Consolidated Annual Financial Statements
[Expressed in United States dollars]

Undur Tolgoi Minerals Inc.

For the years ended December 31, 2012 and 2011

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For the years ended December 31, 2012 and 2011

Table of contents

Management's Responsibility for Financial Reporting

The consolidated annual financial statements of Undur Tolgoi Minerals Inc. 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 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 Board of Directors is responsible for reviewing and approving the audited consolidated financial statements together with other financial information of the Company and for ensuring that management fulfils its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the audited consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the audited consolidated financial statements together with other financial information of the Company for issuance to shareholders.

"Donald Padgett"
President and Chief Executive Officer

"Sabino Di Paola"
Chief Financial Officer

April 19, 2013

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, 2012 and 2011, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

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, 2012 and 2011, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Vancouver, Canada,
April 19, 2013.

Chartered Accountants

Undur Tolgoi Minerals Inc.

Consolidated Statements of Financial Position

(expressed in United States dollars)

	Notes		As at December 31 2012		As at December 31, 2011
Assets					
Current assets:					
Cash and cash equivalents	5	**$**	**2,789,956**	$	4,525,437
Accounts receivable	6 & 12		**242,950**		92,618
Prepayment			**48,686**		2,640
Total current assets			**3,081,592**		4,620,695
Non-current assets					
Property, plant and equipment			**346**		802
Exploration and evaluation assets	7		**539,413**		80,830
Total non-current assets			**539,759**		81,632
Total assets		**$**	**3,621,351**	$	4,702,327
Liabilities and shareholders' equity					
Current liabilities:					
Accounts payable and accrued liabilities		**$**	**239,421**	$	454,766
Due to related party	8		**-**		45,939
Total current liabilities			**239,421**		500,705
Shareholders' equity					
Share capital	10		**7,894,609**		7,894,609
Other reserves	10		**872,924**		906,957
Deficit			**(5,385,603)**		(4,599,944)
Shareholders' equity			**3,381,930**		4,201,622
Total liabilities and shareholders' equity		**$**	**3,621,351**	$	4,702,327
Contingencies	15				

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 19, 2013 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 ended December 31 2012		Year ended December 31 2011
Expenses					
Management fees	12	**$**	**140,278**	$	71,235
Promotion & investor conference			**65,031**		15,754
Regulatory, exchange, AGM, press release and transfer agent fees			**24,914**		12,486
Professional fees			**260,357**		405,397
Finance costs			**3,431**		4,769
Restructuring fees			**-**		196,360
Listing expense			**-**		2,336,095
Listing bonus			**-**		660,000
Depreciation			**351**		310
Other expenses	11		**373,641**		963,099
			868,003		4,665,505
Interest income			**3,487**		1,476
Foreign exchange gain			**78,857**		63,098
			82,344		64,574
Loss before income tax			**785,659**		4,600,931
Income tax expense	14		**-**		-
Loss after income tax expense			**785,659**		4,600,931
Consolidated loss after income tax expense		**$**	**785,659**	$	4,600,931
Other comprehensive loss			**34,033**		5,015
Total comprehensive loss for the year		**$**	**819,692**	$	4,605,946
Consolidated loss attributable to:					
Owners of the company		**$**	**785,659**	$	4,597,144
Non-controlling interest			**-**		3,787
		$	**785,659**	$	4,600,931
Total Comprehensive loss attributable to:					
Owners of the company		**$**	**819,692**	$	4,602,159
Non-controlling interest			**-**		3,787
		$	**819,692**	$	4,605,946
Loss per common share:					
Basic and diluted		**$**	**(0.01)**	$	(0.23)
Weighted average number of common shares outstanding:					
Basic and diluted			**58,987,848**		20,136,596

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)

