

**SOUTHGOBI RESOURCES LTD.**

**Annual Information Form**

For the year ended  
December 31, 2010

Dated March 30, 2011

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## **FORWARD-LOOKING STATEMENTS**

Certain statements made herein, including statements relating to matters that are not historical facts and statements of SGQ's beliefs, intentions and expectations about developments, results and events which will or may occur in the future, constitute "forward-looking information" within the meaning of applicable Canadian securities legislation and "forward-looking statements" within the meaning of the "safe harbor" provisions of the United States Private Securities Litigation Reform Act of 1995. Forward-looking information and statements are typically identified by words such as "anticipate," "could," "should," "expect," "seek," "may," "intend," "likely," "plan," "estimate," "will," "believe" and similar expressions suggesting future outcomes or statements regarding an outlook. These include, but are not limited to, statements respecting anticipated business activities; planned expenditures; corporate strategies; proposed acquisitions and dispositions of assets; discussions with third parties respecting material agreements; anticipated capital expenditures; future production; expected mine life and payback period of capital of the Ovoot Tolgoi Mine; future exploration and expenditures on the Soumber Deposit and other projects in Mongolia; increased coal transportation capacity; estimates of future Chinese demand for coal; expenditures for mitigation of potential environmental impacts; adequacy of the Company's funding sources; estimates of reserves and resources; the impact of amendments to the laws of Mongolia and other countries in which the Company carries on business; the adequacy for any particular purpose of the coal products, if any, that may, in the future, be mined from the Company's coal exploration and development properties; the type of coal products being produced; and other statements that are not historical facts.

All such forward-looking information and statements are based on certain assumptions and analyses made by the Company's management in light of their experience and perception of historical trends, current conditions and expected future developments, as well as other factors management believes are appropriate in the circumstances. These statements, however, are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking information or statements. Assumptions on which these forward-looking statements are based include, but are not limited to, assumptions regarding, the global economic environment; the timing and receipt of regulatory approvals; the availability of financing for activities when required and on acceptable terms; the accuracy of component costs of capital and operating cost estimates; the accuracy of the interpretation of drill results and the estimation of mineral resources and reserves; the consistency of future exploration, development or mining results with the Company's expectations; and the economic, political and legal climate in the PRC and Mongolia. This list is not exhaustive of the factors that may affect any of the Company's forward-looking statements. A discussion of these and other factors that could cause actual results to differ from these forward-looking statements include those described under the heading "Risk Factors" elsewhere in this Annual Information Form. The reader is cautioned not to place undue reliance on forward-looking information or statements.

The Company does not assume the obligation to revise or update any forward-looking information or statements after the date of this document or to revise them to reflect the occurrence of future unanticipated events, except as may be required by law.

## DEFINITIONS AND OTHER INFORMATION

### Currency and Exchange Rates

In this Annual Information Form, all funds are quoted in United States dollars unless otherwise indicated. References to “\$” and “US\$” are to United States dollars, references to “Cdn\$” are to Canadian dollars and references to HK\$ are to Hong Kong dollars.

The Bank of Canada noon buying rates for the purchase of one United States dollar using Canadian dollars were as follows during the indicated periods:

(Stated in Canadian dollars)

	Year Ended December 31		
	2010	2009	2008
End of period	0.9946	1.0466	1.2246
High for the period	1.0778	1.3000	1.2969
Low for the period	0.9946	1.0292	0.9719
Average for the period	1.0299	1.1420	1.0660

The Bank of Canada noon buying rate as of March 30, 2011 for the purchase of one United States dollar using Canadian dollars was Cdn\$0.9714 (one Canadian dollar on that date equalled US\$1.03).

The Bank of Canada noon buying rates for the purchase of one Hong Kong dollar using Canadian dollars were as follows:

(Stated in Canadian dollars)

	Year Ended December 31		
	2010	2009	2008
End of period	7.815492	7.408395	6.328753
High for the period	7.236099	5.966124	5.976786
Low for the period	7.815492	7.530177	8.007623
Average for the period	7.543046	6.787906	7.302967

The Bank of Canada noon buying rate as of March 30, 2011 for the purchase of one Hong Kong dollar using Canadian dollars was Cdn\$0.1252 (one Canadian dollar on that date equalled HK\$8.01).

### Defined Terms and Abbreviations

Throughout this Annual Information Form, there are terms that are defined in the document and used only in the relevant section in which they are defined. There are also a number of defined terms and abbreviations that are used consistently throughout the document as follows:

“**2006 Minerals Law**” means the Minerals Law of Mongolia, enacted on July 8, 2006, and effective from August 26, 2006, as the same may be amended and supplemented from time to time.

“**Articles**” means the Articles of Continuance of the Company dated May 29, 2007.

“**Aspire**” means Aspire Mining Limited, a company listed on the Australian Stock Exchange.

“**ASTM**” means American Society for Testing Materials.

“**Audit Committee**” means a committee of the Board, established by the Board, for the purpose of overseeing the accounting and financial reporting processes of the Company and audits of the financial statements of the Company.

“**Auditors**” or “**Deloitte & Touche**” means Deloitte & Touche LLP.

“**B.C.**” means British Columbia, Canada.

“**BCBCA**” means the *Business Corporations Act* (British Columbia), as amended and supplemented from time to time.

“**Board**” means the Board of Directors of the Company.

“**Canadian Securities Administrators**” means the securities regulators of each province and territory of Canada.

“**Canadian Offering**” means the January 2010 public offering in Canada of 2,700,000 Common Shares.

“**Central Soumber**” means the area delineated and identified as the Central Soumber coal field in the Soumber Deposit.

“**CIC**” means China Investment Corporation or any wholly-owned subsidiary thereof.

“**CIM**” means the Canadian Institute of Mining, Metallurgy and Petroleum.

“**Common Shares**” means common shares without par value in the capital of the Company.

“**Company**” means SouthGobi Resources Ltd. (formerly “SouthGobi Energy Resources Ltd.”) and includes, as the context requires, one or more of its subsidiaries.

“**Compensation and Benefits Committee**” means a committee of the Board formed to discharge the Board’s responsibilities relating to compensation and benefits of Directors and executive officers of the Company.

“**Director(s)**” means director(s) of the Company.

“**East Soumber**” means the area delineated and identified as the East Soumber coal field in the Soumber Deposit.

“**Fenwei**” means Shanxi Fenwei Energy Consulting Co., Ltd., an independent industry consultant to the Chinese coal sector.

“**First Funding Agreement**” means the first funding agreement dated April 25, 2006 between IVN and the Company pursuant to which IVN agreed to make available to the Company a US\$10.0 million line of credit (which was subsequently increased to US\$15.0 million by mutual agreement).

“**Global Offering**” means collectively, the Canadian Offering, the HK Public Offering and the International Offering.

“**HK Public Offering**” means the January 2010 offer by the Company of initially 2,700,000 Common Shares for subscription by the public in Hong Kong.

“**IMMI**” means Oyu Tolgoi LLC (formerly Ivanhoe Mines Mongolia Inc. LLC), a company incorporated under the laws of Mongolia and a subsidiary of IVN.

“**Indonesia**” means the Republic of Indonesia.

“**International Offering**” means the January 2010 offering for sale of 21,600,000 Common Shares to international subscribers on a private placement basis.

“**IVN**” or “**Ivanhoe**” means Ivanhoe Mines Ltd., a corporation incorporated under the laws of the Yukon Territory.

“**kcal**” means kilocalorie.

“**km**” means kilometres.

“**km<sup>2</sup>**” means square kilometres.

“**LIBOR**” means the London Interbank Offered Rate, the rate charged by one bank to another for lending money.

“**MAK**” means Mongolyn Alt MAK LLC.

“**MAK-Qinghua**” means the joint venture between MAK and Qinghua.

“**Mamahak Deposit**” means the coal mining, exploration and general survey project in Long Bagun District, Kutai Barat Regency, East Kalimantan Province in which, prior to December 23, 2009, the Company held an 85% interest.

“**MEL**” means a Mongolian mineral exploration licence.

“**McElroy Bryan**” means McElroy Bryan Geological Services.

“**Metals Division**” means a business unit through which activities are conducted involving the acquisition, disposition, maintenance, exploration, assessment, development and mining of property interests in respect of which the presence of precious and/or base metal mineralization has been established or that are otherwise prospective for precious and/or base metal mineralization.

“**Mineral Deposit of Strategic Importance**” means under the 2006 Minerals Law, a deposit that may have the potential to impact national security, or the economic and social development of Mongolia at the national and regional levels, or that is generating, or has the potential to generate, more than 5% of Mongolia’s gross domestic product in any given year.

“**MMC**” means Minarco-Mine Consult.

“**MMRE**” means the Ministry of Mineral Resources and Energy, a Cabinet level ministry of the Mongolian Government.

“**MNT**” means togrog or tugrik, the legal currency of Mongolia.

“**MRAM**” means the Mineral Resources Authority of Mongolia, a subordinate agency of the MMRE.

“**NI 43-101**” means National Instrument 43-101 *Standards of Disclosure for Mineral Projects* of the Canadian Securities Administrators.

“**NI 51-102**” means National Instrument 51-102 *Continuous Disclosure of Obligations* of the Canadian Securities Administrators.

“**Nominating and Corporate Governance Committee**” means a committee of the Board formed to assist the Board in fulfilling its oversight responsibilities with respect to appointment and election of individuals to the Board and developing corporate governance guidelines for the Company.

“**Norwest**” means Norwest Corporation of Salt Lake City, Utah.

“**Umnugobi Aimag (South Gobi Province)**” means the Mongolian Province or Aimag.

“**Ovoot Tolgoi Complex**” means the Company’s coal exploration, development and production projects at Ovoot Tolgoi, including the Ovoot Tolgoi Mine and the Ovoot Tolgoi Underground Deposit.

“**Ovoot Tolgoi Mine**” the Company’s operating pit coal mine at Ovoot Tolgoi comprising coal resources to a depth of 300 m below surface.

“**Ovoot Tolgoi Mining Licence**” means licence no. 12726A covering an area of approximately 9,300 hectares encompassing the areas of the Sunset Pit and the Sunrise Pit.

“**Ovoot Tolgoi Technical Report**” means a Technical Report on the Ovoot Tolgoi Complex dated March 28, 2011, prepared by MMC.

“**Ovoot Tolgoi Underground Deposit**” means the Company’s underground development project at Ovoot Tolgoi, comprising coal resources from a depth of 300 to 600 m below surface.

“**Oyu Tolgoi Project**” means IVN’s Oyu Tolgoi copper and gold exploration and development project in Mongolia.

“**PRC**” means the People’s Republic of China, and references in this Annual Information Form to the PRC or China exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan.

“**Preferred Shares**” means preferred shares without par value in the capital of the Company.

“**Qinghua**” means Inner Mongolia Qinghua Group, a company incorporated under the laws of the PRC.

“**Renminbi**” or “**RMB**” means the lawful currency of the PRC.

“**Sapphire**” means Sapphire Geo Ltd.

“**Second Funding Agreement**” means the second interim funding agreement dated October 25, 2007 between IVN and the Company that provided for an unsecured non-convertible line of credit of up to US\$32.5 million, (which was subsequently increased to US\$60.0 million by mutual agreement).

“**SEHK**” means the Stock Exchange of Hong Kong Limited.

“**SGQ**” means SouthGobi Resources Ltd. (formerly “SouthGobi Energy Resources Ltd.”) and includes, as the context requires, one or more of its subsidiaries.

“**SGS**” means SouthGobi Sands LLC, a wholly-owned subsidiary of the Company.

“**Shareholders**” means holder(s) of the Common Share(s).

“**Strategic Deposits List**” means a list of 15 deposits designated by the parliament of Mongolia to be Mineral Deposits of Strategic Importance.

“**Soumber Deposit**” means the Company’s coal exploration project located approximately 20km east of the Sunrise Pit.

“**Soumber Technical Report**” means the technical report on Soumber dated March 28, 2011, prepared by MMC.

“**Sunrise Field**” means the area of the coal deposit that comprises both the surface and underground resources in the area delineated and identified as the Sunrise Field in the Ovoot Tolgoi Technical Report.

“**Sunrise Pit**” means the area of the coal deposit delineated and identified as the Sunrise Pit in the Ovoot Tolgoi Complex.

“**Sunset Field**” means the area of the coal deposit that comprises both the surface and underground resources in the area delineated and identified as the Sunset Field in the Ovoot Tolgoi Technical Report.

“**Sunset Pit**” means the area of the coal deposit delineated and identified as the Sunset Pit in the Ovoot Tolgoi Complex.

“**TAG**” means The Americas Group.

“**Tanan Impex**” means Tanan Impex Co. Ltd.

“**Tier 2 Deposits List**” means the list of 39 deposits designated by the parliament of Mongolia as subject to further investigation by the Mongolian Government in order to determine if one or more of such deposits should be designated as a Mineral Deposit of Strategic Importance.

“**Tsagaan Tolgoi Deposit**” means the Company’s Tsagaan Tolgoi coal exploration project in Mongolia.

“**Tsagaan Tolgoi Technical Report**” means the technical report on the Tsagaan Tolgoi dated March 25, 2008, prepared by Norwest.

“**TSX**” means the Toronto Stock Exchange.

“**US\$**” means United States dollars, the lawful currency of the United States.

“**United States**” means the United States of America, its territories, its possessions and all areas subject to its jurisdiction.

“**VAT**” means value added tax.

## Conversion Factors

For ease of reference, the following conversion factors are provided:

<b>Imperial Measure</b>	<b>=</b>	<b>Metric Unit</b>	<b>Metric Unit</b>	<b>=</b>	<b>Imperial Measure</b>
2.47 acres		1 hectare	0.4047 hectares		1 acre
3.28 feet		1 m	0.3048 m		1 foot
0.62 miles		1 km	1.609 km		1 mile
0.032 ounces (troy)		1 gram	31.1 grams		1 ounce (troy)
2.205 pounds		1 kilogram	0.454 kilograms		1 pound
1.102 tons (short)		1 tonne	0.907 tonnes		1 ton
0.029 ounces (troy)/ton		1 gram/tonne	34.28 grams/tonne		1 ounce (troy)/ton

## Glossary of Geological and Mining Terms

**fault:** a fracture in rock along which the adjacent rock surfaces are differentially displaced.

**feasibility study:** a comprehensive study of a mineral deposit in which all geological, engineering, legal, operating, economic, social, environmental and other relevant factors are considered in sufficient detail that it could reasonably serve as the basis for a final decision by a financial institution to finance the development of the deposit for mineral production.

**ha:** hectares.

**indicated mineral resource:** that part of a mineral resource for which quantity, grade or quality, densities, shape and physical characteristics can be estimated with a level of confidence sufficient to allow the appropriate application of technical and economic parameters to support mine planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration and test information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough for geological and grade continuity to be reasonably assumed.

**inferred mineral resource:** that part of a mineral resource for which the quantity and grade or quality can be estimated on the basis of geological evidence and limited sampling and reasonably assumed, but not verified, geological and grade continuity. The estimate is based on limited information and sampling gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes.

**lb:** pound.

**m:** metres.

**measured mineral resource:** that part of a mineral resource for which quantity, grade or quality, densities, shape and physical characteristics are so well established that they can be estimated with confidence sufficient to allow the appropriate application of technical and economic parameters to support production planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough to confirm both geological and grade continuity.

**metallurgic coal:** various grades of coal suitable for making steel, such as coking coal.

**mineral reserve:** the economically mineable part of a measured or indicated mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, and economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified. An ore reserve includes diluting materials and allowances for losses that may occur when the material is mined.

**mineral resource:** a concentration or occurrence of natural, solid, inorganic or fossilized organic material in or on the earth's crust in such form and quantity and of such a grade or quality that it has reasonable prospects for economic extraction. The location, quantity, grade, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge.

**mm:** millimetres.

**preliminary feasibility study and pre-feasibility study:** a comprehensive study of the viability of a mineral project that has advanced to a stage where the mining method, in the case of underground mining, or the pit configuration, in the case of an open pit, has been established and an effective method of mineral processing has been determined, and includes a financial analysis based on reasonable assumptions of technical, engineering, legal, operating, economic, social, and environmental factors and the evaluation of other relevant factors which are sufficient for a qualified person, acting reasonably, to determine if all or part of the mineral resource may be classified as a mineral reserve.

**probable reserve:** the economically mineable part of an indicated and, in some circumstances, a measured mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified.

**proven reserve:** the economically mineable part of a measured mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified.

**qualified person:** an individual who: (i) is an engineer or geoscientist with at least five years of experience in mineral exploration, mine development or operation, or mineral project assessment, or any combination of these; (ii) has experience relevant to the subject matter of the mineral project; and (iii) is a member in good standing of a professional association as defined by NI 43-101.

**RC:** reverse circulation.

**seam:** a stratum or bed of coal or other mineral; generally applied to large deposits of coal.

**splits:** the division of a bed of coal into two or more horizontal sections by intervening rock strata.

**strike:** the direction, or course or bearing, of a vein or rock formation measured on a level surface.

**thermal coal:** coal that is used primarily for its heating value and that tends not to have the carbonization properties possessed by metallurgic coal.

## CORPORATE STRUCTURE

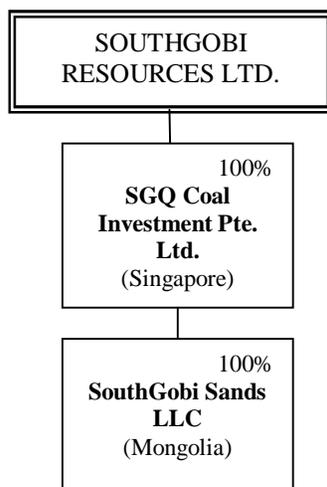
### Name, Address and Incorporation

The Company was incorporated on February 14, 2002 pursuant to the *Company Act* (British Columbia) under the name 5119 Investments Ltd. The Company changed its name to MX Capital Corp. on March 28, 2002, and then continued under the *Canada Business Corporations Act* on November 4, 2002. On August 26, 2003, the Company changed its name to Asia Gold Corp. On September 22, 2003, the Company consolidated its Common Shares on a six for one basis. On May 29, 2007, the Company was continued under the *Business Corporations Act* (British Columbia), changed its name to SouthGobi Energy Resources Ltd. and reorganized its authorized capital to create a class of shares separate from the Common Shares, consisting of an unlimited number of Preferred Shares without par value. On May 11, 2010 the Company changed its name to SouthGobi Resources Ltd.

The Company's head office and registered office are located at 654 - 999 Canada Place, Vancouver, British Columbia, Canada, V6C 3E1.

### Intercorporate Relationships

The following sets forth the name and jurisdiction of incorporation of SGQ and its principal subsidiaries:



## GENERAL DEVELOPMENT OF THE BUSINESS

### Overview

The Company is an integrated coal mining, development and exploration company. Since acquiring significant coal assets in Mongolia in a series of transactions with Ivanhoe, the Company's strategic focus has been in developing and operating coal mining projects.

The Company's Common Shares trade on the TSX under the symbol "SGQ". Upon completion of the International Offering and the Canadian Offering and the secondary listing of the Common Shares on the SEHK on January 29, 2010, the Company's shares also trade on the SEHK under the stock code "1878".

The Company owns the following significant coal projects in Mongolia: the Ovoot Tolgoi Mine, and two development projects: the Soumber Deposit, and the Ovoot Tolgoi Underground Deposit. The Ovoot Tolgoi Complex comprises the Ovoot Tolgoi Mine together with the Ovoot Tolgoi Underground Deposit.

The Ovoot Tolgoi Mine, strategically located approximately 40 km from the China-Mongolia border, is the Company's flagship producing asset. The Company commenced mining at Ovoot Tolgoi's Sunset Pit in April 2008 and commenced coal sales in September 2008. Current products from the Ovoot Tolgoi Mine include coals with coking (or metallurgical) applications: primarily a raw semi-soft coking coal and raw higher-ash coals, which can be washed into semi-soft coking coal. From the commencement of production in late 2008 until December 31, 2010, the Company has sold approximately 4.0 million tonnes of coal from the Ovoot Tolgoi Mine. During the year ended December 31, 2010, the Company sold approximately 2.5 million tonnes of coal. The Ovoot Tolgoi Mine is covered by a single 9,308 ha mining licence and a corresponding permit to mine.

The Soumber Deposit is comprised of the Soumber and Biluut Fields and is located approximately 20 km to the east of the Ovoot Tolgoi Mine, which could allow the operations to share existing infrastructure in the event a mine is developed there. Exploration results show potential for thick seams of coking coal, and a resource has been established confirming the deposit. Preparatory work for a formal licence application for the Soumber Deposit continues.

The Company has conducted substantial exploration activities at the Ovoot Tolgoi Underground Deposit and has delineated mineral resources at this project. The Ovoot Tolgoi Underground Deposit is covered by the existing Ovoot Tolgoi Mining Licence. In addition, the Company owns the Tsagaan Tolgoi Deposit in Mongolia, which has a mining licence.

The Company owns 19.9% of Aspire. Aspire's primary focus is its ownership of nine mineral exploration licences in Mongolia. The Company's interest in Aspire was primarily acquired through a placement in December 2010 to SouthGobi for approximately \$20.2 million. As at March 7, 2011, SouthGobi's interest in Aspire had a market value of approximately \$75.2 million.

### **Three Year History**

#### ***2008***

In January 2008, the Company completed a private placement of 10 million Common Shares at Cdn\$8.00 per share and a second private placement of 3.5 million Common Shares at Cdn\$9.00 per share to institutional investors for total gross proceeds of Cdn\$111.5 million.

Concurrent with the closing of these private placements, IVN converted all of its 25,576,383 Preferred Shares into an equal number of Common Shares. IVN also converted \$29,982,631 of outstanding indebtedness under the First Funding Agreement into 14,709,071 Common Shares which fully satisfied the Company's obligations to IVN under the First Funding Agreement. The Company also repaid to IVN, in cash, approximately \$8

million of outstanding indebtedness under the Second Funding Agreement which fully satisfied the Company's obligations to IVN under the Second Funding Agreement.

In February 2008, the Company completed a third private placement of Common Shares to institutional investors located in Hong Kong of 711,111 Common Shares at Cdn\$9.00 per share for total gross proceeds of Cdn\$6.4 million.

In March 2008, an official government commission appointed by Mongolia's Minister of Industry and Trade issued a Permit to Mine to SGQ for the Ovoot Tolgoi coal project in southern Mongolia (the "Permit"). The Permit was the final authorization required for the Ovoot Tolgoi Mine to proceed.

In April 2008, the Company closed the first tranche of a private placement with Monnis International Inc. in which the Company issued 1,000,000 Common Shares at a price of \$12.45 per share, for total gross proceeds of Cdn\$12,450,000. The Company closed the second tranche of the private placement and issued a further 1,000,000 Common Shares at Cdn\$12.45 per share for total gross proceeds of Cdn\$12,450,000.

In April 2008, the Company began mining at the Ovoot Tolgoi mine and in June 2008, held the official opening ceremony for the Ovoot Tolgoi Mine. In September 2008, the Company increased its ownership in the Mamahak Coal Deposit from 56% to 85%.

In September 2008, the Company commenced deliveries of thermal coal from the Ovoot Tolgoi Mine. The Company also opened two offices in China to help facilitate the coal exports to China.

In December 2008, the Company sold its Metals Division to IVN for US\$3 million. In connection with the sale agreement, the Company established a credit facility with IVN allowing the Company to obtain advances from IVN to an aggregate maximum of US\$30 million. The credit facility was for a one year term and a one year discretionary extension. The credit facility was unsecured and carried an interest rate equal to LIBOR plus 7.5 basis points.

## **2009**

In January 2009, the Company received approval from the local Indonesian government to commence surface coal mining on a portion of the Mamahak Deposit.

In February 2009, the Company announced the appointment of Alexander Molyneux as President.

In March 2009, the Company announced revisions to its July 2008 resource estimate at the Ovoot Tolgoi Complex. The revised estimate reported measured and indicated resources at the Sunrise and Sunset Fields at 168 million tonnes and inferred resources at the aggregate 25 million tonnes.

In January 2009, the Mongolian government designated the Ceke border crossing as a permanent checkpoint.

