CONSOLIDATED AND AMENDED COMPLAINT

Lead Plaintiff, Petr Nemec ("Lead Plaintiff"), individually and on behalf of all others similarly situated, by his attorneys, alleges the following upon information and belief, except for those allegations that pertain to Lead Plaintiff, which allegations are based on personal knowledge. Lead Plaintiff’s information and belief are based upon, among other things, Lead Counsel’s investigation, which includes without limitation, review and analysis of filings with the United States Securities and Exchange Commission ("SEC"), press releases, conference call transcripts, news articles, analyst reports, and information provided by former employees of the Company or its subsidiaries. Lead Plaintiff believes that substantial additional evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

INTRODUCTION

1. Lead Plaintiff brings this securities class action on behalf of all persons who purchased the common stock of Turquoise Hill Resources Ltd. ("Turquoise Hill" or the "Company") between March 28, 2011 and November 14, 2013, inclusive (the "Class Period"), and who are seeking relief under the Securities Exchange Act of 1934 (the "Exchange Act"). This action is brought against Turquoise Hill and certain of its current and former officers and/or directors for violations of the Exchange Act.
2. Turquoise Hill, formerly known as Ivanhoe Mines Ltd. ("Ivanhoe Mines"), is an international mining company headquartered in Vancouver, Canada. The Company owns mineral resource properties and, through its subsidiaries, holds interests in coal resource properties in Mongolia. Turquoise Hill also holds interests in the Oyu Tolgoi copper-gold mine project in Mongolia, the Kyzyl Gold Project in Kazakhstan, and companies that mine molybdenum and rhenium in Australia.

3. Turquoise Hill’s majority-owned subsidiary, SouthGobi Resources Ltd. ("SouthGobi"), is an integrated coal mining, development and exploration company headquartered in Vancouver. SouthGobi, formerly known as SouthGobi Energy Resources Ltd., is traded on the Toronto Stock Exchange ("TSX") under the symbol SGQ and the Hong Kong Stock Exchange under the stock code symbol 1878.

4. Through its wholly-owned subsidiary, SouthGobi Sands LLC ("SouthGobi Sands"), SouthGobi owns and operates the Ovoot Tolgoi mine ("Ovoot Tolgoi Mine") in Mongolia. The Ovoot Tolgoi Mine is SouthGobi’s flagship producing asset. Ovoot Tolgoi is strategically located near the Mongolia-China border in order to sell to its Chinese customers.

5. From 2010 through year-end 2012, SouthGobi’s coal sales were Turquoise Hill’s sole source of revenue. In that regard, Turquoise Hill reported that revenue from the Ovoot Tolgoi Mine grew over 121% from 2009 to 2010 and over 124% from 2010 to 2011. Analysts repeatedly recognized that revenue from SouthGobi was important to Turquoise Hill given that the Ovoot Tolgoi Mine was SouthGobi’s chief producing asset and Turquoise Hill’s sole source of revenue for a majority of the Class Period. For example, in a January 13, 2011 report, a Credit Suisse analyst termed the Ovoot Tolgoi Mine Turquoise Hill’s "flagship asset".
6. Throughout the Class Period, Turquoise Hill was required, under Generally Accepted Accounting Principles ("GAAP"), as well as the Company's own revenue recognition policies, to meet certain criteria before recognizing revenue on sales of coal. Turquoise Hill could not recognize revenue unless title and risk of loss had passed to the customer and the coal had been delivered onto a customer's truck or train, or otherwise delivered to a final destination. For "bill and hold" contracts, where goods are delivered to a stockpile and later picked up by a customer, revenue cannot be recognized unless, inter alia, the goods have been segregated from the seller's inventory so they cannot be used to fill other orders, and the seller's price to the buyer is fixed or determinable.

7. Turquoise Hill ignored these and other revenue recognition requirements and reported materially inflated revenue figures that SouthGobi purportedly generated during the Class Period. Among other things, SouthGobi's stockyard was a "customs-bonded" yard, under the supervision of on-site Mongolian customs officials who were required to sign off on shipments. Because it was a customs-bonded yard, title and risk of loss stayed with SouthGobi until the customer picked up the coal. Further, the coal was not, as required, segregated by customer order. Thus, there was no assurance that the coal would not be used to fill the orders of other customers. Problems crossing the Chinese-Mongolian border led to delays in customers picking up their orders, further exacerbating compliance with revenue recognition requirements.

8. Additionally, price and collectability were not reasonably assured. During the Class Period, the price of coal declined. As the price of coal dropped, customers tried to renegotiate their contracts. Under these circumstances, the agreed-upon-price was no longer firm, thereby demonstrating that the price was not fixed or determinable, as required by GAAP before revenue could be properly recognized.
9. Further, customers were not paying for the coal that had been stock-piled pursuant to the terms of their contracts. As a consequence, the coal sat in the stockyard for long stretches of time. SouthGobi’s balance sheets showed that much of these receivables were aged more than 6 months, thereby demonstrating that collectability was not reasonably assured.

10. Throughout the Class Period, Defendants ignored these revenue recognition requirements and issued materially false revenue figures – overstating revenue by up to 36.9% in 2011, for example. Defendants also failed to record withholding taxes related to intercompany interest. As the Company acknowledged by the restatement of its historical financial statements (the “Restatement”), the violations of GAAP alleged herein, were the consequence of, in part, ineffective internal controls during the Class Period.

11. As a result of Defendants’ materially false and misleading statements, the Company’s stock traded at artificially inflated prices during the Class Period, reaching a high of $28.91 per share on February 7, 2011.

12. Trying to soften the blow, Defendants revealed the truth regarding Turquoise Hill’s falsely reported revenue, materially weak internal controls, and failure to report withholding tax on intercompany interest in three separate disclosures dated November 8, 11 and 14, 2013, respectively.

13. On November 8, 2013, before the market opened, the Company issued a press release announcing that it planned to restate its consolidated financial results for the years-ended 2010, 2011 and 2012, and the affected quarters of 2013 due to improper revenue from coal sales in 2010, 2011 and 2012, in violation of International Financial Reporting Standards (“IFRS”). Revenue recognition requirements under the IFRS are substantially similar to those under GAAP. The Company indicated that its violations resulted from “sales contracts upon which
revenue was recognized upon delivery to customers’ stockpiles in a stockyard located within SouthGobi’s Ovoot Tolgoi mine’s mining licence area.” Turquoise Hill also noted that, “[s]tarting in the second half of 2012,” new sales contract terms dictated that title of the coal was to transfer “upon loading the coal onto customers’ trucks and revenue [was to be] recognized at the time of customer collection.” But, as described above, with or without purportedly new contract terms, the Company had been violating revenue recognition rules for years.

14. The Company also disclosed for the first time on November 8, 2013, before the market opened, that the SEC had issued a comment letter to Turquoise Hill after reviewing Turquoise Hill’s year-end December 31, 2012 financial statements filed with the SEC on March 25, 2013. The comment letter reportedly related to, among other things, the appropriate accounting and disclosure of SouthGobi’s coal transactions. Tellingly, Turquoise Hill never disclosed this comment letter – although the Company did disclose earlier SEC comment letters. See ¶ 210.

15. After the Company’s disclosures on November 8, 2013, the price of Turquoise Hill’s stock dropped from a closing price of $4.87 per share on November 7, 2013, to a closing price of $4.71 per share on November 8, 2013.

16. On November 11, 2013, before the market opened, Turquoise Hill issued another press release announcing selected unaudited restated financial information for the years-ended December 31, 2010, 2011 and 2012. The unaudited information included corrections to revenue, cost of sales, expenses, income taxes and net (loss) income relating to SouthGobi’s improper revenue recognition. In the November 11 press release, Turquoise Hill also disclosed that the Company failed to report withholding taxes on intercompany interest that arose in the years-
ended December 31, 2011 and 2010, and that the Company intended to restate its financial results to correct that failure as well.

17. As a result of the Company’s disclosures on November 11, the price of Turquoise Hill’s stock dropped from a closing price of $4.71 per share on November 10, 2013, to a closing price of $4.64 per share on November 11, 2013.

18. Three days later, before the market opened, on November 14, 2013, Turquoise Hill fully disclosed the impact of the Restatement in amended financial statements filed on Form 40-F/A for the year-ended 2012. The Company admitted that its “failure to properly account for revenues in complex transactions” was a result of Turquoise Hill’s materially weak internal controls over financial reporting and that the Company failed to “ensure that all aspects of sales arrangements were considered in the determination of the appropriate accounting for contracts in which the specified location of transfer of title in the contracts is the customer’s stockpile in a stockyard located within SouthGobi’s Ovoot Tolgoi mine’s mining licence area.”

19. The Company further disclosed that the revenue was improperly recorded “upon delivery to customers’ stockpiles, rather than at the time of customer collection of the product sold under such contracts.”

20. After this adverse news, the price of the Company’s stock dropped over 7% from a closing price of $4.41 on November 13, 2013 to a closing price of $4.09 per share on November 14, 2013.

21. In the Form 40-F/A, PricewaterhouseCoopers LLP (“PWC”), Turquoise Hill’s independent auditor, expressed an adverse opinion, finding that “Turquoise Hill Resources Ltd. and its subsidiaries did not maintain, in all material respects, effective internal control over
financial reporting as at December 31, 2012.” PWC specified that the internal control weakness was “over financial reporting related to accounting for revenues in complex transactions.”

22. As a result of Defendants’ misstatements and omissions, the disclosure of the true facts, and the declines in the market price of the Company’s stock, Lead Plaintiff and other Class members have suffered millions of dollars in damages.

JURISDICTION AND VENUE

23. The claims asserted herein arise under and pursuant to Sections 10(b) and 20(a) of the Exchange Act, 15 U.S.C. §§ 78j(b) and 78t(a), and Rule 10b-5 promulgated under Section 10(b), 17 C.F.R. § 240.10b-5.


25. Venue is proper in this District pursuant to Section 27 of the Exchange Act, 15 U.S.C. § 78aa, and 28 U.S.C. § 1391(b) and (c).

26. In connection with the acts and conduct alleged in this Complaint, Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including U.S. mails, interstate telephone communications, and the facilities of the New York Stock Exchange (“NYSE”), a national securities exchange.

PARTIES

27. Lead Plaintiff Petr Nemec purchased Turquoise Hill stock during the Class Period, as set forth in the certification filed in connection with his motion for appointment as Lead Plaintiff, and sustained damages as a result of the materially false and/or misleading statements, omissions, and corrective disclosures alleged in this Complaint.
28. Defendant Turquoise Hill, formerly known as Ivanhoe Mines, is a Canadian corporation with its headquarters located in Vancouver, Canada. Turquoise Hill is an international mineral exploration and development company. The Company's common stock is listed on the NYSE under the ticker symbol “TRQ”.

29. Defendant John Macken (“Macken”) was the Chief Executive Officer (“CEO”) of the Company until October 2010, a director until February 2011, and President until April 12, 2012. Macken also served as the Chairman of SouthGobi from June 2007 until October 2009, and as a director until April 17, 2012. Macken is named as a control person within the meaning of Section 20(a) of the Exchange Act.

30. Defendant Robert Friedland (“Friedland”) is the founder of Turquoise Hill and served as the Company’s CEO between October 2010 and April 2012. As alleged herein, during his Class Period tenure, Friedland made materially false and misleading statements in communications with analysts and investors, including, but not limited to, SEC filings and Company-issued press releases and statements.

31. Defendant Tony Giardini (“Giardini”) was the Chief Financial Officer (“CFO”) and Senior Vice President of the Company until April 12, 2012. As alleged herein, during his Class Period tenure, Giardini made materially false and misleading statements in communications with analysts and investors, including, but not limited to, SEC filings and Company-issued press releases and statements.

32. Defendant Kay G. Priestly (“Priestly”) is, and since May 1, 2012 has been, CEO and of the Company. Priestly is and has been a director of the Company since February 9, 2011. Priestly has served as Chairman of the Board of SouthGobi from September 4, 2012 to the present. Priestly previously served as a Chief Financial Officer of Rio Tinto, controlling
shareholder of Turquoise Hill, from 2006 to May 2012. Priestly holds an accounting degree and was a Certified Public Accountant for over 25 years. As alleged herein, during her Class Period tenure, Priestly made materially false and misleading statements in communications with analysts and investors, including, but not limited to, SEC filings and Company-issued press releases and statements.

33. Defendant Christopher Bateman ("Bateman") is, and since May 1, 2012 has been, CFO of Turquoise Hill. Defendant Bateman previously served in numerous financial positions at Rio Tinto beginning in 2006: Chief Financial & Business Development Officer of Rio Tinto’s diamonds and minerals product group (March 2010 to May 2012); Chief Financial Officer, Rio Tinto Iron & Titanium (June 2009 to March 2010); and Chief Financial Officer, Energy Resources of Australia Ltd. (June 2006 to June 2009). Bateman and Priestly are seconded employees of the Rio Tinto Group. As alleged herein, during his Class Period tenure, Bateman made materially false and misleading statements in communications with analysts and investors, including, but not limited to, SEC filings and Company-issued press releases and statements.

34. The defendants identified in ¶¶ 30-33 are collectively referred to herein as the “Individual Defendants.” Turquoise Hill and the Individual Defendants are collectively referred to herein as the “Defendants.”

CLASS ALLEGATIONS

35. Lead Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and 23(b)(3) on behalf of a class consisting of all persons who purchased Turquoise Hill’s common stock (the “Class”) between March 28, 2011 and November 14, 2013, inclusive, and who are seeking relief under the Exchange Act. Excluded from the Class are all the defendants named herein, the officers and directors of the Company, at all relevant times,
members of the immediate families of each of the individuals named as defendants, any person, firm, trust, corporation, officer, director or other individual or entity in which any named defendant has a controlling interest, or which is related to or affiliated with any of the named defendants, and the legal representatives, agents, affiliates, heirs, successors-in-interest or assigns of any such excluded party.

36. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, Turquoise Hill stock was actively traded on the NYSE. The precise number of Class members is unknown to Plaintiff at this time and can be ascertained only through appropriate discovery. Plaintiff believes that there are hundreds, if not thousands, members in the proposed Class. As of year-end 2013, there were in excess of one billion Turquoise Hill shares outstanding. In addition, the names and addresses of Class members can be ascertained from the books and records of Turquoise Hill or its transfer agent. Notice can be provided to such record owners by a combination of published notice and first-class mail, using techniques and a form of notice similar to those customarily used in class actions arising under the federal securities laws.

37. Lead Plaintiff will fairly and adequately represent and protect the interests of the members of the Class. Lead Plaintiff has retained competent counsel experienced in class action litigation under the federal securities laws to further ensure such protection and intend to prosecute this action vigorously.

38. Lead Plaintiff’s claims are typical of the claims of the other members of the Class because Lead Plaintiff and all Class members’ damages arise from and were caused by the same false and misleading representations and omissions made by Defendants. Lead Plaintiff does not have any interests antagonistic to, or in conflict with, the Class.
39. A class action is superior to other available methods for the fair and efficient 
adjudication of this controversy. Since the damages suffered by individual Class members may 
be relatively small, the expense and burden of individual litigation make it virtually impossible 
for Class members to seek redress for the wrongful conduct alleged. Lead Plaintiff knows of no 
difficulty that will be encountered in the management of this litigation that would preclude its 
maintenance as a class action.

40. Common questions of law and fact exist as to all members of the Class and 
predominate over any questions affecting solely individual members of the Class. Among the 
questions of law and fact common to the Class are:

a. whether the federal securities laws were violated by the acts of the named 
defendants as alleged herein;

b. whether statements made by Defendants to the investing public during the 
Class Period misrepresented and/or omitted material facts about Turquoise Hill’s financial 
position and results of operations and internal controls;

c. whether the individuals named as defendants herein caused Turquoise Hill 
to issue materially false and misleading statements about the Company’s financial condition and 
results of operation and the effectiveness of the Company’s internal controls during the Class 
Period;

d. whether Defendants acted knowingly or recklessly in issuing materially 
false and misleading financial statements and statements about Turquoise Hill’s internal controls;

e. whether the price of Turquoise Hill’s common stock was artificially 
inflated during the Class Period due to Defendants’ conduct complained of herein; and
to what extent the members of the Class have sustained damages and the proper measure of damages.

SOURCES OF INFORMATION

41. Lead Plaintiff's allegations, based upon information and belief, are supported by, inter alia, information former employees of SouthGobi entities (referred to as a confidential source or "CW _") provided to Lead Plaintiff as discussed below. The information provided by each CW is reliable and credible because s/he: (a) worked at a SouthGobi entity either during or immediately prior to the Class Period; (b) possessed a job title and responsibilities demonstrating that s/he was in a position to know the information provided; (c) provided an account that corroborates, and is corroborated by, Lead Plaintiff's allegations.

42. Confidential Witness No. 1 ("CW 1") was employed by SouthGobi from November 2012 through June 2013 in the role of Financial Reporting Advisor. CW 1 was responsible for interpreting and applying IFRS and HKEX (Hong Kong-related) accounting changes, disclosure requirements and appropriate reporting compliance. CW 1 was also responsible for ensuring that accounting interpretations were applied consistently and on a timely basis and reviewed scoping and planning documentation in anticipation of testing under the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley" or the "Act") for year-end 2013. CW 1 was a Chartered Accountant from 2007 to 2009 with the Canadian Institute of Chartered Accountants.

43. Confidential Witness No. 2 ("CW 2") was employed as Manager of Mining Operations/Manager Coal Handling & Processing at SouthGobi Sands from May 2008 through March 2011. CW 2 was responsible for overseeing the loading of coal onto transport trucks hired by Chinese customers for their passage over the Mongolian-Chinese border.
SUBSTANTIVE ALLEGATIONS

I. BACKGROUND OF THE COMPANY AND OVERVIEW OF REVENUE RECOGNITION AT SOUTHGOBI

A. Turquoise Hill

44. Turquoise Hill, formerly known as Ivanhoe Mines until August 2, 2012, is an international mining company headquartered in Vancouver, Canada.

45. The Company has two publicly-traded subsidiaries through which it holds interests in coal resource properties in Mongolia and molybdenum, rhenium, copper, gold and uranium resource properties in Australia. SouthGobi, the shares of which are listed on the TSX under the symbol SGQ and the Hong Kong Stock Exchange under the stock code symbol 1878, owns the Ovoot Tolgoi Mine, located in Mongolia. Ivanhoe Australia, the shares of which are listed on the Australian Securities Exchange (“ASX”) and the TSX, owns the Osborne Project, the Merlin Project and the Mount Elliot Project, all of which are located in Queensland, Australia.

B. SouthGobi

46. SouthGobi, a majority-owned subsidiary of the Company (57.6% at March 25, 2013), is an integrated coal mining, development and exploration company headquartered in Vancouver – in the same offices as Turquoise Hill. Since acquiring significant coal assets in Mongolia, in a series of transactions with Turquoise Hill, SouthGobi’s focus has been in developing and operating coal mining projects. SouthGobi is one of the largest coal producers in Mongolia in terms of coal sales for export.

47. SouthGobi operates mine and several development projects in Mongolia through SouthGobi’s wholly-owned subsidiary, SouthGobi Sands. In this regard, SouthGobi owns the following coal projects in Mongolia: the Ovoot Tolgoi Mine, as well as three development
projects, the Soumber Deposit, the Zag Suuj Deposit and the Ovoot Tolgoi Underground Deposit. These projects are located in the Umnugobi Aimag (South Gobi Province) of Mongolia, within 150 kilometers of each other and in close proximity to the Mongolia-China border. The Ovoot Tolgoi Mine, together with the Ovoot Tolgoi Underground Deposit, forms the Ovoot Tolgoi Complex.

48. The Ovoot Tolgoi Complex is separated into two distinct areas, the Sunrise and Sunset Pits.

49. The Ovoot Tolgoi Mine, located approximately 40km from the Shivee Khuren-Ceke crossing at the Mongolia-China border ("Shivee Khuren Border Crossing"), is SouthGobi’s flagship asset. SouthGobi commenced mining at Ovoot Tolgoi’s Sunset Pit in April 2008 and commenced coal sales in September 2008. In August 2011, SouthGobi commenced mining and sales at Ovoot Tolgoi’s Sunrise Pit. Products from the Ovoot Tolgoi Mine include coals with coking (or metallurgical) applications, primarily a raw semi-soft coking coal together with raw medium and higher-ash coals, which can be washed and blended into semi-soft coking coal. The Ovoot Tolgoi Mine is covered by a single 9,308 hectare mining license and a corresponding permit to mine.