			Other reserves				
	Number of common shares (#)	Share Capital	Foreign currency translation reserve	Share based payment reserve	Deficit	Non-controlling interest	Attributable to parent
Balance at January 1, 2011	**1**	**$ 1**	**$ -**	**$ -**	**$ (2,800)**	**$ -**	**$ (2,799)**
Net loss	**-**	-	-	-	(4,597,144)	(3,787)	(4,600,931)
Cumulative translation adjustment	**-**	-	(5,015)	-	-	-	(5,015)
Redemption of share	**(1)**	(1)	-	-	-	-	(1)
Common shares of Wedge Energy International Inc. post consolidation and pre amalgamation with UTMI	**3,891,736**	453,184	-	-	-		453,184
Common shares issued to existing UTMI shareholders pre amalgamation	**19,975,647**	765,427	-	-	-	-	765,427
Common shares in private placement	**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	**-**	-	-	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**
Net loss	**-**	-	-	-	(785,659)	-	(785,659)
Cumulative translation adjustment	-	-	(34,033)	-	-	-	(34,033)
Balance at December 31, 2012	**58,987,848**	**$ 7,894,609**	**$ (39,048)**	**$ 911,972**	**$ (5,385,603)**	**$ -**	**$ 3,381,930**

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)		**Year ended December 31 2012**		Year ended December 31 2011
Cash flow from operating activities				
Loss for the year	**$**	**(785,659)**	$	(4,600,931)
Adjustments to reconcile loss to net cash used in operating activities:				
Unrealized foreign exchange		**(78,857)**		(33,925)
Share based payment expense		**-**		911,972
Expenses settled through issuance of common shares		**-**		96,360
Listing expense		**-**		2,336,095
Depreciation		**351**		310
Change in non-cash working capital balances:				
Accounts receivable		**(150,332)**		(56,703)
Accounts payable and accrued liabilities		**(215,346)**		171,834
Prepaids		**(46,046)**		-
Cash used in operations		**(1,275,889)**		(1,174,988)
Income tax paid		**-**		-
Total cash used in operating activities	**$**	**(1,275,889)**	$	(1,174,988)
Cash flows from investing activities				
Investment in exploration and evaluation assets	**$**	**(458,583)**	$	(34,227)
Purchase of property, plant and equipment		**-**		(1,112)
Loan to Wedge Energy International Inc. prior to amalgamation		**-**		(150,000)
Cash realized on acquisition of subsidiaries		**-**		252,957
Total cash (used in)/generated from investing activities	**$**	**(458,583)**	$	67,618
Cash flows from financing activities				
Proceeds from share issuance	$	-	$	6,923,209
Cash share issue costs		-		(49,646)
Redemption of common shares		-		(1)
Payment of Wedge outstanding convertible notes and preferred shares		-		(1,225,350)
Due to related party		**(45,939)**		45,939
Total cash (used in)/generated from financing activities	**$**	**(45,939)**	$	5,694,151
Effect of foreign exchange on cash	**$**	**44,930**	$	(61,345)
Total (decrease)/increase in cash during the year	**$**	**(1,735,481)**	$	4,525,436
Cash and cash equivalents - Beginning of year		**4,525,437**		1
Cash and cash equivalents - End of year	**$**	**2,789,956**	$	4,525,437

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

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, V6C 0A3.

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

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2. BASIS OF PREPARATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the IFRS Interpretations Committee (“IFRIC”). They include all of the information required for full annual consolidated financial statements.

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 or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

These consolidated annual financial statements were authorized for issuance by the Board of Directors on April 19, 2013.

Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis, and are expressed in United States dollars, which is the Company’s presentation currency.

Going concern assumption

These Consolidated financial statements have been prepared on a basis which assumes the Company will continue to operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. In assessing whether this assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. This assessment is based upon planned actions that may or may not occur for a number of reasons including the Company's own resources and external market conditions.

As at December 31, 2012, the Company had a working capital surplus of $2,842,171, including $2,789,956 in cash.

The Company anticipates having sufficient funds to discharge its current liabilities and meet its corporate administrative expenses for at least twelve months. However, the Company will require additional financing, through various means including but not limited to equity financing, to continue the exploration program on its properties and/or to acquire additional exploration properties and to meet its entire general and administrative costs. There is no assurance that the Company will be successful in raising the additional required funds.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Undur Tolgoi Minerals Inc. is the ultimate parent company of the consolidated group. Subsidiaries are consolidated from the date on which the Company obtains control and continue to be consolidated until control ceases. Control is established when the Company has the power to govern the financial and operating policy decisions of the entity, and generally exists where more than 50% of the voting power of the entity is held by the Company. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All material intercompany transactions and balances are eliminated in full on consolidation.

