Consolidated Financial Statements
[Expressed in United States dollars]

Undur Tolgoi Minerals Inc.

December 31, 2011, 2010 and December 22, 2010

Consolidated Financial Statements

Undur Tolgoi Minerals Inc.

Year Ended December 31, 2011 and 2010

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Management's Responsibility for Financial Reporting

The consolidated financial statements of Undur Tolgoi Minerals Inc. and the information contained in the Management Discussion and Analysis have been prepared by and are the responsibility of the Company's management. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB), and, where appropriate, reflect management's best estimates and judgements based on currently available information.

Management has developed and is maintaining a system of internal controls to obtain reasonable assurance that the Company's assets are safeguarded, transactions are authorized and financial information is reliable.

The Company's independent auditors, Ernst & Young LLP, who are appointed by the shareholders, conduct an audit in accordance with Canadian generally accepted auditing standards. Their report outlines the scope of their audit and gives their opinion on the consolidated financial statements.

The Audit Committee of the Board of Directors meets periodically with management and the independent auditors to review the scope and results of the annual audit, and to review the consolidated financial statements and related financial reporting matters prior to approval of the consolidated financial statements.

"Donald Padgett"
President and Chief Executive Officer

"Sabino Di Paola"
Chief Financial Officer

April 20, 2012

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Undur Tolgoi Minerals Inc.

We have audited the accompanying consolidated financial statements of **Undur Tolgoi Minerals Inc.**, which comprise the consolidated statements of financial position as at December 31, 2011 and 2010, and December 22, 2010, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the year ended December 31, 2011 and the period from incorporation on December 22, 2010 to December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Undur Tolgoi Minerals Inc.** as at December 31, 2011 and 2010, and December 22, 2010, and its financial performance and its cash flows for the year ended December 31, 2011 and the period from incorporation on December 22, 2010 to December 31, 2010 in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Vancouver, Canada,
April 20, 2012.

Chartered Accountants

Undur Tolgoi Minerals Inc.

Consolidated Statements of Financial Position

(expressed in United States dollars)

	Notes	As at December 31, 2011	As at December 31, 2010 (note 24)	As at December 22, 2010 (note 24)
Assets				
Current assets:				
Cash	5	$ 4,525,437	$ 1	$ 1
Accounts receivable	6	92,618	-	-
Prepayments	7	2,640	-	-
Total current assets		4,620,695	1	1
Property, plant and equipment	9	802	-	-
Exploration and evaluation assets	10	80,830	-	-
		81,632	-	-
Total assets		$ 4,702,327	$ 1	$ 1
Liabilities and shareholders' equity				
Current liabilities:				
Accounts payable and accrued liabilities		$ 454,766	$ 2,800	$ -
Due to related party	11	45,939	-	-
		500,705	2,800	-
Shareholders' equity				
Share capital	15	7,894,609	1	1
Other reserves	15	906,957	-	-
Deficit		(4,599,944)	(2,800)	-
Shareholders' equity attributed to owners of the parent		4,201,622	(2,799)	1
Non controlling interest		-	-	-
Total shareholders equity (deficiency)		4,201,622	(2,799)	1
Total liabilities and shareholders equity		$ 4,702,327	$ 1	$ 1
Corporate information	2			
Contingencies	19			

The notes to the audited consolidated financial statements are an integral part of these statements.

These consolidated financial statements were approved and authorized for issue by the Board of Directors on April 20, 2012 and are signed on its behalf by:

signed "James Passin"
Director

signed "Don Padgett"
Director

Undur Tolgoi Minerals Inc.

Consolidated Statements of Comprehensive loss

(expressed in United States dollars)

	Notes		Year ending December 31 2011		Period ending December 31 2010 (Note 24)
Expenses					
Management fees		$	**71,235**	$	-
Promotion & Investor Conference			**15,754**		-
Regulatory, exchange, AGM, press release and transfer agent fees			**12,486**		-
Professional fees			**405,397**		2,800
Finance costs			**4,769**		-
Restructuring fees			**196,360**		-
Listing expense	13		**2,336,095**		-
Listing bonus	13		**660,000**		-
Depreciation	9		**310**		-
Other expenses	16		**963,099**		-
Loss before the following items			**4,665,505**		2,800
Interest income			**1,476**		-
Foreign exchange (loss)/gain			**63,098**		-
			64,574		-
Consolidated loss		$	**4,600,931**	$	**2,800**
Other comprehensive income			**5,015**		-
Total comprehensive loss for the period		$	**4,605,946**	$	**2,800**
Consolidated loss attributable to:					
Owners of the company		$	**4,597,144**	$	2,800
Non-controlling interest			**3,787**		-
Total Comprehensive loss		$	**4,600,931**	$	2,800
Total Comprehensive loss attributable to:					
Owners of the company		$	**4,602,158**	$	2,800
Non-controlling interest	12		**3,787**		-
		$	**4,605,946**	$	2,800
Loss per common share:					
Basic and diluted		$	**(0.23)**	$	(2,800)
Weighted average number of common shares outstanding:					
Basic and diluted			**20,136,596**		1

The notes to the audited consolidated financial statements are an integral part of these statements

Undur Tolgoi Minerals Inc.

Consolidated Statements of Changes in Equity

(expressed in United States dollars)

	Notes	Number of common shares (#)	Share Capital	Other reserves: Foreign currency translation reserve	Other reserves: Share based payment reserve	Deficit	Non-controlling interest	Attributable to parent
Balance at December 22, 2010		**1**	$ **1**	$ **-**	$ **-**	$ **-**	$ **-**	$ **-**	$ **1**
Net loss and total comprehensive loss for the year		-	-	-	-	(2,800)	-	(2,800)
Balance at December 31, 2010		**1**	$ **1**	$ **-**	$ **-**	$ **(2,800)**	$ **-**	$ **(2,799)**
Net loss and total comprehensive loss for the period		-	-	-	-	(4,597,144)	(3,787)	(4,600,931)
Cumulative translation adjustment		-	-	(5,015)	-	-	-	(5,015)
Redemption of share	15	(1)	(1)	-	-	-	-	(1)
Common shares of Wedge Energy International Inc. post consolidation and pre amalgamation with UTMI	15	3,891,736	453,184	-	-	-		453,184
Common shares issued to existing UTMI shareholders pre amalgamation	15	19,975,647	765,427	-	-	-	-	765,427
Common shares in private placement	15	35,120,465	6,840,995	-	-	-		6,840,995
Share issue costs		-	(164,997)	-	-	-		(164,997)
Acquisition of Non controlling interest in Natalya-1		-	-	-	-		3,787	3,787
Share based payments	15	-	-	-	911,972	-	-	911,972
Balance at December 31, 2011		**58,987,848**	$ **7,894,609**	$ **(5,015)**	$ **911,972**	$ **(4,599,944)**	$ **-**	$ **4,201,622**

The notes to the audited consolidated financial statements are an integral part of these statements.

