compared to \$4.7 million in the fourth quarter of 2012. Finance costs in the fourth quarters of 2013 and 2012 primarily consisted of interest expense on the CIC convertible debenture. Finance income was \$1.3 million in the fourth quarter of 2013 compared to \$0.1 million in the fourth quarter of 2012. Finance income in both the fourth quarters of 2013 and 2012 primarily consisted of unrealized gains on the fair value change of the embedded derivatives in the CIC convertible debenture.

The Company recorded an income tax expense of \$13.1 million in the fourth quarter of 2013 (primarily deferred income taxes) compared to an income tax recovery of \$5.0 million in the fourth quarter of 2012 (primarily related to deferred income taxes). Deferred income tax expense in the fourth quarter of 2013 included \$17.5 million related to the derecognition of deferred tax assets related to the Company's Mongolian tax loss carry forwards and deductible temporary differences.

FINANCIAL POSITION AND LIQUIDITY

Liquidity and Capital Management

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 anticipates that coal prices in China will remain under pressure in 2014, which will continue to impact the Company's margins and liquidity. Based on the Company's forecasts for the year ended December 31, 2014, the Company is unlikely to have sufficient capital resources and does not expect to generate sufficient cash flows from mining operations in order to satisfy its ongoing obligations and future contractual commitments, including cash interest payments due on the CIC convertible debenture. Therefore, the Company is actively seeking additional sources of financing to continue operating and meet its objectives.

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 December 31, 2014 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. While the Company is actively seeking additional sources of financing to continue operating and meet its objectives, there can be no assurance that such financing will be available on terms acceptable to the Company. 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 \$250.0 million 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.

Cash Position and Liquidity

As at December 31, 2013, the Company had cash of \$21.8 million compared to cash of \$19.7 million and short term money market investments of \$15.0 million for a total of \$34.7 million in cash and money market investments as at December 31, 2012. Working capital (excess current assets over current liabilities) was \$41.7 million as at December 31, 2013 compared to \$120.4 million as at December 31, 2012. As at March 24, 2014, the Company had cash of \$10.0 million.

As at December 31, 2013, the Company's gearing ratio was 0.19 (December 31, 2012: 0.14), which was calculated based on the Company's long term liabilities to total assets. As at December 31, 2013, the Company is not subject to any externally imposed capital requirements.

2013 Interest Payment Deferral

During the second quarter of 2013, the Company and the CIC mutually agreed upon a three month deferral of the convertible debenture semi-annual \$7.9 million 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.

On September 19, 2013, the Company settled the \$7.9 million amount, plus additional accrued interest of \$0.2 million, as follows:

- The Company issued 1.8 million 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 Cdn\$2.16;
- In consideration of the common share issue, the CIC applied the \$4.0 million in cash already paid by the Company in the first quarter of 2013 for the November 19, 2012 share interest payment against the amount due on September 19, 2013; and
- The Company paid the remaining \$4.1 million 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.

Mongolian IAAC Investigation

In the first quarter of 2013, the Company was subject to orders imposed by Mongolia's Independent Authority against Corruption (the "IAAC") which placed restrictions on certain of the Company's Mongolian assets. The orders were imposed on the Company in connection with the IAAC's investigation of the Company. The Mongolian State Investigation Office (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 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.

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.

Ovoot Tolgoi Mine Impairment Analysis

Unchanged from the assessment made as at September 30, 2013, the Company determined that an indicator of impairment existed for its Ovoot Tolgoi Mine cash generating unit as at December 31, 2013. The impairment indicator was the continued weakness in the Company's share price during the fourth quarter of 2013 and the fact that the market capitalization of the Company, as at December 31, 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. The Company's Ovoot Tolgoi Mine cash generating unit carrying value was \$416.6 million as at December 31, 2013.

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

- Long term real selling price of \$110 per tonne for semi-soft coking coal FOB Australia;
- Life-of-mine coal production and operating costs; and
- A discount rate of 12.5% 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 coking coal FOB Australia, the calculated fair value of the cash generating unit increases/(decreases) by approximately \$34.0/(\$34.0) million; and
- For each 1% increase/(decrease) in the discount rate, the calculated fair value of the cash generating unit (decreases)/increases by approximately (\$44.0)/\$50.0 million.

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

REGULATORY ISSUES AND CONTINGENCIES

Regulatory Issues

Governmental and Regulatory Investigations

The Company is subject to investigations by the IAAC and 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 Prosecutor General may undertake criminal actions against the three former employees for alleged violations of taxation laws and the Company may be held liable as “civil defendant” as a result of these alleged criminal actions. These actions could result in the investigation case being imminently transferred to a Court of Justice under the relevant Mongolian law. The likelihood or consequences of such an outcome or any civil action taken against the Company 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 disputes and will vigorously defend itself against any civil or criminal actions. 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. The Company 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.

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. The Audit Committee has had the assistance of independent legal counsel in connection with its investigation.