Where the ownership of a subsidiary is less than 100%, and a non-controlling interest thus exists, total comprehensive losses of that subsidiary are attributed to the non-controlling interests even if that results in a deficit. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

An associate is an entity in which the Company or its subsidiaries have significant influence, and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in, without having control over, the financial and operating policy decisions of the entity, and generally exists where between 20% and 50% of the voting power of the entity is held by the Company. As at December 31, 2012, the Company does not have any associates.

The subsidiaries of the Company at December 31, 2012 are described below:

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.

Business combination

Business combinations are accounted for using the acquisition method. For each business combination at the acquisition date, the Company recognizes at fair value all of the identifiable assets acquired, the liabilities assumed, the non-controlling interest in the acquiree and the aggregate of the consideration transferred, including any contingent consideration to be transferred. When the fair value of the consideration transferred and the amount recognized for non-controlling interest exceeds the net amount of the identifiable assets acquired and the liabilities assumed measured at fair value (the "net identifiable assets"), the difference is treated as goodwill. After initial recognition, goodwill is measured at its initial cost from the acquisition date, less any accumulated impairment losses. Goodwill is reviewed annually for impairment or when there is an indication of potential impairment. If the fair value of the Company's share of the net identifiable assets exceeds the fair value of the consideration transferred and non-controlling interest at the acquisition date, the difference is immediately recognized in net income (loss). If the business combination is achieved in stages, the acquisition date fair value of the previously held interest in the acquiree is re-measured to fair value as at the acquisition date through net income (loss). The Company does not currently have goodwill.

Acquisition costs are expensed as incurred in net income (loss). Costs associated with the issuance of equity are charged to the relevant account within equity.

Foreign currency transactions

For each entity the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

i) Functional and presentation currency
Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional currency of the Company and its subsidiaries is the US dollar, other than Novametal, which is the Mongolian Tugrik. The consolidated financial statements are presented in US dollars.

ii) Transactions and balances
Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss.

iii) Group companies
On consolidation, the assets and liabilities of foreign operations are translated into USD at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

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, 2012 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.

Deferred exploration and evaluation assets

Mineral exploration properties include the cost of acquiring mining rights. Exploration and evaluation assets include expenses directly related to the exploration and evaluation activities. These costs are capitalized as intangible assets and are carried at cost less any impairment loss recognized.

Costs incurred before the legal right to undertake exploration and evaluation activities on a project was acquired, are expensed in the consolidated statement of comprehensive income/(loss).

Mining rights and expenses related to exploration and evaluation activities are capitalized on a property by property basis pending determination of the technical feasibility and commercial viability of the project. No amortization is recognized during the exploration and evaluation phase. Costs capitalized include drilling, project consulting, geophysical, geological and geochemical studies, as well as other costs related to the evaluation of the technical feasibility and commercial viability of extracting a mineral resource.

Whenever a project is considered no longer viable or is abandoned, the capitalized amounts are written down to their net realizable amounts.

When technical feasibility and commercial viability of extracting a mineral resource are demonstrable, mining rights and expenses related to exploration and evaluation activities of the related mining property are transferred to mining assets under construction. Before the reclassification, mineral exploration properties and exploration and evaluation assets are tested for impairment and any impairment loss is recognized in profit or loss before reclassification.

Upon transfer of exploration and evaluation assets into mining assets under construction, all subsequent expenditures on the construction, installation or completion of infrastructure facilities are capitalized with mining assets under construction. After the development stage, all assets included in mining assets under construction are transferred to mining assets and amortized over the expected productive lives of the assets.

Although the Company has taken steps to verify title to the mining properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the validity of the Company's title. Property titles may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

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 will determine the recoverable amount based on all available information at the time of impairment.

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

<u>Initial Recognition and Measurement</u>

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets and financial liabilities are measured initially at fair value plus transactions costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

Financial liabilities classified as other-financial-liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other-financial-liabilities are subsequently measured at amortized cost using effective interest method.

Subsequent Measurement

Financial assets and financial liabilities are measured subsequently as described below.

Financial assets

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- Loans and receivables;
- Financial assets at fair value through profit or loss;
- Held-to-maturity investments; and
- Available-for-sale financial assets

The category determines subsequent measurement and whether any resulting income and expense is recognized in profit or loss or in other comprehensive income/ (loss) (all income and expenses relating to financial assets that are recognized in profit or loss are presented within interest income or interest expenses).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortized cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Company's cash and cash equivalents, and accounts receivable, fall into this category of financial instruments.