In July 2009, the Ovoot Tolgoi Mining fleet began operating 24 hours a day, 7 days a week, and the Company appointed former Canadian Prime Minister Jean Chrétien as a senior national advisor and Gene Wusaty resigned as Chief Operating Officer of the Company.

In July 2009, IVN increased the credit facility advanced in connection with the sale of the metals division from US\$30 million to US\$60 million.

In September 2009, Gavin May was appointed as Chief Operating Officer.

In October 2009 the Company announced a management reorganization in which Alexander Molyneux was appointed as Chief Executive Officer, succeeding Peter Meredith, who assumed the role of Chairman of the Board.

In October 2009, Norwest completed a pre-feasibility study on the Ovoot Tolgoi Complex estimating total proven and probable surface reserves at 114.1 million tonnes. Norwest also completed an updated resource estimate at the Ovoot Tolgoi Complex. Norwest estimated surface and underground resources in the measured and indicated category of 249.8 million tonnes, with an additional inferred coal resource of 33.5 million tonnes. Also, in October 2009, Norwest completed a resource estimate at the Soumber Deposit. Norwest estimated total measured and indicated resources at 21.4 million tonnes with an additional inferred coal resource of 55.5 million tonnes.

In November 2009, the Company entered into a subscription agreement for a US\$500 million convertible debenture with CIC to finance a major expansion of the Company's coal mining and exploration activities in southern Mongolia. See "MATERIAL CONTRACTS – CIC Debenture Offering" for more information.

On December 3, 2009, the Company's Common Shares began trading on the main board of the TSX.

On December 23, 2009, the Company sold its 85% interest in the Mamahak Deposit to Kangaroo Resources Limited ("Kangaroo") for consideration of US\$1 million in cash and 50 million common shares of Kangaroo.

## **2010**

In January 2010, the Company completed the Global Offering of 27,000,000 Common Shares at a price of Cdn\$17.00 per share, for gross proceeds of Cdn\$459,000,000. Concurrently with the close of the HK Public Offering, which forms part of the Global Offering, the Common Shares began trading on the SEHK.

On February 26, 2010 a Canadian Underwriters partially exercised their over-allotment option and purchased an additional 228,100 Common Shares for gross proceeds of Cdn\$3,877,700.

On March 29, 2010, the Company converted US\$250 million of CIC's US\$500 convertible debenture into 21,560,961 Common Shares at a price of US\$11.64 per share. Following the conversion, CIC owns approximately 13% of the Company's outstanding Common Shares.

On May 11, 2010 Shareholders approved a special resolution to change the name of the Company from SouthGobi Energy Resources Limited to SouthGobi Resources Limited.

On June 8, 2010 the Company announced a share repurchase program to purchase up to 2.5 million Common Shares of the Company on each or either of the TSX or the SEHK. As of March 30, 2011 the Company had repurchased a total of 1,506,300 Common Shares pursuant to the program.

On June 28, 2010, the Company announced the commencement of construction of a coal handling facility at the Ovoot Tolgoi Mine which it expects will be complete by the end of 2011.

On October 19, 2010 the Company executed a special agreement with a subsidiary of Winsway Coking Coal Holdings Limited (“Winsway”) for the purchase of a million tonnes of the Company’s sunset pit #8/9/10 seam coal and 200,000 tonnes of the #5 seam semi-soft coking coal.

Effective November 30, 2010 Gavin May, Chief Operating Officer, left the Company to pursue other business opportunities, and Curt Church, previously General Manager of Ovoot Tolgoi, was appointed Vice President, Mining Operations.

On October 25, 2010 the Company was awarded a contract to build a paved highway dedicated to the delivery of export shipments from the Ovoot Tolgoi Mine to the border crossing at Shivee Khuren–Ceke. The new highway is scheduled to be completed by the end of 2012. Final approval for the contract is subject to a formal review from the Mongolian Government.

On October 26, 2010 the Company entered into a private placement agreement with Aspire to acquire 105,726,650 common shares representing approximately 19.9% of Aspire. The Company purchased the shares at a price of A\$0.19 per share, for an aggregate purchase price of approximately A\$20.1 million. The private placement closed on December 23, 2010.

On December 6, 2010 the Company signed a contract with Winsway for the sale of 3.2 million tonnes of coal in 2011. The Company also entered into a strategic alliance agreement (the “Strategic Alliance Agreement”) with Winsway whereby, the Company commits to sell at least two million tonnes of coal to Winsway per year. Winsway will work with the Company to increase the market value of the Company’s Mongolian coal and provide priority access to its logistics assets. The Strategic Alliance Agreement has a five year term.

On December 8, 2010 the Company executed two additional coal supply agreements for the sale of an aggregate of 950,000 tonnes of coal during 2011.

### ***2011 to date***

On January 25, 2011, the Company announced the completion of its first “direct delivery” coal sale from the Ovoot Tolgoi Mine. All previous coal sales by the Company were “mine gate” sales, in which customers took delivery and ownership of the coal at the Ovoot Tolgoi Mine site and made their own arrangements to transport the coal to China.

In March 2011, MMC completed an updated pre-feasibility study on the Ovoot Tolgoi Complex estimating total proven and probable reserves at 106.8 million tonnes and surface underground resources in the measured and indicated category of 266.3 million tonnes with an additional inferred coal resource of 97.1 million tonnes.

On March 30, 2011 Curt Church was appointed as the Company’s Chief Operating Officer.

### **Outlook**

SGQ continues to focus its efforts on mining, development and exploration of high-quality coal resources in Mongolia. SGQ’s properties in Mongolia are well located in close proximity to China. SGQ’s vision is to become a leading supplier of premium quality coals from Mongolia to China. SGQ plans to accomplish its goal through the following strategies:

- **Grow Ovoot Tolgoi Mine** – SGQ’s aim is to finish 2011 with roughly two-thirds more material movement capacity than in 2010. This will come from the introduction of two further additional mining fleets (one Liebherr 996 excavator based and one Liebherr R9250 excavator based) plus an upgrade of the first mining fleet by replacing its Liebherr 994 (13.5 cubic meter) shovel with a Liebherr R9250 (17 cubic meter excavator).
- **Continue to develop regional infrastructure** – During 2010 SGQ commenced designing a new coal haul highway that will better link Ovoot Tolgoi with the Mongolia-China border and the infrastructure available there. The new highway is scheduled to be completed by the end of 2012. It will be constructed with a concession granted by the Mongolian Government as per the country’s Concession Law. Final approval for the contract entered into in October 2010 is subject to a formal review from the Mongolian Government.
- **Advancing the Soumber Deposit** – Having grown the Soumber Deposit in 2010, SQQ will now aim to move ahead to mine planning and completing the mine licensing process during 2011.
- **Value-adding/upgrading coal** – The Company has commenced construction works for its coal handling facility. For 2011, SGQ aims to complete that facility with the inclusion of a dry air separation process and have it operating prior to the end of the year.
- **Exploration** – Further green fields exploration will take place, with the Company planning an exploration campaign budget in the order of US\$10-20 million.
- **Work Environment** – SGQ continues to focus on production safety, environmental protection, operational excellence and community relations.

## Competitive Advantages

### *The Company’s projects are strategically located close to China*

SGQ’s Ovoot Tolgoi Mine is situated approximately 40 km north of the Shivee Khuren-Ceke border crossing on the Mongolia-China border. A north-south railway line currently connects Ceke with Jiayuguan City in Gansu Province and with the interior of China. Another east-west railway line from Ceke to Linhe, an industrial city in eastern Inner Mongolia, is expected to be operational on a commercial basis in 2011. This line is anticipated to have an initial transportation capacity of approximately 15 million tonnes per year, increasing to 25 million tonnes per year. Using this route, coal can be shipped to active coal markets to the east such as the region around Baotou and Hebei Province, and further east to ports on China’s Bohai Gulf.

China is one of the largest and fastest growing importers of coking coal. In an estimate attributed to Fenwei, China’s coking coal imports reached 47.3 million tonnes in 2010, an increase of approximately 37% over 2009. The well located producing coking coal mines in southern Mongolia, including SGQ’s are becoming a major source of China’s import needs. For 2010, 32% of China’s imported coking coal was sourced from Mongolia, making Mongolia the second largest supplier. Mongolian coking coal imports to China grew 278% for 2010 compared to 2009.

### *SGQ has substantial resources and reserves with future growth potential*

SGQ’s aggregate coal resources (including reserves) comprised 364 million tonnes in the measured and indicated categories and 171.9 million tonnes in the inferred category. SGQ has a history of increasing its

resources base through a substantial focus on exploration activities. Exploration has also enabled SGQ to increase its resource base at a relatively low cost. For the period from January 1, 2005 to December 31, 2010, SGQ's and Ivanhoe's total exploration costs in Mongolia for coal have amounted to US\$82 million, which equates to US\$0.15 per tonne of resources discovered in Mongolia.

SGQ believes that it is well positioned to expand its current coal resources and reserves.

***SGQ has a low cost structure due to favourable geographical and geological conditions***

SGQ's low cost structure is partly attributable to the favourable geological conditions of the coal seams at its projects. The majority of SGQ's coal deposits are close to the surface, which enables the development of lower cost open pit mines. SGQ's Ovoot Tolgoi Mine contains thick coal seams that extend close to the surface. This provides for a low ratio of waste to be mined per tonne of coal production.

***SGQ has established production with strong growth potential through expanding its mine and developing its deposits***

SGQ has already commenced production at its Ovoot Tolgoi Mine in Mongolia. Since the commencement of sales in late 2008 until March 21, 2011, SGQ has sold approximately 4.4 million tonnes of coal from the Ovoot Tolgoi Mine. MMC considers it possible that total coal production from the Ovoot Tolgoi Mine could increase to approximately 8 million tonnes per annum from 2012 and onward. SGQ estimates that capital expenditure in relation to this production ramp-up will be US\$124 million up to the end of 2011.

SGQ currently holds a total of 14 exploration licences covering approximately 538,000 ha in Umnugobi Aimag in Mongolia. Many of its exploration licences have yet to be fully explored. SGQ's exploration program in 2010 included drilling, trenching and geological reconnaissance on a number of the licence areas which were identified as having good potential for coking and thermal coal deposits.

***SGQ has an experienced management team with strong skills in mining, exploration and marketing and are able to leverage the expertise, experience and relationships of its principal Shareholder, Ivanhoe Mines Ltd.***

The Board and senior management team have extensive experience in the coal and mining industries. Most of SGQ's Board and senior management team have experience in mining and/or exploration activities. Of the Board members and senior managers, six individuals (namely, Pierre Lebel, R. Edward Flood, John Macken, David Bartel, Jess Harding and Curtis Church) have experience as mining managers, mining engineers and/or geologists, and all have significant experience in the mineral resources industry. The management team of the Ovoot Tolgoi Mine is comprised of a combination of foreign professionals and Mongolian nationals, who have the ability to effectively manage Mongolian business and cultural issues while employing international mining practices.

Ivanhoe, SGQ's principal Shareholder, is a diversified resources company with experience in advancing exploration and development resource projects through to production. Ivanhoe is also a major investor in Mongolia, where it is focused on developing its flagship Oyu Tolgoi Project. As a result, Ivanhoe has experience with operations in Mongolia and dealing with all levels of government. SGQ will be able to access the expertise and experience of its principal Shareholder as it seeks opportunities to grow SGQ's business within Mongolia and in other countries.

## **RISK FACTORS**

There are certain risks involved in the Company's operations, some of which are beyond its control. These risks can be broadly categorized into: (i) risks relating to its business and industry; and (ii) risks relating to its projects in Mongolia. Additional risks and uncertainties not presently known, or not expressed or implied below, or that are presently deemed immaterial, could also harm the Company's business, financial condition and operating results. Some of the following statements are forward-looking and actual results may differ materially from the results anticipated in these forward-looking statements.

### **Risks Relating to the Company's Business and Industry**

**Some of the Company's projects may not be completed as planned; costs may exceed original budgets and may not achieve the intended economic results or commercial viability.**

The Company's business strategy depends in large part on expanding its production capacity at the Ovoot Tolgoi Mine and further developing its other coal projects into commercially viable mines. Whether a mineral deposit will be commercially viable depends on a number of factors, including: (i) the particular attributes of the deposit, such as size, grade and proximity to infrastructure; (ii) commodity prices, which are highly cyclical; and (iii) government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of mineral resources and environmental protection. The Company's current intention to develop mines at the Soumber Deposit and the Ovoot Tolgoi Underground Deposit in the future is based on geological, engineering, environmental and mine planning evaluations. The feasibility of mining at these projects as well as at the Tsagaan Tolgoi Deposit has not been and may never be established. If the Company is unable to develop all or any of its projects into a commercial working mine, its business, financial condition and results of operations will be materially and adversely affected.

The Company's projects are subject to technical risk in that they may not perform as designed. Increased development costs, lower output or higher operating costs may all combine to make a project less profitable than expected at the time of the development decision. This would have a negative impact on the Company's business and results of operations. No assurance can be given that the Company would be adequately compensated by third party project design and construction companies (if not performed by the Company) in the event that a project did not meet its expected design specification. For example, in the first quarter of 2010 the Company realigned the Sunset Pit at its Ovoot Tolgoi Mine for a north-south entry rather than an east-west entry. Although the realignment is expected to be beneficial in the longer term, it had a short term impact on operations as the process required substantial above trend waste removal.

As with all exploration properties or projects taken on by mining companies, there is a risk that exploration projects will not be converted to commercially viable mines, in part because actual costs from capital projects may exceed the original budgets. As a result of project delays, cost overruns, changes in market circumstances or other reasons, the Company may not be able to achieve the intended economic benefits or demonstrate the commercial feasibility of these projects, which in turn may materially and adversely affect the Company's business, results of operations and growth projects.

**The Company's coal reserves and resources are estimates based on a number of assumptions, and the Company may produce less coal than its current estimates.**

The coal reserve and resource estimates are based on a number of assumptions that have been made by the Qualified Persons in accordance with NI 43-101. Reserve and resource estimates involve expressions of

judgment based on various factors such as knowledge, experience and industry practice, and the accuracy of these estimates may be affected by many factors, including quality of the results of exploration drilling and analysis of coal samples, as well as the procedures adopted by and the experience of the person making the estimates.

Estimates of the reserves and resources at the Company's projects may change significantly when new information becomes available or new factors arise, and interpretations and deductions on which reserves and resources estimates are based may prove to be inaccurate. Should the Company encounter mineralization different from that predicted by past drilling, sampling and similar examination, mineral resource and/or reserve estimates may have to be adjusted downward. This downward adjustment could materially affect the Company's development and mining plans, which could materially and adversely affect its business and results of operations.

In addition, the rank of coal ultimately mined may differ from that indicated by drilling results. There can be no assurance that coal recovered in laboratory tests will be duplicated under on-site conditions or in production-scale operations in the event that the actual level of impurities is higher than expected or the coal mined is of a lower quality than expected, the demand for, and realizable price of, the Company's coal may decrease. For example, the Company experienced areas of higher sulphur than originally anticipated in mine plans and studies during 2010. Short term factors relating to reserves, such as the need for orderly development of coal seams or the processing of new or different quality coals, may also materially and adversely affect the Company's business and results of operations.

The inclusion of reserve and resource estimates should not be regarded as a representation that all these amounts can be economically exploited and nothing contained herein (including, without limitation, the estimates of mine lives) should be interpreted as assurance of the economic lives of the Company's coal reserves and resources or the profitability of its future operations.

The Company commenced mining in April 2008, and has recorded operating losses and operating cash outflows to date, and therefore the Company's short operating history may make it difficult for investors to evaluate its business and growth.

In addition the Company currently operates one revenue producing mine. In the year ended December 31, 2010, the Company recorded a net loss. As is typical for a start up mining company, the Company has recorded a deficit since inception. Although the Company has no plans to pay dividends in the near future, should such deficits continue and cash reserve be depleted, it could adversely affect the Company's ability to pay dividends in the future. Due to the Company's limited operating history, there may not be an adequate basis on which to evaluate the Company's future operating results and prospects. Investors may have difficulties evaluating the Company's business and prospects because the Company's past results may not be indicative of the Company's results in the future

**The Company does not insure against all risks to which it may be subject in planned operations and insurance coverage could prove inadequate to satisfy potential claims.**

For certain aspects of the Company's business operations, insurance coverage, in particular business interruption insurance, is restricted or prohibitively expensive. The Company currently holds its primary insurance policies through Canadian insurance providers to insure its properties. The Company has taken out insurance for risks including commercial general liability, umbrella liability, aviation premises liability, and

kidnap and ransom. The Company maintains mining property insurance for all of its mining assets wherever located, property insurance on its office premises and liability insurance for its Directors and officers. However, no assurance can be given that the Company will elect or be able to obtain such insurance coverage at economically reasonable premiums (or at all), or that any coverage it obtains will be adequate to cover the extent of any claims brought against it.

Exploration, development and production operations on mineral properties involve numerous risks, including environmental risks, such as unexpected or unusual geological operating conditions, rock bursts or slides, fires, floods, earthquakes or other environmental occurrences, and political and social instability. The Company does not maintain insurance against any environmental or political risks. Should any liabilities arise for which it is not insured or insurance coverage is inadequate to cover the entire liability, they could reduce or eliminate the Company's actual or prospective profitability, result in increasing costs and a decline in the value of the Common Shares and could materially and adversely affect the Company's business and results of operations.

**Licences and permits are subject to renewal and various uncertainties and the Company may only renew its exploration licences a limited number of times for a limited period of time.**

In Mongolia, the Company's exploration licences are subject to periodic renewal and may only be renewed a limited number of times for a limited period of time. While it anticipates that renewals will be given as and when sought, there is no assurance that such renewals will be given as a matter of course and there is no assurance that new conditions will not be imposed in connection therewith. The Company's business objectives may also be impeded by the costs of holding and/or renewing the exploration licences in Mongolia. Licence fees for exploration licences increase substantially upon the passage of time from the original issuance of each individual exploration licence. The Company needs to assess continually the mineral potential of each exploration licence, particularly at the time of renewal, to determine if the costs of maintaining the exploration licences are justified by the exploration results to date, and may elect to let some of its exploration licences lapse. A moratorium on transfers of exploration licences has been imposed on two separate occasions and there is a risk that a similar moratorium could be imposed such that letting the exploration licences lapse may be the only practical option in some circumstances. Furthermore, the Company will require mining licences and permits to mine in order to conduct mining operations in Mongolia. There can be no assurance; however, that such licences and permits will be obtained on terms favorable to it or at all for the Company's future intended mining and/or exploration targets in Mongolia.

In addition, certain provisions of the Land Law of Mongolia enacted on June 7, 2002, and effective from January 1, 2003, (the "Land Law") and the 2006 Minerals Law provide for the revocation of previously granted land use rights, exploration licences or mining licences on the grounds that the affected area of land has been designated as "special needs" territory. The Land Law grants the discretion to declare an area of land for special needs purposes to local governing authorities and identifies various broad categories which qualify as special needs. The 2006 Minerals Law requires the local governing authority that designates an area of land as a special needs territory to compensate the licence holder whose rights or licence status are affected. If any of the Company's land use rights, exploration licences or mining licences in Mongolia are revoked because the underlying land is declared as special needs territory, there is no assurance that the Company will receive adequate compensation or any compensation at all and its business and results of operation might be adversely and materially affected. The Company has had no land use rights or exploration/mining licences revoked to date.

**Prolonged periods of severe weather conditions could materially and adversely affect the Company's business and results of operations.**

Severe weather conditions may require the Company to evacuate personnel or curtail operations and may cause damages to the project site, equipment or facilities, which could result in the temporary suspension of operations or generally reduce the Company's productivity. Severe weather conditions have not caused any delay or damages to the Company's operations to date. However, there can be no assurance that severe weather will not occur. Any damages to the Company's projects or delays in its operations caused by prolonged periods of severe weather could materially and adversely affect its business and results of operations.

**The Company's business and results of operations are susceptible to the cyclical nature of coal markets and are vulnerable to fluctuations in prices for coal.**

The Company expects to derive substantially all of its revenue and cash flow from the sale of coal. Therefore, the market price of the shares, the Company's ability to raise additional financing and maintain ongoing operations and its financial condition and results of operations will be directly related to the demand for, and price of, coal and coal-related products. Coal demand and price are determined by numerous factors beyond the Company's control, including the international demand for steel and steel products, the availability of competitive coal supplies, international exchange rates, political and economic conditions in Mongolia, the PRC and elsewhere in the world, milder or more severe than normal weather conditions, and production costs in major coal producing regions. The PRC and international coal markets are cyclical and have in the past exhibited significant fluctuations in supply, demand and prices from year to year. There has been significant price volatility on the coal spot market. An oversupply of coal in the PRC or a general downturn in the economies of any significant markets for the Company's coal and coal-related products could materially and adversely affect its business and results of operations. In addition, the Company's dependence on Asian markets may result in instability in its operations due to political and economic factors in those Asian jurisdictions which are beyond the Company's control. The combined effects of any or all of these factors on coal prices or volumes are impossible for the Company to predict. If realized coal prices fall below the full cost of production of any of its future mining operations and remain at such a level for any sustained period, the Company could experience losses and may decide to discontinue operations, which could require the Company to incur closure costs and result in reduced revenues.

**The Company's coal mining activities are subject to operational risks, including equipment breakdown.**

The Company's coal mining operations are subject to a number of operational risks, some of which are beyond its control, which could delay the production and delivery of coal. These risks include unexpected maintenance or technical problems, periodic interruptions to its mining operations due to inclement or hazardous weather conditions and natural disasters, industrial accidents, power or fuel supply interruptions and critical equipment failure, including malfunction and breakdown of its shovels, upon which its coal mining operations are heavily reliant and which would require considerable time to replace. These risks and hazards may result in personal injury, damage to, or destruction of, properties or production facilities, environmental damage, business interruption and damage to its business reputation. In addition, breakdowns of equipment, difficulties or delays in obtaining replacement shovels and other equipment, natural disasters, industrial accidents or other causes could temporarily disrupt the Company's operations, which in turn may also materially and adversely affect its business, prospects, financial condition and results of operations.

**The unavailability or shortage of reliable and sufficient coal transportation capacity will reduce the Company's coal revenue by causing it to reduce its production volume or impairing its ability to supply coal to its customers.**

The Company anticipates that the majority of its coal production from the projects in Mongolia will be exported into the PRC. While the Company expects to sell and deliver most of its coal from the Ovoot Tolgoi Mine at the mine gate, inadequate transportation infrastructure is likely to affect the pricing terms on which it can sell the coal to customers and the willingness and ability of such customers to purchase coal from it. Potential customers are likely to factor in any delays and the costs and availability of transportation in determining the price they are prepared to pay to purchase the Company's coal. Therefore, its mining operations are anticipated to be highly dependent on road and rail services in Mongolia and, to a lesser extent, in the PRC.

In Mongolia, a bottleneck in the transportation of coal from the Ovoot Tolgoi Mine to customers in the PRC may arise if the road connecting the Ovoot Tolgoi Mine to the Shivee Khuren-Ceke border crossing does not have sufficient capacity to support the increased amount of cargo traffic or is affected by external factors such as disruptions caused by bad weather. The opening hours of the Shivee Khuren-Ceke border crossing also affect the Company's ability to expedite the movement of its coal shipment. There can be no assurance that there would be any other cost effective means of transporting the coal to the Company's primary market in the PRC. As a result, the Company may experience difficulty expediting the movement of its coal shipments and/or significant cost escalation for the transportation services, which could affect its production and reduce its profitability.

In the PRC, rail and road infrastructure and capacity has in the past been affected by extreme weather conditions, earthquakes, delays caused by major rail accidents, the diversion of rolling stock needed to deliver emergency food relief and seasonal congestion during public holidays. There can be no assurance that these problems will not recur or that new problems will not occur. In any of these circumstances, the customers may not be able to take delivery of the Company's coal, which may lead to delays in payment, or refusal to pay, for the Company's coal and, as a result, the Company's business and results of operations could be materially and adversely affected.