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. Independent legal counsel and forensic accountants assisted this committee with its investigation. The tripartite committee

substantially completed the investigative phase of its activities during the third quarter of 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. Pending further reviews or questions from any of such government or regulatory authorities, the tripartite committee has been stood down and investigations have been paused.

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.

The Company, through its Board of Directors and new management, has taken a number of steps to address issues noted during the investigations and to focus ongoing compliance by employees with all applicable laws, internal corporate policies and codes of conduct, and with the Company's disclosure controls and procedures and internal controls over financial reporting.

Withdrawal of Notice of Investment Dispute

On July 11, 2012, the Company announced that SGQ Coal Investment Pte. Ltd., a wholly-owned subsidiary of the Company that owns 100% of the Company's Mongolian operating subsidiary SouthGobi Sands LLC, filed a Notice of Investment Dispute on the Government of Mongolia pursuant to the Bilateral Investment Treaty between Singapore and Mongolia. The Company filed the Notice of Investment Dispute following a determination by management that they had exhausted all other possible means to resolve an ongoing investment dispute between SouthGobi Sands LLC and the Mongolian authorities.

The Notice of Investment Dispute principally concerned the failure by the Mineral Resources Authority of Mongolia ("MRAM") to execute the PMAs associated with certain exploration licenses of the Company pursuant to which valid PMA applications had been lodged in 2011. The areas covered by the valid PMA applications included the Zag Suuj Deposit and certain areas associated with the Soumber Deposit outside the existing mining license.

On August 22, 2013, the Company announced that it had withdrawn the Notice of Investment Dispute in recognition of the fact that the dispute was resolved following the grant of three PMAs on August 14, 2013 relating to the Zag Suuj Deposit and certain areas associated with the Soumber Deposit, and the earlier grant of a PMA on January 18, 2013 pertaining to the Soumber Deposit. Each of the PMAs was granted and executed by MRAM in accordance with Mongolian law.

Contingencies

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.

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, Alexander Molyneux, the Company’s former Chief Financial Officers, Messrs. Terry Krepiakovich and Matthew O’Kane, and the members of its Audit Committee, Messrs. Andre Deepwell, Pierre Lebel and Gordon Lancaster, each of whom held those positions during the period at issue.

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 December 31, 2013 a provision for this matter is not required.

PROCESSING INFRASTRUCTURE

Dry Coal Handling Facility

Following an extensive review that commenced in the fourth quarter of 2013, the Company concluded that it does not plan to either complete or use the DCHF at the Ovoot Tolgoi Mine in the foreseeable future. This conclusion constituted an indicator of impairment and the Company performed an impairment assessment over the DCHF. As a result of the impairment assessment, the Company recorded a \$66.9 million non-cash impairment in other operating expenses to reduce the carrying value of the DCHF to its recoverable amount. The Company used a value in use cash flow model, with a discount rate of 10.4%, to estimate the recoverable amount. The total construction capital investment to date on the DCHF is \$85.0 million and the DCHF had a carrying value of \$78.1 million prior to the impairment assessment. Subsequent to the impairment charge, the DCHF has a carrying value of \$11.2 million at December 31, 2013.

The first phase of the DCHF project comprised a coal rotary breaker intended to reduce screening costs and improve yield recoveries. On February 13, 2012, the Company announced the successful commissioning of the coal rotary breaker. The Ovoot Tolgoi Mine operations were curtailed during the second half of 2012 and resumed on March 22, 2013. The Company has not operated the coal rotary breaker since its announced commissioning. The second phase of the DCHF project included the installation of dry air separation modules and covered load out conveyors with fan stackers to take processed coals to stockpiles and enable more efficient blending. In 2012, the Company announced the suspension of the completion of the DCHF project to minimize uncommitted capital expenditures and preserve the Company's financial resources. On November 14, 2013, the Company announced that it was conducting a review of the DCHF project and its contribution to the Company's product strategy.

The review of the DCHF project was completed in the first quarter of 2014. The Company continues to focus on preserving its financial resources and has assessed, using updated operating cost assumptions and estimates, that it currently has the adequate equipment and capacity to efficiently meet its commercial objectives and execute its product strategy without the use of the DCHF. The use of mobile screens at stockpile areas closer to the pits has enabled the Company to realize a cost benefit compared to hauling the coal to the central DCHF and operating the rotary breaker. This provides a lower cost solution without adversely impacting the coal quality of the coal planned to be mined over the next year. As coal markets improve and production from the Ovoot Tolgoi Mine increases in line with its anticipated annual capacity of 9 million tonnes run-of-mine production, the Company will review the use of the DCHF as part of its existing assets and continue developing beneficiation capabilities to maximize value from its product.

Wet Washing Facility

In 2011, the Company entered into an agreement with Ejin Jinda, a subsidiary of China Mongolia Coal Co. Ltd to toll-wash coals from the Ovoot Tolgoi Mine. The agreement has a duration of five years from commencement of the contract and provides for an annual wet washing capacity of approximately 3.5 million tonnes of input coal. The facility is located approximately 10km inside China from the Shivee Khuren-Ceke crossing at the Mongolia-China border (the “Shivee Khuren Border Crossing”), approximately 50km from the Ovoot Tolgoi Mine. Ejin Jinda will charge the Company a single toll washing fee which will cover their expenses, capital recovery and profit. Ejin Jinda will also transport coal from the Ovoot Tolgoi Mine to the wet washing facility under a separate transportation agreement. Pursuant to the terms of the agreement, the Company prepaid \$33.6 million of toll washing fees in 2011.