Financial assets at fair value through profit or loss ("FVTPL")

Financial assets at fair value through profit or loss include financial assets that are either classified as held-for-trading or that meet certain conditions and are designated at fair value through profit or loss upon initial recognition. Assets in this category are measured at fair value with gains or losses recognized in profit or loss. The Company has no financial assets in this category.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as held-to-maturity if the Company has the intention and ability to hold them until maturity. The Company has no financial assets in this category.

Held-to-maturity investments are measured subsequently at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit or loss.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.

All available-for-sale financial assets are measured at fair value. Gains and losses are recognized in other comprehensive income/ (loss), except for impairment losses and foreign exchange differences on monetary assets, which are recognized in profit or loss. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognized in other comprehensive income/(loss) is reclassified to profit or loss and presented as a reclassification adjustment within other comprehensive income/(loss). Interest calculated using the effective interest method and dividends are recognized in profit or loss within interest income.

Reversals of impairment losses are recognized in other comprehensive income/(loss). The Company has no financial assets in this category.

Impairment of financial assets

All financial assets, except for those at fair value through profit or loss, are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired.
Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganization.

For available-for-sale financial investments, the Company assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments designated as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is ‘significant’ or ‘prolonged’ requires judgment. In making this judgment, the Company evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Impairment of receivables are presented in profit or loss.

Financial liabilities

The Company's financial liabilities include accounts payable and accrued liabilities.

Financial liabilities are measured subsequently at amortized cost using the effective interest method.

All interest-related charges are reported in profit or loss within interest expense.

Derecognition

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognized when it is extinguished, discharged, cancelled or when it 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 resources will be required to settle the obligation, and the amount of the obligation can be reliably estimated. Timing or amount of the outflow may still be uncertain. If the effect is material, provisions are measured 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.

A legal or constructive obligation to incur restoration, rehabilitation and environmental costs may arise when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized in the carrying amount of the asset at the start of each project as soon as the obligation to incur such costs arises. Discount rates using a pretax rate that reflects the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either a unit-of-production or the straight-line method as appropriate. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate and the amount or timing of the underlying cash flows needed to settle the obligation. Costs for restoration of subsequent site damage that is created on an ongoing basis during production are provided for at their net present values and charged against profits as extraction progresses.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. The Company had no material provisions as at December 31, 2012 and December 31, 2011.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognized, unless it was assumed in the course of a business combination. In a business combination, contingent liabilities are recognized in the course of the allocation of the purchase price to the assets and liabilities acquired in the business combination. They are subsequently measured at the higher amount of a comparable provision as described above and the amount initially recognized, less any amortization.

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. Changes to estimated future costs are recognised in the statement of financial position by either increasing or decreasing the rehabilitation liability and asset to which it relates if the initial estimate was originally recognised as part of an asset measured in accordance with IAS 16 *Property, Plant and Equipment*.

Any reduction in the rehabilitation liability and, therefore, any deduction from the asset to which it relates, may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is taken immediately to profit or loss.

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

Possible inflows of economic benefits to the Company that do not yet meet the recognition criteria of an asset are considered contingent assets.

In the normal conduct of operations, the Company is party to potential litigation, the outcome of which is not determinable. It is in management's opinion that these matters will not materially affect the Company.

Any contingent liabilities or assets will be recorded by management in the period in which management has been able to reasonably quantify the asset or liability and the amount of cash inflow or outflow resulting from the contingent asset or liabilities can be reasonably assured.

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.

Accumulated deficit includes all current and prior period net income or losses.

Share-based payment transactions

The Company operates an equity-settled share-based remuneration plan (stock option plan) for directors, officers, employees and certain consultants. The Company's plan does not feature any options for a cash settlement. Occasionally, the Company may issue warrants to brokers.

All goods and services received in exchange for the grant of any share-based payments are measured at their fair values. The fair value of the options granted is measured using the Black-Scholes option-pricing model, taking into account the terms and conditions upon which the options were granted. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting. Share-based payment expense incorporates an expected forfeiture rate.