**The Company's prospects depend on its ability to attract, retain and train key personnel.**

Recruiting, retaining and training qualified personnel is critical to the Company's success. The number of persons skilled in the acquisition, exploration and development of mining properties is limited and competition within the mining industry for such persons is intense, in particular, Mongolian law requires that at least 90% of a mining company's employees be of Mongolian nationality. This provision of the law, coupled with the large number of active mining projects in Mongolia, further limits the number of available personnel and increases competition for skilled personnel. As the Company's business activity grows, it will require additional key financial, administrative, mining, marketing and public relations personnel as well as additional operations staff. If the Company is not successful in attracting such key personnel, or retaining existing key personnel, its business and results of operations could be materially and adversely affected.

In addition, the Company's ability, to train operating and maintenance personnel is a key factor for the success of its business activities, if the Company is not successful in recruiting, training and retaining such personnel, its business and results of operations could be materially and adversely affected.

**Competition in the coal industry may hinder development plans and adversely affect the Company's coal sales if it is not able to compete effectively.**

Continued growth in mining and mineral exploration activities in Mongolia could create an increasing demand for mining equipment and related services. Shortages of, or higher costs for, equipment and services could restrict the Company's ability to carry out the exploration, development and production activities, increase its costs of operations and adversely affect its future plans.

The Company intends to sell a majority of the coal it produces in the PRC. Competition in the PRC coal industry is based on many factors, including, among others, price, production capacity, coal quality and characteristics, transportation capability and costs, blending capability and brand name. The Company's coal business will most likely compete in the PRC with other large PRC and international coal mining companies. Due to their location, some of the Company's PRC competitors may have lower transportation costs than the Company does. The PRC coal market is highly fragmented and the Company faces price competition from some small local coal producers that produce coal for significantly lower costs than the Company due to various factors, including their lower expenditure on safety and regulatory compliance. Some of the Company's international competitors, including the Mongolian coal producers, may have greater coal production capacity as well as greater financial, marketing, distribution and other resources than the Company does, and may benefit from more established brand names in international markets. The Company's future success will depend on its ability to respond in an effective and timely manner to competitive pressure.

**There are a number of risks associated with dependence on a limited number of customers and inability to attract additional customers.**

The Company depends on a relatively small number of customers. The incremental cost of transporting coal products from the Ovoot Tolgoi Mine and its other coal projects over long distances effectively limits the Company's potential customer base to a relatively proximate geographical area. Additionally, the Company has been selling its coal products only since September 2008. The Company currently has four active customers with the largest customer representing approximately 57%, and the remaining customers accounting for 43% of the Company's total sales for the year ended December 31, 2010. The Company's relatively brief history of coal sales makes it difficult to evaluate the strength of its relationships with current customers and its ability to attract additional customers. Accordingly, the inability to attract additional customers or the loss of, or a significant reduction in, purchases by any of the limited number of potential customers could materially and adversely affect the Company's future revenue and the economic viability of its exploration and development projects. In order to mitigate this risk, the Company is continually expanding its customer base. As at March 30, 2011 the Company had signed sales contracts with seven customers for coal sales in 2011 and is in discussions with several other potential customers.

In addition, the Company expects to sell the majority of the coal from its Mongolian mining operations to the customers in the PRC. PRC law requires specific authorization to be obtained by entities responsible for the import of coal into the PRC. In the event that the Company's customers, or the agents of such customers who are responsible for importing coal into the PRC on their behalf, fail to obtain and retain the necessary authorizations, their ability to import coal into the PRC may be affected, which could materially and adversely affect the Company's business and results of operations.

**The Company's operations are exposed to risks in relation to environmental protection and rehabilitation.**

The operations of coal mines involve substantial environmental risks and hazards and the Company's operations are subject to laws and regulations relating to the environment, health and safety and other regulatory matters in Mongolia.

The risk of environmental liability is inherent in the operation of the Company's business. Environmental hazards may occur in connection with the Company's operations as a result of human negligence, force majeure, or otherwise. Claims may be asserted against the Company arising out of its operations in the normal course of business, including claims relating to land use, safety, health and environmental matters. The Company is not insured against environmental liabilities and there can be no assurance that environmental liabilities would not materially and adversely affect its business and results of operations.

In addition, the Company is subject to reclamation requirements. The Company's mines contain a finite amount of recoverable resources and will eventually close. The key tasks in relation to the closure of the mines involve (i) long-term management of permanent engineered structures (for example, spillways, roads, waste dumps); (ii) achievement of environmental closure standards; (iii) orderly retrenchment of employees and contractors; and (iv) relinquishment of the site with associated permanent structures and community development infrastructure and programs to new owners. The successful completion of these tasks is dependent on the Company's ability to successfully implement negotiated agreements with the relevant government, community and employees. The consequences of a difficult closure range from increased closure costs and handover delays to ongoing environmental impacts and corporate reputation damage if desired outcomes cannot be achieved, which could materially and adversely affect the Company's business and results of operations.

Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. The Company may experience increased costs of production arising from compliance with environmental laws and regulations. Should the Company fail to comply with current or future environmental laws and regulations, the Company may be required to pay penalties or take corrective actions, any of which may have a material adverse effect on its results of operations and financial condition.

**Foreign currency fluctuations could affect expenses and any future earnings.**

The Company is exposed to foreign exchange fluctuations with respect to the Mongolian Tugrik, Chinese Renminbi, Hong Kong, Australian and Canadian dollars. The Company's financial results are reported in U.S. dollars. The salaries for local labourers in Mongolia are paid in local currency. Sales of coal into the PRC have been and may continue to be settled in U.S. dollars. The Company has a subsidiary in Hong Kong where some expenses are incurred in Hong Kong dollars. The Company has long term investments denominated in Australian dollars. Since the Company's headquarters is in Canada, a minor portion of its expenses are in Canadian dollars and the Company holds a portion of its cash in Canadian dollars. As a result, its financial position and results are impacted by the exchange rate fluctuations between the aforementioned currencies and the U.S. dollar.

**The Company's results of operations are subject, to a significant extent, to economic, political and legal developments in the PRC.**

The Company expects that a majority of coal sales from the Ovoot Tolgoi Mine will be made to customers based in the PRC. Accordingly, the economic, political and social conditions, as well as government policies, of the PRC may affect its business. The PRC economy differs from the economies of most developed countries in many respects, including: (i) structure; (ii) level of government involvement; (iii) level of development; (iv) growth rate; (v) control of foreign exchange; and (vi) allocation of resources. The PRC economy has been transitioning from a planned economy to a more market-oriented economy. For the past two decades, the PRC government has implemented economic reform measures emphasizing the utilization of market forces in the development of the PRC economy. Changes in the PRC's political, economic and social conditions, laws, regulations and policies could materially and adversely affect the Company's business and results of operations.

In addition, the PRC government indirectly influences coal prices through its regulation of power tariffs and its control over allocation of the transportation capacity of the national rail system. Any significant downturn in the prices in the PRC could materially and adversely affect the Company's business and results of operations. Additionally, the PRC government could adopt new policies that could shift demand away from coal to other energy sources. Any significant decline in demand for, or over-supply of, coal could materially and adversely affect the Company's revenues from coal export sales.

**The interests of the Company's principal Shareholder, Ivanhoe, may differ from those of its other Shareholders.**

As of March 30, 2011, Ivanhoe holds approximately 57% of the Company's issued and outstanding Common Shares. The interests of Ivanhoe may conflict with the interests of the Company's other Shareholders and there is no assurance that Ivanhoe will vote its Common Shares in a way that benefits the Company's minority Shareholders. Ivanhoe's ownership interest enables Ivanhoe to elect the entire Board without the concurrence of any of the Company's other Shareholders. Accordingly, unless applicable laws or regulations would require approval by the Company's minority Shareholders, Ivanhoe is in a position to: (i) control the Company's policies, management and affairs; (ii) subject to applicable laws, regulations and the Articles, adopt amendments to certain provisions of the Articles; and (iii) otherwise determine the outcome of most corporate actions, including a change in control, merger or sale of all or substantially all of the Company's assets.

The Company believes that third parties may be discouraged from making a tender offer or bid to acquire the Company because of this concentration of ownership.

**Information in this document regarding future plans reflects current intentions and is subject to change.**

Whether the Company ultimately implements the business strategies described in this document will depend on a number of factors including, but not limited to: the availability and cost of capital; current and projected coal prices; coal markets; costs and availability of drilling services, costs and availability of heavy equipment, supplies and personnel; success or failure of activities in similar areas to those in which the Company's projects are situated; and changes in estimates of project completion costs. The Company will continue to gather information about its projects, and it is possible that additional information will cause it to alter its schedule or determine that a project should not be pursued at all. Accordingly, the Company's plans and objectives may change from those described in this document.

### **Future stock market conditions may change.**

There are risks involved with any equity investment. The market price of common shares may rise or fall depending upon a range of factors and stock market conditions, which are unrelated to the Company's future financial performance. Movements on international stock markets, local interest rates and exchange rates, domestic and international economic and political conditions, as well as government, taxation and other policy changes may affect the stock market. As the Company is a listed company on the TSX and the SEHK, its Common Share price will also be subject to numerous influences including broad trends in the stock market and the share prices of individual companies or sectors.

### **Future issuances or sales, or perceived possible issuances or sales, of substantial amounts of Common Shares in the public market could materially and adversely affect the prevailing market price of the Common Shares and the Company's ability to raise capital in the future.**

The market price of the Common Shares could decline as a result of future sales of substantial amounts of the Common Shares or other securities relating to the Common Shares in the public market, including sales by its substantial Shareholders, or the issuance of new Common Shares by the Company, or the perception that such sales or issuances may occur. Future sales, or perceived possible sales, of substantial amounts of the Common Shares could also materially and adversely affect the Company's ability to raise capital in the future at a time and at a price favourable to it, and the Company's Shareholders may experience dilution in their holdings upon issuance or sale of additional Common Shares or other securities in the future.

### **Risks Relating to the Company's Projects in Mongolia**

#### **Legislation in Mongolia may be subject to conflicting interpretations, which may have adverse consequences on the Company's business.**

The Mongolian legal system shares several of the qualitative characteristics typically found in a developing country and many of its laws, particularly with respect to matters of taxation, are still evolving. A transaction or business structure that would likely be regarded under a more established legal system as appropriate and relatively straightforward might be regarded in Mongolia as outside the scope of existing Mongolian law, regulation or legal precedent. As a result, certain business arrangements or structures and certain tax planning mechanisms may carry significant risks. In particular, when business objectives and practicalities dictate the use of arrangements and structures that, while not necessarily contrary to settled Mongolian law, are sufficiently novel within a Mongolian legal context, it is possible that such arrangements may be invalidated.

The legal system in Mongolia has inherent uncertainties that could limit the legal protections available to the Company, which include: (i) inconsistencies between laws; (ii) limited judicial and administrative guidance on interpreting Mongolian legislation; (iii) substantial gaps in the regulatory structure due to delay or absence of implementing regulations; (iv) the lack of established interpretations of new principles of Mongolian legislation, particularly those relating to business, corporate and securities laws; (v) a lack of judicial independence from political, social and commercial forces; and (vi) bankruptcy procedures that are not well developed and are subject to abuse. The Mongolian judicial system has relatively little experience in enforcing the laws and regulations that currently exist, leading to a degree of uncertainty as to the outcome of any litigation; it may be difficult to obtain swift and equitable enforcement, or to obtain enforcement of a judgment by a court of another jurisdiction.

In addition, while legislation has been enacted to protect private property against expropriation and nationalisation, due to the lack of experience in enforcing these provisions and political factors, these protections may not be enforced in the event of an attempted expropriation or nationalisation. Expropriation or nationalisation of any of the Company's assets, or portions thereof, potentially without adequate compensation, could materially and adversely affect its business and results of operations.

**Application of and amendments to legislation could adversely affect the Company's mining rights in its projects or make it more difficult or expensive to develop its projects and carry out mining.**

The 2006 Minerals Law, which preserves to a limited extent some of the substance of the former 1997 minerals legislation, was drafted with the assistance of legal experts in the area of mining legislation and was widely regarded as progressive, internally consistent and effective legislation. However, the 2006 Minerals Law contains new provisions that have increased the potential for political interference and weakened the rights and security of title holders of mineral tenures in Mongolia. Certain provisions of the 2006 Minerals Law are ambiguous and it is unclear how they will be interpreted and applied in practice. Examples of such provisions include those relating to the designation of a mineral deposit as a Mineral Deposit of Strategic Importance. The Mongolian Government could determine that any one or more of the Company's projects in Mongolia is a Mineral Deposit of Strategic Importance.

In addition, the introduction of new Mongolian laws and regulations and the interpretation of existing ones may be subject to policy changes reflecting domestic political or social changes. For example, on July 16, 2009, Parliament enacted a new law (the "Mining Prohibition in Specified Areas Law") that prohibits minerals exploration and mining in areas such as headwaters of rivers and lakes, forest areas as defined in the Forest Law of Mongolia and areas adjacent to rivers and lakes as defined in the Water Law of Mongolia. Pursuant to the Mining Prohibition in Specified Areas Law, the Mongolian Government was instructed to define the boundaries of the areas in which exploration and mining would be prohibited by October 16, 2009. However, the Mongolian Government has not yet approved and published this information. New exploration licences and mining licences overlapping the defined prohibited areas will not be granted, and previously granted licences that overlap the defined prohibited areas will be terminated within five months following the adoption of the law. It is not clear whether such termination will only apply to the overlap areas. The Mining Prohibition in Specified Areas Law provides that affected licence holders shall be compensated, but there are no specifics as to the way such compensation will be determined.

MRAM has prepared a draft list of licences that overlap with the prohibited areas described in the new law, based on information submitted by water authority agencies, forest authority agencies and local authorities for submission to the MMRE. Subsequent to the MMRE's approval of this preliminary list, the Mongolian Government must still give its final approval before the final list can be published. During the MMRE's and the Mongolian Government's review of the draft list of licences prepared by MRAM, licences may be added or subtracted to the list at any time prior to approval and publication of the final list.

Six of the Company's exploration licences and the Tsagaan Tolgoi mining licence, included on MRAM's draft list of licences, may be included on the final list published by the Mongolian Government, potentially affecting the status of those licences under the Mining Prohibition in Specified Areas Law. Activities being carried out on these properties include drilling, trenching and geological reconnaissance. The Company has no immovable assets located in any of the potentially affected areas and the loss of any or all of the potentially affected properties would not materially and adversely affect its existing operations. The loss of the Tsagaan Tolgoi mining licences would; however, impact the Company's resources.

As such, there can be no assurance that future political and economic conditions in Mongolia will not result in the Mongolian Government adopting different policies in relation to foreign development and ownership of mineral resources. Any such changes in government or policy may result in changes in laws affecting ownership of assets, environmental protection, labour relations, repatriation of income, return of capital, investment agreements, income tax laws, royalty regulation, government incentive and other areas, each of which may materially and adversely affect the Company's ability to undertake exploration and development activities in the manner currently contemplated. Similarly, any restrictions imposed, or Mongolian Government charges levied or raised (including royalty fees), under Mongolian law for the export of coal could harm the Company's competitiveness.

**The Company's ability to carry on business in Mongolia is subject to political risk.**

The Company's ability to efficiently conduct its exploration and development activities is subject to changes in government policy or shifts in political attitudes within Mongolia that are beyond the Company's control.

Government policy may change to discourage foreign investment, nationalisation of mining industries may occur or other government limitations, restrictions or requirements not currently foreseen may be implemented. There is no assurance that the Company's assets will not be subject to nationalisation, requisition or confiscation, whether legitimate or not, by any authority or body. The provisions under Mongolian law for compensation and reimbursement of losses to investors under such circumstances may not be effective to restore the value of the Company's original investment.

In addition, Mongolia may experience political instability. Such instability could have a material adverse effect on economic or social conditions in Mongolia and may result in outbreaks of civil unrest, terrorist attacks or threats or acts of war in the affected areas, any of which could materially and adversely affect the Company's business and results of operations.

**The Mongolian Government could determine that any one or more of the Company's projects in Mongolia is a Mineral Deposit of Strategic Importance.**

Pursuant to the 2006 Minerals Law, the Parliament of Mongolia has wide discretion to designate mineral deposits to be Mineral Deposits of Strategic Importance. The Mongolian Government is empowered to participate on an equity basis with the licence holder in the exploitation and/or mining of each Mineral Deposit of Strategic Importance on terms to be negotiated between the Mongolian Government and such licence holder. Details of any minerals reserves must be filed by the relevant licence holder with the Mongolian Government, and those deposits on the Strategic Deposits List represent most of the largest and highest profile deposits in Mongolia. In addition to deposits currently on the Strategic Deposits List and the additional Tier 2 Deposits List, the Mongolian Parliament may at any time designate other deposits not yet currently on such Lists to be Mineral Deposits of Strategic importance, add such deposits to either the Strategic Deposits List or the Tier 2 Deposits List and, in the former case, commence negotiations with the relevant licence holder with respect to the terms under which the Mongolian Government will take an interest in such deposit. While the Mongolian Government is in the process of adding the exact location and coordinates for each Mineral Deposit of Strategic Importance, a number of deposits on the Strategic Deposits List are identified by name only with no indication of the latitude and longitude coordinates for the deposit, and it is therefore not always possible to precisely determine the intended geographic area covered by each designated Mineral Deposit of Strategic Importance or to accurately determine whether or not any given licence area is within, or overlaps, a Mineral Deposit of Strategic Importance.

Under the 2006 Minerals Law, the size of the Mongolian Government's participation is determined largely by the level of state funding which has been provided for the exploration and development of any deposit, with the Mongolian Government entitled to participate up to 50% in the event that there has been state funding of such deposit and up to 34% if there has not. However the 2006 Minerals Law is very vague as to the details and method by which the Mongolian Government will take its interest and the final arrangements in respect of the Mongolian Government's interest in each Mineral Deposit of Strategic importance, including the amount of compensation to be paid to the licence holder and the actual form of the Mongolian Government's interest are subject to negotiation between the Mongolian Government and the licence holder.

The 2006 Minerals Law also contains provisions requiring any company which holds a Mineral Deposit of Strategic Importance to list no less than 10% of its shares on the Mongolian Stock Exchange. This particular provision of the 2006 Minerals Law has not yet been enforced and it is not clear how it will work in practice.

In recent years there have been a number of proposed amendments to the 2006 Minerals Law suggested by various parties, many of which have centered on amending the 2006 Minerals Law to increase the Mongolian Government's participating interest in excess of 50%. While the 2006 Minerals Law provides that the interest of the Mongolian Government should take the form of an equity interest, based on past practice, and depending on the results of individual negotiations, the interest may be in the form of production or profit sharing or some other arrangement negotiated between the licence holder and the Mongolian Government. There can be no assurance that legislation will not be enacted which further strengthens the Mongolian Government's right to participate in privately held mineral resources in Mongolia.

None of the deposits covered by the Company's existing mining licences or exploration licences are currently designated as Mineral Deposits of Strategic Importance. However, there can be no assurance that any one or more of these deposits will not be so designated in the future, in which case the Company's business and results of operations may be materially and adversely affected.

### **Qualified Persons**

Disclosure of a scientific or technical nature in this Annual Information Form, as derived from the Ovoot Tolgoi and Soumber Technical Reports, in respect of each of SGQ's material mineral projects was prepared by or under the supervision of the qualified persons listed below. Copies of both the Ovoot Tolgoi Technical Report and the Soumber Technical Report are available at [www.sedar.com](http://www.sedar.com).

<b>Property</b>	<b>Qualified Persons</b>	<b>Relationship to Company</b>
Ovoot Tolgoi	Merryl Peterson	Independent Consultant
Ovoot Tolgoi	Rob Mackenzie	Independent Consultant
Ovoot Tolgoi	Ross Seedsman	Independent Consultant
Ovoot Tolgoi	Peter Goodman	Independent Consultant
Soumber	Merryl Peterson	Independent Consultant

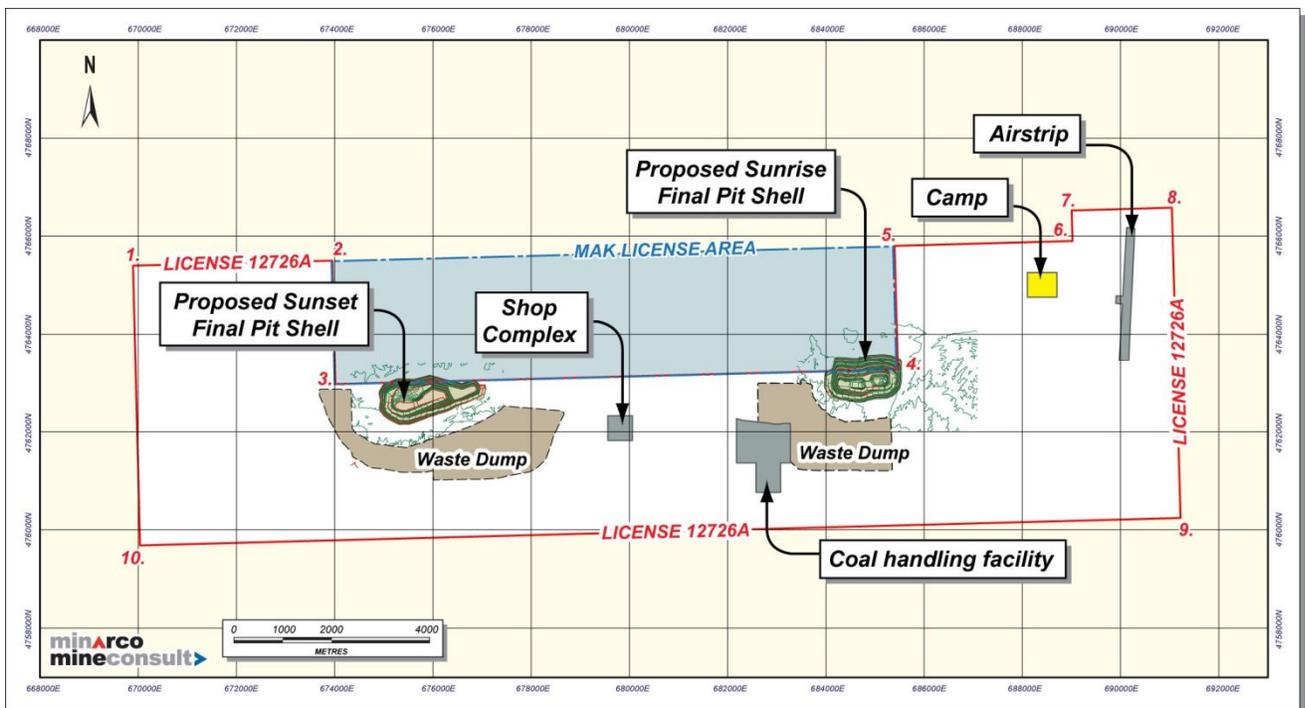
## Mongolia

### Ovoot Tolgoi Complex

#### Property Description and Location

The Ovoot Tolgoi Complex is located in the southwest corner of the Umnugobi Aimag (South Gobi Province) of Mongolia within the administrative unit of Gurvantes Soum, 320 km southwest of the provincial capital of Dalanzadgad and 950 km south of the nation's capital Ulaanbaatar. Ovoot Tolgoi is approximately 40 km north of the Mongolia-China border at Shivee Khuren-Ceke border crossing (as the crossing is referred to in China and Mongolia, respectively).

The SGQ controlled property surrounds and is adjacent to the existing MAK-Qinghua Mines (including the Nariin Sukhait mine) operations. The Ovoot Tolgoi Complex resources are found in two different resource areas, referred to as the Sunrise and Sunset Fields respectively. The waste dumps for the Sunrise and Sunset Fields are located to the south of either field within the Ovoot Tolgoi Mining Licence. Both the Sunset and Sunrise Fields are within the Ovoot Tolgoi Mining Licence, which covers a total of 9,312 ha and expires in 2037, with two possible 20 year extensions. The map below sets out the licence area and location of key infrastructure at the Ovoot Tolgoi Complex:



SGS, the operating company under SGQ, is a Mongolian registered company that holds the licences and permits to the Ovoot Tolgoi Complex. The Mongolian government grants MELs for a period of three years with the right to extend the period twice for three additional years each. Exploration licence holders are subject to various environmental protection obligations including preparation and acceptance of a detailed environmental impact assessment (“EIA”) and environmental protection plans (“EPP”), as well as the annual

posting of a bond equal to 50% of expected reclamation costs. Other obligations are for exploration licence holders to pay a fee and incur a minimum expenditure per hectare of licence area (see table below). SGQ has completed its EIA and EPP and has all necessary permits to continue operations at Ovoot.