Undur Tolgoi Minerals Inc.

Consolidated Statements of Cash Flow

(expressed in United States dollars)

	Period ending December 31 2011 $	Period ending December 31 2010 $
Cash flow from operating activities		
Net loss for the year	$ (4,600,931)	$ (2,800)
Adjustments to reconcile loss to net cash used in operating activities:		
Unrealized foreign exchange	(33,925)	-
Share based payment expense	911,972	-
Expenses settled through issuance of common shares	96,360	-
Listing expense	2,336,095	-
Depreciation	310	-
Change in non-cash working capital balances:		
Accounts receivable	(56,703)	-
Accounts payable and accrued liabilities	171,834	2,800
Cash generated from operations	(1,174,988)	-
Income tax paid	-	-
Total cash (outflows) from operating activities	**$ (1,174,988)**	**$ -**
Cash flows from investing activities		
Investment in exploration and evaluation assets	(34,227)	-
Purchase of property, plant and equipment	(1,112)	
Loan to Wedge Energy International Inc. prior to amalgamation	(150,000)	
Payment of Wedge outstanding convertible notes and preferred shares	(1,225,350)	
Cash realized on acquisition of subsidiaries	252,957	-
Total cash inflows from investing activities	**$ (1,157,732)**	**$ -**
Cash flows from financing activities		
Proceeds from share issuance	$ 6,923,209	$ 1
Cash share issue costs	(49,646)	-
Redemption of common shares	(1)	-
Due to related party	45,939	-
Total cash inflows/(outflows) from financing activities	**$ 6,919,501**	**$ 1**
Effect of foreign exchange on cash	**$ (61,345)**	**$ -**
Total increase in cash during the year	$ 4,525,436	$ 1
Cash - Beginning of year	1	-
Cash - End of year	**$ 4,525,437**	$ 1

The notes to the audited consolidated financial statements are an integral part of these financial statements.

Undur Tolgoi Minerals Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

[Expressed in United States dollars]

1. CORPORATE INFORMATION

Undur Tolgoi Minerals Inc. [“Undur Tolgoi” or the “Company”] was incorporated on December 22, 2010 under the Business Corporations Act of British Columbia as a private company. Undur Tolgoi is in the business of acquiring and exploring mineral properties with a focus on Mongolia.

On November 14, 2011, Undur Tolgoi Minerals Inc. (“UTMI”) completed an arrangement agreement and subsequent amalgamation with Wedge Energy International Inc. (“WEG”) pursuant to the Business Corporations Act (British Columbia). WEG and UTMI were amalgamated, continuing under the name Under Tolgoi Minerals Inc. and the amalgamated company issued 19,975,647 common shares to the pre amalgamated shareholders of UTMI. Refer to Note 13.

As the Company is in the exploration stage, the recoverability of the costs incurred to date on exploration properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of its properties and upon future profitable production or proceeds from the disposition of the properties and deferred exploration expenditures. The Company will periodically have to raise funds to continue operations and, although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future.

The registered office of Undur Tolgoi is Suite 2900, 550 Burrard Street, Vancouver, British Columbia, Canada, V6C0A3.

Undur Tolgoi has a 100% interest in Natalya-1 S. à r. l. [“Natalya-1”], Novametal Resources LLC [“Novametal”], and Wedge Energy Inc [“Wedge”].

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2. BASIS OF PREPARATION

Statement of compliance

These financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). This is the first time that the Company has prepared its financial statements in accordance with IFRS, having previously prepared its financial statements in accordance with pre-changeover Canadian Generally Accepted Accounting Principles (pre-changeover Canadian GAAP).

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company’s accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in note 24.

The audited consolidated annual financial statements were approved by the Board of Directors on April 20, 2012.

Frequency of Reporting

Undur Tolgoi was incorporated on December 22, 2010. Accordingly, the comparative period reflects activities from incorporation to December 31, 2010. The current period reflects full year activities from January 1, 2011 to December 31, 2011.

Basis of presentation

Undur Tolgoi Minerals Inc. and its subsidiaries are presenting audited annual consolidated financial statements as of and for the year ended December 31, 2011. These audited consolidated financial statements have been prepared on a historical cost basis.

The audited consolidated financial statements are presented in United States dollars, which is the Company's functional currency.

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3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements include the assets and liabilities and results of operations of Undur Tolgoi and its subsidiaries after elimination of inter-company transactions and balances. Subsidiaries are entities over which Undur Tolgoi has control, where control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Generally, control is presumed to exist when a company owns more than one half of the voting rights of an entity. Where a company may own more than one half of the voting rights but its involvement with an entity is such that a company does not derive significant benefits from its activities relative to other stakeholders, control is presumed not to exist. Subsidiaries are fully consolidated from the date of acquisition, being the date on which a company obtains control, and continue to be consolidated until the date that such control ceases.

These audited consolidated financial statements include the accounts of Undur Tolgoi and its wholly owned subsidiary Natalya-1 S. à r. l. ["Natalya-1"], a company existing under the laws of Luxemburg, Novametal Resources LLC ["Novametal"], a company existing under the laws of Mongolia, and Wedge Energy Inc. ["Wedge"], a company existing under the laws of Canada. As at December 31, 2011, Natalya-1 owned 100% of the issued shares of Novametal [note 12]. Undur Tolgoi and its subsidiaries are collectively referred to as the "Company".

All intercompany transactions and balances have been eliminated on consolidation. Included in these audited consolidated financial statements are the results of operations of Natalya-1, Novametal and Wedge from the date that Undur Tolgoi acquired them.