To date, commercial operations at the wet washing facility have not commenced. The Company identified the results of a trial sample from the wet washing facility and the delay in starting the commercial operations at the wet washing facility as indicators of impairment for the prepaid toll washing fees which are part of the contract with Ejin Jinda. Based on updated estimates and assumptions related to wash yields from the facility, a \$30.2 million impairment loss on the \$33.6 million of prepaid toll washing fees was recorded in the fourth quarter of 2013.

The Company’s objective continues to be the implementation of an effective and profitable wet washing solution, and the Company is cooperating with Ejin Jinda in reviewing the utilization of the wet washing facility.

TRANSPORTATION INFRASTRUCTURE

On August 2, 2011, the State Property Committee of Mongolia awarded the tender to construct a paved highway from the Ovoot Tolgoi Complex to the Shivee Khuren Border Crossing to consortium partners NTB LLC and SouthGobi Sands LLC (together referred to as “RDCC LLC”). SouthGobi Sands LLC holds a 40% interest in RDCC LLC.

On October 26, 2011, RDCC LLC signed a concession agreement with the State Property Committee of Mongolia. RDCC LLC has the right to conclude a 17 year build, operate and transfer agreement under the Mongolian Law on Concessions. Construction of the paved highway was substantially complete by the end of 2013. Subject to the Company having available financial resources to fund its portion of the remaining construction costs, the remaining construction work and commissioning of the paved highway is expected to be completed by the end of the first half of 2014.

During the third quarter of 2013, a sub-contractor employee was fatally injured by a vehicle at the construction site. Following the fatality, additional safety training was carried out by RDCC LLC and its sub-contractors in order to reinforce compliance with safety protocols.

The paved highway will have an intended carrying capacity upon completion in excess of 20 million tonnes of coal per year.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company has redeemed, purchased or sold any of its own listed securities during the year ended December 31, 2013, nor any of its subsidiaries purchased, or sold any of the Company's listed securities during the year ended December 31, 2013.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has, throughout the year ended December 31, 2013, applied the principles and complied with the requirements of its corporate governance practices as defined by the Board of Directors and all applicable statutory, regulatory and stock exchange listings standards.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED COMPANIES

The Company has adopted policies regarding directors' securities transactions in its Corporate Disclosure, Confidentiality and Securities Trading policy that has terms that are no less exacting than those set out in the Model Code of Appendix 10 of the rules governing the listing of securities on the Hong Kong Stock Exchange.

The Board of Directors confirms that all of the Directors of the Company have complied with the required policies in the Company's Corporate Disclosure, Confidentiality and Securities Trading policy throughout the year ended December 31, 2013.

OUTLOOK

Excess supply within the coking coal markets in 2013 continued with further growth from Australian producers and strong exports from North America and Russia also impacting global trade. Chinese domestic washed coking coal production increased in 2013 as a result of continued capacity expansion in Shanxi.

Coal prices in China declined progressively through 2013 before flattening out at four year lows in the third quarter and then improving slightly in the fourth quarter of 2013. However, prices remained well below the levels achieved over the last three years and the Mongolian coal industry faced strong competition from seaborne and domestic Chinese coal producers. These factors led to both lower prices and a reduction in market share of 16% for Mongolian coal producers in Chinese coking coal imports in 2013 compared to 2012.

The increase in sales volumes and the reduction in cash costs per tonne sold partially offset pricing pressures experienced in 2013 compared to 2012. The reduction in cash costs per tonne sold was driven by an improvement in mining equipment productivity and cost control measures. While the strip ratio was slightly higher in 2013 compared to 2012, it remained below long term trend. Cash costs were also favorably impacted by the depreciation of the Mongolian Tugrik versus the U.S. Dollar. The Company minimized capital expenditures and exploration expenses throughout 2013 to preserve its financial resources. As a result, despite difficult coal market conditions, the Company's cash position and liquidity¹ increased by \$3.3 million in 2013 exclusive of \$16.2 million of cash interest payments on the CIC convertible debenture.

The outlook for Mongolian coal exports remains dependent on China. Demand at the beginning of 2014 has been seasonally weak with the impact of the Chinese New Year year lasting longer than expected and prices have again declined after rising in the fourth quarter of 2013.

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 continues to strive for further cost reductions and where possible delay expenditures. However, based on its forecasts for the year ended December 31, 2014, the Company is unlikely to have sufficient capital resources and does not expect to generate sufficient cash flows from mining operations in order to satisfy its ongoing obligations and future contractual commitments, including cash interest payments due on the CIC convertible debenture. Therefore, the Company is actively seeking additional sources of financing to continue operating and meet its objectives.