50. Since the commencement of mining operations in mid-2008, the Ovoot Tolgoi Mine has produced approximately 4.0 million tonnes of coal. The Ovoot Tolgoi Mine has been SouthGobi’s sole source of revenue in 2010 through 2012. The importance of the Ovoot Tolgoi Mine to SouthGobi, and therefore the Company, has been repeatedly acknowledged by Defendants, as well as recognized by market analysts. See ¶¶ 5, 84, 267-268.

51. The Mongolian coal industry is dependent on the Chinese market. Consequently, SouthGobi produces and sells coal produced at the Ovoot Tolgoi Mine to Chinese customers. In
substantial part, SouthGobi’s coal revenue came from two large Chinese customers in 2010 and three large Chinese customers in 2011 through 2013. These customers included Risun Mining Co. Ltd. (“Risun”), North Asia Energy Group Ltd., and Winsway Coking Coal Holdings Ltd.

52. SouthGobi’s ability to access the Chinese border and secure transportation corridors between Mongolia and China was an issue through the early part of the Class Period. In the year-end 2010 Annual Information Form, attached to the 2010 Form 40-F as Exhibit 99.1, the Company discussed the border access issue as follows:

Currently the majority of SouthGobi’s coal is sold at mine-gate for eventual export to China, although in the first quarter of 2011, SouthGobi began delivering coal directly to customers in China. SouthGobi is working on improving access to the Chinese border and as a result of continuing discussions with the Mongolian Government, border access into China improved through early 2010. The relevant authorities continue to work on projects to expand border capacity, which will allow SouthGobi to continue to increase coal shipments in the future. Four designated coal border crossing corridors are under construction at Shivee Khuren-Ceke border crossing and are anticipated to open during the course of 2011.

53. At the time of the filing of the 2010 Form 40-F and attached exhibits (i.e., April 1, 2011), there was only one gate at the Shivee Khuren-Ceke Border Crossing. The absence of adequate border access created delays in customer pick-up of coal. CW 2 noted that there were delays in customer pick-up of coal due to this logistical problem. As CW 2 stated, delays “were constant all the time. You didn’t even know when the trucks would be coming in . . . . It was a major pain in the backside. There were a lot of delays.” According to CW 2, the delays normally lasted for up to two weeks. When CW 2 left in March 2011, two of the four gates referenced in paragraph 52 above were completed and open.

54. In addition, CW 2 noted that the quality of the road from Ovoot Tolgoi to the Shivee Khuren-Ceke Border Crossing delayed customer pick-up of the coal that was stockpiled
in the Ovoot Tolgoi Mine. Until August 2011, when the Mongolian government approved a contract to construct a paved road to the border crossing, the government often closed the road because of safety concerns. For example, as reported by Reuters on April 20, 2011, the Mongolian government halted truck shipments of coal on the road “following a spate of accidents on a dirt road running from Tavan Tolgoi.”

55. While an agreement with the Chinese and Mongolian authorities to create designated coal transportation corridors at the border was reached in July 2009, the anticipated corridors were not completed and opened until May 2012. As of that time, the Company indicated that SouthGobi was still working to improve border access. According to the Company’s year-end 2013 Annual Information Form, attached to a Form 40-F as Exhibit 99.1:

In July 2009, Chinese and Mongolian authorities agreed to create designated coal transportation corridors at the China-Mongolia border. In 2012, in an attempt to expedite the opening of the coal transportation corridors, SouthGobi, together with Mongolyn Alt Corporation, continued working on improving access to the China-Mongolia border. In May 2012, the expanded border crossing infrastructure, consisting of eight new border gates exclusively for coal transportation, opened at the Shivee Khuren-Ceke border crossing on the China-Mongolia border.

56. As noted in SouthGobi’s Annual Report for 2012, “2012 was a tumultuous year for SouthGobi.” SouthGobi faced a number of challenges during the year, including full production curtailment at the Ovoot Tolgoi Mine, the announced and subsequently terminated proportional takeover bid by the Aluminum Corporation of China Limited (“CHALCO”), and ongoing investigations by the Mongolian authorities into corruption and tax evasion. There were also extensive changes to the SouthGobi’s Board of Directors and senior management during the year as a result of Rio Tinto’s acquisition of a majority stake in the Company. See discussion, infra.
57. The full production curtailment at the Ovoot Tolgoi Mine was in place from the end of June 2012 through the end of 2012 due to softening of inland China coking coal markets and difficult operating conditions in Mongolia.

58. On April 2, 2012, SouthGobi announced that it had signed a cooperation agreement with CHALCO and received official notification of CHALCO’s intention to make a proportional takeover bid for up to 60% of the issued and outstanding common shares of SouthGobi at Cdn$8.48 per share.

59. On April 25, 2012, shortly after the announcement of the proposed deal, the Mineral Resources Authority of Mongolia (“MRAM”) requested a suspension of exploration and mining activity on certain licenses pertaining to the Ovoot Tolgoi Mine. The government of Mongolia requested the suspension of activity so that it could consider the introduction of a new foreign investment legislation that commentators and analysts considered to be a means to prevent the Chinese from coming into Mongolia. The government’s actions effectively killed the proposed transaction. On September 3, 2012, the Company announced that CHALCO’s proportional takeover bid had been terminated, which also resulted in the termination of the cooperation agreement.

60. The Company has been subject to investigations by Mongolian authorities regarding allegations against SouthGobi and some of its employees involving, among other things, possible corruption and violations of the taxation laws. These allegations were initiated in or about the time of CHALCO’s proposed tender offer.

61. The Mongolian State Investigation Office (the “SIA”) commenced an investigation through the National Forensic Center (“NFC”) into money laundering and tax evasion by the Company and some of its former employees in 2012. In response, SouthGobi,
through its Audit Committee commenced an internal investigation into the allegations asserted by the SIA. The Audit Committee was assisted by independent legal counsel and forensic accounts. The Chair of SouthGobi’s Audit Committee also participated in a tripartite committee, comprised of the Audit Committee Chairs of the SouthGobi and Turquoise Hill and a representative of Rio Tinto. As a result of the internal investigation, as stated in SouthGobi’s Annual Report for 2013, “The Company, through its Board of Directors and new management, has taken a number of steps to address issues noted during the investigations and to focus ongoing compliance by employees with all applicable laws, internal corporate policies and codes of conduct, and with the Company’s disclosure controls and procedures and internal controls over financial reporting.” Emphasis added. As noted herein, Defendant Priestly was among the “new management” at SouthGobi.

62. On May 29, 2012, SouthGobi announced the opening of expanded border crossing infrastructure at the Shivee Khuren Border Crossing. The eight new border gates, opened exclusively for coal transportation, were intended to increase the capacity for exportation of coal from Mongolia to China.

63. On September 4, 2012, pursuant to the agreement between Turquoise Hill and Rio Tinto on April 17, 2012, SouthGobi announced changes to its Board of Directors, accepting the resignations of Edward Flood, Robert Hanson and Peter Meredith (the former Chairman) and subsequently appointing Defendant Priestly (Chairman), Sean Hinton (Deputy Chairman), Lindsay Dove, Brett Salt and Kelly Sanders. On September 17, 2012, Alexander Molyneux tendered his resignation as a director of SouthGobi. Further, on November 8, 2012, Ross Tromans was appointed as an Executive Director of SouthGobi.
64. In the third and fourth quarters of 2012, SouthGobi also announced senior management changes with the departures of Alexander Molyneux, former President and Chief Executive Officer, Curtis Church, former Chief Operating Officer and Matthew O’Kane, former Chief Financial Officer. Tromans was appointed as President and Chief Executive Officer. Tromans also assumed the duties formerly handled by the Chief Operating Officer.

65. As Defendant Priestly noted in SouthGobi’s Annual Report for 2012, following the Board and senior management changes in September 2012, senior SouthGobi executives “undertook a comprehensive strategic review of the business.”


C. Rio Tinto

67. Rio Tinto International Holdings Limited is a company incorporated under the laws of England and Wales and a member of the Rio Tinto Group. The Rio Tinto Group is comprised of Rio Tinto plc (incorporated in England), Rio Tinto Limited (incorporated in Victoria, Australia) and other corporations in which Rio Tinto plc, and/or Rio Tinto Limited owns or controls, directly or indirectly, more than 50% of the shares or stock carrying the right to vote at a general meeting (or its equivalent) of the corporation.

68. In 2006, Ivanhoe Mines identified Rio Tinto as a strategic investor to support development of another Turquoise Hill project, Oyu Tolgoi. Since that time, the parties have entered into a series of agreements pursuant to which Rio Tinto has provided equity and debt financing to fund ongoing development of the Oyu Tolgoi project and Company operations. As a result of these transactions, Rio Tinto holds a 51% majority interest in the Company, is the Company’s largest creditor, and is responsible for the day-to-day management of the development process of the Oyu Tolgoi project.
69. Beginning in October 2009, and continuing through December 2011, Rio Tinto increased its ownership stake in the Company to 49% from 9.86%. In January 2012, pursuant to an arbitral decision resolving a dispute over the Company’s shareholder’s right plan between Rio Tinto and the Company, Rio Tinto was able to increase its 49% holding to its current majority position.

70. Upon Rio Tinto gaining a majority position, several governance changes occurred at the Company, including the resignation of board members and the nomination and appointment of eight new Rio Tinto affiliated board members, and the resignation of senior management and the installation of a new team of senior managers by Rio Tinto. These changes were effected pursuant to an agreement reached between Turquoise Hill and Rio Tinto. The agreement was intended to provide a comprehensive financing plan for the continued development of the Oyu Tolgoi project and to establish certain management and governance changes.

71. Commencing with the execution of the agreement and throughout May 2012, the Company’s Board of Directors experienced numerous changes. Initially, Defendant Friedland, Edward Flood, Markus Faber, David Korbin, Livia Mahler, Tracy Stevenson and Dan Westbrook resigned as directors of the Company. Concurrent with such resignations, David Huberman resigned as Chair of the Board of Directors and the Board of Directors appointed Michael Gordon as his replacement, on an interim basis. In early May 2012, Michael Gordon, David Huberman and Robert Holland resigned from the Board of Directors and Jill Gardiner, Peter Gillin, Isabelle Hudon and David Klingner were appointed to the Board of Directors joining Peter Meredith, Andrew Harding, Dan Larsen and Defendant Priestly. Shortly following these
appointments, Livia Mahler was reappointed to the Board of Directors and David Klingner was appointed the Chair of the Board of Directors.

72. In May 2012, Turquoise Hill announced that Defendants Priestly and Bateman were appointed to the roles of Chief Executive Officer and Chief Financial Officer of the Company, respectively.

D. Coal Contracts and The Company’s Recognition of Revenue

73. The majority of Turquoise Hill’s products are sold to customers under contracts, which vary in tenure and pricing mechanisms. During the fourth quarter of 2010, the full year 2011, and the first half of 2012, SouthGobi had structured certain of its contracts such that a customer’s coal would be delivered to stockpiles in a stockyard located within Ovoot Tolgoi’s mining license area, the location specified in the contracts as the point of title transfer. Turquoise Hill would recognize revenue at the time of delivery in the stockyard on these contracts. According to CW 1, revenue was recognized based upon a constructive obligation on, and history of, the customer coming to the stockyard to pick up the coal. Revenue was not recognized based upon whether the customer actually picked up the coal at the stockyard.

74. CW 2 explained that the risk of loss did not transfer to the customer under the contracts that caused the Restatement. The stockyard at which the coal was deposited was a customs-bonded yard. As a general matter, a bonded warehouse is a building, stockyard, or other secured area in which dutiable goods may be stored, manipulated, or undergo manufacturing operations without payment of duty. The bonded warehouse may be managed by the government or by a private party. In the latter case, a customs bond must be posted with the government. Upon entry of goods into the warehouse, the warehouse owner incurs liability under a bond. This liability is generally cancelled when the goods are, among other things,
exported or destroyed under customs supervision. When the coal was loaded into the stockyard, the risk of loss stayed with SouthGobi until the customer physically transported the coal off the Ovoot Tolgoi Mine property. As CW 2 explained:

I would say we do [i.e., have liability for the coal sitting in the stockyard], because it’s in actually a customs-bonded yard . . . . So it’s actually got to be fenced off, . . . . So I would say the company has liability for the coal . . . . Once . . . . they’ve [i.e., the customer] left our customs-bonded yard, I would say it’s the responsibility of the customer then.

75. Originally, “the coal was sold at the mine-gate, so the transport companies would travel and we’d load their trucks.” A mine-gate sale is generally defined as real transactional-price or estimated price of ore, concentrate, mineral or other mineral product, purchased on the minesite, i.e., before the mineral product is transported through the “gate” marking the boundary of the minesite. “As soon as they left our site, [the coal wasn’t] our responsibility.” CW 2’s account comports with the Company’s statement in the Annual Information Form attached as Exhibit 99.1 to the 2010 Form 40-K for the year ended December 31, 2010: “Currently the majority of SouthGobi’s coal is sold at mine-gate for eventual export to China, although in the first quarter of 2011, SouthGobi began delivering coal directly customers in China.”

76. On January 25, 2011, SouthGobi announced that it had completed its first direct delivery coal sale from Ovoot Tolgoi to Risun. Prior to this sale, as noted, all coal sales by SouthGobi were mine-gate sales, in which customers took “delivery” and “ownership” of the coal at the Ovoot Togoi Mine and made their own arrangements to transport the coal to China. Although termed a “direct delivery” sale, the coal was transported to a bonded warehouse in China, where the customer (in this case Risun) had to make its own arrangements to actually pick up the coal. As noted in the January 25, 2011 press release: “Using a logistics service provider, SouthGobi transported coal to a customs bonded yard at Ceke, China, approximately
50 km south of the [Ovoot Togoi] mine . . . . Risun then undertook its own logistics from there, ...

77. Moreover, the coal was stockpiled at the Ovoot Tolgoi Mine by type of coal, e.g., high value premium coking coal, not by customer order. CW 2 stated that “[t]here were . . . big piles. So you’ve got a high-grade pile, then some other stuff with a little bit of rock or higher moisture.”

78. Further, as economic conditions changed, so did customer compliance with the terms of the contracts. CW 1 noted that as the price of coal began to drop, the agreed-upon price in the contract was no longer firm, and the coal just sat in the stockyard. “[A]t the time, the price of coal was drastically dropping, and customers were trying to renegotiate the contracts that were signed.” “So, it was the fact that they wanted to renegotiate that they didn’t pick up the coal.”

79. Following a review of SouthGobi’s revenue recognition policies in the second half of 2012 – coincident with the “comprehensive strategic review of [SouthGobi’s] business” by new management, including Defendant Priestly, and the internal investigation of the SAI allegations of tax evasion – SouthGobi adopted new terms in its sales contracts to provide for transfer of title and risk of loss upon loading the coal onto the customers’ trucks.

II. THE COMPANY’S FALSE AND MISLEADING FINANCIAL RESULTS

A. The Company’s Fourth Quarter 2010 and Year-End 2010 Financial Statements

80. On March 28, 2011, the Company issued a press release before the market opened in which it announced its financial results for the year-ended December 31, 2010 (the “March 28 Press Release”). The press release was included in a Form 6-K that the Company filed with the SEC after the market closed on that day (“2010 Form 6-K”).
81. In the press release, Turquoise Hill touted the “ongoing expansion of SouthGobi’s Ovoot Tolgoi coal mine” and highlighted the increase in revenue from the Ovoot Tolgoi Mine coal sales from $36 million in 2009 to $79.8 million in 2010, an increase of over 120%. Turquoise Hill attributed the revenue increase to an increase in coal shipments from 1.3 million tonnes in 2009 to 2.5 million tonnes in 2010, as well as an increase in the realized average selling price of coal from $29 per tonne in 2009 to approximately $35 per tonne in 2010. In pertinent part, the release provided:

In 2010, SouthGobi had sales of 2.5 million tonnes at an average realized price of approximately $35 per tonne. This was an improvement over the 1.3 million tonnes sold in 2009 at an average realized selling price of $29 per tonne. Revenue increased from $36.0 million in 2009 to $79.8 million in 2010 due to the higher sales volume and a higher realized average price. [Emphasis added.]

Cost of sales was $94.8 million in 2010, compared to $29.4 million for 2009. The increase primarily was due to the increased sales volume, increased cash costs and the impairment of the raw, higher-ash coal stockpiles in Q3’10. Cost of sales is comprised of the cost of the product sold, inventory write-downs, mine administration costs, equipment depreciation, depletion of pre-production stripping costs and stock-based compensation costs.

82. Moreover, the Company acknowledged the importance of SouthGobi to its financial condition and results of operation, stating:

In 2010, Ivanhoe Mines recorded a net loss of $211.5 million ($0.42 per share) compared to a net loss of $280.2 million ($0.69 per share) in 2009, representing a decrease of $68.7 million. Results for 2010 mainly were affected by $218.6 million in exploration expenses, $94.8 million in cost of sales, $84.4 million in general and administrative expenses, $32.8 million in interest expense, $154.3 million in loss on conversion of convertible credit facility and $42.7 million in share of loss of significantly influenced investees. These amounts were offset by coal revenue of $79.8 million, $16.6 million in interest income, $8.7 million in mainly unrealized foreign exchange gains, a $135.7 million change
in the fair value of a derivative and a $100.6 million change in the
fair value of embedded derivatives. [Emphasis added.]

83. Turquoise Hill also noted the re-emergence of Defendant Friedland as a senior
executive of the Company: “On October 18, 2010, Ivanhoe Mines announced that Executive
Chairman Robert Friedland was re-assuming the duties and title of Chief Executive Officer in a
series of organizational changes, which included the establishment of the Office of the Chairman
as part of an ongoing commitment to maximize shareholder value.” The release explained that
the Office of the Chairman “assumed responsibilities within Ivanhoe Mines related to the
development of other subsidiary interests, including SouthGobi Resources, Ivanhoe Australia and
Altynalmas Gold.” Emphasis added. Defendant Macken relinquished his seat on the
Company’s Board effective February 2011, to create vacancies for two Rio Tinto appointees; he
continued to serve as a board member of SouthGobi and the Company’s other two subsidiaries.

84. Analysts took notice of SouthGobi’s material contributions to the Company’s
reported financial results. For example, in a March 28, 2011 report, entitled “IVN reports year-
end results,” analyst John Redstone of Desjardins Securities stated: “SouthGobi Resources.
SouthGobi Resources (57% owned by IVN [Ivanhoe Mines]) shipped 2.5 MMT of coal from its
Ovoot Tolgoi mine in 2010, up 92% yoy. We expect SouthGobi’s coal production to increase to
5 MMT in 2011 and 8 MMT in 2012.”

85. The market reacted positively to the reported financial results and Defendant’s
false and misleading statements, as the price of the Company’s stock opened at $26.81 per share
and traded as high as $27.59 per share on March 28 before closing at $26.84 per share.

86. On April 1, 2011, before the market opened, the Company filed its Annual Report
on Form 40-F with the SEC for the year-end December 31, 2010 (the “2010 40-F”), along with
accompanying exhibits, including, among other documents: the Annual Information Form
(“2010 Annual Information Form”), annexed as Exhibit 99.1; audited consolidated financial statements for the years-ended December 31, 2010 and 2009, annexed as Exhibit 99.2 (“2010 Financial Statements”); and Management’s Discussion and Analysis of Financial Condition and Results of Operations, annexed as Exhibit 99.3 and signed by Defendants Friedland and Giardini (“2010 MD&A”). The 2010 MD&A also included the Company’s financial results for the fourth quarter of 2010.

87. In the 2010 Annual Information Form, the Company described SouthGobi, in which it held a 57.05% interest at that time, as its “sole source of active income.”

88. The Company highlighted the fact that the Ovoot Tolgoi Mine is “strategically located approximately 40 km from the China-Mongolia border” and that the mine “is SouthGobi’s flagship producing asset.” The Company further stated that, at that time, “the majority of SouthGobi’s coal is sold at mine-gate for eventual export to China” and that “in the first quarter of 2011, SouthGobi began delivering coal directly to customers in China.” However, as alleged, such delivery was made to a train depot or other holding facility. The Company also discussed the need for SouthGobi to improve access to the Chinese border in order to increase coal shipments.