Foreign currency transactions

The Company's functional currency, being the currency of the primary economic environment in which the Company operates, is the U.S dollar. The financial statements of each of the Company's subsidiaries are prepared in the local currency of their home jurisdictions being the functional currency. Consolidation of each subsidiary includes re-measurement from the functional currency to the Company's presentation currency. The consolidated financial statements are presented in U.S dollars.

Transactions and balances

Foreign currency transactions are initially recorded by the group entities at their respective functional currencies using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at exchange rates prevailing on the balance sheet date are recognized in the income statement with the exception of monetary items that are designated as part of the group's net investment in a foreign operation.

Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. Translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary assets are included in accumulated other comprehensive income ["AOCI"], a component of equity.

On consolidation, income statement items are translated from the functional currency into U.S. dollars at average exchange rates. Balance sheet items are translated into U.S. dollars at the exchange rate prevailing at the balance sheet date. Exchange gains and losses on translation for consolidation are recognized in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities are taken into AOCI. When the foreign operation is sold such exchange differences are recognized in the income statement.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value. For cash flow statement presentation purposes, cash and cash equivalents include bank overdrafts. The Group does not invest in any asset-backed deposits/investments. As at December 31, 2011 and 2010 the Company only held cash in banks.

Harmonized sales tax and goods and services tax

Revenues, expenses and assets are recognized net of the amount of Canadian harmonized sales tax or goods and services tax ("HST/GST"), except where the amounts of HST/GST incurred is not recoverable from the respective government taxation authorities. In these circumstances, the

HST/GST is recognized as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated with the HST/GST included. The net amount of HST/GST recoverable from, or payable to a revenue authority, is included as a current asset or a current liability.

Property, plant and equipment

Recognition and measurement

Property, plant and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses. Such costs include the cost of replacing part of the plant and equipment if the recognition criteria are met. Depreciation is calculated on a straight line basis over the useful life of the asset as follows:

Computer	3 years

An item of property, plant or equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on the recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statements of comprehensive income when the asset is derecognised.

The residual values, useful life and depreciation method are reviewed at each financial year end to ensure that the amount, method and period of depreciation are consistent with the previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Major maintenance and repairs

Subsequent costs are included in the asset’s carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Deferred exploration and evaluation assets

Costs arising from exploration and evaluation activities relating to an area of interest are carried forward, provided such costs are expected to be recouped through successful development, or by sales, or where exploration and evaluation activities have not, at balance date, reached a stage to allow a reasonable assessment regarding the existence of economically recoverable resources. All

license acquisition, directly attributable administration and exploration costs are initially capitalised in exploration and evaluation assets, as appropriate. Pre-license costs are expensed in the period in which they are incurred.

Cost carried forward in respect of an area of interest that is abandoned are written off to the statement of comprehensive loss under expenses in the year in which the decision to abandon was made.

Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indications of impairment exist an estimate of the asset's recoverable amount is calculated. The recoverable amount is determined as the higher of the fair value less costs to sell for the asset and the asset's value in use. This is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, the individual assets are grouped together into cash generating units (CGUs) for impairment purposes. Such CGU's represent the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash flows from other assets or other groups of assets. This generally results in the Company evaluating its non-financial assets on a geographical or license basis.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the statement of comprehensive loss so as to reduce the carrying amount to its recoverable amount (i.e., the higher of the fair value less cost to sell and value in use).

Impairment losses are recognized in the statement of comprehensive loss in those expense categories consistent with the function of the impaired asset. An assessment is made each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes assumptions of recoverable amount.

Reversal of Impairment

A previously recognised impairment loss is reversed only if there has been a change in the estimate used to determine the asset's recoverable amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation/amortization, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive loss.

Financial instruments

Financial assets

Financial assets are classified into one of the following categories based on the purpose for which the asset was acquired: held-to-maturity, available-for-sale, loans and receivables or fair value

through profit or loss [note 22]. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

- Financial assets, classified as fair value through profit or loss, are measured at fair value with unrealized gains and losses recognized through earnings. The Company has classified its cash and cash equivalents as fair value through profit or loss.
- Financial assets classified as available-for-sale are measured at their fair value with unrealized gains and losses recognized in other comprehensive loss except for losses in value that are considered other than temporary. An other than temporary loss will be taken directly to net loss. The Company has no financial assets classified as available-for-sale.
- Financial assets classified as held-to-maturity are measured at amortized cost. The Company has no financial assets classified as held-to-maturity.
- Financial assets classified as loans and receivables are measured at amortized cost less impairment. The Company has classified its accounts receivable as loans and receivables.

Transaction costs associated with fair value through profit or loss financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

A financial asset is derecognised when the right to receive cash flows from the asset have expired.

Impairment on financial assets

At each reporting date the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

Financial liabilities

Financial liabilities are classified as other financial liabilities, based on the purpose for which the liability was incurred, and comprise accounts payables and accrued liabilities. These liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method. This ensures that any interest expense over the period of repayment is at a constant rate on the balance of the liability carried in the statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Accounts payables are obligations to pay for materials or services that have been acquired in the ordinary course of business from suppliers. Payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Provisions

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount of the obligation can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. Timing or the amount of the outflow may still be uncertain.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

Any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset. However the asset may not exceed the amount of the related provision.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are not recognized for future operating losses.

Rehabilitation provision

The Company is subject to various government laws and regulations relating to environmental disturbances caused by exploration and evaluation activities. The Company records the present value of the estimated costs of legal and constructive obligations required to restore the exploration sites in the period in which the obligation is incurred. A rehabilitation activity includes restoration, reclamation and re-vegetation of the affected exploration sites.

The rehabilitation provision generally arises when the environmental disturbance is subject to government laws and regulations. When the liability is recognized, the present value of the estimated costs is capitalized by increasing the carrying amount of the related mining assets. Over time, the discounted liability is increased for the changes in present value based on current market discount rates and liability-specific risks.

Additional environmental disturbances or changes in rehabilitation costs will be recognized as additions to the corresponding assets and rehabilitation liabilities in the period in which they occur.