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

When an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.
The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

All share-based payments under the plan are ultimately recognized as an expense in the profit or loss or capitalized as an exploration and evaluation asset, depending on the nature of the payment with a corresponding credit to share-based payment reserve in equity over the period in which performance and/or service conditions are fulfilled. At the same time, upon exercise of a stock option, the proceeds received net of any directly attributable transaction costs are recorded as capital stock. The accumulated charges related to the share options recorded in share-based payment reserve are then transferred to share capital.

Options Issued to key management and employees

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 expected 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.

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, its 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 loss as incurred.

Income taxes

Tax expense recognized in profit or loss comprises the sum of deferred and current tax not recognized in other comprehensive income or directly in equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and laws that have been enacted or substantively enacted by the end of the reporting period.

Current income tax relating to items recognized directly in other comprehensive loss or equity is recognized in other comprehensive loss or equity.

Deferred income taxes are calculated using the balance sheet method on temporary differences between the carrying amounts of assets and liabilities and their tax bases.

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

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

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

- Where the deferred tax assets relating to the deductable temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, and at the time of the transaction, that affects neither the accounting profit nor taxable profit (loss).
- In respect of taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, deferred tax assets are recognized to the extent that it is probable that the

temporary differences will reverse in the foreseeable future and taxable profit will be available, against which the temporary differences can be utilized.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax liabilities are always recognized in full. Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss.

Deferred tax assets and liabilities are offset only when the Company has a right and intention to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Loss 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.

Segmented reporting

The Company is organized into business units based on mineral properties and has one business segment, being the acquisition, exploration and potential development of mineral properties.

Standards, amendments and interpretations not yet effective

Standards, amendments and interpretations issued but not yet effective up to the date of the issuance of the consolidated financial statements are listed below, none of which have been early adopted by the Company. Certain other standards and interpretations have been issued but are not expected to have a material impact on the Company's consolidated financial statements.

<u>IFRS 9, "Financial Instruments"</u>

This new standard is part of the IASB's project to replace IAS 39, Financial Instruments: Recognition and Measurement and provides guidance on the classification and measurement of financial assets, financial liabilities, hedge accounting and derecognition. This standard is effective for annual periods beginning on or after January 1, 2015. Earlier application is permitted. The Company is currently evaluating the impact of this pronouncement on its consolidated financial statements.

<u>IFRS 10, "Consolidated Financial Statements"</u>

This new standard provides guidance on the determination of control where this is difficult to assess and replaces IAS 27 Consolidated and Separate Financial Statements that address the accounting for consolidated financial statements. It also addresses the issues covered in SIC 12, Consolidation – Special Purpose Entities. This standard is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company is currently evaluating the impact of this pronouncement on its consolidated financial statements.

IFRS 11, "Joint Arrangements"

This new standard replaces IAS 31 Interest 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. JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. This pronouncement is not expected to have a material impact on the Company's consolidated financial statements.

IFRS 12, "Disclosure of Interests in Other Entities"

This new standard provides disclosure guidance on interests in subsidiaries, joint arrangements, associates and structured entities. This standard is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company is currently evaluating the impact of this pronouncement on the disclosure in its consolidated financial statements.

IFRS 13, "Fair Value Measurement"

This new standard sets out a single IFRS definition and measurement framework for fair value. This standard is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company is currently evaluating the impact of this pronouncement on its consolidated financial statements.

Amendment to IAS 1, "Presentation of Financial Statements"

This amendment requires an entity to group items presented in other comprehensive income/(loss) into those that, in accordance with other IFRSs: (a) will not be reclassified subsequently to profit or loss and (b) will be reclassified subsequently to profit or loss when specific conditions are met. It is applicable for annual periods beginning on or after July 1, 2012. The Company expects this will change the current presentation of items in other comprehensive income/(loss), however, it will not affect the measurement or recognition of such items.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the amounts reported in the financial statements and disclosures in the notes thereto. These estimates and assumptions are based on management's best knowledge of current events and actions that the Company may undertake in the future. Actual results may differ from those estimates. The most significant items requiring the use of management estimates and valuation assumptions are related to the application of the Company's exploration and evaluation expenditure policy, recoverable value of mining assets (mineral exploration properties and exploration and evaluation assets), rehabilitation and environmental obligations, the valuation of stock-based compensation, and assessment of contingencies.