89. In the 2010 MD&A, the Company reported that, for the fourth quarter of 2010, it recognized $41.6 million in coal revenue from SouthGobi, compared to $9.9 million in the fourth quarter of 2009. Additionally, the Company reported that SouthGobi shipped approximately 1.5 million tonnes of coal in the fourth quarter, at an average realized selling price of approximately $32 per tonne, compared to 0.36 million tonnes of coal in the fourth quarter of 2009 at an average realized selling price of approximately $29 per tonne.
90. The Company noted in the 2010 MD&A that it expected sales volumes for the first quarter of 2011 to be substantially lower than for the fourth quarter of 2010 due to "inclusion in Q4'10 of a large amount of stock-piled coal, which added to volumes" and due to periodic closures of the Mongolia-China border for holidays.

91. With regard to the year-ended December 31, 2010, the Company explained in the 2010 Financial Statements that "all of the coal division’s revenue arose from coal sales in Mongolia. Revenues from the two largest customers were $45.5 million and $31.9 million, respectively." The approximately $79.8 million in revenue reported by the Company was generated solely from SouthGobi’s coal sales.

92. For year-end 2010, the Company also reported a net loss of approximately $211.5 million, or $0.42 per fully diluted share for 2010, compared to a loss of approximately $280.2 million, or $0.69 per fully diluted share, in 2009, which represented a decrease in losses of $68.7 million. As set forth in the March 28 Press Release and 2010 Form 6-K, the 2010 MD&A noted that expenses and costs affecting the year-end 2010 results were offset by coal revenue.

93. Additionally, the Company reported accounts receivable of $65.7 million in 2010, compared to $39.3 million in 2009.

94. In the 2010 Financial Statements, the Company described its revenue recognition policy, which applied to SouthGobi coal sales, as follows:

Sales revenues are recognized when the risks and rewards of ownership pass to the customer, collection is reasonably assured and the price is reasonably determinable. This occurs when coal is either loaded onto a train or truck or when it is unloaded at the final destination, depending on the terms of the sales contract.

95. The financial statements relating to the Company’s reported revenue and that of SouthGobi, as well as financial results related thereto, in ¶§ 81, 82, 86, 89, and 91-94, were
materially false and misleading. The Company and Defendants Friedland and Giardini knew or recklessly disregarded that SouthGobi’s revenue was not increasing solely because of “higher sales volume[s]” and “higher realized average price[s].” These defendants knew and/or recklessly disregarded that SouthGobi was recognizing revenue under certain sales contracts upon delivery of coal to customers’ stockpiles in a customs-bonded yard that was located within the Ovoot Tolgoi Mine’s mining license area, the location specified in the contracts as the point of title transfer, but not risk of loss. See ¶¶ 73-78. As alleged herein, the criteria for revenue recognition had not been satisfied on these transactions – e.g., price was not reasonably assured and revenue recognition occurred at the delivery of coal to the customer’s stockpile, rather than at the point of loading the coal onto the customer’s trucks at the time of collection. See id. These defendants also knew and/or recklessly disregarded that customers were not collecting the coal that had been stockpiled in the storage yard. See ¶¶ 52-55. In addition, customers were not paying for the coal, causing SouthGobi’s accounts receivables to age, thereby calling into the collectability of the receivables. See ¶ 274.

96. In addition to improperly reporting revenue, the financial results for year-end 2010 were also materially false and misleading in that the Company failed to report withholding taxes on intercompany interest.

97. The 2010 40-F also contained certifications pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act that were signed by Defendants Friedland and Giardini, and annexed as Exhibits 99.14 through 99.17 thereto. The Sarbanes-Oxley certifications related to the quality of the Company’s public disclosure for each period ended during the year-ended December 31, 2010, and the effectiveness of internal control over financial reporting as of December 31, 2010. The Section 302 certification stated, in relevant part:
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer(s) and I are responsible for . . . internal control over financial reporting . . . for the issuer and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

5. The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and
(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting. [Emphasis added.]

98. Similarly, in the Section 906 certification, Defendants Friedland and Giardini certified that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

99. By signing the Sarbanes-Oxley certifications, Defendants Friedland and Giardini falsely represented that the 2010 40-F, and accompanying exhibits, were true in all material respects. For the reasons set forth in ¶¶ 52-55, 73-78, and 274, and summarized in ¶ 95, Defendants Friedland and Giardini knew or recklessly disregarded that these certifications were materially false and misleading.

B. The Company's 2011 Quarterly Reports and Year-End Financial Statements

(i) First Quarter 2011

100. On May 13, 2011, the Company issued a press release after the market closed in which it announced its financial results for the first quarter ended March 31, 2011 (the "May 13 Press Release"). For the first quarter of 2011, the Company reported the following:

In Q1'11, Ivanhoe Mines recorded a net loss of $492.5 million ($0.79 per share) compared to a net loss of $193.9 million ($0.43 per share) in Q1'10, representing an increase of $298.6 million. Results for Q1’11 mainly were affected by $46.2 million in exploration expenses, $20.3 million in cost of sales, $25.3 million in general and administrative expenses, $4.3 million in interest expense, a $432.5 million change in the fair value of a derivative, a $36.8 million change in the fair value of embedded derivatives and $3.7 million in share of loss of significantly influenced investees. These amounts were offset by coal revenue of $20.2 million, a $10.6 million gain on sale of long-term investment, $5.1 million in
interest income and $3.1 million in mainly unrealized foreign exchange gains. [Emphasis added.]

101. The Company continued to tout the “[o]ngoing expansion of SouthGobi’s Ovoot Tolgoi coal mine”, and highlighted the increase in revenue from coal sales in the first quarter of 2011, compared to the first quarter of 2010. The Company also emphasized the increase in coal sales during the quarter, compared to coal sales in the same quarter in the prior year. In pertinent part, the release provided:

In Q1’11, SouthGobi had sales of approximately 450,000 tonnes at an average realized price of approximately $50 per tonne. This was an improvement over the sale of approximately 430,000 tonnes in Q1’10 at an average realized selling price of $36 per tonne. Revenue increased from $13.9 million in Q1’10 to $20.2 million in Q1’11, due primarily to the higher realized average price. [Emphasis added.]

** * * * 

Cost of sales of $20.3 million for Q1’11 was consistent with Q1’10 ($20.3 million). Cost of sales is comprised of the cost of the product sold, inventory write-downs, mine administration costs, equipment depreciation, depletion of pre-production stripping costs and stock-based compensation costs.

102. The financial statements relating to the Company’s reported revenue and that of SouthGobi, as well as financial results related thereto, in ¶¶ 100-101, were materially false and misleading. The Company and Defendants Friedland and Giardini knew or recklessly disregarded that SouthGobi’s revenue was not increasing solely because of “higher realized average price[s].” These defendants knew and/or recklessly disregarded that SouthGobi was recognizing revenue under certain sales contracts upon delivery of coal to customers’ stockpiles in a customs-bonded yard that was located within the Ovoot Tolgoi Mine’s mining license area, the location specified in the contracts as the point of title transfer, but not risk of loss. See ¶¶ 73-78. As alleged herein, the criteria for revenue recognition had not been satisfied on these
transactions – e.g., price was not reasonably assured (or fixed and determinable) and revenue recognition occurred at the delivery of coal to the customer’s stockpile, rather than at the point of loading the coal onto the customer’s trucks at the time of collection. See id. These defendants also knew and/or recklessly disregarded that customers were not collecting the coal that had been stockpiled in the storage yard. See ¶¶ 52-55. In addition, customers were not paying for the coal, causing SouthGobi’s accounts receivables to age, thereby calling into the collectability of the receivables. See ¶ 274.

103. The May 13 Press Release was included in a Form 6-K that the Company filed with the SEC after the market closed on May 16, 2011. Also on May 16, 2011, after the market closed, the Company filed with the SEC its quarterly report for the period ended March 31, 2011 (“Q1 2011 Form 6-K”).


105. In the Q1 2011 MD&A, Turquoise Hill again emphasized SouthGobi as one of the core business segments of the Company: “Ivanhoe Mines is an international exploration and development company with activities concentrated in Central Asia and the Asia Pacific Region. The Company’s principal assets include . . . [a] 57% interest in SouthGobi Resources, which is selling coal produced at its Ovoot Tolgoi mine in southern Mongolia to customers in China and
is conducting ongoing exploration and development programs at several other Mongolian coal prospects."
used to design the issuer’s ICFR is the Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

5.2 ICFR — material weakness relating to design: N/A

5.3 Limitation on scope of design: N/A

6. Reporting changes in ICFR: The issuer has disclosed in its interim MD&A any change in the issuer’s ICFR that occurred during the period beginning on January 1, 2011 and ended on March 31, 2011 that has materially affected, or is reasonably likely to materially affect, the issuer’s ICFR.

108. For the reasons set forth in ¶¶ 52-55, 73-78, and 274, and as summarized in ¶ 95, Defendants Friedland and Giardini knew or recklessly disregarded that the statements in the certifications concerning the presentation of the Company’s financial statements were materially false and misleading.

(ii) Second Quarter 2011

109. On August 12, 2011, the Company issued a press release after the market closed in which it announced its financial results for the second quarter ended June 30, 2011 (the “August 12 Press Release”). For the second quarter of 2011, the Company reported the following:

In Q2’11, Ivanhoe Mines recorded net income of $0.6 million ($0.00 per share), compared to a net loss of $30.0 million ($0.06 per share) in Q2’10, which was an increase of $30.6 million. Results for Q2’11 mainly were affected by $68.6 million in exploration expenses, $49.7 million in cost of sales, $19.5 million in general and administrative expenses and $3.3 million in interest expense. These amounts were offset by coal revenue of $47.3 million, a $70.4 million change in the fair value of embedded derivatives, a $44.8 million in share of gain of significantly influenced investees, $4.9 million in interest income and $2.3 million in mainly unrealized foreign exchange gains. [Emphasis added.]

110. The Company continued to tout the “[o]ngoing expansion of SouthGobi’s Ovoot Tolgoi coal mine,” and highlighted the increase in revenue from coal sales in the second quarter.
of 2011, compared to the second quarter of 2010. The Company also emphasized the increase in coal sales during the quarter, compared to coal sales in the same quarter in the prior year. In pertinent part, the Company stated:

In Q2'11, SouthGobi had sales of approximately 1.05 million tonnes at an average realized price of approximately $54 per tonne. This was an improvement over the sale of approximately 450,000 tonnes in Q2'10 at an average realized selling price of $43 per tonne. *Revenue increased from $17.7 million in Q2'10 to $47.3 million in Q2'11, due to the higher realized average prices and higher sales volume.* [Emphasis added.]

* * *

Cost of sales of $49.7 million for Q2'11 was $36.5 million higher than Q2'10 ($13.2 million). Cost of sales is comprised of the cost of the product sold, inventory write-downs, mine administration costs, equipment depreciation, depletion of pre-production stripping costs and stock-based compensation costs. The increase is due to the significantly higher sales volume, higher diesel costs and a $10.6 million inventory write-down.

111. The market reacted positively to the reported financial results and Defendant’s false and misleading statements, as the price of the Company’s stock opened on August 15, 2011, the next trading day, at $20.94 per share and traded as high as $21.65 per share before closing at $21.64 per share.

112. The financial statements relating to the Company’s reported revenue and that of SouthGobi, as well as financial results related thereto, in ¶¶ 109-110, above, were materially false and misleading. The Company and Defendants Friedland and Giardini knew or recklessly disregarded that SouthGobi’s revenue was not increasing solely because of “higher realized average prices and Higher sales volume[s]”. These defendants knew and/or recklessly disregarded that SouthGobi was recognizing revenue under certain sales contracts upon delivery of coal to customers’ stockpiles in a customs-bonded yard that was located within the Ovoot
Tolgoi Mine’s mining license area, the location specified in the contracts as the point of title transfer, but not risk of loss. See ¶¶ 73-78. As alleged herein, the criteria for revenue recognition had not been satisfied on these transactions – e.g., price was not reasonably assured (or fixed and determinable) and revenue recognition occurred at the delivery of coal to the customer’s stockpile, rather than at the point of loading the coal onto the customer’s trucks at the time of collection. See id. These defendants also knew and/or recklessly disregarded that customers were not collecting the coal that had been stockpiled in the storage yard. See ¶ 52-55. In addition, customers were not paying for the coal, causing SouthGobi’s accounts receivables to age, thereby calling into the collectability of the receivables. See ¶ 274.

113. On August 15, 2011, the Company included the August 12 Press Release in a Form 6-K that it filed with the SEC during trading hours. Also on August 15, 2011, after the market closed, the Company filed with the SEC its quarterly report for the period ended June 30, 2011 ("Q2 2011 Form 6-K").


115. In the Q2 2011 MD&A, Defendants continued to emphasize SouthGobi as one of the core business segments of the Company: "Ivanhoe Mines is an international exploration and
development company with activities concentrated in Central Asia and the Asia Pacific Region. The Company’s principal assets include . . . [a] 57% interest in SouthGobi Resources, which is selling coal produced at its Ovoot Tolgoi mine in southern Mongolia to customers in China and is conducting ongoing exploration and development programs at several other Mongolian coal prospects.”

116. For the reasons stated in ¶¶ 52-55, 73-78, and 274, and as summarized in ¶ 95, the Q2 2011 Form 6-K was knowingly and/or recklessly false and misleading.

117. Defendants Friedland and Giardini each signed a certification that in substance contained the same language as set forth in ¶ 107, except that the certification pertained to “the interim period ended June 30, 2011.” For the reasons set forth in ¶¶ 52-55, 73-78, and 274, and as summarized in ¶ 95, Defendants Friedland and Giardini knew or recklessly disregarded that the statements in the certifications concerning the presentation of the Company’s financial statements were materially false and misleading.

(iii) Third Quarter 2011

118. On November 14, 2011, the Company issued a press release before the market opened in which it announced its financial results for the third quarter ended June 30, 2011 (the “November 14 Press Release”). For the third quarter of 2011, the Company reported the following:

In Q3’11, Ivanhoe Mines recorded net income of $7.3 million ($0.01 per share), compared to a net loss of $24.9 million ($0.05 per share) in Q3’10, which was an increase of $32.2 million. Results for Q3’11 mainly were affected by $79.6 million in exploration expenses, $54.0 million in cost of sales, $21.4 million in general and administrative expenses, $35.6 million in foreign exchange losses, a $19.3 million share of loss of significantly influenced investees, a $9.1 million loss from discontinued operations and $1.9 million in interest expense. These amounts were offset by coal revenue of $60.5 million, a $62.1 million
change in the fair value of embedded derivatives, a $103.0 million gain on settlement of a long-term note receivable, and $5.3 million in interest income. [Emphasis added.]

119. The Company continued to tout the “ongoing expansion of SouthGobi’s Ovoot Tolgoi coal mine,” and highlighted the increase in revenue from coal sales in the third quarter of 2011, compared to the third quarter of 2010. The Company also emphasized the increase in coal sales during the quarter, compared to coal sales in the same quarter in the prior year. In pertinent part, the Company stated:

In Q3’11, SouthGobi had sales of approximately 1.37 million tonnes of coal at an average realized selling price (before royalties and selling fees) of approximately $54 per tonne. This was an improvement over the sale of approximately 190,000 tonnes in Q3’10 at an average realized selling price (before royalties and selling fees) of $37 per tonne. *Revenue (net of royalties and selling fees) increased from $6.6 million in Q3’10 to a quarterly record of $60.5 million in Q3’11 due to the increased sales volumes and increased selling prices for individual coal types (a 45% increase for raw semi-soft coking coal and a 57% increase for raw higher-ash coal).* [Emphasis added.]

***

Cost of sales of $54.0 million for Q3’11 was $39.1 million higher than Q3’10 ($14.9 million). Cost of sales is comprised of the cost of the product sold, inventory write-downs, mine administration costs, equipment depreciation, depletion of pre-production stripping costs and stock-based compensation costs. The increase from 2010 is largely due to the significantly higher sales volume.

120. The market reacted positively to the reported financial results and Defendant’s false and misleading statements, as the price of the Company’s stock opened on November 14, 2011, at $20.64 per share and traded as high as $21.46 per share before closing at $21.17 per share.

121. The financial statements relating to the Company’s reported revenue and that of SouthGobi, as well as financial results related thereto, in ¶¶ 118-119, were materially false and
misleading. The Company and Defendants Friedland and Giardini knew or recklessly disregarded that SouthGobi’s revenue was not increasing solely because of “increased sales volumes and increased selling prices for individual coal types.” These defendants knew and/or recklessly disregarded that SouthGobi was recognizing revenue under certain sales contracts upon delivery of coal to customers’ stockpiles in a customs-bonded yard that was located within the Ovoot Tolgoi Mine’s mining license area, the location specified in the contracts as the point of title transfer, but not risk of loss. See ¶¶ 73-78. As alleged herein, the criteria for revenue recognition had not been satisfied on these transactions – e.g., price was not reasonably assured (or fixed and determinable) and revenue recognition occurred at the delivery of coal to the customer’s stockpile, rather than at the point of loading the coal onto the customer’s trucks at the time of collection. See id. These defendants also knew and/or recklessly disregarded that customers were not collecting the coal that had been stockpiled in the storage yard. See ¶¶ 52-55. In addition, customers were not paying for the coal, causing SouthGobi’s accounts receivables to age, thereby calling into the collectability of the receivables. See ¶ 274.

122. On November 14, 2011, after the market closed, the Company filed with the SEC its quarterly report for the period ended September 30, 2011 (“Q3 2011 Form 6-K”).

123. The Q3 2011 Form 6-K contained, inter alia, the same reported financial information as set forth in the November 14, 2011 Press Release. Additionally, the Q3 2011 Form 6-K included the following tables: Unaudited Consolidated Balance Sheets as at September 30, 2011 and December 31, 2010, Unaudited Interim Consolidated Statements of Operations for the Three and Nine Month Periods ended September 30, 2011 and 2010, Unaudited Interim Consolidated Statement of Equity for the Nine Month Period ended

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124. In the Q3 2011 MD&A, Defendants emphasized SouthGobi as one of the core business segments of the Company: “Ivanhoe Mines is an international exploration and development company with activities concentrated in Central Asia and the Asia Pacific Region. The Company’s principal assets include . . . [a] 58% interest in SouthGobi Resources, which is selling coal produced at its Ovoot Tolgoi mine in southern Mongolia to customers in China and is conducting ongoing exploration and development programs at several other Mongolian coal prospects.” To further underscore the significance of SouthGobi to the Company, Defendants stated: “A. CORE INTERESTS AND ACTIVITIES Ivanhoe Mines’ main activities during Q3’11 were the mine development activities at the Oyu Tolgoi Project, coal production at SouthGobi’s Ovoot Tolgoi mine and exploration activities largely focused in Australia and Mongolia.” Emphasis added.

125. For the reasons stated in ¶¶ 52-55, 73-78, and 274, and as summarized in ¶ 95, the Q3 2011 Form 6-K was knowingly and/or recklessly false and misleading.

126. Defendants Friedland and Giardini each signed a certification that in substance contained the same language as set forth in ¶ 107, except that the certification pertained to “the interim period ended September 30, 2011.” For the reasons set forth in ¶¶ 52-55, 73-78, and 274, and as summarized in ¶ 95, Defendants Friedland and Giardini knew or recklessly disregarded that the statements in the certifications concerning the presentation of the Company’s financial statements were materially false and misleading.
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(iv) Fourth Quarter and Year-End 2011

127. On March 20, 2012, the Company issued a press release after the market closed in which it announced its financial results for the year-ended December 31, 2011 (the March 20 Press Release”). For the 2011, the Company reported the following:

In 2011, Ivanhoe Mines recorded a net loss of $570.4 million ($0.83 per share), compared to a net loss of $211.5 million ($0.42 per share) in 2010, which was an increase of $358.9 million. Results for 2011 mainly were affected by $282.6 million in exploration expenses; $168.2 million in cost of sales; $100.8 million in general and administrative expenses; $16.8 million in foreign exchange losses; a $432.5 million change in fair value of a derivative relating to the rights offering; a $9.1 million loss from discontinued operations and $11.0 million in interest expense. These amounts were offset by $179.0 million in coal revenue; a $106.5 million change in the fair value of SouthGobi’s embedded derivatives; a $103.0 million gain on settlement of a long-term note receivable; a $17.2 million share of income of significantly influenced investees; and $22.1 million in interest income. 