The increase in the provision due to the passage of time is recognized as interest expense.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

Share capital and reserves

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares are classified as equity instruments.

Share capital represents the nominal value of the shares issued. Any transaction costs associated with the issuing of shares are deducted from share capital, net of any related income tax benefit.

Share based payment reserve is used to recognize the value of equity settled, share based payment transactions provided to employees including key management personnel, as part of their remuneration.

Foreign currency translation reserve is used to record exchange differences arising from the translation of foreign subsidiaries.
Deficit includes all current and prior period losses.

Share-based payment transactions

Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the statement of comprehensive loss/income over the vesting period together with a corresponding increase in the share based payment reserve in equity. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the statement of comprehensive loss/income over the remaining vesting period.

Where equity instruments are granted to employees, they are recorded at the fair value of the equity instrument granted at the grant date. The grant date fair value is recognized in the statement of comprehensive loss over the vesting period, described as the period during which all the vesting conditions are to be satisfied.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in the statement of comprehensive loss, unless they are related to the

issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of share capital.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value of the equity instruments issued is measured by the use of a valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioral considerations. All equity-settled share-based options are reflected in the share based payment reserve, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in contributed surplus is credited to share capital, adjusted for any consideration paid.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duties.

Employee benefits

Short term benefits

Wages, salaries and other salary related expenses are recognized as an expense in the year in which the associated services are rendered by the employees of the Company. Short term accumulated compensated absences such as paid annual leave are recognized when services rendered by employees that increase their entitlement to future compensated absences and short term non-accumulated compensated absences such as sick leave are recognized when absences occur.

The Company only has employees in Novametal Resources LLC, it’s Mongolian, subsidiary. The Company engages contractors to provide administrative services for Natalyia-1 and Undur Tolgoi Minerals Inc. Contractor payments are expensed in the period in which services are provided by the contractors.

Defined contribution plans

As required by the law, companies in Mongolia make contributions to the government pension scheme, Social Security and Health Insurance Fund. Such contributions are recognized as an expense in the statement of comprehensive income as incurred.

Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that they relate to a business combination or items recognized directly in equity or in other comprehensive income (loss).

Current income tax

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

Current tax assets and current tax liabilities are only offset if a legal enforceable right exits to set off the amounts, and the Company intends to settle on a net basis, or realize the asset and settle the liability simultaneously.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the statement of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

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

Deferred income tax liabilities are recognized for all taxable difference except:

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

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

- Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction in that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right to set off the current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same tax authority.

Loss or earnings per common share

Basic loss or earnings per common share is computed by dividing the net income or loss applicable to common shares of the Company by the weighted average number of common shares issued and outstanding for the relevant period.

Diluted loss or earnings per common share is computed by dividing the net income or loss applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding, if potentially dilutive instruments were converted.

Segment reporting

In identifying its operating segments, management generally follows the geographical location of the Company’s projects, which represents the main zones in which the Company has operations.

The activities undertaken by all of the operating segments are exploration and evaluation of mineral resources. Each of these operating segments is managed separately as each of these segments requires resources allocated specifically to the projects as well as different marketing approaches for potential joint ventures and financings.

Standards, amendments and interpretations not yet effective

Standards issued but not yet effective up to the date of issuance of the Company’s financial statements are listed below. This listing of standards and interpretations issued are those that the Company reasonably expects to have an impact on disclosures, financial position or performance

when applied at a future date. The Company intends to adopt these standards when they become effective.

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has there no impact on the Company's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Company's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Company's financial position or performance.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011 or the first half of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities —Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition

of a joint venture must be accounted for using the equity method. The application of this new standard will impact the financial position of the Company. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Involvement with Other Entities
IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Company is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

The Company has not yet determined the impact of the application of these new standards, amendments and interpretations on its future results and financial position.

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4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the audited consolidated financial statements in conformity with International Financial Reporting Standards requires the Company to make estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

These audited consolidated financial statements include estimates that, by their nature are uncertain. The impact of such estimates is pervasive throughout the financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the consolidated financial statements within the next financial year are discussed below.

- Management's assumption of no material restoration, rehabilitation and environmental obligations, based on the facts and circumstances that existed during this reporting period;

- The application of the Company's accounting policy for exploration and evaluation expenditure requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in profit or loss in the period the new information becomes available;
- Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects;
- The impairment of assets that are included in the consolidated statement of financial position;
- The Company measures the cost of equity-settled transactions with employees and consultants by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them;
- Contingencies listed in the notes to the consolidated financial statements will only be resolved when one or more future events occur or fail to occur. Management's assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	December 31, 2011	**December 31, 2010**	**December 22, 2010**
	$	$	$
Cash at banks	**4,525,437**	—	—
Cash on hand	**-**	1	1
	4,525,437	1	1

As at December 31, 2011, CAD$3,396,402 and MNT 43,425,309 (Mongolian Togrog) was included in the cash of the Company. This amount has been translated into USD $ using the closing exchange rate on December 31, 2011.

Cash earns interest at floating rates based on the daily bank deposit rates.

6. ACCOUNTS RECEIVABLE

	December 31, 2011 $	December 31, 2010 $	December 22, 2010 $
Sales tax receivable	**92,618**	—	—

Amounts receivable are non-interest bearing and are generally on 30 day terms.

7. OTHER ASSETS

	December 31, 2011 $	December 31, 2010 $	December 22, 2010 $
Prepayments	**2,640**	—	—

8. LOAN RECEIVABLE

In June 2011, the Company entered into a loan agreement with Wedge Energy International Inc. [“Wedge”] whereby the Company made a loan to Wedge in the principal amount of $150,000. The loan receivable must be repaid within three months of the closing date of the reverse takeover transaction. Pursuant to the arrangement agreement which was completed on November 14, 2011 the loan was dissolved upon the amalgamation of the Company and Wedge [note 13].

9. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	Office furniture $
Cost	
at December 22, 2010	—
at December 31, 2010	—
Additions	**1,112**
Disposals	—
at December 31, 2011	1,112
Accumulated depreciation	
at December 22, 2010	—
at December 31, 2010	—
Depreciation charge	**310**

Disposals	—
at December 31, 2011	310
Net book value	
at December 22, 2010	—
at December 31, 2010	—
at December 31, 2011	802

10. EXPLORATION AND EVALUATION ASSETS

Ulaanbaatar, Mongolia

The Company, through its wholly owned subsidiary Novametal, owns a 100% interest in the Undur Tolgoi license granted by the Minerals Resources Authority of Mongolia. The license was granted in October 2004 and transferred to Novametal in May 2010; it expires October 13, 2013. The Company is in compliance with annual minimum expenditure requirements and has no outstanding obligations under Mongolian minerals law.

The license is situated 700 kilometres south of Ulaanbaatar in the Khatanbulag sub-province of the Dornogobi province. The license covers 9,620 hectares and allows for the exploration of all minerals with the exception of uranium, petroleum, gas and water. The Company plans to explore for gold and copper mineralization.

The license is subject to an annual licence rental payment of $1.50 per hectare, minimum expenditures on exploration of $1.50 per hectare, service fees $500 per year and minimum donations to local authorities of $500 per year. The Company must therefore spend at least $29,860 annually maintaining the licence.
Exploration and evaluation assets consist of the following:

	Total $
Balance, December 22, 2010	—
Balance, December 30, 2010	**—**
Acquired through the purchase of Novametal	52,217
Exploration costs incurred in the year	34,227
Effect of changes in foreign exchange rates	(5,614)
Balance, December 31, 2011	80,830

11. DUE TO RELATED PARTY

	December 31, 2011 $	**December 31, 2010** $	**December 22, 2010** $
Due to FGS Advisors LLC	**45,939**	—	—

As at December 31, 2011, the Company has a balance of $ 45,939 (December 31, 2010 - $NIL) owing to FGS Advisors LLC, a company controlled by a significant shareholder of UTMI, for advances made to fund expenses associated with the acquisition of Wedge Energy International Inc. The advances are non interest bearing with no set terms of repayment. Subsequent to December 31, 2011, the Company repaid the balance owing to FGS Advisors LLC.

12. ACQUISITION OF NATALYA-1

In February 2011, the Company acquired the issued shares of Natalya-1, a private limited liability corporation existing under the laws of Luxembourg from its shareholder, Firebird Mongolia, through the issuance of 5,187,580 common shares. At the time of this transaction, Firebird Mongolia was the Company's sole shareholder. Natalya-1 owned 51% of the issued shares of Novametal, a limited liability corporation existing under the laws of Mongolia.

The net assets acquired had a fair value of $215,517:

	$
Cash	231,927
Accounts receivable	1,006
Property, plant and equipment	1,086
Exploration properties	52,217
Current liabilities	(26,580)
	259,656
Less non-controlling interest	(44,139)
Net assets acquired	215,517

The Company has accounted for the transaction as an asset acquisition under the scope of IFRS 2, *Share Based Payments*. Consideration consisted entirely of shares of the Company which were measured at the fair value of net assets acquired. The non-controlling interest was measured as 49% of the fair value of net assets acquired.

On May 13, 2011, the Company acquired the remaining 49% of Novametal (a subsidiary of Natalya-1) through the issuance of 9,788,067 common shares for which the Company also received cash of $146,821 [note 15]. The net assets of Natalya-1 acquired had a fair value of $187,667. In accordance with IAS 27, *Consolidated and Separate Financial Statements*, the transaction constituted one among owners as the Company had control of Novametal prior to the purchase. Therefore, the acquisition was accounted for as an equity transaction. The carrying amounts of the controlling and non-controlling interests were adjusted to reflect the changes in their relative interests in Novametal. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid was recognized directly in equity.

13. ACQUISITION OF WEDGE ENERGY INTERNATIONAL INC.

In November 2011, the Company through an arrangement agreement acquired the issued shares of Wedge Energy International Inc., a public company incorporated under the laws of Canada from its shareholders, through the issuance of 3,891,736 common shares. Wedge Energy International Inc. owned 100% of the issued shares of Wedge Energy Inc., a private corporation incorporated under the laws of Canada.

Legally, Wedge is the parent of UTMI; however, as a result of the share exchange, control of the combined companies passed to the former shareholders of UTMI, which for accounting purposes is deemed to be the acquirer. For financial reporting purposes the transaction has been accounted for under IFRS 2 Share Based Payment and therefore the financial statements have been prepared as a continuation of UTMI. Consequently, through the period ended November 14, 2011 the consolidated statements of comprehensive loss and the consolidated statements of cash flows relate only to UTMI, the acquirer. Subsequent to November 14, 2011, the net assets of UTMI are included in the balance sheet at their carrying values, and the acquisition of Wedge is accounted for by the acquisition method, with the net assets of Wedge recorded at their estimated fair values.

a.) the assets and liabilities of UTMI are recognized and measured at their pre-combination carrying amounts.
b.) the retained earnings (deficit) and other equity balances are the retained earnings (deficit) and other equity balances of UTMI immediately prior to the share exchange transaction.
c.) the amount recognized as issued equity was determined by adding the cost of the combination to the issued equity of UTMI immediately prior to the share exchange transaction. However, the equity structure appearing in these consolidated financial statements (the number and type of equity instruments issued) reflect the equity structure of Wedge, including the equity instruments issued by Wedge to effect the combination.

The net assets acquired had a negative fair value of $1,570,325:

	$
Cash	21,030
Accounts receivable	34,909
Prepaid expenditures	2,640
Current liabilities and redemption of convertible notes and preferred shares	(1,629,247)
Net assets acquired	(1,570,668)

The Company has accounted for the transaction as an asset acquisition under the scope of IFRS 2, *Share Based Payments*. Consideration consisted entirely of shares of the Company which were measured at the fair value of the UTMI shares issued to existing UTMI shareholders at the fair market value of the UTMI shares at the date of the acquisition. The recognition of a listing expense as part of the acquisition of a public company is determined as the proceeds paid by the Company less the net assets acquired by the Company as a result of the takeover. The Company recognized a listing expense of $2,336,095.

In May 2011, the Company agreed to pay $660,000 to SMDD Capital Ltd. upon listing of the Company's shares on a recognized stock exchange through either a reverse takeover, initial public

offering of the shares or a similar transaction, such payment being subject to Canadian Securities Laws and regulations adopted by the applicable stock exchange. Upon the reverse takeover of Wedge under the terms of the arrangement agreement the Company had reached its miles per the agreement with SMDD Capital Ltd. and paid the $660,000 bonus on November 15, 2011. This amount represents a performance bonus on the Company being publicly traded.

