Unaudited Condensed Consolidated Interim Financial Statements
[Expressed in United States dollars]

Undur Tolgoi Minerals Inc.

For the three months ended March 31, 2013 and 2012

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Management’s Responsibility for Financial Reporting

The condensed consolidated interim 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 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 consolidated financial statements together with other financial information of the Company for issuance to shareholders.

“Donald Padgett”	“Sabino Di Paola”
President and Chief Executive Officer	Chief Financial Officer

May 24, 2013

Notice of no review or audit

Under National Instrument 51-102, Part 4, subsection 4.3(3(a)), if an auditor has not performed a review of the condensed consolidated interim financial statements, they must be accompanied by a notice indicating that the condensed consolidated interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review or audit of these condensed consolidated interim financial statements.

Undur Tolgoi Minerals Inc.

Unaudited Interim Condensed Consolidated Statements of Financial Position

(expressed in United States dollars)

	Notes	As at March 31, 2013	As at December 31, 2012
Assets			
Current assets:			
Cash and cash equivalents	5	**$ 2,314,098**	$ 2,789,956
Accounts receivable		**319,423**	242,950
Prepayment		**48,197**	48,686
Total current assets		**2,681,718**	3,081,592
Non-current assets			
Property, plant and equipment		**257**	346
Exploration and evaluation assets	6	**594,802**	539,413
Total non-current assets		**595,059**	539,759
Total assets		**$ 3,276,777**	$ 3,621,351
Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable and accrued liabilities		**$ 112,702**	$ 239,421
Shareholders' equity			
Share capital	7	**7,894,609**	7,894,609
Other reserves	7	**863,809**	872,924
Deficit		**(5,594,343)**	(5,385,603)
Shareholders' equity		**3,164,075**	3,381,930
Total liabilities and shareholders' equity		**$ 3,276,777**	$ 3,621,351
Contingencies	9		

The notes to the unaudited condensed consolidated interim financial statements are an integral part of these statements.

These unaudited interim condensed consolidated financial statements were approved and authorized for issue by the Board of Directors on May 24, 2013 and are signed on its behalf by:

signed "James Passin"
Director

signed "Don Padgett"
Director

Undur Tolgoi Minerals Inc.

Unaudited Interim Condensed Consolidated Statements of Comprehensive Loss

(expressed in United States dollars)

	Notes		**Three months ended March 31, 2013**		Three months ended March 31, 2012
Expenses					
Management fees	8	**$**	**29,848**	$	29,781
Promotion & investor conference			**41,528**		24,300
Regulatory, exchange, AGM, press release and transfer agent fees			**3,145**		4,071
Professional fees			**37,693**		48,718
Finance costs			**541**		2,315
Depreciation			**89**		93
Other expenses			**23,761**		76,856
			136,605		186,134
Interest income/(expense)			**1,230**		(416)
Foreign exchange (loss)/gain			**(73,365)**		81,605
			(72,135)		81,189
Loss before income tax			**208,740**		104,944
Income tax expense			**-**		-
Loss after income tax expense			**208,740**		104,944
Consolidated loss after income tax expense		**$**	**208,740**	$	104,944
Other comprehensive loss			**9,115**		1,640
Total comprehensive loss for the year		**$**	**217,855**	$	106,584
Loss per common share:					
Basic and diluted		**$**	**(0.00)**	$	(0.00)
Weighted average number of common shares outstanding:					
Basic and diluted			**58,987,848**		58,987,848

The notes to the unaudited condensed consolidated interim financial statements are an integral part of these statements

Undur Tolgoi Minerals Inc.