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 December 31, 2014 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. While the Company is actively seeking additional sources of financing to continue operating and meet its objectives, there can be no assurance that such financing will be available on terms acceptable to the Company. 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 \$250.0 million 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.

¹ Cash position and liquidity comprises cash and short term money market investments

The Company is focused on securing additional sources of financing and continues to minimize uncommitted capital expenditures while preserving the Company's growth options.

Longer term, the Company remains well positioned, with a number of key competitive strengths, including:

- Strategic location – The Ovoot Tolgoi Mine is located approximately 40km from China, which represents the main coal market. The Company has an infrastructure advantage, being approximately 50km from a major Chinese coal distribution terminal with rail connections to key coal markets in China.
- Large resource base – The Company's aggregate coal resources (including reserves) include measured and indicated resources of 533 million tonnes and inferred resources of 302 million tonnes.
- Several growth options – The Company has several growth options including an anticipated increase to 9 million tonnes annual run-of-mine capacity at the Ovoot Tolgoi Mine as well as greenfield options with the Soumber Deposit and Zag Suuj Deposit, located approximately 20km east and approximately 150km east of the Ovoot Tolgoi Mine, respectively.
- Flexible product offering – Most of the Company's coal resources have coking properties, including a mixture of semi-soft coking coals and hard coking coals. The Company is currently studying options to supply washed coal to the market to further improve its market position and access to end customers.

Objectives

The Company's objectives for 2014 and the medium term are as follows.

- Drive operational excellence – The Company is focused on further improving operational efficiency in delivering production to meet market requirements and to further reduce operating and administrative costs.
- Continue to develop regional infrastructure – Subject to the Company having available financial resources to fund its portion of the construction costs, the Company's priority is to complete the construction of the paved highway from the Ovoot Tolgoi Mine to the Shivee Khuren Border Crossing as part of the existing consortium. Construction of the paved highway was substantially complete by the end of 2013 with the remaining construction work and commissioning expected to be completed by the end of the first half of 2014.

- Deliver value through marketing by improving our access to market and end customers and the overall quality of our product – Subject to available financial resources, implement an effective business structure and beneficiation process based on wet washing that is capable of delivering a sustainable and profitable product mix to the Chinese market and expand the Company's customer base further inland in China.
- Progress growth options – Subject to available financial resources, the Company plans to further the development of the Soumber Deposit, while staying compliant with all government requirements in relation to its licenses and agreements.
- Operating in a socially responsible manner – The Company is focused on maintaining our vigilance on health, safety and environmental performance.
- Re-establish the Company's reputation – The Company's vision is to be a respected and profitable Mongolian coal company. To achieve this, the Company will continue to work on re-establishing good working relationships with all external stakeholders.

NON-IFRS FINANCIAL MEASURES

Cash Costs

The Company uses cash costs to describe its cash production costs. Cash costs incorporate all production costs, which include direct and indirect costs of production, with the exception of idled mine asset costs and non-cash expenses which are excluded. Non-cash expenses include share-based compensation expense, impairments of coal stockpile inventories, depreciation and depletion of mineral properties.

The Company uses this performance measure to monitor its operating cash costs internally and believes this measure provides investors and analysts with useful information about the Company's underlying cash costs of operations. The Company believes that conventional measures of performance prepared in accordance with IFRS do not fully illustrate the ability of its mining operations to generate cash flows. The Company reports cash costs on a sales basis. This performance measure is commonly utilized in the mining industry.

The cash costs of product sold may differ from cash costs of product produced depending on the timing of stockpile inventory turnover.

Adjusted Net Income/(Loss)

Effective December 31, 2013, the Company discontinued the reporting of adjusted net income/(loss). The Company has determined that this non-IFRS measure no longer provides investors with useful information to evaluate the underlying performance of the Company.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statements of Comprehensive Income

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

		Year ended December 31,	
	Note	2013	2012
Revenue		\$ 58,636	\$ 78,061
Cost of sales	3	<u>(112,627)</u>	<u>(127,407)</u>
Gross loss		(53,991)	(49,346)
Other operating expenses	4	(126,040)	(41,645)
Administration expenses	5	(15,629)	(24,637)
Evaluation and exploration expenses	6	<u>(1,169)</u>	<u>(8,598)</u>
Loss from operations		(196,829)	(124,226)
Finance costs	7	(21,162)	(15,385)
Finance income	7	5,566	39,942
Share of earnings/(losses) of joint venture		<u>(53)</u>	<u>635</u>
Loss before tax		(212,478)	(99,034)
Current income tax expense	8	(3)	(354)
Deferred income tax recovery/(expense)	8	<u>(24,983)</u>	<u>1,886</u>
Net loss attributable to equity holders of the Company		<u>(237,464)</u>	<u>(97,502)</u>
Other comprehensive income/loss			
Reclassification of loss/(gain) on available-for-sale financial asset, net of tax		<u>514</u>	<u>(16,559)</u>
Net comprehensive loss attributable to equity holders of the Company		<u>\$ (236,950)</u>	<u>\$ (114,061)</u>
Basic loss per share	9	\$ (1.30)	\$ (0.54)
Diluted loss per share	9	\$ (1.30)	\$ (0.60)