14. SUBSIDIARIES

The following entities are included in these consolidated financial statements:

	Primary Activity	Country of incorporation	Ownership Interest December 31, 2011
Natalya-1 S. à r. l.	Investment	Luxembourg	100%
Novametal Resources LLC	Resource exploration	Mongolia	100%
Wedge Energy Inc.	Investment	Canada	100%

Subsequent to the year end the Company dissolved its subsidiary Wedge Energy Inc. Refer to the "Events after reporting period" note.

15. SHARE CAPITAL

Authorized share capital

The authorized capital of the company consists of unlimited common shares without par value.

The holders of common shares are entitled to receive dividends (if any) which are declared from time to time, and are entitled to one vote per share at Undur Tolgoi's meetings. All shares are ranked equally with regards to the Company's residual assets.

As described in note 13, the equity structure of the group represents the equity structure of the legal parent.

Issued share capital

At December 31, 2011, there were 58,987,848 common shares outstanding [December 31, 2010 - 1; December 22, 2010 - 1].

Common share issuances

The Company issued one common share on its formation in December 2010 for cash consideration of $1. In January 2011, the Company redeemed this share for cash consideration of $1.

In January 2011, the Company issued 5,000,000 common shares at a price of $0.01 per share to Firebird Mongolia Fund, Ltd. [“Firebird Mongolia”] for gross proceeds of $50,000.

In February 2011, the Company acquired the issued shares of Natalya-1 through the issuance of 5,187,580 common shares [note 12], valued at $215,517.

In May 2011, the Company issued 9,788,067 common shares at a price of $0.015 per share to SMDD Capital Ltd., for cash proceeds of $146,821 and a 49% interest in Novametal with a fair value of $40,846 for total consideration of $187,667. Following this transaction, Novametal is a wholly owned subsidiary of the Company.

In November 2011, the Company issued 19,975,647 common shares with an assigned value of CAD $0.20 per share to the former shareholders of Undur Tolgoi Minerals Inc. under the terms of the arrangement agreement for total deemed consideration of $ 765,427. Following this transaction, Wedge is legally the parent of UTMI, however, for accounting purposes Wedge is considered a wholly owned subsidiary of the Company. Please refer to [note 13] for more details regarding this transaction.

In November and December 2011, the Company completed a two tranche private placement and issued 35,120,465 common shares at a price of CAD$0.20. Investors had the option to pay in either Canadian or US dollars. The private placement raised gross proceeds of US$6,840,995 after conversion of the Canadian funds into US dollars. As a result of the conversion the US dollar price per share was $0.19.

Stock options

Under the terms of the Company’s stock option plan (the “Plan”) all options are granted with an exercise price equal to the closing market price on the day immediately preceding the date of grant. The term of options is determined by the Board of Directors and is typically three or five years with a maximum term of 10 years. Options issued to consultants who perform investor relations activities will be subject to a vesting schedule whereby no more than 25% of the options granted may vest in any three month period. The maximum number of options authorized for issue shall be 10% of the outstanding shares in issue at the date of the option grant.

Options Issued to key management and consultants

The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

Options Issued to service providers

Options issued to service providers, are measured based on the fair value of the goods or services received, at the date of receiving those goods or services. If the fair value of the goods or services received cannot be estimated reliably, the options are measured by determining the fair value of the options granted, using a valuation model.

The following table provides detailed information about stock options outstanding as at December 31, 2011.

Expiry Date	Exercise Price	Options Outstanding	Weighted Average Remaining contractual Life (years)	Options Vested	Options unvested
December 6, 2016	$ 0.25	4,975,000	5	4,975,000	-

The Company records a charge to the statement of comprehensive loss using the Black-Scholes fair valuation option pricing model. The valuation is dependent on a number of estimates, including the risk free interest rate, the level of stock volatility, together with an estimate of the level of forfeiture. The level of stock volatility is calculated with reference to historic traded daily closing share prices at the date of issuance.

Option pricing models require the inputs of highly subjective assumptions including the expected price volatility. Changes to the subjective input assumptions can materially affect the fair value estimate and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's share options.
The model inputs for options granted during the year ended December 31, 2011 and period ended 2010 included:

	December 2011	December 2010
Share price at date of grant	$0.20	$ -
Expected volatility	163.03%	-
Expected option life (in years)	5	-
Risk-free interest rate	1.28%	-
Expected dividend yield	0%	-
Exercise price at date of grant	$0.25	-

Stock option activity is as follows:

	Number	Weighted- Average exercise price	Expiry
Outstanding, December 31, 2010	-	-	-
Granted	4,975,000	0.25	December 6, 2016
Outstanding, December 31, 2011	4,975,000	0.25	December 6, 2016

On December 6, 2011, the Board of Directors approved the grant of 4,975,000 stock options at a price of $0.25 expiring December 6, 2016 to Directors, Officers and Consultants of the Company which vested immediately. The value to the stock-based compensation was $911,972.

Share based payment reserve

Amounts recorded in share based payment reserve in shareholders' equity relate to the fair value of stock options.

Activity with respect to the share based payment reserve is summarized as follows:

	As at December 31, 2011 $	As at December 31, 2010 $
Balance, beginning of year	**-**	-
Stock-based compensation	**911,972**	-
Balance, end of year	**911,972**	-

16. OTHER EXPENSES

	December 31, 2011 $	December 31, 2010 $
Rent	**3,201**	-
Phone, utilities, supplies and other	**6,117**	-
Website, internet and printing	**35**	-
Contractor fees	**41,650**	-
Stock option expense (note 15)	**911,972**	-
Insurance	**124**	-
Total	**963,099**	-

17. INCOME TAXES

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate for the full financial year applied to the pre-tax loss for the year. The Company's effective tax rate for the year ended December 31, 2011 was 26.5 % (December 31, 2010 – 28.5 %).