Unaudited Interim Condensed Consolidated Statements of Changes in Equity

(expressed in United States dollars)

	Number of common shares (#)		Share Capital	Other reserves						
				Foreign currency translation reserve		Share based payment reserve		Deficit		Shareholders' equity
Balance at December 31, 2012	**58,987,848**	**$**	**7,894,609**	**$ (39,048)**	**$**	**911,972**	**$**	**(5,385,603)**	**$**	**3,381,930**
Net loss	-		-	-		-		(208,740)		(208,740)
Cumulative translation adjustment	-		-	(9,115)		-		-		(9,115)
Balance at March 31, 2013	**58,987,848**	**$**	**7,894,609**	**$ (48,163)**	**$**	**911,972**	**$**	**(5,594,343)**	**$**	**3,164,075**
Balance at December 31, 2011	**58,987,848**	**$**	**7,894,609**	**$ (5,015)**	**$**	**911,972**	**$**	**(4,599,944)**	**$**	**4,201,622**
Net loss and total comprehensive loss for the period	-		-	-		-		(104,946)		(104,946)
Cumulative translation adjustment	-		-	1,640		-				1,640
Balance at March 31, 2012	**58,987,848**	**$**	**7,894,609**	**$ (3,375)**	**$**	**911,972**	**$**	**(4,704,890)**	**$**	**4,098,316**

The notes to the unaudited condensed consolidated interim financial statements are an integral part of these statements.

Undur Tolgoi Minerals Inc.

Consolidated Statements of Cash Flow

(expressed in United States dollars)		Three months ended March 31, 2013		Three months ended March 31, 2012
Cash flow from operating activities				
Loss for the year	**$**	**(208,740)**	$	(104,946)
Adjustments to reconcile loss to net cash used in operating activities:				
Unrealized foreign exchange		**(17,692)**		(86,924)
Depreciation		**89**		93
Change in non-cash working capital balances:				
Accounts receivable		**(76,473)**		(8,409)
Accounts payable and accrued liabilities		**(126,718)**		(280,370)
Prepaids		**489**		(10,124)
Cash used in operations		**(429,045)**		(490,680)
Income tax paid		**-**		-
Total cash used in operating activities	**$**	**(429,045)**	$	(490,680)
Cash flows from investing activities				
Investment in exploration and evaluation assets	**$**	**(55,389)**	$	(128,430)
Total cash (used in)/generated from investing activities	**$**	**(55,389)**	$	(128,430)
Cash flows from financing activities				
Due to related party	**$**	**-**	$	(45,939)
Total cash (used in)/generated from financing activities	**$**	**-**	$	(45,939)
Effect of foreign exchange on cash	**$**	**8,575**	$	10,132
Total (decrease)/increase in cash during the year	**$**	**(475,858)**	$	(654,917)
Cash and cash equivalents - Beginning of year		**2,789,956**		4,525,437
Cash and cash equivalents - End of year	**$**	**2,314,098**	$	3,870,520

The notes to the unaudited condensed consolidated interim 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"], Novametal Resources LLC ["Novametal"], Jucca Holdings Limited ["Jucca"], and Wishland Properties Limited ["Wishland"].

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2. BASIS OF PREPARATION

Statement of compliance

The Company applies IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"). These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Accordingly, they do not include all of the information required for full annual financial statements required by IFRS as issued by IASB and interpretations issued by IFRIC.

The policies applied in these unaudited condensed consolidated interim financial statements are based on IFRSs issued and outstanding as of March 31, 2013. The same accounting policies and methods of computation are followed in these unaudited condensed consolidated interim financial statements as compared with the most recent annual consolidated financial statements as at and for the year ended December 31, 2012. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2013 could result in restatement of these unaudited condensed consolidated interim 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 of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

The unaudited condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors on May 24, 2013.

The unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's IFRS annual financial statements for the year ended December 31, 2012.

Basis of measurement

These Financial Statements have been prepared on a historical cost basis, except for the available-for-sale financial instruments and financial assets at fair value through profit or loss which are measured at fair value, and are expressed in United States dollars, which is the Company's functional and presentation currency. The functional currency for each consolidated entity is determined by the currency of the primary economic environment in which it operates.

Going concern assumption

These unaudited condensed consolidated interim 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 March 31, 2013, the Company had a working capital surplus of $2,569,015, including $2,314,098 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 unaudited condensed consolidated interim 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 March 31, 2013, the Company does not have any associates.