### **Mongolian Mineral Exploration Licence Fees**

<b>Year</b>	<b>Licence Fee (US\$/ha)</b>	<b>Minimum Expenditure (US\$/ha)</b>
<b>1</b>	0.10	0.00
<b>2</b>	0.20	0.50
<b>3</b>	0.30	0.50
<b>4-6</b>	1.00	1.00
<b>7-9</b>	1.50	1.50

Following successful exploration, an exploration licence holder can apply for a mining licence to any portion of the exploration licence area. A mining licence is granted for a period of 30 years, with the right to extend the period for two additional 20 year periods. The mining licence covers both mineral and surface lease rights. Portions of existing MELs held by SGQ were converted to the Ovoot Tolgoi Mining Licence, granted in September 2007, for the development of an open-pit coal mine. The Ovoot Tolgoi Mine is covered within the Ovoot Tolgoi Mining Licence, while the remaining parts of the Ovoot Tolgoi Complex are covered by three MELs (11187X, 9443X and 6359X) covering an area of 109,664 ha and expire in May 2012, December 2011 and September 2011 respectively.

The 2006 Minerals Law and the Land Law govern SGQ's exploration, mining and land use rights for the Ovoot Tolgoi Project. Water rights are governed by the Mongolian Water Law, and the Mongolian Minerals Law. These laws allow licence holders to use the land and water in connection with exploration and mining operations, subject to the discretionary authority of Mongolian national, provincial and regional governmental authorities as granted under Mongolian law.

The Company is paying a 5% royalty on all coal sold from the Ovoot Tolgoi Mine based on a set reference price per tonne published monthly by the Government of Mongolia. The specific price per tonne varies according to the category of coal sold, which is split into two categories of raw and processed coal. The raw coal category has three tiers based on a combination of K/cal and other coal characteristics. Characteristics for the processed coal category are yet to be announced by the Government of Mongolia. The Company's coal is tested by the Mongolian Customs laboratory every 3 months to establish the coal characteristics which are used to determine the appropriate category and tier of coal for the quarter. As of February 17, 2011 the Company's coal from Seam No. 5 has been categorized as coking coal (which is comparable to third tier of Raw coal category) while the coal from Seams 8, 9, and 10 has been categorized as hard coal (comparable to second tier of Raw coal category). Below are the applicable reference prices set by the Government of Mongolia for the past four months:

Month	Raw Coal			Processed Coal
	Tier 1 (\$/tonne)	Tier 2 (\$/tonne)	Tier 3 (\$/tonne)	
March 2011	\$62.5	\$64.70	\$70	\$202.70
February 2011	\$62	\$64	\$70	\$200.60
January 2011	\$50	\$53	\$57	\$146.90
December 2010	\$49.80	\$51.40	\$54	\$131.10

The Company is also subject to a sliding scale royalty payment of up to 5% based on the set reference price of coal sold. The sliding scale royalty has taken effect as of January 1, 2011. Under the current sliding royalty scale the Company would be subject to an additional 2% royalty based on the reference price for the coal sold from the Ovoot Tolgoi Mine.

*Accessibility, Climate, Local Resources, Infrastructure and Physiography*

The area around the Ovoot Tolgoi Complex currently supports a traditional subsistence economy focused on raising sheep, goats, and camels. The Umnugobi Aimag is the most sparsely populated province in Mongolia with a density of 0.8 people/km<sup>2</sup>. The number of persons skilled in the exploration and development of mining properties in Mongolia is limited. To date, SGQ has been successful in recruiting key personnel but, as the development of the Ovoot Tolgoi Complex continues, it will require additional personnel. SGQ has an active training program to assist with maintaining a skilled workforce.

The surface expression of the deposit ranges from flat, gravel-covered desert plains to moderately hilly terrain. Surface elevation ranges from 1,515 to 1,555 m above sea level. Vegetation is sparse, consisting primarily of small shrubs and grasses. The region experiences a continental desert climate. Temperature typically ranges from 0° to -30°C in the winter, increasing to 30° to 35°C in the summer months. High winds occur frequently, particularly throughout the spring. Average annual rainfall is approximately 130 mm with most precipitation occurring during the summer months. The weather is acceptable for exploration activities from April through October. Exploration activities are not recommended during the harsh winters; however, the climate allows year round mining operations.

The Ovoot Tolgoi Complex has an onsite airport and is accessible via chartered aircraft from Ulaanbaatar. Regular air service is also available from Ulaanbaatar to Dalanzadgad. Travel from Dalanzadgad to the property takes approximately seven hours over unpaved roads. All parts of the property can be reached with four-wheel-drive vehicles.

A rail line connects the Ovoot Tolgoi area with the interior of China. The railroad terminus is approximately 40 km south of the resource areas at Ovoot Tolgoi, at the Chinese border town of Ceke. Coal trucks travel overland from Ovoot as well as the neighbouring MAK-Qinghua mines to the railroad terminus located at Ceke. Electrical power is available from a power line distributing power from China to various locations at Ovoot. Additional electric power is currently supplied by on-site diesel generators, as required.

No surface water is currently available in the immediate area of the Ovoot Tolgoi deposit. Water for the camp and shop complexes is being supplied from water supply wells drilled during the hydrological investigations. The recently completed permanent man camp has a water treatment facility on-site. Water for dust suppression is available from the pit dewatering.

Waste disposal areas have been identified and approved in the mining permit. Currently, screening is being conducted on the Ovoot Tolgoi coal. Construction of a coal handling facility began in 2010. The first phase of the facility is scheduled to be operational in 2011, including a rotary breaker and air separators.

### *History*

The first geological investigation at Nariin Sukhait took place in 1951 and 1952 and was led by V.S. Volkhonina. Results included geological mapping at a scale of 1:500,000. Coal was first identified in the Nariin Sukhait area in 1971 by a Mongolian exploration survey led by D. Dashtseren. A study of the Nariin Sukhait coal deposit was undertaken by Exploration unit No.15 of Ulaanbaatar Geological Research Group in 1991 and delineated an inferred resource on the property. Since this estimate was reported, substantial exploration has been undertaken as set out in the “Exploration” section of this AIF.

The Company acquired its interest in the Ovoot Tolgoi Complex from Ivanhoe in May 2007.

### *Geological Setting*

The coal-bearing rocks at Ovoot Tolgoi are late Permian in age. Coal was deposited along the margins of tectonically active continental basins. The region has subsequently undergone basin and range style extensional tectonics followed by a period of compressional folding and faulting.

### *Regional Geology*

The South Gobi region of Mongolia reflects a complex geologic history of continental accretion and Basin and Range style crustal extension. The region is dominated by elongate, east-west trending mountain ranges and intervening basins. The intervening basins are comprised of sediments of Late Cretaceous to Permian age, overlain by a relatively thin Quaternary gravel layer or thin Aeolian deposit. The mountain ranges separating these sedimentary basins comprise mostly crystalline basement rocks dominated by intermediate to high angle faults that show evidence of both compressional and extensional movement.

### *Coal Occurrences*

The most prominent feature relating to the coal deposit at Ovoot Tolgoi is the arcuate, east-west trending Ovoot Tolgoi fault. The coal bearing section, interpreted to be late Permian in age, is exposed primarily in a window adjacent to the Nariin Sukhait fault. The only place where the fault is exposed is in the MAK Nariin Sukhait Mine, where it appears as an intermediate angle structure (40 - 50 degrees) in their West pit. SGQ holdings at Ovoot Tolgoi contain two distinct resource areas within the window of upper Permian rocks, the Sunrise Field and the Sunset Field.

Exploration activities undertaken by SGQ within the Ovoot project area have focused on the thick coal of the No. 5 Seam, but additionally have defined further resources in packages of “upper seams” located above this

horizon. This work has shown that what was previously named as a single seam often contains a number of discrete coal seams separated by rock partings of highly variable thickness and extent. As such, modeling efforts have required the organization of these coal packages into a number of coal series. The thick seam originally identified as the No. 5 Seam in outcrop has retained that designation, but the discovery of splits above and below this has required a number of additional correlatable seams to be designated within what is now the No. 5 Series.

The remainder of the resource is found in the 8, 9, and 10 Series, which each contain a number of discrete coal seams. The No. 4 and No. 7 Seams are recognized in a number of drill holes, but do not appear to represent any significant resources. Coal seams 1 through 3 described in the early work at Nariin Sukhait have not been identified on the Ovoot Tolgoi Complex.

Interburden both within and between coal series is highly variable at Ovoot Tolgoi. Interburden between the series is generally dominated by sandstones and conglomerates, while the partings within the coals are most commonly mudstones and carbonaceous mudstones.

### *Structural Geology*

The Sunrise Field is located on SGQ controlled land surrounding the southeast corner of the MAK mining licence. The No. 5 Seam is currently being mined by MAK and MAK-Qinghua in this area along the axis of a poorly defined antiform. This structure trends to the southwest from the MAK East Pit, and forms the basis for the SGQ resources here. The coal-bearing section is found primarily as a southeast dipping homocline. Coal resources modelled in the Sunrise Field are almost entirely of the No. 5 Series. This is the primary seam that will be, and currently is, mined.

The Sunset Field is located on SGQ land near the southwest corner of the MAK mining licence. Coal resources are found along a southeast dipping homocline. Previous interpretation of structure in the Sunset Field described a southwest plunging antiform. The majority of resources are found in the 5 Series coal within a southeast dipping coal-bearing sequence. Additionally, a considerable amount of resources are also found in the upper coals, Series 8, 9, and 10.

The underground resources in the Sunset Field area represent the down dip extension of the stratigraphy discussed for the Sunset Field. Current exploration has been focussed on the delineation of No. 5 Seam resources. Overburden above the No. 5 Seam can reach up to 650 m and consists of sandstones and conglomerates. The apparent average thickness for the No. 5 Seam is 53 m.

### *Exploration*

IMMI began exploration in late 2004 with the completion of 5 boreholes in the Sunrise Field. This program was continued in early 2005 and expanded to include general exploration activities along the entire regional trend as well as resource delineation drilling in the Sunrise and Sunset Fields. The exploration programs undertaken from 2006 through 2008, concentrated on the Sunrise and Sunset Fields, but continued work elsewhere on the trend. The 2010 exploration program included in-fill drilling and extended drill hole coverage in the west of the Sunrise Field. Exploration activities used to date at the Ovoot Tolgoi Complex include: geological mapping, satellite imagery, geophysical surveys, trenching, and drilling.

Geologic mapping was initiated by IMMI in early 2005 and continued during 2006. Mapping and examination

of images were used to define the trend of coal outcrops. Additionally, these activities were used to locate coal occurrences in the hanging wall of the Nariin Sukhait fault along the entire length of this structure. Reconnaissance exploration work was contracted primarily to Sapphire and supervised by SGQ. Norwest provided assistance in the review of activities and interpretation of results in 2005 and 2006, while SGQ directly supervised and provided assistance to Sapphire in the review of activities and interpretation of results in 2007 and 2008. McElroy Bryan supervised the 2010 exploration program. The majority of the reconnaissance work was conducted prior to transfer of the mineral exploration licences to SGQ. Satellite imagery was used in conjunction with the geological mapping to locate surface exposures of coal and identify structures.

Additionally, 3-D and 2-D surface resistivity surveys were used to help locate mineralization in areas of thin surficial cover. Potential targets identified with the above mentioned techniques were then tested with trenches cut perpendicular to the apparent strike, to expose coal seams close to surface.

Trenching has been useful in identifying the near surface expression of coal seams for locating exploratory drill holes. Coal seam thickness and structure as observed in the trenches are greatly affected by near surface erosion, alteration, and deformation however. Trenching intercepts have been found to be unreliable sources of seam characteristics and structure, and are not used in resource estimation.

#### *Drilling*

Drilling through December 31, 2010 at Ovoot Tolgoi holdings includes a total of 475 exploration holes completed and 110,793 m drilled. This does not include limited drilling that took place under the Soviet-Mongolian government sponsored exploration programs.

All holes have been geophysically logged except where holes have caved. Depending on the equipment used, logs were either examined visually, or interpreted using the geophysical logging software. Drill hole depths were then incorporated into the geologic model. A drilling summary by method and area is presented in the table below.

### Historic Coal Exploration Drilling Activity

Area	Year	Reverse Circulation		Rotary		Core		Combination <sup>1</sup>	
		No. Holes	Meters Drilled	No. Holes	Meters Drilled	No. Holes	Meters Cored	No. Holes	Meters Cored
<b>Sunrise Field</b>	2004 IMMI	-	-	-	-	5	750		
	2005 IMMI	76	14,425	18	2,807	34	5,525		
	2006 SGS	11	4,855	12	1,999	5	1,860	-	-
	2007 SGQ	-	-	17	3,542	1	254	-	-
	2010 SGQ	35	6,671	16	3,486	6	993		
<b>Sunset Field</b>	2005 IMMI	70	12,861	17	2,223	13	2,034		
	2006 SGS	48	10,203	0	0	25	5,737		
	2007 SGQ	-	-	23	5,430	7	2,699	-	-
	2008 SGQ	-	-	-	-			41	23,189
<b>Total</b>		<b>240</b>	<b>49,015</b>	<b>103</b>	<b>19,487</b>	<b>96</b>	<b>19,852</b>	<b>41</b>	<b>23,189</b>

<sup>1</sup> Combination holes with RC and/or PCD rotary and/or core method.

Drill hole core and drill cuttings descriptions, geophysical logs and coal analyses data were used to characterize and interpret the stratigraphy of the Sunrise and Sunset Fields, particularly with respect to the coal seams. All holes were drilled vertically.

Drill hole collars were initially located using a handheld GPS unit. After completion of drilling and logging, surveys were conducted to accurately locate the drill hole position and elevations.

#### *Mineralization*

Early work adopted the seam nomenclature presented by Dashkhoral et al, thereby calling the very thick coal in the middle of the sequence the No. 5 Seam, and naming the upper seams in ascending order. As exploration work progressed, numerous additional seams and splits were discovered within the overall packages of coal previously described. As correlation and modelling has gone forward, coal seams were named and organized

into a series basis as shown in the table below. Thicknesses reported are based on drill intercepts and represent apparent thickness. The following tables present the coal seam characteristics on a seam by seam basis:

**Ovoot Tolgoi Complex Coal Seam Characteristics**

**Sunset Field Coal Seam Characteristics**

Seam	Mean	Maximum
10	3.69	28.80
9	10.78	54.80
8	2.05	13.90
5U	25.96	204.26
5L	7.48	139.72

**Sunrise Field Coal Seam Characteristics**

Seam	Mean	Maximum
5U2	6.17	70.70
5U1	4.63	87.11
5L2	19.98	124.00
5L1	10.52	86.93

Criteria applied to coal deposits for the purposes of determination of coal resources and reserves include both “Geology Type” as well as “Deposit Type”.

“Geology Type” for coal deposits is a parameter that is specified in Geological Survey of Canada (“GSC”) Paper 88-21, which is a reference for coal deposits as specified in NI 43-101. Coal “Geology Type” is a definition of the amount of geological complexity, usually imposed by the structural complexity of the area, and the classification of a coal deposit by “Geology Type” determines the approach to be used for the resource/reserve estimation procedures and the limits to be applied to certain key estimation criteria. The Geology Type for the Sunrise and Sunset Fields has been determined to be “Complex”.

“Deposit Type” as defined in GSC Paper 88-21 refers to the extraction method most suited to the coal deposit. There are four categories, which are: (i) Surface; (ii) Underground; (iii) Non-conventional; and (iv) Sterilized. The Ovoot Tolgoi deposit is considered to contain both “surface” mineable and “underground” mineable deposits.

*Coal Quality*

Coal quality is observed to be similar at both the Sunrise and Sunset Fields. Seam designations vary between fields. A summary of general coal quality values for each of the resource areas organized by coal series is presented in the table below.

**Sunset – Summary of Drill hole Quality Data**

<b>Seam</b>	<b>Total Moisture % ar</b>	<b>Inherent Moisture % ar</b>	<b>Ash % ad</b>	<b>Volatile Matter % ad</b>	<b>Total Sulphur % ad</b>	<b>Calorific Value kcal/kg ad</b>	<b>FSI</b>	<b>Relative Density</b>
10	5.2	1.2	19.7	31.8	1.25	6,273	2.8	1.46
9	5.3	1.2	20.5	31.1	1.28	6,290	3.5	1.45
8	6.1	1.1	19.7	30.3	1.09	6,451	4.2	1.44
5U	4.1	1.0	12.1	31.0	0.78	7,100	3.6	1.38
5L	3.0	0.7	13.3	32.0	1.01	7,060	4.6	1.38

**Sunrise – Summary of Drill hole Quality Data**

<b>Seam</b>	<b>Total Moisture % ar</b>	<b>Inherent Moisture % ad</b>	<b>Ash % ad</b>	<b>Volatile Matter % ad</b>	<b>Total Sulphur % ad</b>	<b>Calorific Value kcal/kg ad</b>	<b>FSI</b>	<b>Relative Density</b>
570	8.4	1.7	18.6	31.2	1.17	6,385	3.0	1.40
5U2	9.2	1.1	14.9	30.5	1.15	6,740	2.2	1.42
5U1	6.8	0.9	13.0	31.9	0.87	6,975	2.1	1.40
5L2	7.8	1.2	12.7	32.2	1.02	6,810	3.2	1.37
5L1	8.1	1.2	14.9	30.7	0.92	6,767	3.0	1.40

*Sample Preparation, Analysis and Security*

The majority of exploration holes at Ovoot Tolgoi have been drilled with rotary techniques which offer the opportunity only to sample drill cuttings. All quality analyses used for modeling have been restricted to core samples and for the 2005 through 2010 drill programs, this has been restricted to triple-tube coring equipment.

Reverse circulation drilling has provided cuttings samples of relatively good integrity. Samples were collected at 1 m intervals, and the cuttings were laid out in rows on the ground for examination and logging by the site geologist. A portion of the reverse circulation samples collected was used for basic proximate and thermal analysis as a comparison to the core samples. The remainder have been stored in Ulaanbaatar. A number of additional holes were drilled with a conventional air-rotary system. Cuttings were generally logged in a similar fashion as for reverse circulation drilling.

Core drilling has been used where it is desirable to collect complete representative samples of the coal seams, observe structural details, and to more accurately measure the depths of lithologic contacts. Sufficient quantity of core samples with satisfactory core recovery has been acquired to adequately characterize the most important quality characteristics. MMC reported it was not aware of any factors that may have lead to sample bias.

The bulk of the core drilling at Ovoot Tolgoi has been done with wireline drilling systems and modern, triple-tube core barrels. All of the triple-tube coring during the 2005 and 2006 drill programs was performed under Norwest supervision. Core logging and sample handling was performed by Sapphire under Norwest supervision. Drilling undertaken during the 2007 and 2008 period has been undertaken and supervised by SGQ. Sapphire's procedures in use during the 2007 through 2009 programs were similar to those they employed in earlier exploration programs. Sapphire has a four year record of providing competent geologists for geologic and geotechnical exploration, sampling and testing, in accordance with defined procedures, developed by Norwest, and implemented in 2005. Drilling in 2010 was supervised by McElroy Bryan Geological Services. Core logging and sampling for that period was performed by Tanan Impex.

Core was retrieved, logged and sealed according to Norwest conventions. Each core run was measured for core cut and recovered. Photographs were taken at 0.5 m intervals. Coal showing distinct lithologic variation was sampled separately, as were partings over 0.05 m. Otherwise, coal intervals with a uniform appearance were bagged in 0.6 m sample increments as per the capacity of the core box length. When zones of core loss greater than 0.1 m were encountered, separate samples were collected both above and below the zone.

Samples have been collected from drill core and reverse circulation cuttings. These samples were collected and recorded by field geologists employed by Sapphire under the supervision of Norwest during the 2005 and 2006 exploration programs. Sapphire continued the same data collection protocol from 2007 through 2009 under the supervision of SGQ, while in 2010 the protocol was continued by Tanan Impex, supervised by McElroy Bryan. The collected samples were submitted for analysis using methods that are standard for the coal industry. The specific process and protocol used for the Ovoot Tolgoi drilling program is described below.

#### *Core Drilling Samples*

For core drilling samples, recovered core is measured to determine an overall recovery (reported in percent) by comparing the recovered core length with the coring run length recorded by the driller. Recovered core is measured and compared to the coal interval thickness determined from the geophysical log suite.

Recovered coal intervals are sampled using the following criteria: (i) coal samples are broken out based on lithologic changes, in zones of uniform coal appearance, samples are bagged about every 0.6 m as per the capacity of the core boxes; (ii) in-seam partings, to a maximum thickness of 0.1 m, are included in a coal sample, where the thickness of the adjacent coal beds above and below the parting are both a minimum of twice the parting thickness; and (iii) a parting are sampled separately if it is greater than 0.05 m thick, carbonaceous shale, bone or interbedded coal/mudstone, or deemed to be greater than 50% coal.

Collected samples are cleaned of any mud contamination and placed in individual, core-sleeve style, plastic bags. The bags are labelled on the outside with both the core hole and sample number and sealed with plastic tape to prevent excessive moisture loss. Samples are then placed in sequence into waxed-cardboard core boxes. Core boxes are sealed with tape. Core boxes from the 2005 program were transported to IMMI in Ulaanbaatar, then shipped to SGS<sup>1</sup> Mineral Labs in Denver, Colorado (ISO-9000 certified, accredited by the

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<sup>1</sup> SGS North America Inc. (Denver), and SGS-CSTS Ltd. (Tianjin), are independent international testing and certification service companies, not to be confused with SouthGobi Sands LLC.

NQA in the United States of America). Core from the 2006 program was similarly transported to SGS Laboratories offices in Ulaanbaatar, and then shipped to SGS Laboratories in Tianjin, China (currently holds ISO-17025 certification, accredited by the China National Accreditation Service for Conformity Assessment (the “CNAS”)).

Core samples undergo a full suite of coal quality testing including short proximate, full proximate, thermal tests, ash analysis, and metallurgical testing. Some select samples undergo washability testing.

#### *Reverse Circulation Samples*

Samples are collected at 1.0 m intervals into plastic bags. The bags are labelled on the outside with both the drill hole and sample number and sealed with plastic tape to prevent excessive moisture loss. Samples are then grouped by hole into larger bags, packaged and transported to Ulaanbaatar for storage at SGS facilities. It is believed that testing of reverse circulation samples was discontinued in 2007.

In coal work additional special security methods for the shipping and storage of samples are not commonly employed, as coal is a relatively low-value bulk commodity.

#### *Data Verification*

Exploration drilling data collected during 2007 through 2010 was done under the supervision of SGQ. MMC visited the site during 2010 and conducted a validation of those data. This validation included the following:

- Verification of drill hole position and elevation by visiting a significant percentage of the sites and taking GPS measurements for comparison with the survey data and topographic maps.
- Review of geophysical logs for validation with the geologic database.
- Review of the coal quality analytical reports for validation with the geologic database.
- Review of selected core logs and core photographs.

MMC was not in a position to verify the data used in the resources estimates since this information was stored in individual databases maintained by previous contractors and at present does not reside with SGQ. This approach of relying on third party consultants to maintain and to verify SGQ’s database has inherent risks in terms of data provenance and integrity. In each of the individual technical reports produced on the project, the data has been independently verified and signed off on but this verified data has not been incorporated into a central SGQ database that can then be cross checked against original records. It is intended that in future SGQ will maintain its own database incorporating the data stored with previous contractors together with soft copies of original logs and a record of all coal quality information.

However, MMC has audited a subset of the data. Scanned field lithology logs and geophysical logs were provided to MMC. A representative number were checked against the seam picks used to generate the geological model. Drill hole collars were also compared to elevations in the Digital Terrain Model (“DTM”). No material errors were encountered.