128. The Company continued to tout the “[o]ngoing expansion of SouthGobi’s Ovoot Tolgoi coal mine,” and highlighted the increase in revenue from coal sales in 2011, compared to 2010. In pertinent part, the Company stated:

In 2011, SouthGobi had sales of approximately 4.0 million tonnes of coal at an average realized selling price, before royalties and selling fees, of approximately $54 per tonne. This was an improvement over the sale of approximately 2.5 million tonnes in 2010 at an average realized selling price, before royalties and selling fees, of $35 per tonne. Revenue, net of royalties and selling fees, increased from $79.8 million in 2010 to $179.0 million in 2011 due to the increased sales volumes and increased selling prices for individual coal types – a 52% increase for raw, semi-soft coking coal and a 47% increase for raw, higher-ash coal.

* * *

Cost of sales was $168.2 million in 2011, compared to $94.8 million in 2010. Cost of sales is comprised of the cost of the product sold, inventory write-downs, mine administration costs,
equipment depreciation, depletion of pre-production stripping costs and stock-based compensation costs. The increase from 2010 was due to higher sales volumes and higher unit costs.

129. Also on March 20, 2012, the Company filed a Form 6-K attaching as Exhibit 99.1 its Audited Consolidated Financial Statements for the year ended December 31, 2011 ("2011 Financial Statements") and Management’s Discussion & Analysis of Financial Condition and Results of Operations ("2011 MD&A"). The 2011 Financial Statements contained, among other information, the same financial information as set forth in the March 20 Press release. The 2011 MD&A was signed by Defendants Friedland and Giardini. In addition, the Company reported in its balance sheet, accounts receivable of $102.4 million in 2011, compared to $65.7 million in 2010.

130. The 2011 MD&A also included the Company’s financial results for the fourth quarter of 2011. For the fourth quarter ended December 31, 2011, the Company recognized revenue of $51 million, consisting of $51 million in revenue that SouthGobi recognized from coal sales, and $44.2 million in cost of sales, consisting of $44.2 million in cost of sales at SouthGobi. In relevant part, Defendants stated in the MD&A:

Revenue: In Q4'11, SouthGobi recognized $51.0 million in coal revenue, compared to $41.6 million in Q4'10. SouthGobi shipped approximately 1.1 million tonnes of coal in Q4’11 at an average realized selling price of approximately $56 per tonne, compared to 1.5 million tonnes of coal in Q4’10 at an average realized selling price of approximately $32 per tonne. [Emphasis added.]

Cost of sales. In Q4’11, SouthGobi’s cost of sales was $44.2 million, compared to $46.4 million in Q4’10. Cost of sales is comprised of the cost of the product sold, inventory write-downs, mine administration costs, equipment depreciation, depletion of pre-production stripping costs and stock-based compensation costs. Cost of sales decreased in Q4’11 compared to the Q4’10 due to lower sales volumes. The lower sales volumes in the Q4’11 were partially offset by higher unit costs.
The 2011 MD&A provided the following selected quarterly data:

IVANHOE MINES LTD.
MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Stated in U.S. dollars, except where noted)

**SELECTED QUARTERLY DATA**

($ in millions of dollars, except per share information)

<table>
<thead>
<tr>
<th></th>
<th>Quarter Ended</th>
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</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$ 51.0</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(44.2)</td>
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<tr>
<td>Exploration expenses</td>
<td>(88.2)</td>
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<tr>
<td>General and administrative</td>
<td>(34.6)</td>
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<tr>
<td>Foreign exchange gains (losses)</td>
<td>13.3</td>
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<tr>
<td>Change in fair value of derivative</td>
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<td>Change in fair value of embedded derivatives</td>
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<td>Gain on settlement of note receivable</td>
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<tr>
<td>Net income (loss) from continuing operations</td>
<td>(85.8)</td>
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<tr>
<td>Income (loss) from discontinued operations</td>
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<td>Net income (loss)</td>
<td>(85.8)</td>
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<td>Total</td>
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<tr>
<td>Net income (loss) per share — diluted</td>
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<td>Revenue</td>
<td>$ 41.6</td>
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<tr>
<td>Cost of sales</td>
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<tr>
<td>Exploration expenses</td>
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<td>Foreign exchange gains (losses)</td>
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<td>Loss on conversion of convertible credit facility</td>
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<td>Net income (loss) from continuing operations</td>
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<td>Continuing operations</td>
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<td>Total</td>
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</tr>
</tbody>
</table>
132. In the 2011 Financial Statements, the Company described its revenue recognition policy, which applied to SouthGobi coal sales, as follows:

Sales revenues are recognized when the risks and rewards of ownership pass to the customer, collection is reasonably assured and the price is reasonably determinable. Depending on the terms of the sales contract, this occurs when saleable product is either loaded onto a train or truck, unloaded at the final destination, or made available for loading at a bonded stockyard on a bill-and-hold basis. [Emphasis added.]

133. According to the Company’s reported revenue recognition policy, certain 2011 sales contracts had bill-and-hold terms, differing from the Company’s 2010 reported revenue recognition policy, which did not mention bill-and-hold contract terms.

134. In the 2011 MD&A, Defendants continued to emphasize SouthGobi as one of the core business segments of the Company: “Ivanhoe Mines is an international exploration and development company with activities concentrated in Central Asia and the Asia Pacific Region. The Company’s principal assets include . . . [a] 58% interest in SouthGobi, which is selling coal produced at its Ovoot Tolgoi mine in southern Mongolia to customers in China and is conducting ongoing exploration and development programs at several other Mongolian coal prospects. To further underscore the significance of SouthGobi to the Company, Defendants stated: “CORE INTERESTS AND ACTIVITIES Ivanhoe Mines’ main activities during 2011 were ongoing construction of the Oyu Tolgoi mining complex, coal production at SouthGobi’s Ovoot Tolgoi mine and exploration activities concentrated in Australia and Mongolia.” Emphasis added.

135. In the 2011 MD&A, Defendants Turquoise Hill, Friedland, and Giardini stated that the Company’s internal controls were effective as of December 31, 2011:

The Company’s principal executive officer and principal financial officer have assessed the effectiveness of the Company’s internal control over financial reporting as at December 31, 2011 in accordance with Internal Control — Integrated Framework issued
by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, the Company’s principal executive officer and principal financial officer have determined that the Company’s internal control over financial reporting was effective as of December 31, 2011 and have certified Ivanhoe Mines’ annual filings with the U.S. Securities and Exchange Commission on Form 40-F as required by the United States Sarbanes-Oxley Act and with Canadian securities regulatory authorities. [Emphasis added.]

136. By contrast, in SouthGobi’s restatement, the subsidiary’s internal controls were deemed materially weak during the same time frame:

In conjunction with the restatement of the Company’s December 31, 2012 consolidated financial statements in 2013, the Company’s management identified a material weakness in the Company’s internal controls over financial reporting as of December 31, 2012 and as of December 31, 2011, resulting in the failure to properly account for revenues in complex transactions. Specifically, the Company did not ensure that all aspects of sales arrangements were considered in the determination of the appropriate accounting for contracts in which the specified location of transfer of title in the contracts is the customer’s stockpile in a stockyard located within the Ovoot Tolgoi mining license area. As a result of the material weakness, the Company’s Chief Executive Officer and Chief Financial Officer concluded that internal controls over financial reporting were not effective as of December 31, 2012 and as of December 31, 2011.

137. On March 21, 2012, during market hours, the Company filed with the SEC the March 20 Press Release as an exhibit to a Form 6-K.

138. On April 2, 2012, the Company filed with the SEC a Form 40-F for the year ended 2011 (“2011 40-F”), along with accompanying exhibits, including the Annual Information Form, annexed as Exhibit 99.1, and Sarbanes-Oxley certifications signed by Defendants Friedland and Giardini, annexed as Exhibits 99.11 through 99.14.

139. The financial statements relating to the Company’s reported revenue and that of SouthGobi, as well as financial results related thereto, in ¶¶ 127-132, 135, and 137-138, were
materially false and misleading. The Company and Defendants Friedland and Giardini knew or recklessly disregarded that SouthGobi’s revenue was not increasing solely because of “the increased sales volumes and increased selling prices for individual coal types.” These defendants knew and/or recklessly disregarded that SouthGobi was recognizing revenue under certain sales contracts upon delivery of coal to customers’ stockpiles in a customs-bonded yard that was located within the Ovoot Tolgoi Mine’s mining license area, the location specified in the contracts as the point of title transfer, but not risk of loss. See ¶¶ 73-78. As alleged herein, the criteria for revenue recognition had not been satisfied on these transactions – e.g., price was not reasonably assured (or fixed and determinable) and revenue recognition occurred at the delivery of coal to the customer’s stockpile, rather than at the point of loading the coal onto the customer’s trucks at the time of collection. See id. These defendants also knew and/or recklessly disregarded that customers were not collecting the coal that had been stockpiled in the storage yard. See ¶¶ 52-55. In addition, customers were not paying for the coal, causing SouthGobi’s accounts receivables to age, thereby calling into the collectability of the receivables. See ¶ 274.

140. In addition to improperly reporting revenue, the financial results for year-end 2011 were materially false and misleading in that they failed to report withholding taxes on intercompany interest. Defendants Priestly and Bateman knew, but failed to disclose, that the Company failed to report withholding taxes on intercompany interest.

141. The Sarbanes-Oxley certifications attached to the 2011 40-F signed by Defendants Friedland and Giardini were in substance the same as those attached to the 2010 40-F. By signing the Sarbanes-Oxley certifications, Defendants Friedland and Giardini falsely stated that the financial statements presented in Exhibit 99.1 attached to the Form 6-K and the
2011 40-F was true in all material respects. For the reasons set forth in ¶¶ 52-55, 73-78, and 274, and as summarized in ¶ 95, Defendants Friedland and Giardini knew or recklessly disregarded that the statements in the certifications concerning the presentation of the Company’s financial statements were materially false and misleading.

C. The Company's 2012 Quarterly Reports and Year-End Financial Statements

(i) First Quarter 2012

142. On May 15, 2012, the Company issued a press release after the market closed in which it announced its financial results for the first quarter ended March 31, 2012 (the May 15 Press Release”). For the first quarter of 2012, the Company reported the following:

In Q1’12, Ivanhoe Mines recorded a net loss of $80.6 million ($0.11 per share), compared to a net loss of $492.5 million ($0.79 per share) in Q1’11, which was a decrease of $411.9 million. The decrease is largely due to the Q1’11 result including a $432.5 million change in fair value of the derivative realized on the 2011 rights offering. Results for Q1’12 included $76.8 million in exploration expenses; $30.4 million in cost of sales; $31.5 million in general and administrative expenses; $0.7 million in interest expense; a $0.8 million change in the fair value of SouthGobi’s embedded derivatives; an $18.3 million share of loss of significantly influenced investees; and a $3.9 million write-down of carrying value of long-term investments. These amounts were offset by $40.2 million in coal revenue; $9.9 million in foreign exchange gains; an $8.9 million gain on other long-term investments; and $5.9 million in interest income. [Emphasis added.]

143. Regarding SouthGobi’s sales and revenue, the Company reported the following:

SouthGobi achieved sales of 0.84 million tonnes in Q1’12, an increase of 84% from of 0.45 million tonnes in Q1’11. SouthGobi recognized revenue of $40.2 million in Q1’12, an increase of 99% from $20.2 million in Q1’11 due to increased sales volumes and higher average realized selling prices. Sales volumes and revenue decreased from Q4’11 due to the extended closure of the Shivee Khuren border crossing for the Chinese New Year and Mongolian Tsagaan Sar public holidays. [Emphasis added.]
SouthGobi’s average realized selling price increased to a record $56.79 per tonne in Q1’12, an increase of 13% from the Q1’11 average realized selling price of $50.29.

In Q1’12, SouthGobi produced 1.07 million tonnes of raw coal with a strip ratio of 2.07, compared to production of 1.11 million tonnes of raw coal in Q1’11 with a strip ratio of 3.47. The lower strip ratio for Q1’12 is a function of the mine plan and will be normalized over the life-of-mine.

Cost of sales was $30.4 million for Q1’12, compared to $20.3 million for Q1’11. Cost of sales comprise the direct cash costs of product sold, mine administration cash costs of product sold, equipment depreciation, depletion of mineral properties, share-based compensation and inventory write-downs, if any. Cost of sales increased in Q1’12 compared to Q1’11 due to higher sales volumes, which were partially offset by lower unit costs.

144. The market reacted positively to the reported financial results and Defendant’s false and misleading statements, as the price of the Company’s stock opened on May 16, 2012, the next trading day, at $8.43 per share and traded as high as $9.46 per share before closing at $8.98 per share.

145. The financial statements relating to the Company’s reported revenue and that of SouthGobi, as well as financial results related thereto, in ¶¶ 142-143, were materially false and misleading. The Company and Defendants Priestly and Bateman knew or recklessly disregarded that SouthGobi’s revenue was not increasing solely because of “increased sales volumes and higher average realized selling prices.” These defendants knew and/or recklessly disregarded that SouthGobi was recognizing revenue under certain sales contracts upon delivery of coal to customers’ stockpiles in a customs-bonded yard that was located within the Ovoot Tolgoi Mine’s mining license area, the location specified in the contracts as the point of title transfer, but not risk of loss. See ¶¶ 73-78. As alleged herein, the criteria for revenue recognition had not been satisfied on these transactions – e.g., price was not reasonably assured (or fixed and
determinable) and revenue recognition occurred at the delivery of coal to the customer’s stockpile, rather than at the point of loading the coal onto the customer’s trucks at the time of collection. See id. These defendants also knew and/or recklessly disregarded that customers were not collecting the coal that had been stockpiled in the storage yard. See ¶¶ 52-55. In addition, customers were not paying for the coal, causing SouthGobi’s accounts receivables to age, thereby calling into the collectability of the receivables. See ¶ 274.

146. On May 16, 2012, after the market closed, the Company filed with the SEC its quarterly report for the period ended March 31, 2011 ("Q1 2012 Form 6-K").


148. In the Q1 2012 MD&A, Defendants emphasized SouthGobi as one of the core business segments of the Company: "Ivanhoe Mines is an international mining company with activities concentrated in Central Asia and the Asia Pacific Region. Ivanhoe Mines’ principal assets include . . . [a] 57.6% interest in SouthGobi, which is selling coal produced at its Ovoot Tolgoi mine in southern Mongolia to customers in China and is conducting ongoing exploration and development programs at several other Mongolian coal prospects.” To further underscore
the significance of SouthGobi to the Company, Defendants stated: “CORE INTERESTS AND ACTIVITIES The main activities by Ivanhoe Mines and its subsidiaries during Q1’12 were ongoing construction of the Oyu Tolgoi mining complex, coal production at SouthGobi’s Ovoot Tolgoi mine, the start of copper and gold production at Ivanhoe Australia’s Osborne complex and exploration activities concentrated in Australia and Mongolia.” Emphasis added.

149. Defendants also stated the following in the Q1 2012 MD&A concerning the effectiveness of the Company’s internal controls:

During the three months ended March 31, 2012, there were no changes in the Company’s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

150. For the reasons stated in ¶¶ 52-55, 73-78, and 274, and as summarized in ¶ 95, the Q1 2012 Form 6-K was knowingly and/or recklessly false and misleading. The statement concerning the effectiveness of the Company’s internal controls in the Q1 2012 Form 6-K was materially false and misleading. The Company and Defendants Priestly and Bateman knew and/or recklessly disregarded that there were material weaknesses in the Company’s internal control over financial reporting related to accounting for revenues in complex transactions. These defendants also knew and/or recklessly disregarded that the review by the Company of complex sales arrangements at the Company’s subsidiaries was materially weak, as conceded with the Restatement.

151. Defendants Priestly and Bateman each signed a certification that in substance contained the same language as set forth in ¶ 107, except that the certification pertained to “the interim period ended March 31, 2012.” For the reasons set forth in ¶¶ 52-55, 73-78, and 274, and as summarized in ¶ 95, Defendants Priestly and Bateman knew or recklessly disregarded that the statements in the certifications concerning the presentation of the Company’s financial
statements and the effectiveness of the Company’s internal controls were materially false and misleading.

(ii) Second Quarter 2012

152. On August 14, 2012, the Company issued a press release after the market closed in which it announced its financial results for the second quarter ended June 30, 2012 (the “August 14 Press Release”). For the second quarter of 2012, the Company reported the following:

In Q2 '12, Turquoise Hill recorded a net loss of $285.9 million ($0.35 per share), compared to net income of $0.6 million ($0.00 per share) in Q2 '11, which was a change of $286.5 million. Results for Q2 '12 included $65.1 million in exploration expenses; $49.7 million in cost of sales; $81.0 million in general and administrative expenses; $168.7 million in financing costs (which includes a non-cash amount of $164.4 million for the issue of the Series D warrants to Rio Tinto); $2.0 million in interest expense; a $2.3 million share of loss of significantly influenced investees; $8.7 million in foreign exchange losses and a $9.3 million write-down of carrying value of long-term investments. These amounts were offset by $28.2 million in revenue; a $26.8 million change in the fair value of SouthGobi’s embedded derivatives; $18.5 million change in the fair value of the derivative on the 2012 rights offering; $4.8 million in interest income and $20.2 million of net loss attributable to non-controlling interests. [Emphasis added.]

153. The Company also provided an update on operations at SouthGobi, noting that “[a]s at June 30, 2012, mining activities had been fully curtailed and are expected to remain fully curtailed throughout Q3 ’12.” Regarding SouthGobi’s sales and revenue, the Company stated the following:

SouthGobi had sales of 0.16 million tonnes in Q2 ‘12, a decrease of 85% from the 1.05 million tonnes in Q2 ‘11. SouthGobi recognized revenue of $8.4 million in Q2 ’12, a decrease of 82% from the $47.3 million recognised in Q2 ‘11. Sales volumes were adversely affected over the quarter due to issues associated with mining and exploration licenses in Mongolia, and also due to
softening markets for coking coal products during the latter stages of the period. [Emphasis added.]

SouthGobi’s average realized selling price was $62.56 per tonne in Q2 '12, an increase of 16% from the Q2 '11 average realized selling price of $54.06.

In Q2 '12, SouthGobi produced 0.27 million tonnes of raw coal with a strip ratio of 4.31, compared to production of 0.87 million tonnes of raw coal in Q2 '11 with a strip ratio of 4.74.

Cost of sales was $25.7 million for Q2 '12, compared to $49.7 million for Q2 '11. Cost of sales comprised the direct cash costs of product sold, mine administration cash costs of product sold, equipment depreciation, depletion of mineral properties, idle mine costs, share-based compensation and inventory write-downs.

154. On August 15, 2012, after the market closed, the Company filed the August 14 Press Release with the SEC on Form 6-K. Also on August 15, 2012, after the market closed, the Company filed with the SEC its quarterly report for the period ended June 30, 2012 (“Q2 2012 Form 6-K”).


156. In the Q2 2012 MD&A, Defendants emphasized SouthGobi as one of the core business segments of the Company: “Turquoise Hill is an international mining company focused
on copper, gold and coal mines in Central Asia and the Asia Pacific Region. Turquoise Hill’s principal operations include ... [a] 58% interest in SouthGobi, which operates the Ovoot Tolgoi mine in southern Mongolia and is conducting exploration and development programs at other Mongolian coal prospects.” To further underscore the significance of SouthGobi to the Company, Defendants stated: “CORE INTERESTS AND ACTIVITIES The main activities by Turquoise Hill during Q2’12 were the ongoing construction of the Oyu Tolgoi mining complex, the operations at SouthGobi’s Ovoot Tolgoi mine, the start of copper and gold production at Ivanhoe Australia’s Osborne complex and exploration activities concentrated in Australia and Mongolia.” Emphasis added.