Consolidated Statements of Financial Position

(Expressed in thousands of U.S. Dollars)

	Note	As at December 31,	
		2013	2012
ASSETS			
Current assets			
Cash		\$ 21,837	\$ 19,674
Trade and other receivables	10	2,578	3,292
Short term investments		—	15,000
Inventories		40,288	59,735
Prepaid expenses and deposits		11,506	47,432
Total current assets		76,209	145,133
Non-current assets			
Prepaid expenses and deposits		—	16,778
Property, plant and equipment		399,395	521,473
Long term investments		30,602	24,084
Deferred income tax assets		—	24,984
Total non-current assets		429,997	587,319
Total assets		\$ 506,206	\$ 732,452
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other payables	11	\$ 31,241	\$ 10,216
Deferred revenue		997	8,181
Current portion of convertible debenture	12	2,301	6,301
Total current liabilities		34,539	24,698
Non-current liabilities			
Convertible debenture	12	94,302	99,667
Decommissioning liability		2,308	4,104
Total non-current liabilities		96,610	103,771
Total liabilities		131,149	128,469
Equity			
Common shares		1,067,839	1,059,710
Share option reserve		51,198	51,303
Investment revaluation reserve		514	—
Accumulated deficit	13	(744,494)	(507,030)
Total equity		375,057	603,983
Total equity and liabilities		\$ 506,206	\$ 732,452
Net current assets		\$ 41,670	\$ 120,435
Total assets less current liabilities		\$ 471,667	\$ 707,754

SELECTED INFORMATION FROM THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Additional information required by the Hong Kong Stock Exchange and not disclosed elsewhere in this announcement is as follows. All amounts are expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated.

1. BASIS OF PREPARATION

1.1 Corporate information and liquidity

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.

Several adverse conditions and material uncertainties cast significant doubt upon the going concern assumption. The Company had cash of \$21,837 and working capital of \$41,670 at December 31, 2013. 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. Based on its forecasts for the year ended December 31, 2014, the Company is unlikely to have sufficient capital resources and does not expect to generate sufficient cash flows from mining operations in order to satisfy its ongoing obligations and future contractual commitments, including cash interest payments due on the CIC convertible debenture. Therefore, the Company is actively seeking additional sources of financing to continue operating and meet its objectives.

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 December 31, 2014 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. While the Company is actively seeking additional sources of financing to continue operating and meet its objectives, there can be no assurance that such financing will be available on terms acceptable to the Company. 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.

1.2 Statement of compliance

The consolidated financial statements, including comparatives, have been prepared in accordance with and 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”).

1.3 Basis of presentation

The consolidated financial statements have been prepared on a historical cost basis except for certain financial assets and financial liabilities which are measured at fair value. The Company’s 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.

1.4 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 has resulted in additional disclosures in the Company's annual consolidated financial statements.

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 the Company's 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 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.

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 “Employee benefits”, IAS 28 “Investments in Associates” (2003), IAS 36 “Impairment of Assets”, IFRS 7 “Financial Instruments” and set out amendments to a number of standards under the “Annual Improvements 2009-2011 Cycle” effective January 1, 2013. The amendments to these standards did not impact the Company’s consolidated financial statements.

2. SEGMENTED INFORMATION

The Company’s one reportable operating segment is its Mongolian Coal Division. The Company’s Corporate Division does not earn revenues and therefore does not meet the definition of an operating segment.

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

	Mongolian Coal Division	Unallocated ⁽ⁱ⁾	Consolidated Total
Segment assets			
As at December 31, 2013	\$ 490,949	\$ 15,257	\$ 506,206
As at December 31, 2012	676,981	55,471	732,452
Segment liabilities			
As at December 31, 2013	\$ 25,393	\$ 105,756	\$ 131,149
As at December 31, 2012	19,496	108,973	128,469
Segment loss			
For the year ended December 31, 2013	\$ (199,248)	\$ (38,216)	\$ (237,464)
For the year ended December 31, 2012	(84,992)	(12,510)	(97,502)
Segment revenues			
For the year ended December 31, 2013	\$ 58,636	\$ –	\$ 58,636
For the year ended December 31, 2012	78,061	–	78,061
Impairment charge on assets ^{(ii) (iii)}			
For the year ended December 31, 2013	\$ 138,718	\$ 3,067	\$ 141,785
For the year ended December 31, 2012	36,808	19,184	55,992

- (i) The unallocated amount contains all amounts associated with the Corporate Division.
- (ii) The impairment charge on assets for the years ended December 31, 2013 and December 31, 2012 relates to trade and other receivables, investments, inventories, and property, plant and equipment.
- (iii) The impairment charge on assets for the year ended December 31, 2013 relates to trade and other receivables, investments, inventories, prepaid expenses and deposits and property, plant and equipment.