### *Mineral Resource Estimate*

In accordance with NI 43-101, MMC has used the referenced GSC Paper 88-21 during the classification, estimation and reporting of coal resources and reserves for the Ovoot Tolgoi Complex.

The term “resource” is utilized to quantify coal contained in seams occurring within specified limits of thickness and depth from surface. The resource estimations contained within are on a clean basis. i.e. as an in-situ tonnage and not adjusted for mining losses or recovery. However, minimum mineable seam thickness and maximum removable parting thickness are considered; coal intervals not meeting these criteria are not included in the resources.

Resources are classified as to the assurance of their existence into one of three categories, measured, indicated or inferred. The category to which a resource is assigned depends on the level of confidence in the geological information available. GSC Paper 88-21 provides guidance for categorizing various types of coal deposits by levels of assurance. These were considered by the Qualified Person during the classification of the resources.

Resources and reserves are further classified in GSC Paper 88-21 as to the assurance of their existence into one of four categories, using the criteria for coals found in Geology Type “Complex” conditions, as shown in the table below. The resources have been further divided into surface mineable and underground resources. The surface mineable resources are limited to a depth from surface of 300 m and the underground resources are limited to between 300 m and 600 m from surface. The underground resources are limited to the No. 5 Seam series due to consistency in seam thickness and extent of drill hole intercepts at depths below 300 m. All coal seams occurrences within each series are limited to a minimum apparent seam thickness of 0.6 m. Surface resources are updated to 300 m to reflect the nominal depths of the open pits at both the Sunrise and Sunset Fields.

#### **Criteria used to Define Assurance of Existence for Coals in Complex Geology Type**

<b>Criteria</b>	<b>Assurance of Existence Category</b>		
	<b>Measured</b>	<b>Indicated</b>	<b>Inferred</b>
Cross-section spacing (m)	150	300	600
Minimum # data points per section	3	3	3
Mean data point spacing (m)	100	200	400
Maximum data point spacing (m)	200	400	800

Coal resources at Ovoot Tolgoi are defined for the categories of measured, indicated and inferred, as summarized in the table below. The Resource Statement is current as of December 11, 2010 and based on exploration data gathered through November 2010.

**Total (Surface and Underground) Coal Resources effective December 11, 2011**

Area	Type	Resource Limits Depth (m)	ASTM Group	Resources (Million Tonnes)		
				Measured	Indicated	Inferred
Sunrise Field	Surface	Surface to 300 m	hvB to hvA*	54.5	20.0	11.0
Sunset Field	Surface	Surface to 300 m	hvB to hvA*	81.8	15.9	1.9
<b>Sub-Total</b>				<b>136.3</b>	<b>35.9</b>	<b>12.9</b>
Sunrise Field	Underground	300 m to 600 m	hvB to hvA*	5.4	21.2	70.8
Sunset Field	Underground	300 m to 600 m	hvB to hvA*	46.6	20.9	13.4
<b>Sub-Total</b>				<b>52.0</b>	<b>42.1</b>	<b>84.2</b>
<b>Total</b>				<b>188.3</b>	<b>78.0</b>	<b>97.1</b>

*\*hvB to hvA – high-volatile bituminous coal B to A rank based on ASTM D388 standards*

Geological models for the Sunrise and Sunset Fields were developed by McElroy Bryan using Minex™ software. Resources were estimated from these geological models by MMC. Key horizons or “surfaces” were modeled to provide the necessary limits for volume estimation. Volumes were converted to tonnages by application of density values representative of the coal seams as derived from available coal quality data.

*Mineral Reserve Estimate*

A mineral reserve is the economically mineable part of a measured or indicated mineral resource supported by at least a Preliminary Feasibility level of study, which includes information on mining, processing, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified. Mineral reserves are sub-divided in order of increasing confidence into “probable” and “proven” reserves, respectively. A “probable” reserve is the economically mineable part of an “indicated” resource and in some cases may include a portion of a “measured” resource. A “proven” reserve is the economically mineable part of a “measured” resource. The measured and indicated resources are inclusive of those resources modified to produce the reserves, i.e. reserves are not additional to resources.

Total mineral reserves as of December 11, 2010 are summarized in the table below.

**Summary of Mineral Reserves Ovoot Tolgoi Mine**

Reserve Area	ASTM Coal Rank	Open Cut Reserves Tonnes in Millions		
		Proven	Probable	Total
Sunset	hvB to hvA	35.3	35.3	70.6
Sunrise	hvB to hvA	27.5	8.7	36.2
Ovoot Tolgoi Mine	hvB to hvA	62.8	44	106.8

This estimate of resources and reserves was generated using the best information available concerning issues related to environmental, permitting, legal, title, taxation, socio-economics, marketing and political factors that could have a material influence on MMC’s findings. MMC is not aware of any additional factors which may affect its reserves estimate.

***Mining Operations***

*Mining Method*

In April 2008, with basic infrastructure already constructed in-place, the Ovoot Tolgoi Mine began stripping and producing its first coal.

As of the date of publication of the Ovoot Tolgoi Technical Report mining operations spread over two pits, the Sunset Pit and the Sunrise Pit. The mine infrastructure is in place, and being expanded to accommodate future mining rates. The mining method employed at Ovoot Tolgoi could be described as open cut terrace mining utilizing large scale hydraulic excavators and shovels and trucks. Terrace mining is utilized where coal seams dip steeply and operating machinery on the coal seam roof and floor is not possible due to the steep seam dips. Terraces, or benches, are excavated along fixed horizontal horizons and these benches intersect both coal and waste. Coal and waste are mined separately on each bench with dozers being used as needed to push coal or waste down to the excavator for loading into trucks. This mining method allows large scale open pit mining to occur productively in steeply dipping coal seam environments. All waste will be dumped ex-pit, as the steep dips preclude in-pit dumping.

The run of mine (“ROM”) coal will be hauled to a soon to be constructed coal handling plant, comprising a rotary breaker and dry separators, which will remove some of the stone within the ROM coal thus reducing the ash in the saleable product coal.

Three coal products are to be produced: a semi-soft coking (or metallurgical) coal, a premium coal that would potentially be used for PCI coking coal or a high quality thermal coal, and a thermal coal product for use in power generation. Historically, coal in Mongolia has not been washed on-site, but rather by the end users in China. SGS has begun construction of a coal handling facility, and this has been assumed in the Ovoot Tolgoi Technical Report. It is noted that none of the current sales contracts account for washed coal.

Mine infrastructure is installed and operations have been producing coal since 2008. Production will steadily ramp-up through 2012, and reach “steady-state” of 8 million tonnes a year by 2012.

Mining is to occur in two distinct fields, the Sunrise Field to the east of the lease area, and the Sunset Field, approximately 5 km to the west. The two fields are mined concurrently at annual rates of approximately 5.2 million tonnes and 2.8 million tonnes from Sunset and Sunrise, respectively. All waste is dumped in separate ex-pit dumps located south of each pit. No waste is dumped in-pit. Material volumes over the life of mine are summarized in the table below.

A key assumption in establishing the reserve estimate is that the open cut pit limits will extend across the lease boundary into the adjacent lease held by MAK. SGQ and MAK have a memorandum of understanding to allow mining across the boundary. The reserves estimate does not include any coal within the MAK lease that must be extracted as part of the SGQ mining operation. For the PFS, waste and coal within the pit and within the MAK lease has been treated as waste (i.e. costs have been assumed for mining of the MAK waste and coal but no revenue has been assumed for the MAK coal.)

*Production Forecast*

The following table sets out the production forecast over the life of mine at the Ovoot Tolgoi Mine:

**Life of Mine Summary Quantities**

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	
(in thousands)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Total
<b>Total Tonnage</b>	5,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	5,728	106,728
<b>Coal Sold</b>	4,458	7,087	7,006	6,944	7,042	7,066	7,127	7,215	7,323	7,281	7,079	7,260	7,275	5,322	95,486

The following table sets out the production forecast over the life of mine for each type of coal expected to be mined from Ovoot Tolgoi.

**Annual Waste, Coal Qualities and Strip Ratio – Sunset and Sunrise**

	Sunset			Sunrise			Total		
Year	Waste (kbcm)	ROM Coal (kt)	Strip Ratio (bcm/t)	Waste (kbcm)	ROM Coal (kt)	Strip Ratio (bcm/t)	Waste (kbcm)	ROM Coal (kt)	Strip Ratio (bcm/t)
2011	5,661	3,000	1.9	15,544	2,000	7.8	21,204	5,000	4.2
2012	10,118	5,200	1.9	13,582	2,800	4.9	23,700	8,000	3.0
2013	12,608	5,200	2.4	13,553	2,800	4.8	26,161	8,000	3.3
2014	15,109	5,200	2.9	13,595	2,800	4.9	28,704	8,000	3.6
2015	17,118	5,200	3.3	19,571	2,800	7.0	36,688	8,000	4.6
2016	18,117	5,200	3.5	19,561	2,800	7.0	37,679	8,000	4.7
2017	18,122	5,200	3.5	19,568	2,800	7.0	37,690	8,000	4.7
2018	18,613	5,200	3.6	13,567	2,800	4.8	32,180	8,000	4.0
2019	18,613	5,200	3.6	10,568	2,800	3.8	29,181	8,000	3.6
2020	18,605	5,200	3.6	8,564	2,800	3.1	27,169	8,000	3.4
2021	14,110	5,200	2.7	6,056	2,800	2.2	20,167	8,000	2.5
2022	9,118	5,200	1.8	4,158	2,800	1.5	13,276	8,000	1.7
2023	8,129	5,200	1.6	2,652	2,800	0.9	10,781	8,000	1.3
2024	6,667	5,176	1.3	592	552	1.1	7,259	5,728	1.3
<b>TOTAL</b>	<b>190,707</b>	<b>70,576</b>	<b>2.7</b>	<b>161,132</b>	<b>36,152</b>	<b>4.5</b>	<b>351,839</b>	<b>106,728</b>	<b>3.3</b>

*Metallurgical Process*

Various coal products are produced at the Ovoot Tolgoi Mine. SGS currently screens its coal to remove the larger waste material and to size the coal. Upon completion of the coal handling facility, all coal will be processed through the rotary breaker, and most of the coal will be further processed through air separators to further lower the ash content of the coal. SGS is evaluating the possibility of installing a full wash plant in the coal handling facility.

*Coal Markets, Marketing and Sales Contracts*

For information on sales and marketing see “GENERAL DESCRIPTION OF THE BUSINESS – Sales and Marketing”.

### *Environmental Conditions*

The principal Mongolian environmental agency is the Ministry of Nature and Environment. This agency reviews and approves EIAs, EPPs, and Environmental Monitoring Plans required by the 2006 Mineral Laws. In addition, the Soum Government receives a copy of the EIA document and has environmental inspectors who monitor the development, operation, and reclamation of mines within their jurisdiction.

In addition to obtaining approval of an EIA, an operator is also required to develop costs for annual implementation of the EPP. Money to cover an amount equal to 50% of the budget for each year is then deposited in a special account established by the Government Ministry in charge of the environment. Funds from this account are released upon demonstration of full implementation of the environmental protection plan for that year.

If the mining damages the environment, causes pollution, or violates the terms of any permits, the operator must make payments for the damage as determined by the Government. In addition, if any cultural or historic resource is damaged as a result of the mining, the operator must also pay damages. Financial compensation is also required for damages to any structure owned by individuals. The mine operator is also required to pay all relocation costs for anyone required to be relocated as a result of the mining operation. The applicability of these costs is not included in the scope of this study.

SGS completed a detailed EIA and EPP for the Ovoot Tolgoi Complex in August 2005 and submitted the documents to the Ministry of Nature and Environment. The documents were approved in October 2005. Since that time, the exploration licences were transferred from IMMI to the newly formed SGS, and then converted to a mining licence. A number of fairly significant project changes have also occurred including adding of reserves which increased the mine pit size and depth with associated increases in ore and waste rock quantities and hauling, increased blasting, increased operating hours and days, increased workforce, and relocation of the man camp. These changes resulted in the preparation of an addendum to the approved detailed EIA which was completed in March 2007.

The detailed EIA and Addendum for the Ovoot Project outlined a number of potential environmental concerns. Several of these issues could require study and result in additional expenditures for mitigation of potential environmental impacts. Key issues are discussed below.

One of the issues raised concerns pit dewatering. As mining has progressed, the quantity of groundwater flowing into the pits has been less than originally anticipated and consequently, the impact of mining on groundwater is less. Aquaterra was commissioned by SGQ in 2010 to investigate ground water sources near Ovoot Tolgoi Complex and concluded that “revised estimates of mine inflows at the Sunset Pit suggest that dewatering production will be sufficient for immediate mine water requirements and may provide a supplementary water source. However, dewatering production cannot be considered a viable long term supply”. For this reason, MMC considers that the increased pit depth proposed (approximately 320 m below the surface) will not have significant additional impacts on groundwater compared to the currently approved mining plan with pit depth of 200 m.

Another potential issue is the flooding of the final pit. As backfilling is not proposed as a significant part of the mine plan it is possible that a pit lake would appear as a result of re-establishment of the groundwater table. If a pit lake is a part of the post mining reclamation, then this creates a potential water quality liability. It is recommended that appropriate study be performed to determine if the pit lake will discharge to the surface

water system or the alluvium in order to estimate the long term effect of water in the final pit. Detailed plans for reclamation of the final mining pit have yet to be determined as the final pit would provide possible access for future open cut or underground mining to extract some of the remaining coal, if economic. The PFS includes an allowance of US\$0.25/product tonne for annual environmental work, such as progressive rehabilitation of waste dumps, as dumps reach their final shape. A further allowance of US\$20 million has been assumed in the PFS for final rehabilitation, such as covering exposed coal seams with waste, securing the final pit walls by dozing the unconsolidated upper materials and constructing bunds to ensure public safety and rehabilitation (dozing and seeding) of final waste dumps.

#### *Taxes*

The following taxes, royalties and duties are applicable to Ovoot: (i) royalty rate of 5% of FOB coal price, plus an additional sliding royalty up to 5% depending on coal classification and sales price; (ii) VAT rate of 10%, payable on all capital, materials and supplies; (iii) income tax is 10% on first 3 billion MNT (\$2.575 million), then 25% on excess; (iv) property tax assumed to 0.6 percent; and (v) social insurance of 13% to be charged for all employees.

The Mongolian tax code allows for VAT paid by the producer to claim a refund. SGS is confident it will again be eligible for VAT refunds in the future. For these reasons, it has been decided to assume that the current official rule of VAT refund will apply to the “base case” cost flow analysis. VAT has been assumed to be refunded in full in the following year (i.e. 12 months after payment of the VAT.)

#### *Mine Life*

There are sufficient economic reserves for 17 years of mining at a steady-state production of 8 Mtpa. Continued exploration may bring additional resources into a demonstrated category of confidence. If that is the case, then a pre-feasibility level or higher mining study could identify additional economically attractive resources that in turn may increase the mine life.

#### *Expected Payback period of Capital*

According to MMC, the current base case indicates that the development capital will be recovered during 2012.

### ***Soumber Deposit***

#### *Property Description and Location*

The Soumber Deposit is located in the western part of the Umnugobi Aimag (South Gobi Province) of Mongolia, within the Uvuljuu Uul area of Gurvantes Soum. The property lies approximately 1,000 km southwest of Ulaanbaatar, 300 km west of the town of Dalanzadgad, 45 km southeast of Gurvantes Soum. The approximate center of the MEL area is located at latitude 42°58'00"N and longitude 101°32'00"E.

The Soumber Deposit is currently undeveloped and has experienced no mining activity to date. It is largely in a natural state with no paved roads or permanent dwellings. Human habitation occurs in the form of temporary nomadic camps and occasional shelters for animal herds.

The Soumber Deposit consists of two distinct fields, the Soumber Field and the Biluut Field. The Soumber Deposit consists of a single exploration licence, MEL 9443X, totalling 34,882 ha which expires in December 2011. The Company has also applied for a mining lease for the Soumber Deposit.

For details of the exploration and mining licence regimes, environmental liabilities and the terms of applicable royalties, please see “Ovoot Tolgoi Complex– Property Description and Location”.

#### *Accessibility, Climate, Local Resources, Infrastructure and Physiography*

The area currently supports a traditional subsistence economy focused on raising sheep, goats, and camels. The Umnugobi Aimag is the most sparsely populated province in Mongolia with a density of 0.8 people/km<sup>2</sup>. The number of skilled persons in the exploration and development of mining properties in Mongolia is limited. To date, SGS has been successful in recruiting key personnel to assist in the exploration.

The surface expression of the deposit ranges from flat, gravel-covered desert plains to moderately hilly terrain. Surface elevation ranges from 1,508 to 1,563 m above sea level. Vegetation is sparse, consisting primarily of small shrubs and grasses. The region experiences a continental desert climate. Temperature typically ranges from 0° to -30°C in the winter, increasing to 30° to 35°C in the summer months. High winds occur frequently, particularly throughout the spring. Average annual rainfall is approximately 130 mm with most precipitation occurring during the summer months. The weather is acceptable for exploration activities from April through October. Exploration activities are not recommended during the harsh winter months; however, the climate is expected to allow year round mining operations.

Soumber can be reached via chartered aircraft from Ulaanbaatar. Regular air service is also available from Ulaanbaatar to Dalanzadgad. Travel from Dalanzadgad to the property takes approximately seven hours over unpaved roads. All parts of the property can be reached with four-wheel-drive vehicles. The property is also accessed over desert trails from the Gurvantes Soum via the Ovoot military base. The trails are unimproved dirt two-tracks that migrate somewhat in location with use.

The property is well placed to access the railroad between Ceke and Jiuquan City in China. The railroad will be connecting the Ovoot Tolgoi area and Ceke town. Coal trucks travel from the neighbouring coal mines, MAK-Qinghua and Ovoot Tolgoi, to the railroad terminus in Ceke town approximately 50 km southwest of the Soumber Deposit.

Electrical power is available from a power line distributing power from China to the MAK-Qinghua coal mine, Gurvantes Soum and the military base. No surface water is available in the immediate area of the Soumber Deposit; however, water supply wells have been drilled as part of an on-going hydrological investigation.

There is sufficient area within the MEL to locate waste disposal without impacting in-place resources to site mine facilities including coal handling and processing (wash) plant, if necessary.

#### *History*

The first geologic investigations at Soumber region occurred between 1951 and 1952. This initial geologic investigation led by V.S. Volkhonina, included mapping at a scale of 1:500,000. Additional mapping by Burenkhoo identified the coal bearing Upper Permian Deliin Shand Formation as having significant occurrences of bituminous coal.

In mid-2000, IMMI conducted geology reconnaissance in the region of existing Ovoot Tolgoi resources and discovered a number of coal occurrences, mostly along the structural trend of Ovoot Tolgoi resources. Coal was first identified approximately 20 km east of the Ovoot Tolgoi property during 2005 exploration by Norwest and Sapphire and informally named as "N field". Another coal occurrence was discovered during that time and named as "O field". The following year in 2006, the exploration area was extended to the east of N field and referred to as N field extension.

The "N", "O" and "N Extension" fields have been recently designated the Soumber coal field. The name, according to SGQ, was proposed by the Buddhist Purevbat Lama of Mongolia and means "beginning of the universe."

MEL 9443X is owned by SGS, a former subsidiary of IVN and established as the licence holder on February 22, 2007. The licence was initially granted to IMMI on December 28, 2002 (inception date), who transferred it to SGS on February 22, 2007.

The property remains a Mineral Exploration Licence and has not been converted into a Mining Licence. There has been no production from the property to date.

## ***Geological Setting***

### *Regional Geology*

Soumber Deposit is structurally located along the Nariin Sukhait thrust fault approximately 25 km east of the Ovoot Tolgoi resource area. The coal-bearing strata at Soumber are believed to be Permian in age due to similar sediments and regional structure to Ovoot Tolgoi resource, and its proximity to Ovoot Tolgoi and Nariin Sukhait deposit. Coal was deposited along the margins of tectonically active continental basins. The region has subsequently undergone Basin and Range style extensional tectonics followed by a period of compressional folding and faulting.

Pre-Mesozoic rocks of Mongolia and central Asia reflect a complex history of continental accretion. In southern Mongolia, this took place in the form of Devonian and Carboniferous volcanic island arc units colliding with older cratonic land masses through the early to late Permian periods.

### *Coal Occurrences*

The most prominent feature relating to the coal deposit at Soumber is the east to west trending Nariin Sukhait thrust fault. The coal bearing section, interpreted to be late Permian in age, is exposed primarily along the Nariin Sukhait thrust fault. The only place where the fault is exposed is in the MAK Nariin Sukhait resource, where it appears as an intermediate angle structure (40-50 degrees) in their West pit. SGS holdings at Soumber contain a resource area within the upper Permian sediments.

The coal occurrence at the Soumber Field measures approximately 12 km long east to west and 2 km wide north to south while the strike length of the Biluut field is approximately 24 km. Based on past geologic mapping, the coal-bearing Deliin Shand suite is exposed along the trend of the Nariin Sukhait thrust fault. The exposed sediments mapped in the Soumber vicinity are thought to have been deposited in the series of geologic sequences of Permian, Triassic, Jurassic, and Quaternary Age.

The coal deposit at Soumber occurs within the Deliin Shand suite, which is estimated to be up to 1,300 m thick in the Ovoot Khural Basin. The Deliin Shand suite is described as a sedimentary sequence of intercalated claystones, siltstones, sandstones, conglomerates and coal. As previously mentioned, the coal deposits in this region are found along the Nariin Sukhait thrust fault. As such, these deposits appear to reflect tectonic changes in the form of highly variable sedimentary partings and locally thick coal.

The drill data has shown that a thick sequence of coal occurs in the central part of the deposit, largely covered by Quaternary and Recent alluvium. The coal sequence contains many rock partings and interburden of varying thicknesses and it is a multi-seam deposit. The groupings of coal beds often occur close together, so within this report each discrete group will be referred to as a “seam” that is part of a depositional unit that theoretically coalesces at a central depocenter.

The 2010 exploration program has led to a re-interpretation of the stratigraphy at the Soumber Field, where six major seams have been identified which have been split into plies based on stone partings within the seams.

Exploration at the Biluut Field is not as advanced as at the Soumber Field. Three seams have been identified at the Biluut Field, which have again here further sub-divided into plies based on stone partings.

### *Structural Geology*

The geologic framework of the Soumber Deposit appears to be of high structural complexity. The geometry of the strata penetrated by the drill holes within the deposit is interpreted to be a shallow structural basin, created by post-depositional compression. The basin structure appears to continue through the adjacent areas to the east. Between the Central Soumber and East Soumber areas, there is a barren area where coal deposition did not occur. The most prominent structure relating to the Soumber and Biluut coal deposits is the accurate, east-west-trending, moderately dipping Nariin Sukhait fault, which occurs to the north of the coal deposit. The coal bearing section structure trends from west to east and is found primarily as a south dipping homocline, with dips generally ranging from 15 to 30 degrees.

### *Exploration*

The first exploration of the deposit occurred in 2005 under supervision of Norwest. Excavations, including trenches and exploratory drilling in 2005 indicated the potential for thick coal deposits in the area of the MEL 9443X. Exploration campaigns on Soumber continued in 2006 that carried over to 2007 through 2009 and 2010, eventually drilling a total of 254 exploration drill holes and 44,445 m drilled. The Biluut field exploration campaigns in 2005, 2008 and 2010 resulted in drilling a total of 96 exploration drill holes and 20,507 m drilled.

Exploration geology fieldwork, including reconnaissance mapping, trenching, geologist descriptions of drilling returns, geotechnical data, field logs, and database development, was contracted primarily by Sapphire and supervised by TAG in 2009 and by McElroy Bryan in 2010. Norwest provided assistance in the review of field activities and interpretation of results in 2005 and 2006. Drilling was performed by a number of drilling contractors, Erd Geo Inc., Tanan Impex and Major Drilling Mongolia Co. Ltd. Drill hole survey and surface topography were conducted by Mongolian contractor TopCadd Co. Ltd.

Drill hole core and cutting descriptions, geophysical logs, and coal analyses data from the surface resources exploration programs have been used to characterize, interpret, and project the stratigraphy and structure of the potential resource area.