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgement to determine whether it is likely that future economic benefits are likely, from either future exploitation or sale, or whether activities have not reached a stage that permits a reasonable assessment of the existence of reserves or resources. The determination of a resource is itself an estimation process that involves varying degrees of uncertainty depending on how the resources are classified (i.e., measured, indicated or inferred). The estimates directly impact when the Company defers exploration and evaluation expenditure. The deferral policy requires management to make certain estimates and assumptions about future events or circumstances, in particular, whether an economically viable extraction operation can be established. Estimates and assumptions 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 when the new information becomes available.

Determining if there are any facts and circumstances indicating impairment loss or reversal of impairment losses is a subjective process involving judgment and a number of estimates and interpretations in many cases.

Determining whether to test for impairment of exploration and evaluation assets requires management's judgment, among others, regarding the following: determining if the period for which the entity has the right to explore in the specific area has expired or will expire in the near future, and is not expected to be renewed; substantive expenditure on further exploration and evaluation of mineral resources in a specific area is neither budgeted nor planned; exploration for and evaluation of mineral resources in a specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; or sufficient data exists to indicate that, although a development in a specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

When an indication of impairment loss or a reversal of an impairment loss exists, the recoverable amount of the individual asset must be estimated. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs must be determined. Identifying the cash-generating units requires management judgment. In testing an individual asset or cash-generating unit for impairment and identifying a reversal of impairment losses, management estimates the recoverable amount of the asset or the cash-generating unit. This requires management to make several assumptions as to future events or circumstances. These assumptions and estimates are subject to change if new information becomes available. Actual results with respect to impairment losses or reversals of impairment losses could differ in such a situation and significant adjustments to the Company's assets and earnings may occur during the next period.

The estimation of share-based payment costs requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The Company has made estimates as to the volatility of its own shares, the probable life of share options granted and the time of exercise of those share options. The model used by the Company is the Black-Scholes valuation model.

By their nature, contingencies will only be resolved when one or more uncertain future events occur or fail to occur. The assessment of the existence, and potential quantum, of contingencies inherently involves the exercise of significant judgement and the use of estimates regarding the outcomes of future events.

[Expressed in United States dollars]

5. CASH and CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	December 31, 2012	December 31,2011
	$	$
Cash in banks	**2,789,956**	4,525,437

As at December 31, 2012, Canadian Dollars, CAD$2,460,836 (CAD$3,396,402 – 2011), and Mongolian Tugrik , MNT 326,961,690 (MNT 43,425,309 – 2011) was included in the cash of the Company. This amount has been translated into USD $ using the closing exchange rates on December 31, 2012.

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

6. ACCOUNTS RECEIVABLE

	December 31, 2012	December 31,2011
	$	$
Sales tax receivable	**14,913**	92,618
Other receivables	**509**	-
Recovery of administrative expenses (note 12)	**227,528**	**-**
	242,950	92,618

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

7. 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 in the final year of the current term. The Company plans to request a premining contract, which will provide an additional term of three years.

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 is exploring 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 of $500 per year and annual fees to local authorities of $500 per year. The Company must therefore spend at least $29,860 annually maintaining the licence.

[Expressed in United States dollars]

Exploration and evaluation assets consist of the following:

	Total $
Balance, January 1, 2011	**-**
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

	Total $
Balance, January 1, 2012	**80,830**
Exploration costs incurred in the year	**457,620**
Effect of changes in foreign exchange rates	**963**
Balance, December 31, 2012	**539,413**

8. DUE TO RELATED PARTY

	December 31, 2012 $	December 31, 2011 $
Due to FGS Advisors LLC, a director related company	**-**	45,939

9. SUBSIDIARIES

The following entities are included in these consolidated financial statements:

	Primary Activity	Country of incorporation	Ownership Interest December 31, 2012
Natalya-1 S. à r. l.	Investment	Luxembourg	100%
Novametal Resources LLC	Resource exploration	Mongolia	100%

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

10. 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.

Issued share capital

At December 31, 2012 and 2011, there were 58,987,848 common shares outstanding.

Common share issuances

Fiscal 2012

There were no common shares issued during the year ending December 31, 2012.