	December 31, 2011	December 31, 2010
Loss before income taxes	**$ (4,600,932)**	$ (2,800)
Statutory rate	**26.5%**	28.5%
Expected recovery of income tax	**(1,219,247)**	(798)
Permanent differences	**941,613**	-
Change in enacted future tax rates	**15,264**	98
Difference in foreign tax rates	**7,969**	-
Deferred tax assets not recognized	**254,401**	700
Deferred income taxes	**$ -**	$ -

The nature and tax effect of the temporary differences giving rise to the deferred income tax assets and liabilities at December 31, 2011 are summarized as follows:

	December 31, 2011	December 31, 2010
Share issue costs	$ **32,995**	$ -
Restructuring fees	**206,318**	-
Other	**211**	-
Loss carry forwards	**57,032**	700
Unrecognized deferred tax asset	$ **296,566**	$ 700

As at December 31, 2011, the Company has $228,129 (2010 - $2,800) estimated non-capital losses for Canadian income tax purposes that may be carried forward to reduce taxable income derived in future years. A summary of these tax losses is provided below.

These carry forward balances expire as follows:

Year	Loss Carry Forwards	Expiry
2010	$ 2,800	2030
2011	$ 225,329	2031
	$ 228,129	

The potential benefits of these carry-forward non-capital losses, and deductible temporary differences has not been recognized in these consolidated financial statements as it is not considered probable that sufficient future taxable profit will allow the deferred tax asset to be recovered.

18. RELATED PARTY TRANSACTIONS

Related parties include the Board of Directors, close family members and enterprises that are controlled by these individuals as well as certain persons performing similar functions.

Transactions with Key management personnel

Key management of the Company are members of the Board of Directors, the Chief Executive Officer, the Chief Financial Officer, Vice President of Exploration, and President. Key management remuneration includes the following:

	December 31, 2011	December 31, 2010
Short-term Key management benefits		
Compensation including bonuses	$ **272,571**	$ -
Long-term Key management benefits		
Share based payments	**540,767**	-
Total remuneration	$ **813,338**	$ -

1) Consulting fees include USD$13,827 paid to S2 Management Inc. which is controlled by the Company's previous CFO, who resigned in November 2011. As at December 31, 2011 accounts payable include USD$209 due to S2 Management Inc.

2) Consulting fees include USD$5,780 paid to Sabino Di Paola the Company's current Chief Financial Officer and Corporate Secretary. The Company has a consulting contract with Sabino Di Paola whereby the company pays CND$100/hour for services rendered. As at December 31, 2011 accounts payable include USD$1,528 due to Sabino Di Paola.

3) Consulting fees include USD$9,801 paid to Primary Venture Corporation. which is controlled by the Company's Chief Executive Officer. The Company has a consulting contract with Primary Venture Corp. whereby the company pays CND$10,000 a month for management fees. The Company paid Primary Venture Corp restructuring fees of USD$196,360 of which USD$98,360 was settled in common shares of the Company. As at December 31, 2011 no accounts payable were due to Primary Management Inc.

4) Consulting fees include USD$46,803 paid to Jimmie Wilde the Company's Chief Operating Officer. As at December 31, 2011 no accounts payable were due to Jimmie Wilde.

The Company acquired all of the issued shares of Natalya-1 from its sole shareholder at the time for the issuance of common shares. The Company acquired a 49% interest in Novametal through the issuance of common shares [notes 12 and 15].

The Company acquired all of the issued shares of Wedge Energy International Inc. from its shareholders at the time for the issuance of common shares [notes 13 and 15].

The Company entered into a loan agreement with Wedge Energy International Inc. [note 8]. A key member of management at Wedge exerts significant influence over the Company as a member of the Board of Directors. The loan was dissolved by the Company upon completion of the arrangement agreement and subsequent amalgamation of the Company and Wedge.

All related party transactions were within the normal course of operations and have been recorded at amounts agreed to by the transacting parties.

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19. CONTINGENCIES

The Company has agreed to pay a bonus of $1,000,000 to a shareholder of the Company if Novametal's exploration license is converted to a 30-year mining license [note 10]. This bonus is contingent consideration for the transfer of the licence to Novametal.

Under a share subscription agreement entered into between SMDD and the Company, the Company agreed to grant SMDD additional shares at a price of US$0.50 per share, having an aggregate value not exceeding US$ 2,000,000 and up to an amount of 4,000,000 shares if the Australian Joint Ore Reserves Committee issue a resource report indicating that the proven recoverable copper reserves exceeds 25,250,000 pounds. This share issuance is contingent consideration for the proven recoverable copper reserves on the licensed property held in Novametal.

The Company has a commitment with its Chief Financial Officer in which the Company guarantees a minimum of 250 billable hours at an hourly rate of $100 per hour over a 3 year term ending February 1, 2013.

The above amounts have not been recognized in the consolidated financial statements as there is not sufficient certainty that the qualifying transactions will take place.

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20. SEGMENT REPORTING

The Company has one reportable operating segment, being that of acquisition and exploration and evaluation activities. All of the Company's non-current assets are located in Mongolia.

The Company has the following non current assets located in Mongolia

Property, plant and equipment	$ 802
Exploration and evaluation assets	80,830
Total	$ 81,632

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21. CAPITAL MANAGEMENT

The Company's capital structure has been defined by Management as being comprised of shareholders' equity, which comprises share capital and other components of equity and accumulated deficit, which at December 31, 2011, totals $ 4,599,944 (December 2010 - $ (2,800)). The Company's objectives when managing its capital structure are to preserve the Company's access to capital markets and its ability to meet its financial obligations and to finance its exploration activities and general corporate costs. This is achieved by the Board of Directors review and acceptance of exploration budgets that are achievable within existing resources and the timely matching and release of the next stage of expenditures with the resources made available from private placements or other funding.

The Company monitors its capital structure using annual forecasted cash flows, exploration budgets and targets for the year, as well as corporate capitalization schedules.

The Company currently has no source of revenues; as such the Company is dependent upon external financing to fund its activities. In order to carry future projects and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company to maintain flexibility while achieving the objectives stated above as well as support future business opportunities. To manage the capital structure the Company may adjust its exploration programs, operating expenditure plans, or issue new common shares and warrants.

The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's Management to sustain future development of the business.