3. COST OF SALES

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

	Year ended December 31,	
	2013	2012
Operating expenses	\$ 41,746	\$ 39,671
Share-based compensation expense/(recovery)	(293)	1,205
Depreciation and depletion	20,000	13,042
Impairment of coal stockpile inventories	20,735	20,531
Cost of sales from mine operations	82,188	74,449
Cost of sales related to idled mine assets ⁽ⁱ⁾	30,439	52,958
Cost of sales	\$ 112,627	\$ 127,407

- (i) *Cost of sales related to idled mine assets for the year ended December 31, 2013 includes \$25,053 of depreciation expense (2012:includes \$33,198 of depreciation expenses and \$942 of share-based compensation expense). 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 2012 idled mine asset depreciation expense relates to the Company's idled plant and equipment during the curtailment of its mining activities. The Company's mining activities remained fully curtailed until March 22, 2013, when the Company recommenced mining activities at the Ovoot Tolgoi Mine. The 2013 idled mine asset depreciation expense relates to the Company's idled plant and equipment as the 2013 production plan did not fully utilize the Company's existing mining fleet.

4. OTHER OPERATING EXPENSES

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

	Year ended December 31,	
	2013	2012
Public infrastructure	\$ 7	\$ 1,273
Sustainability and community relations	235	894
Foreign exchange loss	1,659	3,226
Provision for doubtful trade and other receivables	200	1,032
Mark-to-market loss on available-for-sale financial asset	3,067	19,184
Loss on disposal of property, plant and equipment	895	720
Impairment of prepaid expenses and deposits	30,152	—
Impairment of property, plant and equipment	72,669	15,245
Impairment of inventories	14,962	—
Other	2,194	71
Other operating expenses	\$ 126,040	\$ 41,645

5. ADMINISTRATION EXPENSES

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

	Year ended December 31,	
	2013	2012
Corporate administration	\$ 3,269	\$ 5,525
Professional fees	8,252	7,293
Salaries and benefits	3,748	5,556
Share-based compensation expense	167	6,048
Depreciation	193	215
Administration expenses	\$ 15,629	\$ 24,637

6. EVALUATION AND EXPLORATION EXPENSES

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

	Year ended December 31,	
	2013	2012
Drilling and trenching	\$ 243	\$ 3,708
Other direct expenses	84	655
License fees	657	773
Share-based compensation expense	21	333
Overhead and other	164	3,129
Evaluation and exploration expenses	\$ 1,169	\$ 8,598

7. FINANCE COSTS AND INCOME

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

	Year ended December 31,	
	2013	2012
Interest expense on convertible debenture	\$ 20,290	\$ 10,466
Unrealized loss on FVTPL investments	656	4,482
Interest expense on line of credit facility	11	322
Realized loss on disposal of FVTPL investments	91	—
Accretion of decommissioning liability	114	115
Finance costs	\$ 21,162	\$ 15,385

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

	Year ended December 31,	
	2013	2012
Unrealized gain on embedded derivatives in convertible debenture	\$ 5,481	\$ 39,512
Interest income	85	406
Realized gain on disposal of FVTPL investments	—	24
Finance income	\$ 5,566	\$ 39,942

8. TAXES

8.1 Income tax recognized in profit or loss

The Company and its subsidiaries are subject to income or profits tax in the jurisdictions in which the Company operates, including Canada, Hong Kong, Singapore and Mongolia. Income or profits tax was not provided for the Company's operations in Canada, Hong Kong, Singapore, or Mongolia as the Company had no assessable income or profit arising in or derived from these jurisdictions. A reconciliation between the Company's tax recovery/(expense) and the product of the Company's loss from operations before tax multiplied by the Company's domestic tax rate is as follows:

	Year ended December 31,	
	2013	2012
Loss before tax	\$ 212,478	\$ 99,034
Statutory tax rate	25.75%	25.00%
Income tax recovery based on combined Canadian federal and provincial statutory rates	(54,713)	(24,759)
Deduct:		
Lower effective tax rate in foreign jurisdictions	1,467	323
Tax effect of tax losses and temporary differences not recognized	59,878	15,563
Non-deductible expenses	18,354	7,341
Income tax expenses/(recovery)	\$ 24,986	\$ (1,532)

8.2 Income tax recognized in other comprehensive income

	Year ended December 31,	
	2013	2012
Fair value remeasurement of available-for-sale financial asset	\$ —	\$ (2,366)
Deferred tax recovery	\$ —	\$ (2,366)

8.3 Deferred tax balances

The Company's deferred tax assets consist of the following amounts:

	As at December 31,	
	2013	2012
Tax loss carryforwards	\$ 332	\$ 8,473
Property, plant and equipment	—	5,048
Other assets	(332)	11,463
Total deferred tax balances	\$ —	\$ 24,984

- (i) Deferred income tax expense for the year ended December 31 2013 includes a \$17,487 expense related to the derecognition of deferred tax assets (2012: \$nil).