The subsidiaries of the Company at March 31, 2013 are described below:

Natalya-1 S. à r. l. [“Natalya-1”], a company existing under the laws of Luxemburg;
Jucca Holdings Limited [“Jucca”], a company existing under the laws of the British Virgin Islands;
Wishland Properties Limited [“Wishland”], a company existing under the laws of the British Virgin Islands;
Novametal Resources LLC [“Novametal”], a company existing under the laws of Mongolia.

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.

IFRS 9, “Financial Instruments”

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.

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 unaudited condensed consolidated interim 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:

	March 31, 2013	December 31, 2012
	$	$
Cash in banks	**2,341,098**	2,789,956

As at March 31, 2013, Canadian Dollars, CAD$2,179,926 (CAD$2,460,836 – December 31, 2012), and Mongolian Tugrik , MNT 37,356,446 (MNT 326,961,690 – December 31, 2012) was included in the cash of the Company. This amount has been translated into USD $ using the closing exchange rates on March 31, 2013.

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

6. 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 pre-mining 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.

Exploration and evaluation assets consist of the following:

	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**

[Expressed in United States dollars]

	Total $
Balance, January 1, 2013	**539,413**
Exploration costs incurred in the year	**54,117**
Effect of changes in foreign exchange rates	**1,272**
Balance, March 31, 2013	**594,802**

7. 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 March 31, 2013 and December 31, 2012, there were 58,987,848 common shares outstanding.

Common share issuances

Fiscal 2013

There were no common shares issued during the three months ending March 31, 2013.

Fiscal 2012

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

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.

[Expressed in United States dollars]

The following table provides detailed information about stock options outstanding as at March 31, 2013.

Expiry Date	Exercise Price		Options Outstanding	Weighted Average Remaining contractual Life (years)	Options Vested	Options unvested
December 6, 2016	$	0.25	4,525,000	3.69	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, 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
Granted/Forfeited/exercised	-	-	
Outstanding, March 31, 2013	4,525,000	0.25	December 6, 2016

No stock options had been granted, exercised or expired during the three months ended March 31, 2013.

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 March 31, 2013 $	As at December 31, 2012 $
Balance, beginning of year	**911,972**	911,972
Stock-based compensation	**-**	-
Balance, end of the period	**911,972**	911,972

[Expressed in United States dollars]

8. 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:

	March 31, 2013	March 31, 2012
Short-term Key management benefits		
Compensation including bonuses	**$ 38,259**	$ 48,013
Long-term Key management benefits		
Share based payments	**-**	-
Total remuneration	**$ 38,259**	$ 48,013

1) Management fees include $29,848 ($29,781 – 2012) 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 March 31, 2013 no accounts payable were due to Primary Venture Corporation.

2) Professional fees include $8,411 ($18,232 – 20112 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 March 31, 2013 accounts payable of $390 ($4,238 – 2012) were due to Sabino Di Paola.

Transactions with related companies

As at March 31, 2013 receivables include $236,904 (December 31, 2012: $227,528) receivable from entities with common directors in respect of reimbursement of costs. As at March 31, 2013 accounts payable of $16,866 (December 31, 2012 - $16,866) 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.

9. 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.

[Expressed in United States dollars]

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.

10. 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

	March 31, 2013		December 31, 2012	
Property, plant and equipment	**$**	**257**	$	346
Exploration and evaluation assets		**594,802**		539,413
Total	**$**	**595,059**	$	539,759

11. 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 March 31, 2013, totals $ 3,164,073 (December 2012 - $ 3,381,930). 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.

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.

[Expressed in United States dollars]

There were no changes in the Company's approach to capital management for the three months ended March 31, 2013 and the year ended December 31, 2012. The Company is not subject to externally imposed capital requirements or covenants.

12. 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.

	March 31, 2013	December 31, 2012
	$	$
Loans and receivables [2]	**2,620,967**	3,017,993
Other financial liabilities [1]	**(112,704)**	(239,421)

[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 March 31, 2013 and December 31, 2012, 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 March 31, 2013, the Company had a working capital of $2,569,015 [December 31, 2012 - 2,842,171]. Payables 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.

13. EVENTS AFTER THE REPORTING DATE

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.