Fiscal 2011

In January 2011, the Company redeemed the one common share issued on formation 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, 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 18] 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.

[Expressed in United States dollars]

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.

The following table provides detailed information about stock options outstanding as at December 31, 2012.

Expiry Date	Exercise Price	Options Outstanding	Weighted Average Remaining contractual Life (years)	Options Vested	Options unvested
December 6, 2016	$ 0.25	4,525,000	4.19	4,525,000	-

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.

Stock option activity is as follows:

	Number	Weighted- Average exercise price	Expiry
Outstanding, January 1, 2011	-	-	-
Granted	4,975,000	0.25	December 6, 2016
Outstanding, December 31, 2011	4,975,000	0.25	December 6, 2016
Forfeited	(450,000)	0.25	December 6, 2016
Outstanding, December 31, 2012	4,525,000	0.25	December 6, 2016

During the year consultants of the Company forfeited stock options totaling 450,000 with an exercise price of $0.25 expiring on December 6, 2016.

No stock options had been granted, exercised or expired during the year.

[Expressed in United States dollars]

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, 2012 $	As at December 31, 2011 $
Balance, beginning of year	**911,972**	-
Stock-based compensation	**-**	911,972
Balance, end of the period	**911,972**	911,972

11. OTHER EXPENSES

	December 31, 2012 $	December 31, 2011 $
Rent	**26,838**	3,201
Phone, utilities, supplies and other	**86,235**	6,117
Website, internet and printing	**7,333**	35
Contractor fees	**60,081**	41,650
Travel	**56,455**	-
Other Expenses	**130,663**	-
Stock option expense (note 10)	**-**	911,972
Insurance	**6,036**	124
Total	**373,641**	963,099

12. 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, and Vice President of Exploration. Key management remuneration includes the following:

[Expressed in United States dollars]

		December 31, 2012		December 31, 2011
Short-term Key management benefits				
Compensation including bonuses	**$**	**182,059**	$	272,571
Long-term Key management benefits				
Share based payments		**-**		540,767
Total remuneration	**$**	**182,059**	$	813,338

1) Management fees include $119,382 ($9,801 – 2011) paid to Primary Venture Corporation, a Company which is associated with 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. As at December 31, 2012 no accounts payable were due to Primary Venture Corporation. In the year ended December 31, 2011 the Company paid Primary Venture Corp restructuring fees of $196,360 of which $98,360 was settled in common shares of the Company. There were no similar payments made in 2012.

2) Professional fees include $41,782 ($5,780 – 2011) 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, 2012 accounts payable of $51 ($1,528 – 2011) were due to Sabino Di Paola.

3) Management fees include $20,895 ($46,803 – 2011) paid to Jimmie Wilde the Company's Chief Operating Officer. The Company has a consulting contract with Jimmie Wilde whereby the company advances GBP$15,000/month for services rendered. The Company is reimbursed for time that is incurred in respect of other director related companies. As at December 31, 2012 and 2011 no accounts payable were due to Jimmie Wilde.

Transactions with related companies

As at December 31, 2012 receivables include $227,528 (2011: $nil) receivable from entities with common directors in respect of reimbursement of costs. The Company had incurred $15,856 of office rent expense with a related company in 2012 ($NIL - 2011). As at December 31, 2012 accounts payable of $16,866 ($NIL – 2011) were due to the related company.

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

13. 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, 2012 was 25.0 % (December 31, 2011 – 26.5 %).

[Expressed in United States dollars]

(a) The reconciliation of the Canadian statutory income tax rates to the effective tax rates are as follows:

	December 31, 2012	December 31, 2011
Net loss before income taxes	**$ (785,657)**	$ (4,600,932)
Statutory tax rate	**25.0%**	26.5%
Expected income tax expense (recovery)	**(196,414)**	(1,219,247)
Non-deductible permanent differences	**20,414**	941,613
Change in enacted future tax rates	**-**	15,264
Difference in foreign tax rates	**8,863**	7,969
Deferred tax assets not recognized	**167,137**	254,401
Income taxes expense (recovery)	**$ -**	$ -

The Canadian statutory Income tax rate of 25.0% (2011 - 26.5%) is comprised of federal income tax at approximately 15.0% (2011 - 16.50%) and provincial tax at approximately 10% (2011 - 10%).