### *Drilling*

Drilling to December 31, 2010 on the Soumber Field includes a total of 254 exploration holes completed and 44,445 m drilled. Limited drilling took place in the eastern and western part of the Soumber Field. Drilling to December 31, 2010 on the Biluut field includes a total of 96 exploration holes completed and 20,507 m drilled. All holes were drilled from surface to total depth and oriented vertically. Drilling contractors provided truck-mounted drill rigs equipped for wireline coring and reverse circulation drilling. Core rigs were equipped with HQ size coring tools (approximately 63.5 mm) and reverse circulation with larger (approximately 110 mm) diameter coring tools. Drill depths were measured from ground surface and recorded based on the length of the drill string and coring tools at the start and end of each core run.

All core logs were recorded by wellsite geologists and mostly done by Sapphire. These logs contain lithologic descriptions, sample interval identification, and core depths. Geotechnical logging of core discontinuities was performed on all of the recent core holes that were completed during the 2008 and 2009 and through the 2010 exploration campaigns.

Geophysical logs were recorded by Monkarotaj Co. Ltd., a geophysical company based in Ulaanbaatar. Natural gamma and density (gamma gamma) logs were obtained through the drill pipe for most holes. Open hole logs were then obtained consisting of gamma, density, resistivity and caliper. The open hole logs varied in depth dependent upon hole conditions. All holes were geophysically logged except where holes caved preventing geophysical logging tools from proceeding further.

Total drilling to date includes 350 boreholes for a total of 64,952 m, as summarized in the table below.

**Soumber and Biluut – Drilling Summary by Years**

	<b>Soumber</b>		<b>Biluut</b>	
<b>Year</b>	<b>No. Holes</b>	<b>Meters drilled</b>	<b>No. Holes</b>	<b>Meters drilled</b>
<b>2005</b>	35	4,535	12	1,648
<b>2006</b>	27	3,596		
<b>2007</b>	23	3,905		
<b>2008</b>	98	20,607	17	4,901
<b>2009</b>	6	1,333		
<b>2010</b>	65	10,469	67	13,958
<b>Total</b>	<b>254</b>	<b>44,445</b>	<b>96</b>	<b>20,507</b>

### *Mineralization*

The coals of the Soumber Deposit are upper Permian in age and are found in a similar geologic setting as the Upper Permian coals found at the Ovoot Tolgoi and Nariin Sukhait mines and other coal occurrences in the South Gobi. The coal rank ranges from Low to Medium Volatile Bituminous by ASTM standard D388.

Six distinct seams are recognized at Soumber and have been evaluated to include in the geologic model used for coal resource estimation. The table below shows thickness statistics for the full seam sequence.

**Soumber Field Summary of Thickness**

<b>Seam</b>	<b>Mean (m)</b>	<b>Maximum (m)</b>
5	3.04	68.12
4	1.81	36.36
3	1.96	60.43
2	4.43	40.63
1	0.68	21.33
0	0.41	24.86

At Biluut there are three major seams as reported in the table below. The 3 Seam is not well developed and only occurs sporadically.

**Biluut Field Summary of Thickness**

<b>Seam</b>	<b>Mean (m)</b>	<b>Maximum (m)</b>
3	0.24	9.34
23	1.26	19.36
22	5.41	25.00
21	1.77	8.16

Overburden and interburden lithotypes consist of fine to coarse grained sediments that are typically moderately hard to slightly soft. Thin zones containing pyrite and siderite were noted in core logs as being relatively hard compared to the majority of the non-coal rock types.

*Deposit Type*

The “Deposit Type” of the Soumber Deposit, based on the low cumulative stripping ratio and depth of the coal occurrence below ground surface within the MEL is considered to be a “Surface” deposit type.

Structural geology at Soumber shows evidence of folding and faulting with some steeply inclined limbs. The deposit has been subjected to relatively high levels of deformation and seam thickness has been substantially modified from their pre-deformation thickness. The “Geology Type” of deposit is classified as “Complex” based on the criteria that are described in GSC Paper 88-21.

A summary of the coal quality on a seam by seam basis for Soumber and for Biluut is provided in the tables

below. Based on these analytical results and available composite coal quality data, the coal rank for the Soumber and Biluut fields range between low to medium volatile bituminous coal, defined by ASTM Standard D388. Volatile matter (on a dry ash free basis) for the Biluut seams is more variable than for Soumber, however this may be due to insufficient samples. The average calorific values for individual seams range between 5,000 to 7,800 kcal/kg.

**Soumber – Summary of Drill hole Quality Data**

Seam	Total Moisture % ar	Inherent Moisture % ad	Ash % ad	Volatile Matter % ad	Total Sulphur % ad	Calorific Value kcal/kg ad	FSI	Relative Density
5	10.2	0.6	32.6	16.4	0.42	5368	1.5	1.67
4	9.5	0.6	26.4	17.3	0.72	5956	2.8	1.58
3	6.6	0.6	24.4	16.1	0.63	6150	4.2	1.56
2	6.2	0.6	24.6	18.2	1.05	6306	4.7	1.54
1	5.3	0.9	23.0	21.7	1.16	6498	6.4	1.47
0	4.5	0.3	10.7	24.5	1.08	7789	9.0	1.40

**Biluut – Summary of Drill hole Quality Data**

Seam	Total Moisture % ar	Inherent Moisture % ad	Ash % ad	Volatile Matter % ad	Total Sulphur % ad	Calorific Value kcal/kg ad	FSI	Relative Density
3	12.5	0.4	21.4	23.7	0.44	6521	4.6	1.49
23	12.5	0.4	16.9	28.5	0.48	7102	6.7	1.40
22	6.9	0.6	23.4	20.8	0.70	6371	3.5	1.52
21	4.2	0.7	20.8	11.4	0.38	6416	0.0	1.57

*Sample Preparation, Analysis and Security*

Approximately 20% of exploration drill holes have been completed with triple-tube coring equipment that allows coal sampling for laboratory analysis. These core holes are distributed approximately 100 m – 300 m apart and cover a 2 km<sup>2</sup> area.

The procedures described below apply to holes used in the preparation of the Soumber Deposit coal quality model.

Core from the drill hole was logged (i.e., measured and described) by a geologist using standard geological terms to document various attributes. The geologist’s core log consists of the measured depths and description of the coal, inter-seam partings, adjacent roof and floor rock, and details of any sample intervals removed for

analysis. Core handling was performed promptly and follows a distinct sequence of activities as follows: the core is pumped out of the core barrel, excess mud is washed off and the core fitted back together, recovered length is measured and depths are marked, core photos are taken on 0.5 m intervals, lithologic logging is completed, and other parameters for sample identification and processing as described below.

Core recovery in the coal quality holes was 75% overall, and is considered to be reasonable. The measured length of recovered coal core was compared to the geophysical logs, and sample depths adjusted if necessary. All samples used in the geologic model were reconciled to the geophysical log intercept depths.

Incremental samples were identified by Sapphire based on comparison of field geologic and geophysical logs. Physical composite samples were identified following the receipt of the initial analytical results from the increment samples.

All core samples subject to laboratory analyses are of sufficient quality and documentation to support the conclusions of this report. Geophysical logs have been used to confirm the thickness of coal bearing zones.

Recovered core was measured to determine an overall recovery (reported in percent) by comparing the recovered core length with the core run length recorded by the driller. Recovered core was also compared to the coal interval thickness determined from the geophysical log suite for validation.

Recovered coal intervals were sampled using the following criteria: (i) coal samples were broken out based on lithologic changes; (ii) in zones of uniform coal appearance, HQ samples were bagged approximately every 0.60 m as per the capacity of the core boxes; (iii) in-seam partings, to a maximum cumulative thickness of 0.3 m, were included in a coal sample, where the thickness of the adjacent coal beds above and below the parting were both a minimum of twice the parting thickness; and (iv) a parting was sampled separately if it was between 0.3 m thick and 0.5 m thick.

Collected samples were cleaned of mud contamination and placed in individual 6 mm plastic core sleeves and sealed air-tight to prevent loss of moisture and volatiles. The bags were labelled on the outside with the core hole, sample number, and depth interval. Samples were placed in sequence into waxed-cardboard core boxes. Boxes were sealed with tape and shipped to the SGS Group analytical prep laboratory in Ulaanbaatar. At the prep lab, the samples were weighed, dried, crushed, split and repackaged for shipment to the SGS Group analytical laboratory in Tianjin, China.

Laboratory instructions and the shipment manifests were forwarded to the SGS Group laboratories. All records were compared with contents upon arrival at the analytical laboratory. All samples shipped to the laboratories were accounted for and underwent the specified analysis regimen.

Analytical work was performed by SGS Laboratories Inc. in Tianjin, China. The Tianjin laboratory currently holds ISO-17025 certification, accredited by the CNAS. The laboratory is certified to ASTM and ISO standards. Sample handling and quality control measures used practices that are considered to be standard to the international coal industry. Coal sampling and analyses were performed to a level adequate for the conclusions reached in the technical report.

As with other coal work, no special security arrangements were made for the shipping and storage of samples. Additional security methods are not commonly employed, as coal is a relatively low-value bulk commodity.

In MMC's opinion, simple preparation and analysis was performed adequately and securely so as to provide unbiased and accurate results.

All geologic, geophysical, and sampling data was entered and maintained on a site in an electronic database maintained by Norwest and/or Sapphire in early exploration programs. All mapping was entered and maintained in electronic format on a CAD-based system. Data entry of all geologic data was managed by Norwest at the project site. All electronic data was forwarded on a routine basis to Norwest's office in Salt Lake City. Results from coal quality testing were added into the database in the Salt Lake office. From 2006 onwards similar procedures were in place with data routinely sent through to TAG's office in Lakewood Colorado. During the 2010 field season, data was managed at site by McElroy Bryan personnel.

#### *Data Verification*

Several levels of data verification were applied to the field and laboratory data under the supervision of the qualified person. Typical verification included:

- Direct comparison of geologist core log intervals with down-hole geophysical logs.
- Reconciliation of coal sample intervals and recovered coal core to down-hole geophysical logs.
- Comparison of laboratory coal quality results with geophysical and geologists core logs.

Coal quality data was subjected to a series of statistical analysis to identify any errata in reported values. The electronic geologic database was subjected to a series of checks designed to locate data entry errors or inconsistencies.

MMC was not in a position to verify the data used in the resources estimated since this information was stored in individual databases maintained by previous consultants and at present does not reside with SGQ. This approach of relying on third party consultants to maintain and verify SGQ's database has inherent risks in terms of data provenance and integrity. In each of the individual technical reports produced on the project the data has been independently verified and signed off but this verified data has not been incorporated into a central SGQ database that can then be cross checked against original records. It is intended that in the future SGQ will maintain its own database incorporating that data stored with previous consultants, together with soft copies of original logs and a record of all coal quality information.

However the QP has audited a subset of the data. Scanned field lithology logs and geophysical logs were provided to MMC. A representative number were checked against the seam picks used to generate the geological model. Drill hole collars were also compared to elevations in the DTM, and a number of drill hole locations were checked in the field. No material errors were encountered.

#### *Mineral Resource Estimate*

In accordance with NI 43-101, MMC has used the CIM "Definition Standards on Mineral Resources and Reserves," and referenced GSC Paper 88-21 during the classification, estimation and reporting of coal resources for the Soumber Deposit.

The term "resource" is utilized to quantify coal contained in seams occurring within specified limits of thickness and depth from surface. The resource estimations contained within are on a raw, in-place basis, i.e.

as an in-situ tonnage and not adjusted for mining losses or recovery. However, minimum mineable seam thickness and maximum removable parting thickness are considered; coal intervals not meeting these criteria are not included in the resources.

The category to which a resource is assigned depends on the level of confidence in the geological information available. GSC Paper 88-21 provides guidance for categorizing various types of coal deposits by levels of assurance. These were considered by the Qualified Person during the classification of the resources. The Report has sufficient geologic data to support a valid estimate of mineral resources using criteria outlined in the “CIM Definition Standards on Mineral Resources and Reserves” and referenced GSC Paper 88-21.

The resource boundaries have been defined based on the review of each individual seam. The distribution of resources categories for the Soumber Deposit is illustrated in the table below.

### Criteria Used to Define Assurance of Existence

Criteria	Assurance of Existence Category		
	Measured	Indicated	Inferred
Cross-section spacing (m)	150	300	600
Minimum # data points per section	3	3	3
Mean data point spacing (m)	100	200	400
Maximum data point spacing (m)	200	400	800

Coal resources at the Soumber Deposit are defined for the categories of measured, indicated and inferred, as summarized in the tables below. The resource estimation is current as of January 2011.

### Soumber In-Place Mineral Resources Summary as of January 25, 2011

Resource Area	ASTM Coal Rank	Measured (million tonnes)	Indicated (million tonnes)	Inferred (million tonnes)
Soumber Field	Low-medium volatile bituminous*	36.8	24.6	13.6
Biluut Field	Low-medium volatile bituminous*	-	-	52.2
<b>Total</b>		<b>61.4</b>		<b>65.8</b>

*\*low-medium volatile bituminous coal based on ASTM D388 standards*

The geologic model was developed using industry-accepted gridded seam modeling conventions using Minex™ software. Bulk density values derived from the incremental samples from drill hole core samples were incorporated into the geologic model and subsequently used to estimate coal resource tonnages. Zones of

core loss within coal seams were assigned an average density as per the judgment of the geologist. Trends in density values were interpolated and extrapolated across the areal extent of the property via the modeling process.

Seam thicknesses of less than 0.3 m and partings of greater than 0.3 m were excluded from the resource calculations. The resources for the “Surface” deposit type are limited to 250 m depth from surface, a depth viewed as the maximum depth from which coal can be extracted using surface mining methods. Based on the 72 core holes at Soumber and 21 cored holes at Biluut, coal quality model was developed using Minex™ software.

***Exploration and Development***

*Potential Coal Tonnage*

“Potential coal tonnage” has been estimated where drill hole coverage is insufficient for resource classification under the NI 43-101 rules. The potential tonnages are conceptual in nature. There has been insufficient exploration to define the Potential Coal Tonnage as a coal resource, and it is uncertain if further exploration will result in the target being delineated as a coal resource.

**Soumber Field “Potential Coal Tonnage”**

Seam Group	Tonnage Estimate Range (Mt)	
	From	To
5	18	25
4	1	4
3	3	8
<b>Total</b>	<b>22</b>	<b>37</b>

**Biluut Field “Potential Coal Tonnage”**

Seam Group	Tonnage Estimate Range (Mt)	
	From	To
23	4	8
22	9	12
21	9	12
<b>Total</b>	<b>22</b>	<b>32</b>

### *Development Plan*

The Company plans to continue drilling down-dip and along strike to continue to develop the Soumber and Biluut Fields. The exploration program for 2011 will be targeted at in-fill drilling to increase confidence in the status of the resource estimates.

Development plans will also include establishing a structured electronic directory filing system and a relational database to consolidate the existing geological database. Furthermore, the Company plans on continuing to characterize the quality of individual seams at the Soumber Deposit and develop an understanding of the spatial variability of coal quality within individual seams.

### **Other Coal Assets**

#### *Tsagaan Tolgoi Deposit*

The Tsagaan Tolgoi Deposit is located in south-central Mongolia in the Umnugobi Aimag (South Gobi Province), approximately 115 km west of Oyu Tolgoi and approximately 100 km north of the Chinese border. SGQ controls four exploration licences that cover 127,580 ha of the resource area. SGQ received a mining licence for the Tsagaan Tolgoi Deposit in August 2009 with a total mining licence area of 105 km<sup>2</sup>.

Norwest completed a geological exploration program during the summer of 2004 and a second exploration program during the summer of 2006. The exploration activities delineated NI 43-101 compliant coal resources as of December 31, 2007, including measured resources of 23.4 million tonnes, indicated resources of 13 million tonnes and inferred resources of 9 million tonnes, as detailed in the Tsagaan Tolgoi Technical Report. According to the Tsagaan Tolgoi Technical Report, coal at Tsagaan Tolgoi is found in a sedimentary basin of approximately 4 km by 20 km in size. The coal rank is high volatile B and C bituminous. Eight coal zones with multiple subseams have been found. Apparent thickness varies from 1.2 m to 24.7 m.

The nearest in-country rail line is the Trans-Mongolia Railway that runs northwest to southeast and connects Ulaanbaatar to Beijing. The nearest point on this line to the Tsagaan Tolgoi Deposit is approximately 400 km to the east at the Chinese border. Currently no power lines have been established to service the electrical requirements of a camp and mine. The lack of power is not a particular concern, as this was also the case originally at the Ovoot Tolgoi Complex and power was generated onsite with diesel generators. Likewise, while no infrastructure currently exists at the Tsagaan Tolgoi Deposit, this was also initially the case at the Ovoot Tolgoi Complex. SGQ will necessarily consider infrastructure costs in evaluating whether to advance the development of the Tsagaan Tolgoi Deposit. SGQ has no current intention or timetable for development of Tsagaan Tolgoi, although the property remains a deposit that it may develop in the future.

#### *Other Exploration Targets*

SGQ currently holds a total of 14 exploration licences covering 538,093 ha in Umnugobi Aimag in Mongolia. Mongolian regulations requires SGQ to spend between US\$0.20 - US\$1.50/ha annually in exploration expenses to retain these exploration licences. The cost to maintain the licences increases incrementally each year from no cost in the first year to \$1.50/ha in years seven through nine. A number of these exploration licences are associated with the broader Ovoot Tolgoi Complex and the Soumber Deposit, but SGQ considers many of these to be prospective exploration properties which have yet to be fully explored.

SGQ's exploration program in 2010 included drilling, trenching and geological reconnaissance on a number of these licence areas which are identified as having good potential for coking and thermal coal deposits, including the following:

- *Jaragalant Coalfield* — This coalfield is not proximate to the Ovoot Tolgoi Mine although it has characteristics similar to the Biluut Field of the Soumber Deposit.
- *M Coalfield* — Core drilling and coal sampling is required on this coalfield to better understand coal quality. Coal seam thickness at M Coalfield varies from 2 m to 19 m.

#### Green Fields

- *Zagsuuj Coalfield* — This coalfield is located approximately 130 km east of the Ovoot Tolgoi Mine. Laboratory analysis done in 2009 indicates that there is low and mid volatile metallurgical coking coal at this coalfield. Coal seam thickness varies from 2 m to 8 m.
- *SW Coalfield* — This coalfield contains very high volatile coal, varying from 45-50% according to laboratory analysis done in 2009. The true thickness of the coal seam varies from 2 m to 8 m.

SGQ performed additional drilling and trenching on the other exploration properties in 2010 to ensure SGQ meets the minimum expenditure requirements required by the Minerals Law of Mongolia.

#### ***Sales and Marketing***

Currently SGQ expects that all production from the Ovoot Tolgoi Mine will continue to be marketed and sold into China. Since the commencement of sales in late 2008 until Feb 19, 2011, SGQ sold approximately 2,852,952 tonnes of coal from the mine. This includes SGQ's premium semi-soft coking coal and high ash/sulphur coal production.

The western region of Inner Mongolia, Tangshan and Xingtai of Hebei province has become SGQ's key targeting markets given a majority of large washing and coking plants are located in those regions. All previous coal sales by SGQ were "mine-gate" sales, in which customers took delivery and ownership of the coal at the Ovoot Tolgoi mine site and made their own arrangements to transport the coal to China. In January 2011, SQG completed its first "direct delivery" coal sale from its Ovoot Tolgoi coal mine to an end user in China. Using a logistics service provider, SGQ transported coal to a customs bonded yard at Ceke, China, approximately 50 km south of SGQ's Ovoot Tolgoi coal mine. Ceke is a major Chinese coal distribution terminal with rail connections to key coal markets in China. The end user then undertakes its own logistics from there, with the coal destined for use in coke-making. This coal delivery is significant because it establishes that SGQ can offer customers coal inside China at the Ceke rail terminal as an alternative to mine-gate collection. SGQ believes it is well positioned to transfer from selling through a trader to sell direct to end users in order to gradually capture full value of SGQ coal in the Chinese market.

In anticipation of production at the Ovoot Tolgoi Mine, SGQ has signed seven sales contracts for 2011. The contracts are structured so that the tonnage to be delivered for up to a one year period is settled, while price is to be determined on a quarterly basis. The total sales commitment for 2011 as of February 21, 2011 is approximately 8.8 million tonnes, consisting of 4.6 million tonnes of premium semi-soft coking coal, 1.5 million tonnes medium ash/sulphur coal and 2.7 million tonnes high ash/sulphur coal. The customer base has been enlarged from two customers to seven customers as of February 21, 2011. As of the first quarter 2011,

the premium semi-soft coking coal contract price has increased from RMB 200 per tonne from late 2008 to RMB 400 per tonne; high ash/sulphur coal contract price has increased from RMB 135 per tonne to RMB 220 per tonne.

Of SGQ's current customers, four have their own washing and/or coking facility and the other is involved in coal trading. Customers either use the coal directly as a coking coal blend or sell it throughout different regions of China. SGQ understands that the customers will wet wash SGQ coal as a coking coal blend for coking plants.

SGQ intends to continue to develop markets for its premium quality coals and to pursue long-term supply contracts with large end users in China to secure stable and long-term demand from China, as well as to gain best value of SGQ coal in the Chinese market.

### ***Direct and Indirect Employees***

As at December 31, 2010, SGQ had approximately 544 employees working at various locations.

### **Social and Environmental Policies**

#### ***Environmental Policy***

SGQ has received the approval of its detailed EIA and EPP from the Mongolian Ministry of Nature and Environment for the mining operation at its Ovoot Tolgoi Mine. The measures it is taking or that it expects to take in relation to the protection of the environment at the Ovoot Tolgoi Mine include:

- Constructing a large pond to contain all pit water. Standards being used to construct the pond were typical of international standards, with a clay material being layered and compacted for a berm and pond base.
- Storing topsoil that has been removed for final reclamation. Acid/base analysis of rock has not been completed; however, acid drainage is not anticipated due to the low sulphur content of the coals. Should acid material exist, the plan would be to excavate and encapsulate this material separately in the waste dumps. There are no endangered plants in SGQ's Ovoot Tolgoi Mine area. SGQ is planning to purchase environmental monitoring equipment (dust gauges) to monitor dust generated by the Sunset Pit mining operations.
- Recycling waste. Recycling of waste oil is being completed by a fuel contractor who uses a dead-head haulage back to Ulaanbaatar. Other non-toxic waste recyclables are given to a local village to add income and provide work opportunities.

SGQ is committed to performing all of its mining and exploration activities with full respect for the environment and returning the environment to a natural state as required by the Mongolian government. SGQ believes that conducting its activities in an environmentally responsible manner is integral to good business management. SGQ will continue to utilize appropriate recognized management systems, including documentation of all relevant environmental matters, compliance auditing internally and by using other third parties to support the concept of continued improvement.

All SGQ employees and contractors are encouraged to accept, as their shared responsibility, that minimizing environmental harm is a priority when performing all activities associated with SGQ.

SGQ expects to fulfil its commitment to the environment by:

- complying with all applicable legislation and regulations, and exceeding those requirements where possible, with a view towards maintaining a healthy environment;
- identifying, assessing and managing the environmental risks of its activities in all planning and operational decisions;
- establishing and implementing management programs relevant to its environmental risks to prevent, reduce or mitigate impacts at all stages of exploration and mining;
- promoting the participation of its employees and contractors in implementing this policy by identifying their competency requirements and providing training appropriate to their responsibilities;
- regularly evaluating its performance through auditing business processes and practices and monitoring the surrounding environment in which it operates; and
- periodically reviewing its environmental management system and operational procedures to improve efficiency, minimize waste and pollution and achieve continuous improvement.

### ***Health and Safety Policy***

SGQ believes that one of its most important assets is its employees. Injuries to its employees and/or damage to its physical assets threaten SGQ's reputation and its financial success. SGQ is therefore committed to zero incidents in all of its activities by demonstrating leadership in loss control.

SGQ will continue to utilize appropriate recognized management systems, including documentation of all relevant loss control matters and compliance auditing internally and by using third parties, if necessary, to support the concept of continued improvement. SGQ will also continue to provide effective training and appropriate and sufficient resources for people to work safely and effectively.