There were no changes in the Company's approach to capital management for the year ended December 31, 2011. The Company is not subject to externally imposed capital requirements or covenants.

22. FINANCIAL RISK MANAGEMENT

The carrying values of the Company's financial instruments are classified into the categories below. Fair values are determined either directly by reference to published price quotations in an active market, or from valuation techniques using observable inputs.

	December 31, 2011 $	December 31, 2010 $	December 22, 2010 $
Fair value through profit or loss [1]	**4,525,437**	1	1
Other financial liabilities [2]	**500,705**	2,800	—

[1] cash and cash equivalents
[2] accounts payable and accrued liabilities and due to related parties

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies. These financial instruments are short-term in nature and therefore fair values approximate their carrying values. The fair values of the Company's financial instruments are not materially different from their carrying values.

The three levels of the fair value hierarchy are:

[i] Level 1 – Unadjusted quoted prices in active markets for identical assets and liabilities
[ii] Level 2 – Inputs other than quoted prices that are observable for the asset or liability directly or indirectly
[iii] Level 3 – Inputs that are not based on observable market data

As at December 31, 2011 and December 31, 2010, the Company's financial instruments which are measured at fair value on a recurring basis were cash and cash equivalents. These financial instruments were classified as Level 1 financial instruments.

Risks arising from financial instruments and risk management

The Company's activities expose it to a variety of risks including interest rate risk, credit risk, liquidity risk and commodity price risk. Reflecting the current stage of development of the Company's various projects, the Company's overall risk management program focuses on facilitating the Company's ability to continue as a going concern and seeks to minimize potential adverse effects on the Company's ability to execute its business plan. Risk management is the

responsibility of the finance function. Material risks are identified and monitored and are discussed by senior management and with the Audit Committee and the Board of Directors.

Interest rate risk

The Company does not have any debt obligations which expose it to interest rate risk.

Credit risk

Credit risk arises from cash and cash equivalents held with banks and financial institutions, as well as credit exposure on outstanding accounts receivable. The maximum exposure to credit risk is equal to the carrying value of accounts receivable.

The Company's cash and cash equivalents are predominantly held through large reputable Canadian financial institutions and management believes the risk of loss is remote.

Liquidity risk

Liquidity risk encompasses the risk that the Company cannot meet its financial obligations. At December 31, 2011, the Company had a working capital of $4,119,989 [December 31, 2010 - deficiency of $2,799]. Accordingly, the Company is able to meet its current obligations.

Foreign exchange risk

The Company conducts operations in Mongolia where many of its transactions are denominated in the Mongolian tugrik. Accordingly the results of operations and financial position of the Company are subject to changes in the exchange rate between the US dollar and the Mongolian tugrik. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

The Company is not significantly exposed to a fluctuation of foreign exchange, interest, or credit risk.

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23. EVENTS AFTER THE REPORTING DATE

On January 30, 2012, the Company dissolved its wholly owned subsidiary Wedge Energy Inc.

In the first quarter of 2012 consultants of the Company forfeited stock options totaling 450,000 with an exercise price of $0.25 expiring on December 6, 2016.

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24. FIRST-TIME ADOPTION OF IFRS

As required by the Canadian Accounting Standards Board, the Company adopted IFRS effective January 1, 2011. The Company's transition date was December 22, 2010, and the Company has prepared its IFRS opening consolidated statement of financial position as at that date. These

consolidated financial statements have been prepared in accordance with the accounting policies described in note 3.

Up to and including the period ended December 31, 2010, the Company's financial statements conformed to Canadian GAAP. Consequently, the Company has prepared for the first time its annual consolidated financial statements in accordance with IFRS for the year ended December 31, 2011.

The Company followed the provisions of IFRS 1, *"First-time Adoption of IFRS"* [IFRS 1], in preparing its opening IFRS consolidated statement of financial position as of the transition date. There were no differences between the accounting policies of Canadian GAAP and IFRS related to the accounting of transactions or events before the date of transition to IFRS. Therefore, no adjustments were identified that would impact the opening IFRS statement of financial position.

Exemptions applied

IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain IFRS, effective for the year ending December 31, 2011. The Company did not elect to utilize any of the IFRS 1 allowable exemptions.

Statement of cash flows

There is no significant impact on the presentation of the Company's consolidated statement of cash flows for the period ended December 31, 2010. The Company has therefore not presented a reconciliation of the consolidated statement of cash flows.

Reconciliation of statement of financial position as at December 22, 2010

	Canadian GAAP	**Effect of transition to IFRS**	**IFRS**
	$	$	$
ASSETS			
Current			
Cash	1	—	1
	1	—	1
SHAREHOLDERS' EQUITY			
Share capital	1	—	1
	1	—	1

Reconciliation of statement of financial position as at December 31, 2010

	Canadian GAAP $	Effect of transition to IFRS $	IFRS $
ASSETS			
Current			
Cash	1	—	1
	1	—	1
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	2,800	—	2,800
Shareholders' equity			
Share capital	1	—	1
Deficit	(2,800)	—	(2,800)
	(2,799)	—	(2,799)
	1	—	1

Reconciliation of the statement of comprehensive loss for the period from December 22, 2010 [incorporation] to December 31, 2010

	Canadian GAAP $	Effect of transition to IFRS $	IFRS $
EXPENSES			
Professional fees	2,800	—	2,800
Loss and comprehensive loss for the period	(2,800)	—	(2,800)

Undur Tolgoi Minerals Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

[Expressed in United States dollars]

Reconciliation of statement of shareholders' equity as at December 22, 2010

	Canadian GAAP $	Effect of transition to IFRS $	IFRS $
Share capital			
Balance, beginning of period	—	—	—
Incorporation share subscription	1	—	1
Balance, end of period	1	—	1

Reconciliation of statement of shareholders' equity as at December 31, 2010

	Canadian GAAP $	Effect of transition to IFRS $	IFRS $
Share capital			
Balance, beginning of period	—	—	—
Incorporation share subscription	1	—	1
Balance, end of period	1	—	1
Deficit			
Balance, beginning of period	—	—	—
Net loss	(2,800)	—	(2,800)
Balance, end of period	(2,800)	—	(2,800)
Total shareholders' equity	(2,799)	—	(2,799)