8.4 Unrecognized deductible temporary differences and unused tax losses

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

	As at December 31,	
	2013	2012
Non-capital losses	\$ 136,185	\$ 46,130
Capital losses	2,676	—
Deductible temporary differences	257,016	103,589
Total unrecognized amounts	\$ 395,877	\$ 149,719

8.5 Expiry dates

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

	As at December 31, 2013	
	U.S. Dollar Equivalent	Expiry dates
Non-capital losses		
Canada	\$ 65,494	2032 - 2033
Mongolia	57,890	2016 - 2017
Hong Kong	13,990	indefinite
Singapore	137	indefinite
	<u>\$ 137,511</u>	
Capital losses		
Canada	2,676	indefinite

9. LOSS PER SHARE

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

	Year ended December 31,	
	2013	2012
Net loss	\$ (237,464)	\$ (97,502)
Weighted average number of shares	<u>182,883</u>	<u>181,859</u>
Basic loss per share	<u>\$ (1.30)</u>	<u>\$ (0.54)</u>
Loss		
Net loss	\$ (237,464)	\$ (97,502)
Interest expense on convertible debenture	—	10,466
Unrealized gain on embedded derivatives in convertible debenture	<u>—</u>	<u>(39,512)</u>
Diluted net loss	<u>\$ (237,464)</u>	<u>\$ (126,548)</u>
Number of shares		
Weighted average number of shares	182,883	181,859
Convertible debenture ⁽ⁱ⁾	<u>—</u>	<u>28,406</u>
Diluted weighted average number of shares	<u>182,883</u>	<u>210,265</u>
Diluted loss per share	<u>\$ (1.30)</u>	<u>\$ (0.60)</u>

(i) The convertible debenture was anti-dilutive for the year ended December 31, 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 year, if dilutive.

Potentially dilutive items not included in the calculation of diluted loss per share for the year ended December 31, 2013 were 2,583 stock options that were anti-dilutive.

10. TRADE AND OTHER RECEIVABLES

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

	As at December 31,	
	2013	2012
Trade receivables	\$ 1,818	\$ 1,439
Other receivables	<u>760</u>	<u>1,853</u>
Total trade and other receivables	<u>\$ 2,578</u>	<u>\$ 3,292</u>

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

	As at December 31,	
	2013	2012
Less than 1 month	\$ 396	\$ 2,376
1 to 3 months	1,321	95
3 to 6 months	141	159
Over 6 months	<u>720</u>	<u>662</u>
Total trade and other receivables	<u>\$ 2,578</u>	<u>\$ 3,292</u>

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.

For the year ended December 31, 2013, the Company recorded a \$200 loss provision on its trade and other receivables in other operating expenses (2012: \$1,032). The loss provisions relate to a reduction in expected insurance proceeds. The Company anticipates full recovery of its remaining outstanding trade and other receivables; therefore, no further loss provisions have been recorded in respect of the Company's trade and other receivables.

11. TRADE AND OTHER PAYABLES

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

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

	As at December 31,	
	2013	2012
Less than 1 month	\$ 28,786	\$ 8,999
1 to 3 months	554	176
3 to 6 months	367	—
Over 6 months	1,534	1,041
Total trade and other payables	\$ 31,241	\$ 10,216

12. CONVERTIBLE DEBENTURE

On November 19, 2009, the Company issued a convertible debenture to a wholly owned subsidiary of the China Investment Corporation for \$500,000.

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 stock price, forward foreign exchange rate curves (between the Cdn\$ and U.S. Dollar) and spot foreign exchange rates.

12.1 Partial conversion

On March 29, 2010, pursuant to the convertible 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).

12.2 Presentation

Based on the Company's valuation as at December 31, 2013, the fair value of the embedded derivatives decreased by \$5,481 compared to December 31, 2012. The decrease was recorded as finance income for the year ended December 31, 2013.

For the year ended December 31, 2013, the Company recorded interest expense of \$20,290 related to the convertible debenture as a finance cost (2012: the Company recorded interest expenses of \$20,094 related to the convertible debenture of which \$9,628 was capitalized as borrowing costs and the remaining \$10,466 was recorded as a finance cost). The interest expense consists of the interest at the contract rate and the accretion of the debt host component of the convertible debenture. To calculate the accretion expense, the Company uses the contract life of 30 years and an effective interest rate of 22.2%.

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

	Year ended December 31,	
	2013	2012
Balance, beginning of year	\$ 105,968	\$ 145,386
Interest expense on convertible debenture	20,290	20,094
Decrease in fair value of embedded derivatives	(5,481)	(39,512)
Interest paid	(24,174)	(20,000)
Balance, end of year	\$ 96,603	\$ 105,968

The convertible debenture balance consists of the following amounts:

	As at December 31,	
	2013	2012
Current convertible debenture		
Interest payable	\$ 2,301	6,301
Non-current convertible debenture		
Debt host	90,907	\$ 90,791
Fair value of embedded derivatives	3,395	8,876
	94,302	99,667
Total convertible debenture	\$ 96,603	\$ 105,968

12.3 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 regulated foreign direct investment into a number of key sectors of strategic importance, which included mineral resources.