SGQ insists that all employees and contractors must accept as their shared responsibility that zero harm and loss is a priority when performing all activities. It is essential that employees and contractors believe that loss is preventable and each person needs to accept responsibility for their own personal safety and the safety of others and to protect the integrity of SGQ's physical assets at all times.

SGQ endeavours:

- to plan for safe, efficient and productive work;
- to ensure that all employees and contractors are made aware of their responsibilities towards loss control;
- to assess and control the risk of loss as part of every decision it makes;
- to comply with relevant legislation and internal loss control policies and procedures;
- to ensure that all its employees, contractors and managers will demonstrate and promote safety leadership;
- to ensure that its employees and contractors will participate in managing health and safety related issues;

- to ensure that final contractor selection will include an acceptable review of potential contractors' health and safety programs and a commitment to meeting its loss control standards; and
- to ensure that all reported incidents will be investigated with a view to preventing recurrence.

### ***Community Relations***

SGQ aspires to be a leader in community relations, treating local citizens with dignity and respect, developing good relationships and mutual trust with local governments, as well as implementing environmentally friendly technology for coal exploration and mining — while pursuing the underlying business objective of building value.

In its effort to recruit from the local area around the Ovoot Tolgoi coal mine, SGQ opened an office in the nearby town of Gurvantes in September 2007 and in the provincial capital of Dalanzadgad in September 2008. SGQ also employs full-time Community Relations Officers to directly liaise with local village members to help build understanding of its projects.

SGQ has played a significant role in contributing to the infrastructure in the South Gobi region. Most notable was the paving of the runway at the Ovoot Tolgoi airport, which has helped to enhance trade and economic activity in the local communities of the South Gobi region. Roads to both Gurvantes and the Shivee Khuren-Ceke border checkpoint, also used by the local community, have been improved and upgraded. SGQ has improved living and working conditions for Mongolian border officers by building two buildings at the Shivee Khuren-Ceke border station. SGQ has also renovated the Gurvantes secondary school dormitory to provide the students with a better learning and living environment. Among other contributions, SGQ has donated 10 million MNT to the Gobi Development Fund, computers to the Gurvantes hospital and office furniture to local organizations.

Significant contributions in 2010:

- started construction of a new kindergarten for 100 children, to be completed prior to the 2011 school year;
- donated three accommodation modules to house a total of 24 people and an ablution block to the Shivee Khuren border in order to accommodate larger staff sizes required for round the clock border operations;
- contributions to assist with the harsh winters, including winter feed for herders, gers and winter supplies, and diesel to run generators during the winter; and
- drilling of a new water well for Noyon Soum.

### **DESCRIPTION OF CAPITAL STRUCTURE**

The authorized share capital of SGQ consists of an unlimited number of Common Shares without par value and an unlimited number of Preferred Shares. As at March 30, 2011 there were 183,726,811 Common Shares and no Preferred Shares issued and outstanding. Rights and restrictions in respect of the Common Shares and Preferred Shares are set out in SGQ's Articles and in the BCBCA, and its regulations.

## **Common Shares**

The holders of Common Shares are entitled to one vote per Common Share at all meetings of Shareholders except meetings at which only holders of another specified class or series of shares of the Company are entitled to vote separately as a class or series. Subject to the prior rights of the holders of Preferred Shares and any other shares ranking senior to the Common Shares, the holders of Common Shares are entitled to receive dividends as and when declared by the Directors, and to receive a pro rata share of the remaining property and assets of the Company in the event of liquidation, dissolution or winding up of the Company. The Common Shares have no pre-emptive, redemption, purchase or conversion rights. Neither the BCBCA nor the constating documents of the Company impose restrictions on the transfer of Common Shares on the register of the Company, provided that the Company receives the certificate representing the Common Shares to be transferred together with a duly endorsed instrument of transfer and payment of any fees and taxes which may be prescribed by the Board from time to time. There are no sinking fund provisions in relation to the Common Shares and they are not liable to further calls or to assessment by the Company. The BCBCA provides that the

rights and provisions attached to any class of shares may not be modified, amended or varied unless consented to by special resolution passed by a majority of not less than two-thirds of the votes cast in person or by proxy by holders of shares of that class.

## **Preferred Shares**

The Preferred Shares rank senior to the Common Shares as to the payment of dividends and the distribution of property and assets on the liquidation, dissolution or winding up of the Company. Holders of Preferred Shares will not be entitled to any voting rights as a class except as may be provided under the BCBCA other than those voting rights which attach to any series of Preferred Shares as determined by the Directors from time to time. The Preferred Shares are issuable in one or more series, each consisting of such number of Preferred Shares as may be fixed by the Directors. The Directors may from time to time by resolution passed before the issue of any Preferred Shares of any particular series, alter the constating documents of SGQ to determine the designation of the Preferred Shares of that series, to fix the number of Preferred Shares of that series and to create, define and attach special rights and restrictions to the Preferred Shares of that series.

## **MARKET FOR SECURITIES**

The Common Shares of the Company are traded in Canada on the TSX under the symbol SGQ and in Hong Kong on the SEHK under the stock code 1878. The closing price of the Common Shares on the TSX on March 30, 2011 was Cdn\$14.10 and on the SEHK was HK\$110.70.

The following sets forth the high and low market prices and the volume of the Common Shares traded on the TSX and SEHK during the periods indicated:

**TSX**  
(stated in Canadian dollars)

<b>Period</b>	<b>High</b>	<b>Low</b>	<b>Volume</b>
January 2010	\$20.39	\$15.50	3,046,519
February 2010	\$17.42	\$15.01	2,384,143
March 2010	\$17.39	\$15.94	3,431,550
April 2010	\$16.74	\$13.03	2,390,405
May 2010	\$13.95	\$8.91	2,861,677
June 2010	\$12.71	\$11.05	664,850
July 2010	\$13.77	\$12.10	639,035
August 2010	\$13.20	\$10.56	973,061
September 2010	\$11.03	\$9.50	1,736,134
October 2010	\$12.80	\$9.65	2,419,932
November 2010	\$12.17	\$10.74	1,357,596
December 2010	\$14.25	\$11.82	4,159,523

**SEHK**  
(stated in Hong Kong dollars)

<b>Period</b>	<b>High</b>	<b>Low</b>	<b>Volume</b>
January 2010	\$123.50	\$105.60	4,775,911
February 2010	\$127.70	\$110.00	6,712,582
March 2010	\$130.00	\$117.40	2,954,850
April 2010	\$126.50	\$99.65	1,944,711
May 2010	\$106.10	\$75.00	2,856,618
June 2010	\$97.00	\$83.00	798,966
July 2010	\$102.00	\$90.00	410,761
August 2010	\$101.30	\$79.00	1,208,554
September 2010	\$82.45	\$74.00	1,933,000
October 2010	\$104.30	\$74.50	3,507,443
November 2010	\$91.00	\$81.30	975,180
December 2010	\$105.00	\$88.55	2,479,308

## DIRECTORS AND EXECUTIVE OFFICERS

### Biographical Information

The name, province or state, and country of residence and position with the Company of each Director and executive officer of the Company, and the principal business or occupation in which each Director or executive officer has been engaged during the immediately preceding five years is as follows:

Name and Municipality of Residence	Position with Company	Principal Occupation During Past Five Years
PETER MEREDITH B.C., Canada	Chairman and Director (Director since 2003, Chairman since October 2009)	Chairman of the Company (October 2009 – present); Deputy Chairman of Ivanhoe Mines Ltd. (May 2006 – present); Chief Executive Officer of the Company (June 2007 – October 2009) Chief Financial Officer of Ivanhoe Mines Ltd. (June 1999 – November 2001 and May 2004 – May 2006); Chief Financial Officer, Ivanhoe Capital Corporation (1996 – March 2009)
ALEXANDER MOLYNEUX Hong Kong	Director, President and Chief Executive Officer (Director since 2009)	President of the Company (April 2009 - present); Chief Executive Officer of the Company (October 2009 - present); Managing Director, Head of Metals & Mining Investment Banking, Citigroup Global Markets Asia Ltd (June 2007 – April 2009); Executive Director, Investment Banking, Metals and Mining, UBS AG Australia Branch (July 2004 – June 2007)
PIERRE LEBEL B.C., Canada	Lead Director (Lead Director since 2007)	Chairman of the Board of Directors, Imperial Metals Corporation (2003 – present)
ANDRÉ DEEPWELL B.C., Canada	Director (Director since 2003)	Chief Financial Officer and Corporate Secretary, Imperial Metals Corporation and predecessor (1992 – present)
JOHN MACKEN Massachusetts, U.S.A	Director (Director since 2007)	President of Ivanhoe Mines Ltd. (January 2004 – present); Chairman of the Company (June 2007 – October 2009); Chief Executive Officer of Ivanhoe Mines Ltd. (May 2006 – October 2009)

Name and Municipality of Residence	Position with Company	Principal Occupation During Past Five Years
R. STUART (TOOKIE) ANGUS B.C., Canada	Director (Director since 2007)	Independent Business Consultant (2006 – present)
HON. ROBERT HANSON London, England	Director (Director since 2007)	Chairman, Hanson Capital Investments Limited (investment and finance company) (February 1998 – present); Chairman, Strand Hanson Ltd. (October 2009 – present); Chairman, Hanson Family Group (formerly Hanson Transport Group) (May 1990 – present)
R. EDWARD FLOOD Idaho, USA	Director (Director since 2003)	Chairman, President and CEO, Western Uranium Corporation (December 2010 – present); Chairman, Western Uranium Corporation (March 2007 – present); Managing Director, Investment Banking, Haywood Securities (UK) Limited (March 2007 – March 2010); Deputy Chairman of Ivanhoe Mines Ltd. (May 1999 – February 2007); Interim CEO and President of the Company (March 2007 – June 2007)
W. GORDON LANCASTER B.C., Canada	Director (Director since May 2010)	Independent Business Consultant (November 2009 - present); Chief Financial Officer, Ivanhoe Energy Inc. (January 2004 – November 2009)
TERRY KREPIAKEVICH B.C., Canada	Chief Financial Officer	Chief Financial Officer of the Company (July 2006 – present); Chief Financial Officer for Extreme CCTV Inc. (November 2000 – July 2006)
CURTIS CHURCH Mongolia	Chief Operating Officer	Chief Operating Officer of the Company (March 2010 – present); Vice President, Mining Operations for the Company (August 2010 – March 2010); General Manager of Ovoot Tolgoi coal operations for the Company (July 2008 – August 2010); Manager of Mining, SouthGobi Sands LLC (January 2008 – July 2008); Superintendent of Mobile Fleet Management for the Boroo Gold Mine, Centerra Gold Corp. (August 2006 – January 2008)

Name and Municipality of Residence	Position with Company	Principal Occupation During Past Five Years
DAVE BARTEL Mongolia	Vice President, Mongolian Operations	Vice President, Mongolian Operations for the Company (September 2009 – present); General Manager of SouthGobi Sands LLC (November 2007 – September 2009); Manager of Engineering of SouthGobi Sands (January 2007 – November 2007); Independent Business Consultant (prior to January 2007)
BEVERLY BARTLETT B.C., Canada	Vice President and Corporate Secretary	Vice President of the Company (May 2007 - present); Vice President, Ivanhoe Mines Ltd. (May 2006 - present); Vice President, Ivanhoe Energy Inc. (August 2006 - present); Vice President, Jinshan Gold Mines Ltd. (May 2007 - May 2008); Corporate Secretary, Ivanhoe Mines Ltd. (June 2001 - present); Corporate Secretary of the Company (August 2003 - present); Corporate Secretary, Ivanhoe Energy Inc. (May 2001 - present); Corporate Secretary, Jinshan Gold Mines (May 2003 - May 2008)
TONY PEARSON Hong Kong	Vice President, Corporate Development	Vice President, Corporate Development of the Company (December 2010 – present); Senior Manager, Australian Securities & Investments Commission (April 2009 – December 2010); Vice President, Citi Investment Bank (August 2007 – January 2009); Associate Director, Westpac Institutional Bank (February 2003 – July 2007)

Each Director's term of office expires at the next annual general meeting of the Company.

### **Cease Trade Orders, Bankruptcies, Penalties or Sanctions**

Other than disclosed below, to the knowledge of the Company, no Director, executive officer or Shareholder of the Company holding a sufficient number of Common Shares to materially affect control:

- (a) is, as at the date of this Annual Information Form, or has been, within 10 years before the date of this Annual Information Form, a Director or executive officer of any company (including the Company) that, while that person was acting in that capacity,
  - (i) was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days; or
  - (ii) was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days; or
  - (iii) within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or
- (b) has, within the 10 years before the date of this Annual Information Form, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the proposed director.

Mr. Lebel was a Director and Mr. Deepwell was an Executive Officer of Imperial Metals Corporation ("Old Imperial") in 2002 when it implemented a Plan of Arrangement under the *Company Act* (British Columbia) and under the *Companies' Creditors Arrangement Act* (Canada) which resulted in the separation of the mining and oil and gas businesses carried on by Old Imperial. The reorganization created two public corporations that are listed for trading on the TSX, the new Imperial Metals Corporation and IEI Energy Inc. (now NuVista Energy Ltd.) an oil and gas company.

Mr. Angus is a Director of Wildcat Silver Corporation ("Wildcat"). Wildcat requested and received notice from the British Columbia Securities Commission of the issuance of a management cease trade order (the "MCTO") on October 30, 2007 in connection with the late filing of its annual audited consolidated financial statements for the fiscal year ending June 30, 2007. Wildcat's failure to make the filing within the required time frame was due to the need to clarify potential foreign tax obligations relating to an acquisition it made. The required filing was made on January 7, 2008 and the MCTO was revoked on January 8, 2008.

Mr. Hanson was a Director and chairman of Westhouse International Tobacco (formerly McCroft Tobacco) ("Westhouse"). On April 21, 2009 Westhouse was put into voluntary administration and Mr. Hanson's contract with Westhouse was terminated on April 24, 2009. The administration period still continues.

Mr. Deepwell is a Director of American Bullion Minerals Ltd. ("ABML"). Since 2001 AMBL has been

subject to a cease trade order issued by each of the British Columbia, Alberta and Ontario securities commissions as a result of ABML's failure to file audited financial statements. On September 14, 2001 the common shares of ABML were delisted by the TSX as a result of ABML's failure to satisfy its minimum listing requirements. At present, the common shares of ABML are not listed or quoted on any stock exchange or other market and the trading of such securities is prohibited by the cease trade orders.

### **Shareholdings of Directors and Senior**

As at March 30, 2011, the Directors and executive officers, as a group, beneficially owned, directly or indirectly, or exercised control or direction over, 56,576 Common Shares representing approximately 0.03% of the outstanding Common Shares.

### **Committees of the Board**

The committees of the Board consist of an Audit Committee, a Nominating and Corporate Governance Committee, a Compensation and Benefits Committee, a Health, Safety and Environment Committee and a Mergers and Acquisitions Committee which was constituted in November 2010.

The members of the Audit Committee are André Deepwell (Chair), Pierre Lebel and Gordon Lancaster. Mr. Lancaster was appointed to the committee on May 11, 2010 and Mr. Stuart Angus retired from membership of the committee on the same date.

The members of the Nominating and Corporate Governance Committee are Robert Hanson (Chair), André Deepwell, Pierre Lebel, Stuart Angus, Gordon Lancaster and Ed Flood. Mr. Lancaster was appointed to the committee on May 11, 2010 and Mr. Flood was appointed to the committee on August 5, 2010.

The members of the Compensation and Benefits Committee are Stuart Angus (Chair), André Deepwell, Pierre Lebel and Gordon Lancaster. Mr. Lancaster was appointed to the committee on May 11, 2010 and Mr. Flood was appointed to the committee on May 11, 2010 and resigned on February 16, 2011. Mr. Hanson retired from membership on the committee on May 11, 2010.

The members of the Health, Safety and Environment Committee are Robert Hanson (Chair), Alexander Molyneux and John Macken.

The Mergers and Acquisitions Committee was formed on November 9, 2010. The members of this committee are Pierre Lebel (Chair), Ed Flood and Stuart Angus.

### **Conflicts of Interest**

Certain Directors of the Company and its subsidiaries are associated with other reporting issuers or other corporations which may give rise to conflicts of interest. In accordance with the BCBCA, Directors and officers of the Company are required to disclose to the Company the nature and extent of any interest that they have in a material contract or material transaction, whether made or proposed, with the Company, if the Director or officer: (i) is a party to the contract or transaction, (ii) is a director or an officer, or an individual acting in a similar capacity, of a party to the contract or transaction, or (iii) has a material interest in a party to the contract or transaction.

The Company has adopted a Code of Business Conduct and Ethics and a Statement of Values and Responsibilities applicable to all employees, consultants, officers and Directors regardless of their position in the organization, at all times and everywhere the Company does business. The Code of Business Conduct and Ethics provides that the Company's employees, consultants, officers and Directors will uphold its commitment to a culture of honesty, integrity and accountability and the Company requires the highest standards of professional and ethical conduct from its employees, consultants, officers and Directors.

All of the Company's Directors, management and senior employees have completed or are in the process of completing an online e-learning training course relating to *Anti-Corruption & the Foreign Corrupt Practices Act*. It is anticipated that all of the Company's employees will complete the FCPA Training Program.

### **Audit Committee Information**

#### *Audit Committee Charter*

The charter of the Company's Audit Committee is reproduced in its entirety in Schedule "A" to this Annual Information Form.

#### *Composition of Audit Committee*

The Company's Audit Committee consists of André Deepwell, Pierre Lebel and Gordon Lancaster. The Board has determined that each of Messrs. Deepwell, Lebel and Lancaster are "independent" Directors. Each member of the Audit Committee is "financially literate" within the meaning of Multilateral Instrument 52-110 *Audit Committees*.

#### *Relevant Education and Experience*

##### *André Deepwell*

Mr. Deepwell is a Chartered Accountant. He has held the positions of Chief Financial Officer and Corporate Secretary for Imperial Metals Corporation since 1992, prior to which he was Controller for Imperial since 1984. Before joining Imperial he was a Senior Accountant with Deloitte & Touche.

##### *Pierre Lebel*

Mr. Lebel holds a Masters of Business Administration from McMaster University and a Bachelor of Laws (LLB) from Western Ontario. He currently serves as Chairman, Director and Audit Committee Member of Imperial Metals Corporation; Chairman, Director and Audit Committee Member of Homeq Corporation; Director and Audit Committee Chair of Zedi Inc. and is a Director and Audit Committee member of West Kirkland Mining Inc.

##### *W. Gordon Lancaster*

Mr. Lancaster is a Chartered Accountant and has had a twenty year career in public accounting with Deloitte & Touche with the last five years as a partner in that firm's Vancouver office. He has held Chief Financial Officer positions in Ivanhoe Energy Inc. and Power Measurement Inc. He currently serves as a Director and Audit Committee Chair of Ainsworth Lumber Co. Ltd. and Realm Energy International Corporation.

### ***Pre-Approval Policies and Procedures***

All services to be performed by the Company's independent auditor must be approved in advance by the Audit Committee or a designated member of the Audit Committee ("Designated Member"). The Designated Member is a member of the Audit Committee who has been given the authority to grant pre-approvals of permitted audit and non-audit services.

The Audit Committee has considered whether the provision of services other than audit services is compatible with maintaining the auditors' independence and has adopted a policy governing the provision of these services. This policy requires the pre-approval by the Audit Committee or the Designated Member of all audit and non-audit services provided by the external auditor, other than any de minimis non-audit services allowed by applicable law or regulation. The decisions of the Designated Member to pre-approve permitted services need to be reported to the Audit Committee at its regularly scheduled meetings.

Pre-approval from the Audit Committee or Designated Member can be sought for planned engagements based on budgeted or committed fees. No further approval is required to pay pre-approved fees. Additional pre-approval is required for any increase in scope or in final fees.

Pursuant to these procedures, 100% of each of the services provided by the Company's external auditor relating to the fees reported as audit, audit-related, tax and other fees were pre-approved by the Audit Committee or the Designated Member.

### ***Audit Fees***

Deloitte & Touche have served as the Company's auditors since August 14, 2003. Fees billed by Deloitte & Touche during fiscal 2010 and fiscal 2009 were Cdn\$610,745 and Cdn\$1,125,050 respectively. The aggregate fees billed by Deloitte & Touche in fiscal 2010 and fiscal 2009 are detailed below.

<i>(Canadian \$ in 000's)</i>	<b><u>2010</u></b>	<b><u>2009</u></b>
Audit Fees <sup>(1)</sup>	\$302	\$235
Audit Related Fees	-	-
Tax Fees <sup>(2)</sup>	\$72	\$26
All Other Fees <sup>(3)</sup>	\$237	\$864
	<hr/>	
<b>TOTAL:</b>	\$611	\$1,125

(1) Fees for audit services billed relating to fiscal 2010 and fiscal 2009 consisted of:

- audit of the Company's annual financial statements;
- reviews of the Company's quarterly financial statements; and
- comfort letters, consents, and other services related to Canadian securities regulatory authorities' matters.

- (2) Fees for tax services provided during fiscal 2010 and 2009 consisted of income tax compliance and tax planning and advice relating to transactions and proposed transactions of the Company and its subsidiaries.
- (3) The Company incurred these fees in connection with work conducted by Deloitte & Touche for the Company on its application for listing on the SEHK, including translation costs, and work conducted for the Company on its Global Offering.

## **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

### **Funding Agreements**

On February 2, 2009, the Company closed its sale of the Metals Division to IVN for US\$3 million. In connection with the sale agreement, the Company established a credit facility with IVN which allowed the Company to obtain advances from IVN to a maximum of US\$30 million. The credit facility was for one year with a one year discretionary extension. The credit facility was unsecured and carried an interest rate of LIBOR plus 7.5 basis points. In July 2009, IVN agreed to increase the credit facility to US\$60 million. In October 2009, the Company repaid all amounts outstanding on the credit facility from the proceeds of the CIC Debenture Offering.

### **Corporate Administration Cost Sharing Arrangements**

The Company is a party to a shareholders' cost-sharing agreement with certain other public and private companies, including IVN (the "Other Companies"), pursuant to which the Company and the Other Companies are equal shareholders in Global Mining Management Corporation ("GMM") and through GMM, share office space, furnishings and equipment and communications facilities (on a cost recovery basis) and the employment, on a part-time basis, of various administrative, office and management personnel in Vancouver, British Columbia. The Other Companies are IVN, Ivanhoe Energy Inc., Ivanhoe Capital Corporation, Ivanhoe Nickel & Platinum Ltd., GoviEx Gold Inc., GoviEx Uranium and I-Pulse Inc. Costs of the shared office facilities and the shared part-time employees are recovered from the Company proportionate to the time spent by the shared part-time employees on matters pertaining to the Company. Certain of the Directors and officers of the Company are also Directors and officers of GMM. The Company's Vice President and Corporate Secretary, Controller, Assistant Corporate Secretary and Director of Finance and Administration are employees of GMM. During the year ended December 31, 2010, the Company's share of these costs was US\$499,289.

### **Services Agreement**

The Company is a party to a services agreement with I2MS.net Pte. Ltd. ("I2MS"), in relation to the Company's global information technology infrastructure, support and information technology projects. I2MS is a wholly-owned subsidiary of IVN. Costs of the services provided are recovered from the Company proportionate to the time spent by the I2MS employees on matters pertaining to the Company. During the year ended December 31, 2010, the Company's share of these costs was US\$1,134,991.

### **CIC Debenture Offering**

For a description of the CIC Debenture Offering please see "Material Contracts – CIC Debenture Offering."

## **TRANSFER AGENTS AND REGISTRARS**

The registrar and transfer agent for the Common Shares in Canada is CIBC Mellon Trust Company at its principal offices in Vancouver and Toronto. The registrar and transfer agent for the Common Shares in Hong Kong is Computershare Hong Kong Investor Services Limited.