(b) Deferred tax assets are recognized to the extent that the realization of the related tax benefit through future taxable profits is probable. The ability to realize the tax benefits is dependent upon numerous factors, including the future profitability of operations in the jurisdiction in which the tax benefits arose. The Company did not recognize deferred tax assets for the following deductible temporary differences:

	December 31, 2012	December 31, 2011
Share issue costs	**$ 98,986**	$ 131,982
Restructuring fees	**899,570**	825,270
Share issue costs	**906,532**	230,238
	$ 1,905,088	$ 1,187,490

As at December 31, 2012, the Company has the following net operating losses, expiring in various years to 2032 and available to offset future taxable income in Canada.

The losses expire as follows;

Incurred in	Loss Carry Forwards	Expiry
2010	$ 2,800	2030
2011	$ 225,000	2031
2012	$ 619,000	2032
	$ 846,800	

The Company also has non-capital losses carryforward of $82,548 in foreign subsidiaries that expire from 2013 to 2014.

[Expressed in United States dollars]

14. CONTINGENCIES

The Company has agreed to pay a bonus of $1,000,000 to SMDD, a shareholder of the Company if Novametal's exploration license is converted to a 30-year mining license. 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 a JORC compliant resource report is issued, 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 above amounts have not been recognized in the consolidated financial statements as there is not sufficient certainty that the qualifying transactions will take place.

15. 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 noncurrent assets located in Mongolia

	December 31, 2012	December 31, 2011
Property, plant and equipment	**$ 346**	$ 802
Exploration and evaluation assets	**539,413**	80,830
Total	**$ 539,759**	$ 81,682

16. 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, 2012, totals $ 3,381,930 (December 2011 - $ 4,201,622). 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.

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.

[Expressed in United States dollars]

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.

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 years ended December 31, 2012 and 2011. The Company is not subject to externally imposed capital requirements or covenants.

17. 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, 2012 $	December 31,2011 $
Loans and receivables [2]	**3,017,993**	4,525,437
Other financial liabilities [1]	**(239,421)**	(500,705)

[1] accounts payable and accrued liabilities and due to related parties
[2] cash and accounts receivable, excluding sales tax receivable

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 30, 2012 and 2011, the Company's financial instruments which are measured at fair value on a recurring basis was cash. This financial instrument was classified as Level 1 financial instrument.

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.

The company has assessed the recoverability of the accounts receivable and the balance is deemed recoverable.

Liquidity risk

Liquidity risk encompasses the risk that the Company cannot meet its financial obligations. At December 31, 2012, the Company had a working capital of $2,842,171 [December 31, 2011 - 4,119,990]. Payable are due and payable within 30 days. 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 ("USD") and the Mongolian tugrik. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.
Certain of the Company's cash and cash equivalents, amounts receivable and accounts payable are held in Canadian dollars ("CAD"); therefore, CAD amounts are subject to fluctuation against the USD.

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

Assuming that all other variables remain constant, a 10% appreciation or depreciation of the MNT or CAD against the USD would not have a significant impact on net loss.

18. 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.

[Expressed in United States dollars]

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.

	$
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.

19. EVENTS AFTER THE REPORTING DATE

On February 1, 2013, the Company incorporated a wholly owned subsidiary, Jucca Holdings Limited (“Jucca”). Jucca was incorporated as a limited liability corporation in the Territory of the British Virgin Islands, under the BVI Business Companies Act of 2004.

On March 5, 2013, the Company incorporated a wholly owned subsidiary, Wishland Properties Limited ("Wishland"). Wishland was incorporated as a limited liability corporation in the Territory of the British Virgin Islands, under the BVI Business Companies Act of 2004.

On April 15, 2013, the Company signed a term sheet in which it would acquire up to a 30.25% interest in Anya-2 SARL ("Anya"), a private company constituted under the laws of Luxembourg and a wholly-owned subsidiary of Hulaan Coal Corporation, a company with a common director, through the subscription in three tranches of ordinary shares of Anya for an aggregate subscription price of US$725,000, with such proceeds to be used to fund an exploration program on the Ochiriin Bulag Gold Prospect located in Mongolia and held by Western Minex LLC a private company constituted under the laws of Mongolia in which Anya owns 66% of the issued and outstanding voting shares.