157. Defendants also stated the following in the Q2 2012 MD&A concerning the effectiveness of the Company’s internal controls:

During the three months ended June 30, 2012, there were no changes in the Company’s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

158. The market reacted positively to the reported financial results and Defendant’s false and misleading statements, as the price of the Company’s stock opened on August 16, 2012, the next trading day, at $8.26 per share and traded as high as $8.63 per share before closing at $8.57 per share.

159. The financial statements relating to the Company’s reported revenue and that of SouthGobi, as well as financial results related thereto, in ¶¶ 152-154, 155, and 157, were materially false and misleading. The Company and Defendants Priestly and Bateman knew or recklessly disregarded that SouthGobi was recognizing revenue under certain sales contracts upon delivery of coal to customers’ stockpiles in a customs-bonded yard that was located within the Ovoot Tolgoi Mine’s mining license area, the location specified in the contracts as the point
of title transfer, but not risk of loss. See ¶¶ 73-78. As alleged herein, the criteria for revenue recognition had not been satisfied on these transactions – e.g., price was not reasonably assured (or fixed and determinable) and revenue recognition occurred at the delivery of coal to the customer’s stockpile, rather than at the point of loading the coal onto the customer’s trucks at the time of collection. See id. These defendants also knew and/or recklessly disregarded that customers were not collecting the coal that had been stockpiled in the storage yard. See ¶¶ 52-55. In addition, customers were not paying for the coal, causing SouthGobi’s accounts receivables to age, thereby calling into the collectability of the receivables. See ¶ 274.

160. The statement concerning the effectiveness of the Company’s internal controls in the Q2 2012 Form 6-K was materially false and misleading. The Company and Defendants Priestly and Bateman knew and/or recklessly disregarded that there were material weaknesses in the Company’s internal control over financial reporting related to accounting for revenues in complex transactions. These defendants also knew and/or recklessly disregarded that the review by the Company of complex sales arrangements at the Company’s subsidiaries was materially weak, as conceded with the Restatement.

161. Defendants Priestly and Bateman each signed a certification that in substance contained the same language as set forth in ¶ 107, except that the certification pertained to “the interim period ended June 30, 2012.” For the reasons set forth in ¶¶ 52-55, 73-78, and 274, and as summarized in ¶ 95, Defendants Priestly and Bateman knew or recklessly disregarded that the statements in the certifications concerning the presentation of the Company’s financial statements and the effectiveness of the Company’s internal controls were materially false and misleading.
(iii) Third Quarter 2012

162. On November 14, 2012, the Company issued a press release after the market closed in which it announced its financial results for the third quarter ended September 30, 2012 (the “November 14 Press Release”). For the third quarter of 2012, the Company reported the following:

In Q3 '12, Turquoise Hill recorded net income of $114.3 million ($0.12 per share), compared to net income of $7.3 million ($0.01 per share) in Q3 '11, which was a change of $107.0 million. Results for Q3 '12 included $55.3 million in exploration expenses; $57.2 million in cost of sales; $18.3 million in general and administrative expenses; $12.5 million write-down of current assets; $4.3 million in interest expense; a $6.1 million share of loss of significantly influenced investees; and a $16.1 million write-down of carrying value of long-term investments. These amounts were offset by $23.8 million in revenue; a $12.9 million change in the fair value of SouthGobi’s embedded derivatives; $176.2 million change in the fair value of the derivative on the 2012 rights offering; $4.7 million in interest income; $13.9 million in foreign exchange gains and $36.6 million of net loss attributable to non-controlling interests. [Emphasis added.]

163. Regarding SouthGobi’s sales and revenue, the Company reported the following:

Revenue decreased to $3.3 million for Q3 '12 from $60.5 million for Q3 '11. During Q3 '12, SouthGobi sold 0.31 million tonnes of coal at an average realized selling price of $15.79 per tonne compared to sales of 1.37 million tonnes of coal at an average realized selling price of $54.01 per tonne in Q3 '11. In Q3 '12, SouthGobi sold higher-ash stockpiles to satisfy existing sales contracts. The decrease in the average realized selling price in the Q3 '12 is primarily related to SouthGobi’s sales mix – only higher-ash coals were sold in Q3 '12 – and the significant reduction in SouthGobi’s selling prices for higher-ash coals.

164. The Company also noted “that SouthGobi’s mining activities at Ovoot Tolgoi remained fully curtailed throughout Q3 '12 . . .” and that SouthGobi’s operations continued “to be impacted by the softening of inland China coking coal markets.” As a consequence,
“customers were reluctant to enter into new sales contracts.” The Company further noted that “SouthGobi anticipates that its operations will most likely remain fully curtailed in Q4 ’12 . . . .”

165. The financial statements relating to the Company’s reported revenue and that of SouthGobi, as well as financial results related thereto, in ¶¶ 162-163, were materially false and misleading. The Company and Defendants Priestly and Bateman knew or recklessly disregarded that SouthGobi was recognizing revenue under certain sales contracts upon delivery of coal to customers’ stockpiles in a customs-bonded yard that was located within the Ovoot Tolgoi Mine’s mining license area, the location specified in the contracts as the point of title transfer, but not risk of loss. See ¶¶ 73-78. As alleged herein, the criteria for revenue recognition had not been satisfied on these transactions – e.g., price was not reasonably assured (or fixed and determinable) and revenue recognition occurred at the delivery of coal to the customer’s stockpile, rather than at the point of loading the coal onto the customer’s trucks at the time of collection. See id. These defendants also knew and/or recklessly disregarded that customers were not collecting the coal that had been stockpiled in the storage yard. See ¶¶ 52-55. In addition, customers were not paying for the coal, causing SouthGobi’s accounts receivables to age, thereby calling into the collectability of the receivables. See ¶ 274.

166. On November 15, 2012, during market hours, the Company filed the November 14 Press Release with the SEC on Form 6-K. Also on November 15, 2012, after the market closed, the Company filed with the SEC its quarterly report for the period ended September 30, 2012 (“Q3 2012 Form 6-K”).

167. The Q3 2012 Form 6-K contained, inter alia, the same reported financial information as set forth in the November 14, 2012 Press Release. Additionally, the Q3 2012 Form 6-K included the following tables: Unaudited Interim Consolidated Balance Sheets as at

168. In the Q3 2012 MD&A, Defendants emphasized SouthGobi as one of the core business segments of the Company: “Turquoise Hill is an international mining company focused on copper, gold and coal mines in Central Asia and the Asia Pacific region. Turquoise Hill’s principal operations include. . . [a] 57.6% interest in SouthGobi Resources Ltd. (SouthGobi), which owns the Ovoot Tolgoi mine in southern Mongolia and is conducting exploration and development programs at other Mongolian coal prospects.” Although “[a]ctivities at SouthGobi’s Ovoot Tolgoi coal mine were fully curtailed in Q3 ‘12”, Defendants continued to identify SouthGobi as one of its “CORE INTERESTS AND ACTIVITIES”.

169. Defendants also stated the following in the Q3 2012 MD&A concerning the effectiveness of the Company’s internal controls:

During the three months ended September 30, 2012, there were no changes in the Company’s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

170. For the reasons stated in ¶¶ 52-55, 73-78, and 274, and as summarized in ¶ 95, the Q3 2012 Form 6-K was knowingly and/or recklessly false and misleading. The statement concerning the effectiveness of the Company’s internal controls in the Q3 2012 Form 6-K was materially false and misleading. The Company and Defendants Priestly and Bateman knew
and/or recklessly disregarded that there were material weaknesses in the Company’s internal control over financial reporting related to accounting for revenues in complex transactions. These defendants also knew and/or recklessly disregarded that the review by the Company of complex sales arrangements at the Company’s subsidiaries was materially weak, as conceded with the Restatement.

171. Defendants Priestly and Bateman each signed a certification that in substance contained the same language as set forth in ¶ 107, except that the certification pertained to “the interim period ended September 30, 2012.” For the reasons set forth in ¶¶ 52-55, 73-78, and 274, and as summarized in ¶ 95, Defendants Priestly and Bateman knew or recklessly disregarded that the statements in the certifications concerning the presentation of the Company’s financial statements and the effectiveness of the Company’s internal controls were materially false and misleading.

(iv) Fourth Quarter 2012 and Year-End 2012


173. In the sales and operations update section covering SouthGobi, the Company noted that there was a “previous bottleneck at the border crossing . . . .” But, new infrastructure, including “eight new border gates, exclusively for coal transportation, opened at the Shivee Khuren Border Crossing at the Mongolia-China border” in May 2012, to eliminate the bottleneck. The new infrastructure was expected to increase the capacity of coal that could be transported.
174. The Company highlighted the fact that the Ovoot Tolgoi Mine resumed operations “on March 22, 2013 after being curtailed during the second half of 2012.” The Company previously reported that mining activity was fully curtailed by June 30, 2012, and remained curtailed for the remainder of 2012.

175. The Company also discussed the various investigations of SouthGobi and its employees being conducted by the Mongolian government. The Company reported that SouthGobi’s Audit Committee of independent directors, assisted by independent legal counsel, was conducting an internal investigation into violations of the law, internal corporate policies and codes of conduct relating to the allegations. Further, it was reported that a tripartite committee comprised of the Chairs of SouthGobi and the Company’s Audit Committees and a representative of Rio Tinto was created to investigate the allegations and independent legal counsel and forensic accountants were engaged to assist this committee.

176. Further, in light of the various investigations, the Company disclosed that, “SouthGobi, through its Board of Directors and new management [which included Defendant Priestly], has taken a number of steps to focus ongoing compliance by employees with all applicable laws, internal corporate policies and codes of conduct, and with SouthGobi’s disclosure controls and procedures and internal controls over financial reporting.” Emphasis added.

177. For the year-end 2012, Turquoise Hill announced a net loss of $434.6 million ($0.51 per share) for year-end 2012, compared to a net loss of $570.4 million ($0.76 per share) in 2011, a decrease in net loss of $135.8 million. The Company further reported that its financial results included $133.8 million in revenue, a portion of which was attributed to SouthGobi coal sales. In pertinent part, the Company reported the following:
In 2012, Turquoise Hill recorded a net loss of $434.6 million ($0.51 per share), compared to a net loss of $570.4 million ($0.76 per share) in 2011, which was a decrease of $135.8 million. Results for 2012 included $133.8 million in revenue; $19.5 million in interest income; $7.2 million in foreign exchange gains; $194.7 million change in the fair value of the derivative on the 2012 rights offering; a $39.5 million change in the fair value of SouthGobi’s embedded derivatives and $146.9 million of net loss attributable to non-controlling interests. These amounts were offset by $208.1 million in cost of sales; $169.0 million in exploration and evaluation expenses; $159.9 million in other operating expenses; $154.5 million in general and administrative expenses; $16.2 million write-down of current assets; $11.9 million in interest expense; $164.4 million in financing costs; and a $32.9 million share of loss of significantly influenced investees.

178. SouthGobi’s reported that revenue from coal sales decreased from $179.0 million in 2011 to $53.1 million in 2012. SouthGobi’s decreased sales volumes and selling prices for individual coal products were reportedly impacted by infrastructure constraints in Mongolia, among other things. Further, in 2012, SouthGobi sold 1.33 million tonnes of coal at an average realized selling price of $47.76 per tonne, compared to SouthGobi’s 2011 sales of 4.02 million tonnes of coal at an average realized selling price of $54.03 per tonne. In pertinent part, the Company reported the following:

In 2012, SouthGobi recorded revenue of $53.1 million compared to $179.0 million in 2011. In 2012, SouthGobi’s operations were impacted by infrastructure constraints in Mongolia, the significant uncertainty resulting from regulatory issues facing SouthGobi and the softening of inland China coking coal markets. These issues led to decreased sales volumes and decreased selling prices for individual coal products.

* * *

In 2012, SouthGobi sold 1.33 million tonnes of coal at an average realized selling price of $47.76 per tonne compared to sales of 4.02 million tonnes of coal at an average realized selling price of $54.03 per tonne in 2011. SouthGobi’s average realized selling price was negatively impacted by the softening of the inland China coking coal markets closest to SouthGobi’s operations throughout 2012.
SouthGobi’s higher-ash coals were impacted more substantially than its other products.

Cost of sales was $135.3 million in 2012, compared to $184.8 million in 2011. In 2012, cost of sales included $53.0 million of idled mine costs due to the curtailment of mining activities at Ovoot Tolgoi, compared to $nil in 2011. Cost of sales is comprised of the direct cash costs of product sold, mine administration cash costs of product sold, idled mine costs, inventory impairments, equipment depreciation, depletion of mineral properties and share-based compensation expense. The decrease in cost of sales from 2011, after factoring in idled mine costs, was primary due to lower sales volumes and lower unit costs, partially offset by coal stockpile impairments.


180. In the 2012 MD&A, the Company reported that, for the fourth quarter of 2012, it recognized $40.4 million in revenue. The Company also stated that, while SouthGobi’s mining activities remained fully curtailed in the fourth quarter of 2012, SouthGobi still generated revenue from the sale of coal from existing stockpiles, recognizing a reported $1.2 million in coal revenue, compared to $51 million in revenue in the fourth quarter of 2011. Additionally, the Company reported that SouthGobi shipped approximately 30,000 tonnes of coal in the fourth
quarter, at an average realized selling price of approximately $48 per tonne, compared to 1.1 million tonnes of coal in the fourth quarter of 2011 at an average realized selling price of approximately $56 per tonne. In relevant part, the Company stated:

Revenue. Consists of sales revenue at Ivanhoe Australia and SouthGobi. In Q4’12, Ivanhoe Australia recognized $40.4 million in revenue compared to $nil in Q4’11. This was largely a result of completing its third and fourth shipments of copper-gold concentrate, totalling 20,774 wet metric tonnes. Ivanhoe Australia also completed three gold doré sales in Q4’12.

In Q4’12, SouthGobi’s mining activities remained fully curtailed, however SouthGobi generated revenue through the sale of coal from existing stockpiles. SouthGobi recognized $1.2 million in coal revenue, compared to $51.0 million in Q4’11. SouthGobi shipped approximately 30,000 tonnes of coal in Q4’12 at an average realized selling price of approximately $48 per tonne, compared to 1.1 million tonnes of coal in Q4’11 at an average realized selling price of approximately $56 per tonne.

Cost of sales. Consists of cost of sales at Ivanhoe Australia and SouthGobi. In Q4’12, Ivanhoe Australia’s cost of sales was $31.9 million, compared to $nil in Q4’11. Cost of sales included the treatment, refining and shipping costs of the copper-gold concentrate ($28.3 million) and the depreciation of property, plant and equipment ($3.5 million) specifically used in the operations.

In Q4’12, SouthGobi’s cost of sales was $38.9 million, compared to $60.8 million in Q4’11. In Q4’12, cost of sales included $18.4 million of idled mine costs due to the curtailment of mining activities at Ovoot Tolgoi, compared to $nil in 2011. Cost of sales is comprised of the direct cash costs of product sold, mine administration cash costs of product sold, idled mine costs, inventory impairments, equipment depreciation, depletion of mineral properties and share-based compensation. The decrease in cost of sales from Q4’11, after factoring in idled mine costs, was primary due to lower sales volumes, partially offset by higher unit costs and stockpile impairments.

181. The Company also reported accounts receivable of $26.4 million in 2012, compared to $101.2 million for year-end 2011.
182. In the 2012 MD&A, Defendants continued to emphasize SouthGobi as one of the core business segments of the Company: “Turquoise Hill is an international mining company focused on copper, gold and coal mines in Central Asia and the Asia Pacific region. Turquoise Hill’s principal operations at December 31, 2012 included the following: . . . [a] 57.6% interest in SouthGobi Resources Ltd. (SouthGobi), which owns the Ovoot Tolgoi coal mine in southern Mongolia and is conducting exploration and development programs at other Mongolian coal prospects..” Although “[a]ctivities at SouthGobi’s Ovoot Tolgoi coal mine were fully curtailed in the second half of 2012”, Defendants continued to identify SouthGobi as one of its “CORE INTERESTS AND ACTIVITIES”.

183. Also in the 2012 MD&A, Defendants stated the following concerning the effectiveness of the Company’s internal controls:

Management is responsible for establishing and maintaining adequate internal controls over financial reporting of the Company (as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act and in NI 52-109). . . . The Company’s CEO and CFO have assessed the effectiveness of the Company’s internal controls over financial reporting as at December 31, 2012 in accordance with Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, the Company’s CEO and CFO have determined that the Company’s internal controls over financial reporting are effective as of December 31, 2012 and have certified the Company’s annual filings with the U.S. Securities and Exchange Commission on Form 40-F as required by the United States Sarbanes-Oxley Act and with Canadian securities regulatory authorities. [Emphasis added.]

184. In the 2012 Financial Statements, the Company described its revenue recognition policy, which applied to SouthGobi coal sales in 2012, as follows:

Sales revenues are recognized when the risks and rewards of ownership pass to the customer, collection is reasonably assured and the price is reasonably determinable. Depending on the terms of the sales contract, this occurs when saleable product is either
loaded onto a train, truck or vessel; or unloaded at the final destination.

185. The 2012 revenue recognition policy differed from the 2011 revenue recognition policy in that it did not include contracts with bill-and-hold terms.

186. The financial statements relating to the Company’s reported revenue and that of SouthGobi, as well as financial results related thereto, in ¶ 177-181 and 183-184, were materially false and misleading. The Company and Defendants Priestly and Bateman knew or recklessly disregarded that SouthGobi was recognizing revenue under certain sales contracts upon delivery of coal to customers’ stockpiles in a customs-bonded yard that was located within the Ovoot Tolgoi Mine’s mining license area, the location specified in the contracts as the point of title transfer, but not risk of loss. See ¶¶ 73-78. As alleged herein, the criteria for revenue recognition had not been satisfied on these transactions – e.g., price was not reasonably assured (or fixed and determinable) and revenue recognition occurred at the delivery of coal to the customer’s stockpile, rather than at the point of loading the coal onto the customer’s trucks at the time of collection. See id. These defendants also knew and/or recklessly disregarded that customers were not collecting the coal that had been stockpiled in the storage yard. See ¶¶ 52-55. In addition, customers were not paying for the coal, causing SouthGobi’s accounts receivables to age, thereby calling into the collectability of the receivables. See ¶ 274.

187. The statement concerning the effectiveness of the Company’s internal controls in the 2012 MD&A was materially false and misleading. The Company and Defendants Priestly and Bateman knew and/or recklessly disregarded that there were material weaknesses in the Company’s internal control over financial reporting related to accounting for revenues in complex transactions. These defendants also knew and/or recklessly disregarded that the review
by the Company of complex sales arrangements at the Company’s subsidiaries was materially weak, as conceded with the Restatement.

188. In addition to improperly reporting revenue, the financial results for year-end 2012 were also materially false and misleading in that they failed to report withholding taxes on intercompany interest. At the time of the filing, Defendants Bateman and Priestly knew, but failed to disclose, that the Company failed to report withholding taxes on intercompany interest.

189. The Sarbanes-Oxley certifications attached to the 2012 Form 40-F signed by Defendants Bateman and Priestly were in substance the same as those attached to the 2010 Form 40-F and 2011 Form 40-F. For the reasons set forth in ¶¶ 52-55, 73-78, and 274, and as summarized in ¶ 95, Defendants Priestly and Bateman knew or recklessly disregarded that the statements in the certifications concerning the presentation of the Company’s financial statements and the effectiveness of the Company’s internal controls were materially false and misleading.

D. 2013 Quarterly Financials

(i) First Quarter 2013

190. On May 13, 2013, the Company issued a press release after the market closed in which it announced its financial results for the first quarter ended March 31, 2013 (the “May 13 Press Release”). For the first quarter of 2013, the Company reported the following:

In Q1 ’13, Turquoise Hill recorded a net loss of $50.7 million ($0.05 per share), compared to a net loss of $80.6 million ($0.10 per share) in Q1 ’12, which was a decrease of $29.9 million. Results for Q1 ’13 included $44.0 million in revenue; $8.2 million in interest income; a $0.7 million change in the fair value of SouthGobi’s embedded derivatives and $31.2 million of net loss attributable to non-controlling interests. These amounts were offset by $68.8 million in cost of sales; $18.1 million in exploration and evaluation expenses; $14.6 million in other operating expenses; $15.8 million in general and administrative expenses; $5.0 million

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in interest expense; $1.9 million in foreign exchange losses and a $1.3 million share of loss of significantly influenced investees.
[Emphasis added.]