## **MATERIAL CONTRACTS**

Material contracts under NI 51-102 are contracts, other than contracts entered into in the ordinary course of the Company's business that are material to the Company. The following is a list of material contracts entered into since January 1, 2010 and material contracts entered into prior to January 1, 2010 that remain in effect:

1. Hong Kong Underwriting Agreement between the Company and Citigroup Global Markets Asia Limited, Macquarie Capital Securities Limited, CLSA Limited, ICBC International Securities Limited and Platinum Securities Company Limited (collectively, the "Hong Kong Underwriters") dated January 14, 2010. Under the terms of the Hong Kong Underwriting Agreement, the Hong Kong Underwriters purchased 6,885,000 Common Shares at a price of HK\$126.04 (Cdn\$17.28) per share from the Company for an aggregate purchase price of HK\$867,785,400 (Cdn\$118,994,275). The Hong Kong Underwriters were also granted a 15% over-allotment option, although this option was not exercised. The Hong Kong Underwriters received a gross commission of HK\$30,372,489 (Cdn\$4,164,800) representing 3.5% of the aggregate funds of subscriptions received from the Hong Kong public and a discretionary incentive fee of HK\$2,169,464 (Cdn\$297,485) for total underwriter fees of HK\$32,541,953 (Cdn\$4,462,285).
2. International Underwriting Agreement between the Company and Citigroup Global Markets Limited, Macquarie Capital Securities Limited, CLSA Limited, ICBC International Securities Limited and Platinum Securities Company Limited (collectively, the "International Underwriters") dated January 21, 2010. Under the terms of the International Underwriting Agreement, the International Underwriters purchased 17,415,000 Common Shares at a price of HK\$126.04 (Cdn\$17.28) per share for an aggregate purchase price of HK\$2,194,986,600 (Cdn\$300,985,519). The International Underwriters were also granted a 15% over-allotment option, although this option was not exercised. The International Underwriters received a gross commission of HK\$76,824,531 (Cdn\$10,534,493) representing 3.5% of the aggregate funds of subscriptions received from the international subscribers and a discretionary incentive fee of HK\$5,487,467 (Cdn\$752,464) for total underwriter fees of HK\$82,311,998 (Cdn\$11,286,957).
3. Canadian Underwriting Agreement between the Company and Citi Global Markets Canada Inc., Macquarie Capital Markets Canada Ltd., Genuity Capital Markets and Salman Partners Inc. (collectively, the "Canadian Underwriters") dated January 21, 2010. Under the terms of the Canadian Underwriting Agreement, the Canadian Underwriters purchased 2,700,000 at a price of Cdn\$17.00 per share for an aggregate purchase price of Cdn\$45,900,000. The Canadian Underwriters were also granted a 15% over-allotment option, which was partially exercised with 228,100 units purchased at Cdn\$17.00 for gross proceeds of Cdn\$3,877,700. The Canadian Underwriters received a gross commission of Cdn\$1,991,108 representing 4% of the aggregate funds of subscriptions received from the Canadian subscribers to the Global Offering and a discretionary incentive fee of Cdn\$114,750 for total underwriter fees of Cdn\$2,105,858.

## CIC Debenture Offering

On November 19, 2009, the Company issued convertible debenture (the “Convertible Debenture”) to Land Breeze II S.à r.l. (“CIC Subco”), a wholly-owned subsidiary of CIC (the “CIC Debenture Offering”). The major terms of the Convertible Debenture are described in the chart below.

Transaction:	US\$500 million principal amount of senior debentures convertible into Common Shares (US\$485 million net of advisory fees).
Maturity:	30 years.
Interest:	The Convertible Debenture carries interest of 8.0% per annum made up of: (i) a cash coupon of 6.4% per annum; and (ii) additional interest of 1.6% per annum payable in Common Shares to be issued on each anniversary of the issue. Share value shall be calculated based on the 50 business day volume weighted average price (“VWAP”) prior to each anniversary of the issue.
Conversion Price:	Cdn\$11.88 shall be considered the “Base Conversion Value” and ordinarily, the conversion price will be set at the Base Conversion Value, subject to the adjustments set out below.  At the time of conversion, the VWAP of the Common Shares for the 50 business days prior to the conversion date will be calculated (the “Conversion Date Value”).  In the event the Conversion Date Value is lower than the Base Conversion Value, then the conversion price will be the Conversion Date Value.  The conversion price will be subject to a “Floor Price” of Cdn\$8.88.  The conversion price, so determined, is referred to as the “Conversion Price” in this summary of key investment terms.
CIC’s Conversion Right:	Convertible by CIC Subco into Common Shares at any time after 12 months from closing at the Conversion Price.  There are no lock-up arrangements on Common Shares to be issued to CIC Subco upon conversion. There are no early redemption rights granted to CIC Subco.
SGQ’s Early Conversion Right:	After the earlier of two years from closing or the time of the Qualified Float (as defined below), SGQ will have the right to require conversion of up to 50% of the initial principal amount of US\$500 million at the Conversion Price.  The Company exercised this conversion right and on March 29, 2010, the Company converted US\$250 million of the debt into 21,560,961 Common

Shares at a price of US\$11.64 per share.

SGQ's Normal Conversion Right:	After 60 months from closing, if at any time the VWAP of the Common Shares for 50 consecutive business days is 20% higher than the Floor Price, SGQ will be entitled to require conversion of the entire Convertible Debenture at the Conversion Price.
Qualified Float:	A transaction achieving the listing of the Common Shares on the TSX or the SEHK and that meets the following three criteria, shall be considered a "Qualified Float": (i) not less than 25% of the issued and outstanding Common Shares (on a non-diluted basis, except including the initial principal amount of the Convertible Debenture on an as-converted basis) are held by persons who are not SGQ insiders (i.e. insider holdings cannot exceed 75%); (ii) the offering price of the Common Shares issued to achieve the public float is not less than the base conversion value unless CIC consents; and (iii) the Common Shares are listed on the Hong Kong Stock Exchange.
Ivanhoe Support:	Ivanhoe will vote in favour of the issuance of the Convertible Debenture, to support any Shareholder vote required on conversion, and for the nominee, if any, of CIC Subco to the Board.
Right to Nominate Director:	While the Convertible Debenture is outstanding, or while CIC Subco has a 15% direct or indirect shareholding interest in SGQ, CIC Subco has the right, but not the obligation, to nominate one person to the Board. When CIC Subco nominates a person, the Board is not obliged to appoint such nominee as a Director. The election of a nominee to the Board is subject to Shareholders' approval. Furthermore, the CIC Subco cannot require that its nominee be employed by or participate as SGQ's executive or manager, and the sole entitlement of the nominee is to act in the capacity of Director. The nominee would be a non-independent non-executive Director.
Voting Restriction:	CIC or any transferee will be entitled to one vote per Common Share held on matters to be voted on by Shareholders. However, if conversion results in CIC Subco, or its affiliates, directly or indirectly owning more than 29.9% of the fully diluted Common Shares outstanding, CIC Subco will not vote any Share in excess of 29.9%. This cap in CIC's voting rights is a contractual agreement between CIC and SGQ and will not extend to third party transferees of all or a part of any Common Shares issued to CIC and thereafter sold to a third party. The cap does include shares held by CIC affiliates, and shares beneficially owned by CIC, so affiliate transferees are part of the aggregate summation to determine the 29.9%. Further, if CIC transfers its interest, in the Convertible Debenture or the ancillary agreements, the latter being the security holder's agreement and the registration rights agreement made in connection with the Convertible Debenture financing, to an affiliate, the transferee of the interest would be

bound by the contractual voting limitation.

Use of Proceeds:	In addition to repaying the Ivanhoe credit facility, the proceeds from the Convertible Debenture are to be used mainly for the continuing development and expansion at the Ovoot Tolgoi Mine, the development of the Soumber Deposit, the development of infrastructure to support current and future coal mining and related projects, and for exploration activities, as set out in the agreement. The majority of the funds from the financing are expected to be used within the next three years.
Security:	The Convertible Debenture is secured by a first charge over SGQ's assets. Standard loan restrictive covenants regarding incurring additional debt and granting additional security to third parties (with standard carve-outs and grace periods for issues of this type) apply to SGQ and its direct and indirect subsidiaries.
Pre-emptive Right:	While the Convertible Debenture is outstanding, or while CIC Subco has a 15% direct or indirect shareholding interest in SGQ, the CIC Subco has a pre-emptive right on a pro rata basis to subscribe for any new Common Shares issued during the period which the Convertible Debentures remain outstanding. The pre-emptive right will not apply to new Common Shares issued pursuant to pro-rata public equity offerings made to all Shareholders, or the exercise of stock options and shares to achieve a 25% public float.
Right of First Offer:	While the Convertible Debenture is outstanding, or while CIC Subco has a 15% direct or indirect shareholding interest in SGQ, CIC Subco has a right of first offer for any direct or indirect sale of Ivanhoe's stake in the Company.
Liquidity Rights:	CIC Subco has registration rights for Common Shares received upon conversion of the Convertible Debenture.
Regulatory Approval:	The TSX-V granted final approval for the issuance of the Convertible Debenture on November 20, 2009.
Advisors:	Citigroup Local Markets Asia Limited served as the financial advisor to CIC with respect to the Convertible Debenture. Macquarie Capital Securities Limited served as the Company's financial advisor and Projects Investment Group (H.K.) Limited provided the Company with additional advisory services.

In addition, on November 19, 2009, the Company entered into a mutual co-operation agreement with CIC. The agreement is on customary commercial terms consistent with industry practices. Under the terms of the agreement, CIC will provide advice and services to the Company on matters that include sales to China, procurement and logistics, and will receive a customary commercial payment for such services based on product sales from Mongolia to China. If cumulative coal sales are less than 10 million tonnes during an initial

five-year period (an average of two million tonnes per year), the Company would be obliged to pay CIC a compensatory payment, less any amount previously paid under the mutual co-operation agreement. This amount would be payable at SGQ's option in cash or Common Shares valued on the basis of a 50-day volume weighted average price.

## **INTERESTS OF EXPERTS**

Deloitte & Touche is the independent auditor of the Company and they have advised they are independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of B.C.

Disclosure in this Annual Information Form of scientific and technical information with respect to the Ovoot Tolgoi Mine and the Soumber Deposit is based on the Ovoot Tolgoi Technical Report and the Soumber Technical Report. The Ovoot Tolgoi Technical Report and the Soumber Technical Report were prepared by MMC.

Disclosure in this Annual Information Form relating to the energy sector in China is based on a report by Fenwei which was commissioned by the Company.

To the knowledge of the Company, neither MMC, Deloitte & Touche nor Fenwei nor any of their "designated professionals", as defined in NI 51-102, holds securities of the Company representing in excess of 1% of the outstanding securities of any class.

## **INSURANCE**

SGQ currently holds their primary insurance policies through Canadian insurance providers to insure its properties. SGQ has taken out insurance for risks including commercial general liability, umbrella liability, aviation premises liability, and kidnap and ransom. SGQ maintains mining property insurance for all of its mining assets wherever located, property insurance on their office premises and liability insurance for its Directors and officers.

SGQ currently maintains, and intends to continue to maintain, insurance within ranges of coverage consistent with industry practice. SGQ will continue to review and assess its risk portfolio and make necessary and appropriate adjustments to their insurance practice.

## **ADDITIONAL INFORMATION**

Additional information, including Directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under equity compensation plans is contained in the management proxy circular for the annual general meeting of the Company to be held on May 17, 2011, which is available on SEDAR. Additional financial information is contained in the Company's comparative financial statements and MD&A as at and for the years ended December 31, 2010 and 2009. Copies of the proxy circular, financial statements and MD&A are available on SEDAR, and may also be obtained upon request from the Corporate Department at 654 – 999 Canada Place, Vancouver, British Columbia, V6C 3E1.

Additional information relating to the Company may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

**SCHEDULE A**  
**SOUTHGOBI RESOURCES LTD.**  
**AUDIT COMMITTEE CHARTER**

**I. Purpose**

The primary objective of the Audit Committee (the “Committee”) of SouthGobi Resources Ltd. (the “Company”) is to act as a liaison between the Board and the Company’s independent auditors (the “Auditors”) and to assist the Board in fulfilling its oversight responsibilities with respect to (a) the financial statements and other financial information provided by the Company to its shareholders, the public and others, (b) the Company’s compliance with legal and regulatory requirements, (c) the qualification, independence and performance of the Auditors and (d) the Company’s risk management and internal financial and accounting controls, and management information systems.

Although the Committee has the powers and responsibilities set forth in this Charter, the role of the Committee is oversight. The members of the Committee are not full-time employees of the Company and may or may not be accountants or auditors by profession or experts in the fields of accounting or auditing and, in any event, do not serve in such capacity. Consequently, it is not the duty of the Committee to conduct audits or to determine that the Company’s financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles and applicable rules and regulations. These are the responsibilities of management and the Auditors.

The responsibilities of a member of the Committee are in addition to such member’s duties as a member of the Board.

**II. Organization**

The Committee shall consist of three or more directors of the Company and shall satisfy the laws governing the Company and the independence, financial literacy, expertise and experience requirements under applicable securities law, stock exchange and any other regulatory requirements applicable to the Company.

The members of the Committee and the Chair of the Committee shall be appointed by the Board on the recommendation of the Nominating & Governance Committee. A majority of the members of the Committee shall constitute a quorum. A majority of the members of the Committee shall be empowered to act on behalf of the Committee. Matters decided by the Committee shall be decided by majority votes. The chair of the Committee shall have an ordinary vote.

Any member of the Committee may be removed or replaced at any time by the Board and shall cease to be a member of the Committee as soon as such member ceases to be a director.

The Committee may form and delegate authority to subcommittees when appropriate.

**III. Meetings**

The Committee shall meet as frequently as circumstances require, but not less frequently than four times per year. The Committee shall meet at least quarterly with management, the Company’s financial and accounting officer(s) and the Auditors in separate executive sessions to discuss any matters that the Committee or each of these groups believe should be discussed privately.

The Chair of the Committee shall be an independent chair who is not Chair of the Board. In the absence of the appointed Chair of the Committee at any meeting, the members shall elect a chair from those in attendance at the meeting. The Chair, in consultation with the other members of the Committee, shall set the frequency and length of each meeting and the agenda of items to be addressed at each upcoming meeting.

The Committee will appoint a Secretary who will keep minutes of all meetings. The Secretary may be the Company's Corporate Secretary or another person who does not need to be a member of the Committee. The Secretary for the Committee can be changed by simple notice from the Chair.

The Chair shall ensure that the agenda for each upcoming meeting of the Committee is circulated to each member of the Committee as well as the other directors in advance of the meeting.

The Committee may invite, from time to time, such persons as it may see fit to attend its meetings and to take part in discussion and consideration of the affairs of the Committee. The Company's accounting and financial officer(s) and the Auditors shall attend any meeting when requested to do so by the Chair of the Committee.

#### **IV. Authority and Responsibilities**

The Board, after consideration of the recommendation of the Committee, shall nominate the Auditors for appointment by the shareholders of the Company in accordance with applicable law. The Auditors report directly to the Audit Committee. The Auditors are ultimately accountable to the Committee and the Board as representatives of the shareholders.

The Committee shall have the following responsibilities:

##### **(a) Auditors**

1. Recommend to the Board the independent auditors to be nominated for appointment as Auditors of the Company at the Company's annual meeting and the remuneration to be paid to the Auditors for services performed during the preceding year; approve all auditing services to be provided by the Auditors; be responsible for the oversight of the work of the Auditors, including the resolution of disagreements between management and the Auditors regarding financial reporting; and recommend to the Board and the shareholders the termination of the appointment of the Auditors, if and when advisable.
2. When there is to be a change of the Auditor, review all issues related to the change, including any notices required under applicable securities law, stock exchange or other regulatory requirements, and the planned steps for an orderly transition.
3. Review the Auditor's audit plan and discuss the Auditor's scope, staffing, materiality, and general audit approach.
4. Review on an annual basis the performance of the Auditors, including the lead audit partner.
5. Take reasonable steps to confirm the independence of the Auditors, which include:
  - (a) Ensuring receipt from the Auditors of a formal written statement in accordance with applicable regulatory requirements delineating all relationships between the Auditors and the Company;
  - (b) Considering and discussing with the Auditors any disclosed relationships or services, including non-audit services, that may impact the objectivity and independence of the Auditors;
  - (c) Approving in advance any non-audit related services provided by the Auditor to the Company, and the fees for such services, with a view to ensure independence of the Auditor, and in accordance with applicable regulatory standards, including applicable stock exchange requirements with respect to approval of non-audit related services performed by the Auditors; and

- (d) As necessary, taking or recommending that the Board take appropriate action to oversee the independence of the Auditors.
6. Review and approve any disclosures required to be included in periodic reports under applicable securities law, stock exchange and other regulatory requirements with respect to non-audit services provided by the Auditors.
  7. Confirm with the Auditors and receive written confirmation at least once per year (i) indicating that the Auditors are a member in good standing with the Canadian Public Accountability Board (CPAB) and comparable bodies elsewhere to the extent required and disclosing any sanctions or restrictions imposed by the CPAB and such other comparable bodies; and (ii) responding to any other reasonable request of the Audit Committee for confirmation as to their qualifications to act as the Company's Auditors.
  8. Consider the tenure of the lead audit partner on the engagement in light of applicable securities law, stock exchange or applicable regulatory requirements.
  9. Review all reports required to be submitted by the Auditors to the Committee under applicable securities laws, stock exchange or other regulatory requirements.
  10. Receive all recommendations and explanations which the Auditors place before the Committee.

**(b) Financial Statements and Financial Information**

11. Review and discuss with management, the financial and accounting officer(s) and the Auditors, the Company's annual audited financial statements, including disclosures made in management's discussion and analysis, prior to filing or distribution of such statements and recommend to the Board, if appropriate, that the Company's audited financial statements be included in the Company's annual reports distributed and filed under applicable laws and regulatory requirements.
12. Review and discuss with management, the financial and accounting officer(s) and the Auditors, the Company's interim financial statements, including management's discussion and analysis, and the Auditor's review of interim financial statements, prior to filing or distribution of such statements.
13. Review any earnings press releases of the Company before the Company publicly discloses this information.
14. Be satisfied that adequate procedures are in place for the review of the Company's disclosure of financial information and extracted or derived from the Company's financial statements and periodically assess the adequacy of these procedures.
15. Discuss with the Auditor the matters required to be discussed by applicable auditing standards requirements relating to the conduct of the audit including:
  - (a) the adoption of, or changes to, the Company's significant auditing and accounting principles and practices;
  - (b) the management letter provided by the Auditor and the Company's response to that letter; and
  - (c) any difficulties encountered in the course of the audit work, including any restrictions on the scope of activities or access to requested information, or personnel and any significant disagreements with management.

16. Discuss with management and the Auditors major issues regarding accounting principles used in the preparation of the Company's financial statements, including any significant changes in the Company's selection or application of accounting principles. Review and discuss analyses prepared by management and/or the Auditors setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative approaches under generally accepted accounting principles.
17. Review any report under applicable securities law, stock exchange or other regulatory requirements, including any reports required to be included in statutory filings, including in the Company's annual proxy statement.

**(c) Ongoing Reviews and Discussions with Management and Others**

18. Obtain and review an annual report from management relating to the accounting principles used in the preparation of the Company's financial statements, including those policies for which management is required to exercise discretion or judgments regarding the implementation thereof.
19. Periodically review separately with each of management, the financial and accounting officer(s) and the Auditors; (a) any significant disagreement between management and the Auditors in connection with the preparation of the financial statements, (b) any difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information and (c) management's response to each.
20. Periodically discuss with the Auditors, without management being present, (a) their judgments about the quality and appropriateness of the Company's accounting principles and financial disclosure practices as applied in its financial reporting and (b) the completeness and accuracy of the Company's financial statements.
21. Consider and approve, if appropriate, significant changes to the Company's accounting principles and financial disclosure practices as suggested by the Auditors or management and the resulting financial statement impact. Review with the Auditors or management the extent to which any changes or improvements in accounting or financial practices, as approved by the Committee, have been implemented.
22. Review and discuss with management, the Auditors and the Company's independent counsel, as appropriate, any legal, regulatory or compliance matters that could have a significant impact on the Company's financial statements, including applicable changes in accounting standards or rules, or compliance with applicable laws and regulations, inquiries received from regulators or government agencies and any pending material litigation.
23. Enquire of the Company's financial and accounting officer(s) and the Auditors on any matters which should be brought to the attention of the Committee concerning accounting, financial and operating practices and controls and accounting practices of the Company.
24. Review the principal control risks to the business of the Company, its subsidiaries and joint ventures; and verify that effective control systems are in place to manage and mitigate these risks.
25. Review and discuss with management any earnings press releases, including the use of "pro forma" or "adjusted" non-GAAP information, as well as any financial information and earnings guidance provided to analysts and rating agencies. Such discussions may be done generally (i.e. discussion of the types of information to be disclosed and the types of presentations made).

26. Review and discuss with management any material off-balance sheet transactions, arrangements, obligations (including contingent obligations) and other relationships of the Company with unconsolidated entities or other persons, that may have a material current or future effect on financial condition, changes in financial condition, results of operations, liquidity, capital resources, capital reserves or significant components of revenues or expenses. Obtain explanations from management of all significant variances between comparative reporting periods.
27. Review and discuss with management the Company's major risk exposures and the steps management has taken to monitor, control and manage such exposures, including the Company's risk assessment and risk management guidelines and policies.

**(d) Risk Management and Internal Controls**

28. Review, based upon the recommendation of the Auditors and management, the scope and plan of the work to be done by the Company's financial and accounting group and the responsibilities, budget and staffing needs of such group.
29. Ensure that management has designed and implemented effective systems of risk management and internal controls and, at least annually, review and assess the effectiveness of such systems.
30. Approve and recommend to the Board for adoption policies and procedures on risk oversight and management to establish an effective system for identifying, assessing, monitoring and managing risk.
31. In consultation with the Auditors and management, review the adequacy of the Company's internal control structure and procedures designed to insure compliance with laws and regulations, and discuss the responsibilities, budget and staffing needs of the Company's financial and accounting group.
32. Establish procedures for (a) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and (b) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.
33. Review the internal control reports prepared by management, including management's assessment of the effectiveness of the Company's internal control structure and procedures for financial reporting and (ii) the Auditors' attestation, and report, on the assessment made by management.
34. Review the appointment of the chief financial officer and any key financial executives involved in the financial reporting process and recommend to the Board any changes in such appointment.

**(f) Other Responsibilities**

35. Create an agenda for the ensuing year and confirm a timetable for the Audit Committee for the ensuing year.
36. Review and approve related-party transactions if required under applicable securities law, stock exchange or other regulatory requirements.
37. Review and approve (a) any change or waiver in the Company's code of ethics applicable to senior financial officers and (b) any disclosures made under applicable securities law, stock exchange or other regulatory requirements regarding such change or waiver.

38. Establish, review and approve policies for the hiring of employees or former employees of the Company's Auditors.
39. Review and reassess the duties and responsibilities set out in this Charter annually and recommend to the Nominating and Corporate Governance Committee and to the Board any changes deemed appropriate by the Committee.
40. Review its own performance annually, seeking input from management and the Board.
41. Perform any other activities consistent with this Charter, the Company's articles and by-laws and governing law, as the Committee or the Board deems necessary or appropriate.

## **V. Reporting**

The Committee shall report regularly to the Board and shall submit the minutes of all meetings of the Audit Committee to the Board (which minutes shall ordinarily be included in the papers for the next full board meeting after the relevant meeting of the Committee). The Committee shall also report to the Board on the proceedings and deliberations of the Committee at such times and in such manner as the Board may require. The Committee shall review with the full Board any issues that have arisen with respect to quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements, the performance or independence of the Auditors or the performance of the Company's financial and accounting group.

## **VI. Resources and Access to Information**

The Committee shall have the authority to retain independent legal, accounting and other consultants to advise the Committee.

The Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities. The Committee has direct access to anyone in the organization and may request any officer or employee of the Company or the Company's outside counsel or the Auditors to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee with or without the presence of management. In the performance of any of its duties and responsibilities, the Committee shall have access to any and all books and records of the Company necessary for the execution of the Committee's obligations.

The Committee shall consider the extent of funding necessary for payment of compensation to the Auditors for the purpose of rendering or issuing the annual audit report and recommend such compensation to the Board for approval. The Audit Committee shall determine the funding necessary for payment of compensation to any independent legal, accounting and other consultants retained to advise the Committee.