As a result of the Foreign Strategic Sectors Law, the Company expected that it would require parliamentary approval for the shares to be issued for the November 19, 2012 share interest payment to the CIC. 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 Investment Law to repeal and replace the Foreign Strategic Sectors Law. The 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 Investment Law in connection with share interest payments.

13. ACCUMULATED DEFICIT AND DIVIDENDS

At December 31, 2013, the Company has accumulated a deficit of \$744,494 (December 31, 2012: \$507,030). No dividends have been paid or declared by the Company since inception.

REVIEW OF RESULTS AND RELEASE OF AUDITED RESULTS

The audited consolidated financial statements for the Company for the year ended December 31, 2013, were reviewed by the Audit Committee of the Company and approved and authorized for issue by the Board of Directors of the Company on March 24, 2014.

The figures in respect of the Company's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended December 31, 2013, as set out in this announcement have been agreed by the Company's auditor, PricewaterhouseCoopers LLP ("PwC"), to the amounts set out in the Company's audited consolidated financial statements for the year. The work performed by PwC in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PwC on this announcement.

The Company's results for the year ended December 31, 2013, are contained in the audited consolidated financial statements and unaudited Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), which will be available on March 24, 2014 on the SEDAR website at www.sedar.com and the Company's website at www.southgobi.com. Copies of the Company's 2013 Annual Report, containing the audited financial statements and MD&A, and the Annual Information Form ("AIF") will be available at www.southgobi.com. Shareholders with registered addresses in Hong Kong who have elected to receive a copy of the Company's Annual Report will receive one. Other shareholders may request a hard copy of the Annual Report free of charge by contacting our investor relations department by phone at +852 2156 7022 or +1 604 681 6799 or by email at info@southgobi.com.

ABOUT SOUTHGobi RESOURCES

SouthGobi Resources is listed on the Toronto and Hong Kong stock exchanges, in which Turquoise Hill Resources Ltd., also publicly listed in Toronto and New York, has a 56% shareholding. Turquoise Hill took management control of SouthGobi in September 2012 and made changes to the board and senior management. Rio Tinto has a majority shareholding in Turquoise Hill.

SouthGobi Resources is focused on exploration and development of its metallurgical and thermal coal deposits in Mongolia's South Gobi Region. It has a 100% shareholding in SouthGobi Sands LLC, the Mongolian registered company that holds the mining and exploration licenses in Mongolia and operates the flagship Ovoot Tolgoi coal mine. Ovoot Tolgoi produces and sells coal to customers in China.

Information contacts, SouthGobi Resources

Investors Relations

Galina Rogova

Office: +852-2839-9208

Email: galina.rogova@southgobi.com

Media Relations

Altanbagana Bayarsaikhan

Office: +976 70070710

Email: altanbagana.bayarsaikhan@southgobi.com

Website: www.southgobi.com

Forward-Looking Statements: This document includes forward-looking statements. Forward-looking statements include, but are not limited to: the Company's expectations of sufficient liquidity and capital resources to meet its ongoing obligations and future contractual commitments; including the Company's ability to secure additional funding, the estimates and assumptions included in the Company's impairment analysis; the ability of the Company to increase its market penetration in China; the ability for higher-ash product to be sold as a thermal coal product; the ability to preserve liquidity and continue on a sustainable basis; the ability of the Company to continue dialogue with the Government of Mongolia regarding a more equitable process of setting reference prices; the ability of the Company to meet the targeted annual capacity of run-of-mine production; the ability of the Company to successfully review the utilization of the wet washing facility and enhance the quality of its coal products through wet washing; the possibility of the CIC convertible debenture and all accrued and unpaid interest becoming immediately due; whether the Company will be required to obtain a permit from Mongolia's Ministry of Economic Development with regards to a share interest payment to CIC, under the CIC convertible debenture; the application and effect of uncertainties in Mongolian laws as they relate to the Company, or the effects of any subsequent amendments to those laws; the impact of future political and economic conditions in Mongolia; whether the Company's exploration projects will be converted to commercially viable mines, and the effect of any project delays, cost overruns, or changes in market conditions; the continued pressure on the coal prices in China, and the related impact on the Company's margins and liquidity; the outcome of the issues described in the section "Regulatory Issues and Contingencies"; statements regarding the outlook for 2014; statements regarding the Company's objectives for 2014 and beyond; the statement that completion of the paved highway is expected by the end of the first half of 2014; the statement that the capacity of the paved highway is in excess of 20 million tonnes of coal per year; and other statements that are not historical facts. When used in this document, the words such as "plan", "estimate", "expect", "intend", "may", and similar expressions are forward-looking statements. Although the Company

believes that the expectations reflected in these forward-looking statements are reasonable, such statements involve risks and uncertainties and no assurance can be given that actual results will be consistent with these forward-looking statements. Important factors that could cause actual results to differ from these forward-looking statements are disclosed under the heading “Risk Factors” in the Company’s MD&A for the year ended December 31, 2013 which is available at www.sedar.com.