191. Regarding SouthGobi’s sales and revenue, the Company stated the following:

Operations at the Ovoot Tolgoi mine resumed on March 22, 2013, and SouthGobi plans to produce 3.2 million tonnes of semi-soft coking coal in 2013. Although operations at the Ovoot Tolgoi mine have resumed, SouthGobi continues to minimize uncommitted capital expenditures and exploration expenditures in order to preserve its financial resources.

* * *

In Q1 ‘13, SouthGobi recorded revenue of $3.3 million compared to $40.2 million in Q1 ‘12. In Q1 ‘13, SouthGobi sold approximately 80,000 tonnes of coal at an average realized selling price of $45.02 per tonne compared to sales of approximately 840,000 tonnes of coal at an average realized selling price of $56.79 per tonne in Q1 ‘12. In Q1 ‘13, SouthGobi generated revenue through the sale of existing coal stockpiles. In Q1 ‘13, SouthGobi’s sales volume and average realized selling price were negatively impacted by the continued softness of the inland China coking coal markets closest to SouthGobi’s operations. Market participants continue to deplete their existing stockpiles on the Mongolian and Chinese sides of the Shivee Khuren-Ceke crossing at the Mongolia-China border, and this movement provides some indication of future sales once the remaining stockpiles are depleted in Q2 ‘13. However, this situation has adversely impacted SouthGobi’s ability to sign new contracts to date.

Cost of sales was $22.1 million in Q1 ‘13, compared to $30.4 million in Q1 ‘12. In Q1 ‘13, cost of sales included $16.4 million of idled mine costs due to the curtailment of mining activities at Ovoot Tolgoi, compared to $nil in Q1 ‘12. Cost of sales is comprised of the direct cash costs of product sold, mine administration cash costs of product sold, idled mine costs, inventory impairments, equipment depreciation, depletion of mineral properties and share-based compensation expense. The decrease in cost of sales from Q1 ‘12, excluding idled mine costs, was primarily due to lower sales volumes.

192. The financial statements relating to the Company’s reported revenue and that of SouthGobi, as well as financial results related thereto, in ¶¶ 190-191, were materially false and
misleading. The Company and Defendants Priestly and Bateman knew or recklessly disregarded that SouthGobi was recognizing revenue under certain sales contracts upon delivery of coal to customers' stockpiles in a customs-bonded yard that was located within the Ovoot Tolgoi Mine's mining license area, the location specified in the contracts as the point of title transfer, but not risk of loss. See ¶¶ 73-78. As alleged herein, the criteria for revenue recognition had not been satisfied on these transactions – e.g., price was not reasonably assured (or fixed and determinable) and revenue recognition occurred at the delivery of coal to the customer's stockpile, rather than at the point of loading the coal onto the customer's trucks at the time of collection. See id. These defendants also knew and/or recklessly disregarded that customers were not collecting the coal that had been stockpiled in the storage yard. See ¶¶ 52-55. In addition, customers were not paying for the coal, causing SouthGobi's accounts receivables to age, thereby calling into the collectability of the receivables. See ¶ 274.

193. On May 14, 2013, during market hours, the Company filed the May 13 Press Release with the SEC on Form 6-K. Also on May 14, 2013, after the market closed, the Company filed with the SEC its quarterly report for the period ended March 31, 2013 ("Q1 2013 Form 6-K").

194. The Q1 2013 Form 6-K contained, among other information, the same reported financial information as set forth in the May 13 Press Release. Additionally, the Q1 2013 Form 6-K included the following tables: Unaudited Interim Consolidated Balance Sheets as at March 31, 2013 and December 31, 2012, Unaudited Interim Consolidated Statements of Operations for the Three Month Periods ended March 31, 2013 and 2012, Unaudited Interim Consolidated Statements of Comprehensive Loss for the Three Month Periods ended March 31, 2013 and 2012, Unaudited Interim Consolidated Statement of Equity for the Three Month Period ended

195. In the Q1 2013 MD&A, Defendants emphasized SouthGobi as one of the core business segments of the Company: “Turquoise Hill is an international mining company focused on copper, gold and coal mines in Central Asia and the Asia Pacific region. Turquoise Hill’s principal operations at March 31, 2013 included the following: . . . [a] 57.6% interest in SouthGobi Resources Ltd. (SouthGobi), which is producing coal at the Ovoot Tolgoi mine in southern Mongolia and is conducting exploration and development programs at other Mongolian coal prospects.” To further underscore the significance of SouthGobi to the Company, Defendants stated: “A. CORE INTERESTS AND ACTIVITIES The main activities of Turquoise Hill during Q1 ’13 were the ongoing construction and commissioning of the Oyu Tolgoi mining complex, the resumption of mining activities at SouthGobi’s Ovoot Tolgoi mine on March 22, 2013, the copper and gold production at Ivanhoe Australia’s Osborne complex and exploration activities concentrated in Australia and Mongolia.” Emphasis added.

196. In the Q1 2013 Form 6-K, the Company also announced the current condition of SouthGobi coal sales, stating:

Market participants continue to deplete their existing stockpiles on the Mongolian and Chinese sides of the Shivee Khuren-Ceke crossing at the Mongolia-China border, and this movement provides some indication of future sales once the remaining stockpiles are depleted in Q2’13. However, this situation has adversely impacted SouthGobi’s ability to sign new contracts to date.

197. For the reasons stated in ¶¶ 52-55, 73-78, and 274, and as summarized in ¶ 95, the Q1 2013 Form 6-K was knowingly and/or recklessly false and misleading.
198. Defendants Priestly and Bateman each signed a certification that in substance contained the same language as set forth in ¶ 107, except that the certification pertained to "the interim period ended March 31, 2013." For the reasons set forth in ¶¶ 52-55, 73-78, and 274, and as summarized in ¶ 95, Defendants Priestly and Bateman knew or recklessly disregarded that the statements in the certifications concerning the presentation of the Company's financial statements were materially false and misleading.

(ii) Second Quarter 2013

199. On August 12, 2013, the Company issued a press release after the market closed in which it announced its financial results for the second quarter ended June, 2013 (the "August 12 Press Release"). For the second quarter of 2013, the Company reported the following:

In Q2 '13, Turquoise Hill recorded a net loss of $105.3 million ($0.10 per share), compared to a net loss of $285.9 million ($0.35 per share) in Q2 '12, which was a decrease of $180.6 million. Results for Q2 '13 included $46.9 million in revenue; $4.4 million in interest income; a $3.3 million change in the fair value of SouthGobi's embedded derivatives and $76.9 million of net loss attributable to non-controlling interests. These amounts were offset by $82.5 million in cost of sales; $13.1 million in exploration and evaluation expenses; $60.8 million in other operating expenses; $17.0 million in general and administrative expenses; $6.9 million write-down of materials and supplies inventory; $31.6 million in write-down of property, plant and equipment; $7.7 million in interest expense; $2.1 million in foreign exchange losses and a $1.3 million share of loss of significantly influenced investees. [Emphasis added.]

200. Regarding SouthGobi's sales and revenue, the Company stated the following:

In Q2 '13, SouthGobi recorded revenue of $0.4 million compared to $8.4 million in Q2 '12. Revenue decreased primarily due to decreased sales volumes and a lower average realized selling price. In Q2 '13, SouthGobi sold approximately 40,000 tonnes of coal at an average realized selling price of $14.40 per tonne compared to sales of approximately 158,000 tonnes of coal at an average realized selling price of $62.56 per tonne in Q2 '12. In Q2 '13, SouthGobi's sales volume and average realized selling price were
negatively impacted by the continued softness of the inland China coking coal markets closest to SouthGobi's operations. Economic activity post transition in China's leadership has been slower than expected. The Chinese steel industry has been particularly affected and, as a result, demand and prices for coking coal have been negatively impacted. SouthGobi's average realized selling price was also negatively impacted by SouthGobi's sales mix in Q2 '13, which consisted of thermal coal.

In Q2 '13, SouthGobi produced approximately 170,000 tonnes of raw coal with a strip ratio of 15.55 compared to approximately 270,000 tonnes of raw coal with a strip ratio of 4.31 in Q2 '12. In Q2 '13, SouthGobi primarily moved waste material (overburden) and exposed coal in the pit, aligning its operating activities to the significantly lower demand. SouthGobi's strip ratio of 15.55 for Q2 '13 will not be indicative of the strip ratio moving forward.

Cost of sales was $25.7 million in Q2 '13, compared to $25.7 million in Q2 '12. Cost of sales comprises the direct cash costs of product sold, mine administration cash costs of product sold, costs related to idled mine assets, inventory write-downs, equipment depreciation, depletion of mineral properties and share-based compensation expense. As a result of the recommencement of mining operations at the Ovoot Tolgoi mine on March 22, 2013, costs related to idled mine assets decreased in Q2 '13. However, the 2013 production plan does not fully utilize SouthGobi's existing mine fleet, therefore, costs related to idled mine assets will continue to be incurred moving forward. In Q2 '13, cost of sales included $5.8 million of costs related to idled mine assets (Q2 '12: $15.6 million) and $17.2 million of inventory write-downs (Q2 '12: $0.8 million). The decrease in cost of sales from Q2 '12, excluding costs related to idled mine assets and inventory write-downs, was primarily due to lower sales volumes.

201. The financial statements relating to the Company's reported revenue and that of SouthGobi, as well as financial results related thereto, in ¶¶ 199-200, were materially false and misleading. The Company and Defendants Priestly and Bateman knew or recklessly disregarded that SouthGobi was recognizing revenue under certain sales contracts upon delivery of coal to customers' stockpiles in a customs-bonded yard that was located within the Ovoot Tolgoi Mine's
mining license area, the location specified in the contracts as the point of title transfer, but not risk of loss. See ¶¶ 73-78. As alleged herein, the criteria for revenue recognition had not been satisfied on these transactions—e.g., price was not reasonably assured (or fixed and determinable) and revenue recognition occurred at the delivery of coal to the customer’s stockpile, rather than at the point of loading the coal onto the customer’s trucks at the time of collection. See id. These defendants also knew and/or recklessly disregarded that customers were not collecting the coal that had been stockpiled in the storage yard. See ¶¶ 52-55. In addition, customers were not paying for the coal, causing SouthGobi’s accounts receivables to age, thereby calling into the collectability of the receivables. See ¶ 274.

202. On August 13, 2013, during market hours, the Company filed with the SEC the August 12 Press Release as an exhibit to a Form 6-K. Also on August 13, 2013, during market hours, the Company filed with the SEC its quarterly report for the period ended June 30, 2012 ("Q2 2013 Form 6-K") with three attached exhibits: June 30, 2013 Financial Statements and Notes (Exhibit 99.1), June 30, 2013 Management’s Discussion and Analysis of Financial Condition and results of Operations (Exhibit 99.2), and CEO and CFO Certifications (Exhibit 99.3).

203. The Q2 2013 Form 6-K and exhibits contained, inter alia, the same reported financial information as set forth in the August 12, 2012 Press Release. Additionally, the Q1 2013 Form 6-K included the following tables: Unaudited Interim Consolidated Balance Sheets as at June 30, 2013 and December 31, 2012, Unaudited Interim Consolidated Statements of Operations for the Three and Six Month Periods ended June 30, 2013 and 2012, Unaudited Interim Consolidated Statements of Comprehensive Loss for the Three and Six Month Periods ended June 30, 2013 and 2012, Unaudited Interim Consolidated Statement of Equity for the Six

204. In the Q2 2013 MD&A (Exhibit 99.2), Defendants emphasized SouthGobi as one of the core business segments of the Company: “Turquoise Hill is an international mining company focused on copper, gold and coal mines in Central Asia and the Asia Pacific region. Turquoise Hill’s principal operations at June 30, 2013 included the following: . . . [a] 57.6% interest in SouthGobi Resources Ltd. (SouthGobi), which is producing coal at the Ovoot Tolgoi mine in southern Mongolia and is conducting exploration and development programs at other Mongolian coal prospects.” To further underscore the significance of SouthGobi to the Company, Defendants stated: “A. CORE INTERESTS AND ACTIVITIES The main activities of Turquoise Hill during Q2 ’13 were the progression of concentrator commissioning and concentrate production ramp up at the Oyu Tolgoi mining complex, coal production at SouthGobi’s Ovoot Tolgoi mine and copper and gold production at Inova’s Osborne complex.”

Emphasis added.

205. For the reasons stated in ¶¶ 52-55, 73-78, and 274, and as summarized in ¶ 95, the Q2 2013 Form 6-K was knowingly and/or recklessly false and misleading.

206. Defendants Priestly and Bateman each signed a certification (Exhibit 99.3) that in substance contained the same language as set forth in ¶ 107, except that the certification pertained to “the interim period ended June 30, 2013.” For the reasons set forth in ¶¶ 52-55, 73-78, and 274, and as summarized in ¶ 95, Defendants Priestly and Bateman knew or recklessly disregarded that the statements in the certifications concerning the presentation of the Company’s financial statements were materially false and misleading.
III. THE TRUTH IS SLOWLY REVEALED TO INVESTORS

207. On November 8, 2013, before the market opened, the Company issued a press release in which it announced that it would be “restating its consolidated financial results for 2010, 2011, 2012 and the affected quarters, including 2013 . . .” (the “November 8 Press Release”). The announcement followed a decision by SouthGobi, of which Defendant Priestly serves as Chairman and non-executive director, “that it plans to restate its financial results.” The Company stated as follows:

The planned restatement is due to a change in SouthGobi’s determination of when revenue should be recognized in accordance with International Financial Reporting Standards from its sales of coal previously recognized in fourth quarter of 2010, the full year 2011 and the first half of 2012. The transactions in question involved sale contracts upon which revenue was recognized upon delivery to customers’ stockpiles in a stockyard located within SouthGobi’s Ovoot Tolgoi mine’s mining licence area. Starting in the second half of 2012, SouthGobi adopted new terms in its sales contracts to provide for transfer of title upon loading the coal onto customers’ trucks and revenue has been recognized at the time of customer collection in respect of sales under such contracts. [Emphasis added.]

208. In the November 8 Press Release, the Company also stated that the Restatement would correct errors to the accounting treatment of the SouthGobi coal transactions but warned that, pending the filing of its restated financial results, Turquoise Hill’s previously filed financial statements should not be relied upon. Without announcing the exact impact, the Company indicated that the anticipated restatement would result in revenue being deferred to future periods that was previously recognized in the fourth quarter of 2010, year-end 2011, and the first two quarters of 2012. Specifically, the Company stated that there would “be a decrease of previously reported revenues in 2010 and 2011, an increase in previously reported revenues in 2012 and
2013, and corresponding impacts on the periods in which the costs related to these revenues are recognized.

209. The Company also disclosed for the first time on November 8, 2013 that Turquoise Hill had received a comment letter from the SEC after the filing of the Company’s year-end December 31, 2012 financial statements on March 25, 2013. The Company stated that the SEC was specifically inquiring into “the appropriate accounting and disclosure under U.S. GAAP of the [SouthGobi coal] transactions.” While discussions with the SEC staff were still ongoing, the Company believed that its planned restatement would “appropriately address the timing of revenue recognition for these transactions” and therefore stave off any enforcement action by the SEC.

210. Previous to the November 8 Press Release, the Company disclosed comment letters it received from the SEC following the filing of its annual information forms and accompanying financial statements. For example, the Company filed on EDGAR an SEC comment letter dated August 7, 2012 and the response thereto on August 17, 2012, and an SEC comment letter dated September 21, 2012 and the response thereto on September 28, 2012. Notably, in the response to the September 21, 2012 comment letter, Defendant Bateman falsely stated that “the Ovoot Tolgoi Complex is not material to our company”, despite the fact, as the Staff observed in the comment letter, that “the Ovoot Tolgoi coal mine ... is Southgobi’s flagship producing operation, [and] your only source of revenue ...”

211. The Company filed the November 8 Press Release with the SEC on November 8, 2012 during market hours as an exhibit (Exhibit 99.1) to a Form 6-K.
212. After the Company’s disclosures on November 8, 2013, the price of the Company’s stock dropped from a closing price of $4.87 per share on November 7, 2013, to a closing price of $4.71 per share on November 8, 2013.

213. On November 11, 2013, before the market opened, the Company issued a press release in which it provided more detail on the Restatement — notably, revealing to investors that revenues for 2011 and 2010 had been inflated by 36% and 32%, respectively (the “November 11 Press Release”):

Summary of key impacts following restatement
(Unaudited)
(Expressed in thousands of U.S. dollars)

<table>
<thead>
<tr>
<th></th>
<th>Year Ended December 31, 2012</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>As previously reported</td>
<td>Correction related</td>
<td>Correction related</td>
<td>As restated</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>to SouthGobi</td>
<td>to withholding</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>revenue recognition</td>
<td>taxes on</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>intercompany interest</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>$133,771</td>
<td>$24,946</td>
<td>$</td>
<td></td>
<td>$158,717</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(208,085)</td>
<td>(35,357)</td>
<td>(35,357)</td>
<td>(243,442)</td>
<td></td>
</tr>
<tr>
<td>Expenses</td>
<td>(507,334)</td>
<td>13,196</td>
<td>13,196</td>
<td>(494,138)</td>
<td></td>
</tr>
<tr>
<td>(Provision) recovery of income taxes</td>
<td>(34,340)</td>
<td>(573)</td>
<td>21,494</td>
<td>(13,419)</td>
<td></td>
</tr>
<tr>
<td>Net (loss) income attributable to Turquoise Hill Resources Ltd.</td>
<td>(434,555)</td>
<td>990</td>
<td>21,494</td>
<td>(412,071)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Year Ended December 31, 2011</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>As previously reported</td>
<td>Correction related</td>
<td>Correction related</td>
<td>As restated</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>to SouthGobi</td>
<td>to withholding</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>revenue recognition</td>
<td>taxes on</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>intercompany interest</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>$179,049</td>
<td>$48,294</td>
<td>$</td>
<td></td>
<td>$130,755</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(184,849)</td>
<td>40,363</td>
<td>(40,363)</td>
<td>(144,486)</td>
<td></td>
</tr>
<tr>
<td>Expenses</td>
<td>(390,805)</td>
<td>—</td>
<td>—</td>
<td>(390,805)</td>
<td></td>
</tr>
<tr>
<td>(Provision) recovery of income taxes</td>
<td>650</td>
<td>1,765</td>
<td>(14,311)</td>
<td>(11,896)</td>
<td></td>
</tr>
<tr>
<td>Net (loss) income attributable to Turquoise Hill Resources Ltd.</td>
<td>(570,372)</td>
<td>(3,042)</td>
<td>(14,311)</td>
<td>(587,725)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Year Ended December 31, 2010</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>As previously reported</td>
<td>Correction related</td>
<td>Correction related</td>
<td>As restated</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>to SouthGobi</td>
<td>to withholding</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>revenue recognition</td>
<td>taxes on</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>intercompany interest</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>$79,777</td>
<td>$(19,365)</td>
<td>$(19,365)</td>
<td></td>
<td>$60,412</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(94,773)</td>
<td>20,100</td>
<td>20,100</td>
<td>(74,673)</td>
<td></td>
</tr>
<tr>
<td>Expenses</td>
<td>(307,686)</td>
<td>—</td>
<td>—</td>
<td>(307,686)</td>
<td></td>
</tr>
<tr>
<td>(Provision) recovery of income taxes</td>
<td>13,118</td>
<td>(238)</td>
<td>(7,183)</td>
<td>5,697</td>
<td></td>
</tr>
</tbody>
</table>
214. The November 11 Press release provided additional information about the reasons for the improper revenue recognition, which were not included in the November 8 Press Release, namely that the risk of loss had not passed to the customer because the customer did not pick up the coal:

These transactions involved sales contracts where revenue was recognized upon delivery of coal to customers' stockpiles in a yard located within the Ovoot Tolgoi mine's mining license area, the location specified in the contracts as the point of title transfer, *but which had not been collected by the customers.* The restated financial information reflects a change in the point of revenue recognition from the delivery of coal to the customer's stockpile to loading the coal onto the customer's trucks at the time of collection. [Emphasis added.]

215. Additionally, Turquoise Hill disclosed that it would also be issuing a restatement with regard to withholding taxes on intercompany interest that arose in the years-ended December 31, 2012, 2011 and 2010, which the Company failed to report previously.

216. On November 11, 2013, the price of the Company’s stock dropped from an opening price of $4.71 per share to a closing price of $4.64 per share on that day.

217. The following day, November 12, 2013, before the market opened, the Company filed with the SEC the November 11 Press Release as an exhibit (Exhibit 99.1) to a Form 6-K. In response to the filing and additional information about the Restatement, the price of the Company’s stock continued to fall, opening at $4.59 per share on November 12, 2013, and closing that day at $4.56 per share.

218. On November 14, 2013, Turquoise Hill fully disclosed the impact of the Restatement on its prior year-end financial statements. On that day, before the market opened,
the Company filed a Form 40-F/A, Amendment No. 1 to its Annual Report on Form 40-F for the year-ended December 31, 2012, for the purpose of filing restated Audited Consolidated Financial Statements for the years-ended December 31, 2012, 2011, and 2010. Attached to the November 14 Form 40-F/A were, among other documents, the following: Restated Audited Consolidated Financial Statements for the years-ended December 31, 2012 and 2011 ("Restated Financial Statements") (Exhibit 99.2) and Amended and Restatement Management’s Discussion and Analysis of Financial Condition and Results of Operations (the “Amended and Restated MD&A”) (Exhibit 99.3).

219. In the Amended and Restated MD&A, the Company disclosed that the improper revenue recognition in the years-ended December 31, 2010, 2011, and the six months ended June 30, 2012, resulted from a “material weakness in the Company’s internal control over financial reporting as of December 31, 2012, resulting in the failure to properly account for revenues in complex transactions.”

220. As stated in the November 11 Press Release, the Amended and Restated MD&A provided that the material weakness in the Company’s internal controls related to SouthGobi, admitting that it “did not ensure that all aspects of sales arrangements were considered in the determination of the appropriate accounting for contracts in which the specified location of transfer of title in the contracts is the customer’s stockpile in a stockyard located within SouthGobi’s Ovoot Tolgoi mine’s mining licence area.” Instead, the Company disclosed, as it did on November 11, that revenue was improperly recorded “upon delivery to customers’ stockpiles, rather than at the time of customer collection of the product sold under such contracts.”
221. Further, in the 40-F/A, PWC expressed an “adverse opinion on the Company’s internal control over financial reporting as of December 31, 2012.” Specifically, PWC’s audit opinion provided:

   In our opinion, Turquoise Hill Resources Ltd. and its subsidiaries did not maintain, in all material respects, effective internal control over financial reporting as at December 31, 2012, based on criteria established in Internal Control—Integrated Framework (1992) issued by COSO due to a material weakness in internal control over financial reporting related to accounting for revenues in complex transactions.

222. The Company acknowledged in the Amended and Restated MD&A that, as of November 14, 2013, it was developing and implementing plans to address the material weakness, including engaging in a more thorough review process with subsidiary management in evaluating complex sales arrangements. However, the Company stated that “[t]he material weakness cannot be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.”

223. In the Amended and Restated MD&A, the Company provided a chart showing the Restatement by quarter during 2011 and 2012, as follows:

TURQUOISE HILL RESOURCES LTD.
(formerly Ivanhoe Mines Ltd.)

MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Amended and Restated)
(Stated in U.S. dollars, except where noted)

3. SELECTED QUARTERLY DATA

<table>
<thead>
<tr>
<th></th>
<th>Quarter Ended (Restated)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$1.3</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(49.5)</td>
</tr>
<tr>
<td>Exploration, evaluation and other operating expenses</td>
<td>(113.3)</td>
</tr>
</tbody>
</table>
As noted in the Amended and Restated MD&A, revenue “[c]onsists of sales revenue at SouthGobi” and cost of sales “[c]onsists of cost of sales at SouthGobi” in the above chart.

Moreover, the Restated Financial Statements included the following restated financial information relating to the Company’s accounts receivable:

As previously reported | Correction of errors related to SouthGobi revenue recognition | As restated (not including restatement for discontinued operations) | Percentage change |
---|---|---|---|
101,233 | (64,052) | 37,181 | -63.3%
Accounts Receivable (in millions)
Year Ended December 31, 2012

<table>
<thead>
<tr>
<th>As previously reported</th>
<th>Correction of errors related to SouthGobi revenue recognition</th>
<th>As restated (not including restatement for discontinued operations)</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>26,460</td>
<td>(14,139)</td>
<td>12,321</td>
<td>~53.4%</td>
</tr>
</tbody>
</table>

225. On November 14, 2013, the price of the Company’s stock dropped from a November 13, 2013 closing price of $4.41 per share to a closing price of $4.09 per share on that day.

IV. THE COMPANY’S INTERNAL ACCOUNTING AND FINANCIAL REPORTING CONTROLS WERE MATERIALLY WEAK

A. The Company’s Internal Controls Were Materially Weak

226. Turquoise Hill’s principal executive and financial officers possessed overall responsibility for the Company’s financial reporting and internal controls. Management of an organization plays an important role in the operation and growth of a company, as well as in establishing the internal control environment within which employees function. During the Class Period, the Individual Defendants were the highest officers of the Company’s management who possessed overall responsibility for the Company’s financial reporting and internal controls.

227. To prepare financial statements in conformity with GAAP, management’s responsibility is acknowledged in a set of standards known as generally accepted auditing standards (“GAAS”). As a result of the passage of the Sarbanes-Oxley Act of 2002, auditing standards to be used in the performance of and reporting on audits of the financial statements of public companies were thereafter established by the Public Company Accounting Oversight Board (“PCAOB”). The PCAOB initially adopted, as its interim standards, the AICPA Codification of Statements on Auditing Standards that were in existence on April 16, 2003. Sections of the Codification are referenced with the prefix “AU.”
228. While GAAS (AU § 110.01) outlines the responsibilities of an auditor, it also explains that management is responsible for its own financial reporting:

The financial statements are management's responsibility. The auditor's responsibility is to express an opinion on the financial statements. Management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, initiate, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements. The entity's transactions and the related assets, liabilities, and equity are within the direct knowledge and control of management. The auditor's knowledge of these matters and internal control is limited to that acquired through the audit. Thus, the fair presentation of financial statements in conformity with generally accepted accounting principles is an implicit and integral part of management's responsibility. [Emphasis added; footnote omitted.]

229. It is also management's responsibility to develop and implement internal controls necessary to ensure that the company maintains adequate books and records. Turquoise Hill was required by the SEC to maintain books and records in sufficient detail to reflect the transactions of the Company and prepare financial statements in accordance with GAAP. Section 13(b) 2 of the Securities and Exchange Act of 1934, entitled “Periodical and Other Reports”, states the following with respect to books and records and internal controls:

Every issuer which has a class of securities registered pursuant to section 12 and every issuer which is required to file reports pursuant to section 15(d) shall:

A. make and keep books, records, and accounts, which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the issuer;

B. devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that:

   i. transactions are executed in accordance with management's general or specific authorization;

   ii. transactions are recorded as necessary (I) to permit preparation of financial statements in conformity with generally accepted accounting
principles or any other criteria applicable to such statements, and (II) to maintain accountability for assets;

iii. access to assets is permitted only in accordance with management's general or specific authorization; and

iv. the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

230. In making its assessment of internal control over financial reporting, the Individual Defendants used the criteria established by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Generally accepted auditing standards codified in AU §319, "Consideration of Internal Control in a Financial Statement Audit", is based on the internal control framework described in the COSO Report. In 2013, the COSO Report was updated giving companies until December 15, 2014 to implement the updates.

231. The COSO Report defines internal control as a process that is "designed to provide reasonable assurance regarding the achievement of objectives" related to the effectiveness and efficiency of operations, the reliability of financial reporting, and compliance with applicable laws and regulations.

232. The term "reliable" as used in the COSO Report requires that financial statements prepared for external purposes are fairly presented in conformity with GAAP and regulatory requirements. Inherent in the fair presentation of financial statements is the concept of financial statement materiality (discussed below). Reliability of financial reporting applies to published financial statements, including interim and consolidated financial statements, and selected financial data, such as earnings releases, derived from these financial statements.
233. The COSO Report defines five components of an internal control framework that are needed to enable a business to achieve its objectives: control environment; risk assessment; control activities; information and communication; and monitoring.

B. Roles and Responsibilities in an Internal Control System

234. The control environment sets the tone of an organization often referred to as “tone at the top,” and provides an atmosphere in which people carry out their responsibilities. It is the foundation for the other components of internal control and provides structure and discipline to the organization. As part of the control environment, management assesses risks it faces in achieving its objectives.

235. Control activities are put in place to help ensure that tasks designed to address the risks are carried out. Control activities include a range of activities such as approvals, verifications, reconciliations, reviews of operating performance and segregation of duties. Meanwhile, relevant information is captured and communicated throughout the organization and to outside parties. The entire process is monitored and modified as necessary.

236. As admitted by management, the Company's internal control system was ineffective. The Company and the Individual Defendants failed to comply with SEC regulations and the requirements of the COSO Report. In the November 14 Form 40-F/A, the Company disclosed that its internal control over financial reporting was not effective as of December 31, 2012, and that it had control deficiencies related to the recording of revenue in complex transactions and that it was determined that its control deficiencies constituted material weaknesses.

material weakness as a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company’s annual or interim financial statements will not be prevented or detected on a timely basis.

238. The Company described these material weaknesses in the November 14 Form 40-F/A:

In conjunction with the restatement described above, the Company’s management has identified a material weakness in the Company’s internal controls over financial reporting as of December 31, 2012, resulting in the failure to properly account for revenues in complex transactions. Specifically, the Company did not ensure that all aspects of sales arrangements were considered in the determination of the appropriate accounting for contracts in which the specified location of transfer of title in the contracts is the customer’s stockpile in a stockyard located within SouthGobi’s Ovoot Tolgoi mine’s mining licence area. As a result of the material weakness, the Company’s principal executive officer and principal financial officer have concluded that internal controls over financial reporting were not effective as of December 31, 2012. This control deficiency cannot be considered to be remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that the controls are operating effectively…

239. In the Company’s 2012 MD&A attached as Exhibit 99.3 to the Form 40-F filed with the SEC on March 23, 2013 for the year-ended December 31, 2012, Defendants Priestly and Bateman falsely stated that as of December 31, 2012, the Company maintained effective internal control over financial reporting and that disclosure controls and procedures were effective. See ¶ 183.

240. As a result of management’s determination that the material weaknesses described above existed at December 31, 2012, PWC issued an adverse opinion on the Company’s internal control over financial reporting that was included in the report of PwC on the Company’s
restated Audited Consolidated Financial Statements for the year ended December 31, 2012.

PwC’s opinion stated the following:

In our opinion, Turquoise Hill Resources Ltd. and its subsidiaries did not maintain, in all material respects, effective internal control over financial reporting as at December 31, 2012, based on criteria established in Internal Control-Integrated Framework (1992) issued by COSO due to material weaknesses in internal control over financial reporting related to accounting for revenues in complex transactions...

241. During their tenure with the Company, the Individual Defendants had direct responsibility for the design, maintenance, and effectiveness of the Company’s internal control system. Each of these defendants had a responsibility to oversee the implementation of proper internal controls over the finance and accounting department at the corporate offices of the Company and at its subsidiaries. They were responsible for detecting breakdowns in the operation of controls within individual business units of its subsidiaries.

242. The material weaknesses discussed herein represent a failure to provide a proper control environment and a failure to ensure that the correct operating activities were taking place. Control activities are typically performed by personnel at various levels in organizations, but the overall responsibility rests with top management. The Individual Defendants failed to insure that the proper policies were in place and that such policies were effectively implemented in a thoughtful and consistent manner to ensure that subsidiary sales arrangements were evaluated and considered, including bill-and-hold arrangements, for proper accounting treatment. This would include all aspects of the controls over the process of recognizing revenue. Had the Individual Defendants implemented a proper process in managing Turquoise Hill’s sales arrangements – including its bill-and-hold arrangements – these material weaknesses would have been avoided.
IV. THE COMPANY’S FINANCIAL RESULTS WERE NOT FAIRLY PRESENTED IN ACCORDANCE WITH GAAP

243. GAAP are those principles recognized by the accounting profession as the conventions, rules and procedures necessary to define accepted accounting practice at a particular time. SEC Regulation S-X (17 C.F.R. § 210.4-01(a)(1)) states that financial statements filed with the SEC which are not prepared in compliance with GAAP are presumed to be misleading and inaccurate. Regulation S-X requires that interim financial statements must also comply with GAAP, with the exception that interim financial statements need not include disclosures that would be duplicative of disclosures accompanying annual financial statements. 17 C.F.R. § 210.10-01(a).

244. The Company’s improper revenue recognition of coal sales and failure to report withholding taxes on intercompany interest, constituted the basis for the Restatement, were false and material misstatements when made, and violated GAAP.

A. The Company’s Improper Revenue Recognition of Coal Sales Violated GAAP and Its Stated Revenue Recognition Policy

245. In the Amended and Restated MD&A, filed as Exhibit 99.3 to the November 14 Form 40-F/A, Turquoise Hill acknowledged that:

[C]ertain revenue transactions of SouthGobi were previously recognized in the Company’s consolidated financial statements prior to meeting relevant revenue recognition criteria. The restatement is due to a change in the determination of when revenue should be recognized from its sales of coal previously recognized in the quarter ended December 31, 2010, the full year ended December 31, 2011 and the six months ended June 30, 2012. The affected transactions relate to sales contracts which specify the location of title transfer as the customer’s stockpile, which is located in a yard within the Ovoot Tolgoi mine’s mining license area. During the affected periods, revenue for such sales was recognized upon delivery of coal to the customer’s stockpile. The restated consolidated financial statements reflect a correction in the point of revenue recognition from the delivery of coal to the...
customer’s stockpile to loading the coal onto the customer’s trucks
at the time of collection.

246. GAAP and SEC regulations specify the revenue recognition criterion that applies
to the sale of goods. Under GAAP, revenue from the sale of goods is recognized when a seller
transfers title of the merchandise and the significant risks and rewards of ownership to the buyer
and the seller no longer retains control of managerial involvement in the goods. Revenue should
not be recognized until it is realized or realizable and earned. FASB Statement of Financial
Accounting Concepts No. 5 “Recognition and Measurement in Financial Statements of Business
Enterprises” (“CON 5”), ¶ 83(b) provides:

[A]n entity’s revenue-earning activities involve delivering or
producing goods, rendering services, or other activities that
constitute its ongoing major or central operations, and revenues are
considered to have been earned when the entity has substantially
accomplished what it must do to be entitled to the benefits
represented by the revenues.

247. Further, CON 5, paragraph 84(a) continues:

[T]he two conditions (being realized or realizable and being
earned) are usually met by the time product or merchandise is
delivered or services are rendered to customers, and revenues from
manufacturing and selling activities and gains and losses from
sales of other assets are commonly recognized at the time of sale
(usually meaning delivery).

248. In the SEC Staff Accounting Bulletin (“SAB”), No. 104, the Staff explained that
revenue generally is realized or realizable and earned when all of the following criteria are met:

a. Persuasive evidence of an arrangement exists;

b. Delivery has occurred or services have been rendered;

c. The seller’s price to the buyer is fixed or determinable; and

d. Collectibility is reasonable assured.
249. As alleged above, the transfer of title and the transfer of the risks and rewards of ownership (i.e., the risk of loss) were critical to determining when SouthGobi, and therefore Turquoise Hill, could recognize the revenue in connection with sale of coal from the Ovoot Tolgi Mine. Notwithstanding, SouthGobi focused on the transfer of title set forth in the contracts at issue without giving consideration to when the significant risks and rewards of ownership were transferred. In order to recognize revenue, delivery (i.e., customer pick-up) must have occurred and delivery generally is not considered to have occurred unless the customer has taken title and assumed the risk and rewards of ownership. SAB 104-Topic 13A 3a. The significant risks and rewards of ownership were not transferred to the buyer at the time the coal was transferred to the customers stockpile because, as CW 2 stated, and as the Company admitted by the Restatement, SouthGobi maintained the risk of loss on the coal. See ¶¶ 73-78, 214.

250. As a result, Turquoise Hill did not meet the delivery criteria that are required in order to recognize revenue. Typically, physical delivery is the time when revenue is considered earned, because the risk and rewards of ownership generally are retained with the holder of the goods and pass to the customer at the time of delivery. Delivery typically occurs when a product is delivered to the customer’s delivery site (if the terms are “FOB destination”) or when the product is shipped to the customer (if the terms are “FOB shipping point”). SAB 104-Topic 13A 3a. Neither of these events occurred when SouthGobi recognized revenue. Even if the contractual arrangements specified when title passed to the customer, the risks and rewards did not pass when the coal was stockpiled in the yard. Among other things, the coal had to be pick-up by the customer and any taxes, fees or duties had to be paid to the Mongolian government since the yard was a customs-bonded facility.
251. For the year-end December 31, 2011, the Company disclosed in its revenue recognition policy (see ¶ 252) that some of its sales arrangements were on a bill-and-hold basis. As addressed in SEC regulations and International Accounting Standards Board standards, revenue can be recognized on a bill-and-hold basis only if certain specific criteria are met. Since the requirements are very restrictive in order to recognize revenue under a bill-and-hold arrangement, these types of arrangements typically do not result in revenue recognition until all the criteria are satisfied. According to SAB 104-Topic 13A 3a, SEC requirements include that, among other factors:

- the risks of ownership must have passed to the buyer;
- the seller must not have retained any specific performance obligations such that the earnings process is not complete;
- the customer must have made a fixed commitment to purchase the goods, preferably in written documentation;
- the buyer, not the seller, must request that the transaction be on a bill and hold basis;
- the buyer must have a substantial business purpose for ordering goods on a bill and hold basis; and
- the goods must have been segregated from the seller’s inventory and not be subject to be used to fill other orders.

252. The Company reported the following revenue recognition policies in the years 2010, 2011 and 2012, respectively:

<table>
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<tr>
<th>2010</th>
<th>2011</th>
<th>2012</th>
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<tr>
<td>Sales revenues are recognized when the risks and rewards of ownership pass to the buyer</td>
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<td>Sales revenues are recognized when the risks and rewards of ownership pass to the buyer</td>
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253. By the Restatement, Turquoise Hill admitted that it had violated revenue recognition protocols irrespective of whether the contracts at issue were bill-and-hold contracts because the risks and rewards ownership had not passed to the customer under any scenario. Indeed, in the Restatement, the Company made it clear that it recognized revenue prior to when the coal was loaded onto a train or truck, or unloaded the goods at the final destination of its customer.

254. Further, according to CW 2, the stockyard at Ovoot Tolgoi was a customs-bonded yard under the supervision of on-site Mongolian customs officials who were required to sign off on shipments. Because it was a customs-bonded yard, title and risk of loss stayed with SouthGobi until the customer picked up the coal. See ¶¶ 73-75.

255. SouthGobi’s control over the coal while in the stockyard made it improper for the Company to recognize revenue before customer collection. By doing so, the Company violated both GAAP and its own revenue recognition policy.
256. Notably, Turquoise Hill expanded and clarified its revenue recognition policy in its Form 40-F for the year-end 2013 filed with the SEC on March 26, 2014. The Company stated, in pertinent part:

Sales revenue comprises sales to third parties at invoiced amounts. Amounts billed to customers in respect of shipping and handling are classified as sales revenue where Turquoise Hill is responsible for carriage, insurance and freight. All shipping and handling costs incurred by Turquoise Hill are recognized as cost of sales.

* * *

Sales revenue is only recognized on individual sales when all of the following criteria are met:

- persuasive evidence of an arrangement exists;
- delivery has occurred;
- the price is fixed or determinable; and
- collectability is reasonably assured.

Delivery generally occurs when the product is loaded onto a truck, train or vessel.

Turquoise Hill recognizes deferred revenue in the event it receives payment from a customer before a sales transaction meets all of the criteria for revenue recognition. Revenue is then recognized when all of the criteria for revenue recognition have been met.

The majority of Turquoise Hill’s products are sold to customers under contracts, which vary in tenure and pricing mechanisms.

B. The Company Also Violated GAAP Concerning Withholding Taxes on Intercompany Interest

257. In the MD&A filed with the SEC as Exhibit 99.2 to a Form 6-K on November 14, 2013, Turquoise Hill acknowledged that:

During the fourth quarter ended December 31, 2012, the Company identified and recorded $7.6 million and $20.7 million of accrued withholding taxes on intercompany interest that arose in the three and nine month periods ended September 30, 2012 but were not identified and recorded in those periods. In conjunction with the
restatement described in (a) above, the Company has made adjustments to reflect the withholding taxes in the proper periods.

258. The Company understated its provision for income taxes during the years-ended December 31, 2010 and 2011 relating to the failure to account for accrued withholding taxes that it owed on intercompany interest.

259. The Company also violated GAAP in years 2010 and 2012 by understating its provision for income taxes in each of those years. A liability is defined in paragraph 35 of FASB’s Statement of Financial Accounting Concepts No. 6, “Elements of Financial Statements”, (“CON 6”) as follows:

[P]robable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events.

260. Further, paragraph 36 of CON 6 describes three essential characteristics of a liability:

a. It embodies a present duty or responsibility to one or more other entities that entails settlement by probable future transfer or use of assets at a specified or determinable date, on occurrence of a specified event, or on demand.

b. The duty or responsibility obligates a particular entity, leaving it little or no discretion to avoid the future sacrifice.

c. The transaction or other event obligating the entity has already happened.

261. Withholding taxes that are owed to a governmental agency meet the definition of a liability and require the transfer or use of assets at a determinable date.

262. The transaction giving rise to the taxes owed had already occurred and the Company was obligated to make the payments. The Company’s failure to do so violated GAAP.
V. THE MISSTATEMENTS IN TURQUOISE HILL'S FINANCIAL STATEMENTS WERE MATERIAL

263. As discussed herein, Turquoise Hill improperly recognized revenues on certain sales transactions at SouthGobi. Turquoise Hill also failed to record in its provision for income taxes the withholding taxes related to intercompany interest in its consolidated Statement of Operations. Consequently, revenues and the Company's provision for income taxes were materially misstated in Turquoise Hill's consolidated financial statements between 2010 and 2012.

264. The amounts restated by the Company are material. As explained in the Statement of Financial Accounting Concepts No. 2, "Qualitative Characteristics of Accounting Information" ("CON 2"), ¶ 132:

The omission or misstatement of an item in a financial report is material if, in the light of surrounding circumstances, the magnitude of the item is such that it is probable that the judgment of a reasonable person relying upon the report would have been changed or influenced by the inclusion or correction of the item.

265. The combined effect of Turquoise Hill's originally reported revenue for 2010 was overstated by 32.1%, and its provision of income taxes was understated by 126.1%. Turquoise Hill's originally reported revenue for 2011 was overstated by 36.9%, and its provision of income taxes was understated by 120.3%. Turquoise Hill's originally reported revenue for 2012 was understated by 15.7%, and its provision of income taxes was overstated by 160.2%.

266. Apart from the percentage magnitude of the Restatement, "the significance of the segment information to the financial statements taken as a whole" confirms the materiality of the Restatement. SAB 99, AU § 9312.17. The bulk of the Restatement pertains to revenue recognition at SouthGobi, which accounted for almost 100% of Turquoise Hill’s consolidated revenue for the years ended December 31, 2010 and 2011. In 2012, SouthGobi’s coal revenue
represented approximately 40% of the Company's consolidated revenue. Therefore, SouthGobi's operations generated approximately 80% of the Company's consolidated revenues between 2010 and 2012.

267. In its regulatory filings, Turquoise Hill refers to SouthGobi as a core interest. Analysts following Turquoise Hill recognized the significance of SouthGobi's operations to the Company and considered SouthGobi coal sales when valuing the Company's shares. For example, on May 24, 2010, CIBC World Markets Inc. ("CIBC") analysts Alec Kodatsky ("Kodatsky") and Terry K.H. Tsui ("Tsui"), stated in an earnings update: "[W]e foresee further value creation within the company's investment portfolio through the ongoing expansion of the producing SouthGobi coal assets." Kodatsky and Tsui also recognized that SouthGobi's financial results were important to the Company's results, stating that they were reducing their price target for the Company. In a June 21, 2011 Earnings Update, Kodatsky and Tsui stated that "we foresee further value creation within the company's investment portfolio through the ongoing expansion of the producing SouthGobi coal assets." Following the recommencement of operations at the Ovoot Tolgoi Mine in March 2013, these analysts issued updates and reports on March 26, 2013, May 14, 2013, and July 15, 2013 in which they echoed their previously stated view of SouthGobi's importance to Turquoise Hill. In these updates and reports, Kodatsky and Tsui stated: "we foresee further value creation within the company's investment portfolio through the re-start of coal production at SouthGobi." In GlobalData's December 2013 profile on Turquoise Hill, it recognized that one of the Company's "major assets [is its] 58% stake in Mongolian coal miner SouthGobi Resources."

268. Additionally, in response to the Company's fourth quarter and year-end 2010 earnings release, analyst John Redstone of Desjardins Securities explained that his targeted share
price was based on, in part, "a value of a value of C$2.20/share for the company’s holdings in SouthGobi Resources."

269. In summary, Turquoise Hill’s financial statements were materially misstated based on not only quantitative but also qualitative considerations discussed above.

ADDITIONAL SCIENTER FACTS

270. As alleged herein, Turquoise Hill and the Individual Defendants acted with scienter in that they knew that the public documents and statements issued or disseminated in the name of the Company were materially false and misleading; knew that such statements or documents would be issued or disseminated to the investing public; and knowingly and substantially participated or acquiesced in the issuance or dissemination of such statements or documents as primary violations of the federal securities laws. As set forth elsewhere herein in detail, these Defendants, by virtue of their receipt of information reflecting the true facts regarding Turquoise Hill, their control over, and/or receipt and/or modification of Turquoise Hill’s allegedly materially misleading statements and/or their associations with the Company, which made them privy to confidential proprietary information concerning the financial condition and results of operations, and the effectiveness of internal controls, of the Company and its subsidiaries, participated in the fraudulent scheme alleged herein.

271. Defendants knew and/or recklessly disregarded the falsity and misleading nature of the information that they caused to be disseminated to the investing public. The fraudulent scheme described in this Complaint could not have been perpetrated without the knowledge and complicity of the personnel at the highest level of the Company, including each of the Individual Defendants.
272. As described herein, in order to recognize revenue, the final condition for revenue recognition under GAAP requires reasonable assurance of collectability. If collectability is not reasonably assured, revenue cannot be recognized, regardless of whether the other three criteria are met. In other words, where collectability is not reasonably assured, GAAP permits revenue to be recognized only as the cash is collected.

273. In addition to recognizing revenue before physical delivery of the coal to the SouthGobi's customers, SouthGobi recognized revenue before collectability was reasonably assured. Once a customer takes delivery of its products, the customer acknowledges an obligation to pay for those items. The sales arrangements with certain of SouthGobi's customers did not fulfill the collectability requirements specified by GAAP and IFRS as necessary for revenue recognition. In addition to GAAP, IFRS requires that revenues must be collectible in order to record the associated revenues. Paragraph 14 of International Accounting Standard No. 18 states, in relevant part, that revenue from the sale of goods shall be recognized when "it is probable that the economic benefits associated with the transactions will flow to the entity."

274. As alleged above, "it [was not] probable that the economic benefits associated with the transactions [would] flow to . . . [SouthGobi]." CW 1 recalled that some of the stockpiles that were recognized into revenue "were aged quite a bit", and, therefore, were not paid for. A review of SouthGobi's Class Period annual reports demonstrate that Defendants knew or were reckless in knowing that revenue had been recognized on coal that was delivered to the stockyard, but which had not been paid for and picked up. For example, as shown in South Gobi's Annual Report for 2012, SouthGobi experienced a severe deterioration in its aging receivables. SouthGobi's trade and other receivables totaled $17.4 million at December 31, 2012, but approximately 86% of that total ($15 million) was over six months old. An
underpayment of the outstanding balances owed to SouthGobi of this magnitude evidences that
certain customers were not paying for the coal that was being stockpiled. This is precisely the
financial metric that senior managers, such as each of the Individual Defendants, would closely
monitor. Indeed, in SouthGobi’s Annual Report for 2011, the board and senior managers stated
that: “The Company closely monitors collectability of outstanding accounts receivable for
current coal sales.”

275. Throughout the Class Period, SouthGobi and its coal operations were one of the
Company’s core businesses, generating a substantial portion of the Company’s revenue. Indeed,
throughout the Class Period, Turquoise Hill emphasized that “coal production at South Gobi’s
Ovoot Tolgoi mine” was one of the Company’s “core activities”. See ¶¶ 105, 115, 118, 124,
134, 148, 156, 168, 182, 195, 204. As such, Defendants are charged with knowledge concerning
revenue recognition relating to coal sales at the Ovoot Tolgoi Mine.

276. In addition to the foregoing, the violation of internal revenue recognition policies
and the absence effective internal controls indicate that Defendants acted with scienter.

CAUSATION AND ECONOMIC LOSS

277. Defendants’ wrongful conduct, as alleged herein, directly and proximately caused
the economic loss suffered by Lead Plaintiff and the Class. Lead Plaintiff will establish, by
expert opinion and otherwise, that the market prices of Turquoise Hill stock were inflated by
Defendants’ materially false and misleading statements regarding the Company’s financial
condition and results of operation and effectiveness of internal controls. As a result, Lead
Plaintiff and the Class purchased Turquoise Hill stock at artificially inflated prices during the
Class Period.
278. During the Class Period, as detailed herein, Defendants engaged in a scheme to deceive the market, and a course of conduct that artificially inflated Turquoise Hill’s stock price and operated as a fraud or deceit on Class Period purchasers of Turquoise Hill stock by misrepresenting and/or omitting material facts about the Company’s reported financial condition and results of operations and effectiveness of internal controls. Ultimately, however, when Defendants’ prior misrepresentations and omissions and fraudulent conduct were revealed, shares of Turquoise Hill stock declined – evidence that the prior artificial inflation in the price of Turquoise Hill’s shares was eradicated. As a result of their purchases of Turquoise Hill stock during the Class Period, and later revelation of the truth, Lead Plaintiff and other members of the Class suffered economic losses, i.e., damages under the federal securities laws.

279. Defendants presented a misleading image of Turquoise Hill’s financial condition and results of operations and effectiveness of the Company’s internal controls. These misstatements and omissions caused and maintained the artificial inflation in Turquoise Hill’s stock price throughout the Class Period.

280. On November 8, 2013, the Company revealed part of the facts about its financial condition and results of operations for 2010, 2011, 2012 and the affected quarters including 2013. Turquoise Hill also disclosed on this date that it had received a comment letter from the SEC concerning its financial reporting. This adverse disclosure caused Turquoise Hill’s stock price to fall from a closing price on November 7, 2013 of $4.87 per share to closing price of $4.71 per share on November 8, 2013.

281. On November 11, 2013, upon the disclosure of select restatement information and the announcement that the Company failed to previously report withholding taxes on intercompany interest and intended to restate those amounts, the price of the Company’s stock
dropped from an opening price of $4.71 per share to a closing price of $4.64 per share on that day.

282. On November 14, 2013, investors learned the full truth and impact of Defendants’ previously issued false and misleading statements about the Company’s financial condition and results of operations and effectiveness of Turquoise Hill’s internal controls. When the truth was fully revealed, the price of Turquoise Hill stock fell from a November 13, 2013 closing price of $4.41 per share to a November 14, 2013 closing price of $4.09 per share.

283. The decline in the price of Turquoise Hill stock at the end of the Class Period was a direct result of the nature and extent of Defendants’ fraud being revealed to investors and to the market. The timing and magnitude of Turquoise Hill’s stock price decline negates any inference that the losses suffered by Lead Plaintiff and the other members of the Class were caused by changed market conditions, macroeconomic or industry factors or even Company-specific facts unrelated to Defendants’ fraudulent conduct.

284. As a result of the misstatements and omissions alleged in this Complaint and the disclosure of the truth, Lead Plaintiff and Class members have suffered damages and injury.

NO STATUTORY SAFE HARBOR

285. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the allegedly false statements pleaded in this Complaint. Many of the specific statements pleaded herein were not identified as “forward-looking statements” when made. Nor was it stated with respect to any of the statements forming the basis of this Complaint that actual results “could differ materially from those projected.” To the extent there were any forward-looking statements, there were no meaningful cautionary
statements identifying important factors that could cause actual results to differ materially from those in the purportedly forward-looking statements.

286. Alternatively, to the extent that the statutory safe harbor does apply to any forward-looking statements pleaded herein, Defendants are liable for those false forward-looking statements because at the time each of those statements were made, the particular speaker knew that the specific forward-looking statement was false, and/or the forward-looking statement was authorized and/or approved by an executive officer of the Company who knew that those statements were false when made.

**FRAUD-ON-THE-MARKET DOCTRINE**

287. Lead Plaintiff and Class members purchased Turquoise Hill stock relying upon the integrity of the market price of the stock and market information relating to Turquoise Hill, and have been damaged by the disclosures of the true facts, as alleged herein.

288. At all relevant times, the market for Turquoise Hill's stock was an efficient market for the following reasons, among others:

   a. Turquoise Hill stock met the requirements for listing, and was listed as actively traded, on the NYSE, a highly efficient market;

   b. Turquoise Hill filed periodic reports with the SEC and the NYSE; and

   c. Turquoise Hill stock was followed by securities analysts who wrote reports, which were distributed to the sales force and certain customers of their respective brokerage firms. Each of these reports was publicly available and entered the marketplace.

289. As a result of the above facts, the market for Turquoise Hill common stock promptly digested current information regarding Turquoise Hill from all publicly-available sources and reflected such information in the price of the stock. Under the circumstances, all
purchasers of Turquoise Hill common stock during the Class Period suffered similar injury through their purchase of the stock at artificially inflated prices. A presumption of reliance applies.

CLAIMS FOR RELIEF

COUNT I

Violation of Section 10(b) of the Exchange Act and Rule 10b-5 Promulgated Thereunder (Against All Defendants Except Defendant Macken)

290. Lead Plaintiff repeats and realleges each and every allegation above as if fully set forth herein.

291. During the Class Period, Defendants carried out a plan, scheme, and course of conduct that was intended to and, throughout the Class Period, did: (i) deceive the investing public regarding Turquoise Hill’s financial results, internal controls and the intrinsic value of Turquoise Hill common stock; (ii) enable Defendants to artificially inflate the price of Turquoise Hill stock; and (iii) cause Lead Plaintiff and other members of the Class to purchase Turquoise Hill common stock at artificially inflated prices. In furtherance of this unlawful scheme, plan and course of conduct, Defendants, jointly and individually (and each of them) took the actions set forth herein.

292. Defendants, individually and in concert, directly and indirectly, by the use, means or instrumentalities of interstate commerce and/or of the mails, engaged and participated in a continuous course of conduct to misrepresent and/or conceal adverse material information about Turquoise Hill’s financial results and internal controls as specified herein.

293. Defendants employed devices, schemes and artifices to defraud, while in possession of materially adverse, non-public information and engaged in acts, practices, and a
course of conduct as alleged herein, which included the making of, or the participation in the
making of, untrue statements of material facts and omitting to state material facts necessary in
order to make the statements made about Turquoise Hill and its financial results and internal
controls in the light of the circumstances under which they were made not misleading, as set
forth more particularly herein, and engaged in transactions, practices, and a course of business
which operated as a fraud and deceit upon the purchasers of Turquoise Hill common stock
during the Class Period.

294. Defendants had actual knowledge of the misrepresentations and omissions of
material facts set forth herein, or acted with reckless disregard for the truth in that they failed to
ascertain and to disclose such facts. Defendants' material misrepresentations and/or omissions
were done knowingly or with reckless disregard for the purpose and effect of concealing
Turquoise Hill's true financial results and internal controls from the investing public and
supporting the artificially inflated price of its common stock.

295. As a result of the dissemination of the materially false and misleading information
and failure to disclose material facts, as set forth above, the market price of Turquoise Hill
common stock was artificially inflated during the Class Period. In ignorance of the fact that
market prices of Turquoise Hill's publicly-traded common stock were artificially inflated, and
relying directly or indirectly on the false and misleading statements made by Defendants, or
upon the integrity of the market in which the stock trades, and/or on the absence of material,
adverse information that was known to or recklessly disregarded by Defendants but not disclosed
in public statements by Defendants during the Class Period, Lead Plaintiff and the other
members of the Class acquired Turquoise Hill common stock during the Class Period at
artificially high prices and were damaged by the revelation of the true facts about Turquoise Hill.
296. At the time of said misrepresentations and omissions, Lead Plaintiff and other members of the Class were ignorant of their falsity, and believed them to be true. Had Lead Plaintiff and the other members of the Class and the marketplace known the truth regarding the effectiveness of Turquoise Hill’s internal controls and Turquoise Hill’s financial condition, as alleged herein, which were not disclosed by Defendants, Lead Plaintiff and other members of the Class would not have purchased or otherwise acquired their Turquoise Hill common stock, or, if they had purchased such common stock during the Class Period, they would not have done so at the artificially inflated prices that they paid.

297. By virtue of the foregoing, Defendants have violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder.

298. As a direct and proximate result of Defendants’ wrongful conduct, Lead Plaintiff and the other members of the Class suffered damages in connection with their respective purchases and sales of Turquoise Hill common stock during the Class Period and the revelation of the truth at the end of the Class Period.

**COUNT II**

_Violations of Section 20(a) of the Exchange Act_  
(Against the Individual Defendants and Defendant Macken)

299. Lead Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

300. The Individual Defendants and Defendant Macken acted as controlling persons of Turquoise Hill within the meaning of Section 20(a) of the Exchange Act, as alleged herein. By virtue of their high-level positions, and their ownership and contractual rights, participation in, and/or awareness of the Company’s operations and/or intimate knowledge of the financial statements filed by the Company with the SEC and disseminated to the investing public, the
Individual Defendants and Defendant Macken had the power to influence and control and did influence and control, directly or indirectly, the decision-making of the Company, including the content and dissemination of the various statements that Lead Plaintiff contends are false and misleading. The Individual Defendants and Defendant Macken were provided with, or had unlimited access to, copies of the Company’s reports, press releases, public filings, and other statements alleged by Lead Plaintiff to be misleading prior to and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected.

301. In particular, each of the Defendants named in this Count had direct and supervisory involvement in the day-to-day operations of the Company and/or its subsidiaries and, therefore, is presumed to have had the power to control or influence the particular transactions giving rise to the securities violations alleged herein, and exercised the same.

302. As set forth above, Turquoise Hill and the Individual Defendants each violated Section 10(b) and Rule 10b-5 by their acts, statements, and omissions as alleged in this Complaint. By virtue of their positions as controlling persons, the Individual Defendants and Defendant Macken are liable pursuant to Section 20(a) of the Exchange Act. As a direct and proximate result of the Individual Defendants’ wrongful conduct, Lead Plaintiff and other members of the Class suffered damages in connection with their purchases of the Company’s common stock during the Class Period and the revelation of the truth at the end of the Class Period.

**PRAYER FOR RELIEF**

WHEREFORE, Lead Plaintiff demands judgment against all Defendants as follows:
A. Determining that the instant action may be maintained as a class action under Rule 23 of the Federal Rules of Civil Procedure, and certifying Lead Plaintiff as the Class Representatives;

B. Awarding compensatory damages in favor of Lead Plaintiff and the other Class members against all Defendants, jointly and severally, for all damages sustained as a result of Defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;

C. Awarding Lead Plaintiff and the other members of the Class prejudgment and post-judgment interest, as well as their reasonable attorneys' fees, expert fees and other costs; and

D. Awarding such other relief as the Court may deem just and proper.

JURY DEMAND

Lead Plaintiff demands a trial by jury.

DATED: May 19, 2014

Respectfully submitted,

BERNSTEIN LIEBHARD LLP

/s/ Jeffrey M. Haber

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Counsel for Lead Plaintiff and Lead Counsel for the Proposed Class
CERTIFICATE OF SERVICE

I hereby certify that the foregoing Consolidated and Amended Complaint was filed on May 19, 2014 through the ECF system and will be sent electronically to the registered participants as identified on the Notice of Electronic Filing (NEF).

/s/ Joseph R. Seidman, Jr.  
JOSEPH R. SEIDMAN, JR.