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June 21, 2011

The Directors
Newton Resources Ltd

Gentlemen,

Behre Dolbear Asia, Inc. ("BDASIA"), a wholly owned subsidiary of Behre Dolbear & Company, Inc. ("Behre Dolbear"), herewith submits a report on the Independent Technical Review of the Yanjiazhuang Iron Mine (the "Yanjiazhuang Mine") of Newton Resources Ltd (the "Company") in Lincheng County, Hebei Province, the People's Republic of China. The address for BDASIA is noted above. This letter of transmittal is part of the report.

The Yanjiazhuang Mine is currently 99%-owned and operated by the Company indirectly through its subsidiaries. It constitutes the primary mining asset of the Company. BDASIA's project team visited the Yanjiazhuang Mine in October 2009, February 2010, December 2010, January 2011, and April 2011.

The purpose of this report is to provide an independent technical assessment of the Company's Yanjiazhuang Mine to be included in the prospectus for the Company's initial public offering ("IPO") on the main board of The Stock Exchange of Hong Kong Limited ("SEHK"). This independent technical report has been prepared in accordance with the Rules Governing the Listing of Securities on the SEHK (the "Listing Rules"). The reporting standard adopted by this report is the VALMIN Code and Guidelines for Technical Assessment and Valuation of Mineral Assets and Mineral Securities for Independent Expert Reports as adopted by the Australasian Institute of Mining and Metallurgy in 1995 and updated in 2005. Mineral resources and ore reserves defined for the property have been reviewed for conformity with the Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves (the "JORC Code") prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia in 1999 and revised in 2004.

The evidence upon which the estimated mineral resources and ore reserves are based includes the deposit geology, drilling and sampling information and project economics. The basis upon which BDASIA forms its view of the mineral resource and ore reserve estimates includes the site visits of BDASIA's professionals to the subject mining properties, interviews with the Company's management, site personnel and outside consultants, analysis of the drilling and sampling database and the procedures and parameters used for the estimates by the Company's outside consultants.

The BDASIA project team consisted of senior-level mining professionals from Behre Dolbear's Denver office in the United States, the Sydney office in Australia, and the Toronto office in Canada. The scope of work conducted by BDASIA included site visits to the reviewed mining property, technical analysis of the project geology, mineral resource and ore reserve estimates, and review of mining, processing, production, operating costs, capital costs, environmental management, community issues, and occupational health and safety.

BDASIA has not undertaken an audit of the Company's data, re-estimated the mineral resources, or reviewed the tenement status with respect to any legal or statutory issues.

BDASIA's report comprises an Introduction, followed by reviews of the technical aspects of Geology, Mineral Resources and Ore Reserves, Mining, Processing, Production, Operating and Capital Costs, Environmental Management and Community Issues, and Occupational Health and Safety, as well as a Risk Analysis of the Yanjiazhuang Mine. BDASIA believes that the report adequately and appropriately describes the technical aspects of the project and addresses issues of significance and risk.

BDASIA is independent of the Company and all of its mining properties. Neither BDASIA nor any of its employees or associates involved in this project holds any share or has any direct or indirect pecuniary or contingent interests of any kind in the Company or its mining properties. BDASIA is to receive a fee for its services (the work product of which includes this report) at its normal commercial rate and customary payment schedules. The payment of BDASIA's professional fee is not contingent on the outcome of this report.

The effective date of this BDASIA report is March 31, 2011. The Company has confirmed to BDASIA that no material changes have occurred for the Yanjiazhuang Mine since the effective date. The sole purpose of this report is for the use of the Directors of the Company and its sponsor and advisors in connection with the Company's IPO prospectus and should not be used or relied upon for any other purpose. Neither the whole nor any part of this report nor any reference thereto may be included in or with or attached to any document or used for any other purpose, without BDASIA's written consent to the form and context in which it appears. BDASIA consents to the inclusion of this report in the Company's IPO prospectus for the purpose of the IPO on the SEHK.

Yours faithfully,
BEHRE DOLBEAR ASIA, INC.

Qingping Deng, Ph.D., CPG
Project Manager

Behre Dolbear Project 09-112

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1.0 INTRODUCTION

Newton Resources Ltd (the "Company") is a company registered in the Cayman Islands. Through its subsidiaries, the Company owns a 99% interest in the Yanjiazhuang iron mine (the "Yanjiazhuang Mine") in Lincheng County, Hebei Province of the People's Republic of China ("PRC" or "China") as shown in Figure 1.1.

Figure 1.1 Location map of the Yanjiazhuang Mine

The Yanjiazhuang Mine is a development and early production stage mining project currently owned and operated by Lincheng Xingye Mineral Resources Company Ltd ("Lincheng Xingye"), which is 99% owned by the Company through its subsidiaries.

The Yanjiazhuang iron deposit is a metamorphosed sedimentary banded magnetite deposit. Exploration work conducted by the No.11 Geological Brigade ("Brigade 11") of the Geology and Exploration Bureau of Hebei Province in Xingtai, Hebei Province, in 2006-2007 and 2009 has defined Measured and Indicated JORC-compliant mineral resources of 312 million tonnes ("Mt") with an average total iron grade ("TFe") of 21.51% and an average magnetic iron grade ("mFe") of 18.62%. A pre-feasibility-level technical study with a positive outcome was completed for the Yanjiazhuang Mine based on the Brigade 11 resource estimate by the Sinosteel Engineering Design & Research Institute Company Ltd (the "Sinosteel Institute") in Shijiazhuang, Hebei Province, in February 2010, and this study was updated in December 2010.

Phase I mine construction at the Yanjiazhuang Mine was substantially completed and the Phase II mine construction was well underway during BDASIA's site visit to the property in April 2011. A new mine access road and access roads to the southern and central portions of the open pit area have been completed, and initial mine commercial production has begun in these areas. The No.1 and No.2 crushing plants with a dry magnetic cobbing system for initial concentration of the magnetite iron ore at a designed production capacity of 1.5 million tonnes per annum ("Mtpa") each at the southern portions of the planned mining area and located approximately 800 meters ("m") apart have been constructed and were put into commercial production on January 1, 2011. The dry magnetic cobbing system in the crushing

plants is expected to reduce the crushed raw ore by approximately 30% in volume, reducing the costs for transportation and further processing. However, the initial commercial production in January 2011 indicated that the two crushing plants need to undergo some modification and adjustment, including replacing the tertiary crushers, in order to optimize the processing efficiency and reliability. While these modifications can be performed in different stage over a period of 12 months without major interruptions to operations, the management decided to take advantage of the downtime to shorten the implementation time for these modifications to within three months. The management's decision was made due to the fact that Northern China, including the Yanjiazhuang Mine area, had been suffering from a severe drought since last winter. Because of the drought, plant production was significantly reduced since March 2011. In order to provide a reliable major fresh water source for the Yanjiazhuang Mine so that the Company can still maintain its production capacity even in a situation of severe drought, the Company has reached an agreement with local authorities to use up to 10 million m^3 water per annum from the 170 million m^3 Lincheng Reservoir, located approximately 20 km east of the Yanjiazhuang Mine area. A 630-millimeter-diameter pipeline with two pump stations was being constructed to bring water from the Lincheng Reservoir to the processing plants and the construction is expected to be finished in August 2011. Given the production was going to be significantly reduced due to the drought, management decided to use the down time to implement these plant modifications concurrently with the Lincheng Reservoir water pipeline project to maximize the efficiency of the modification and construction. The modification and adjustment of the two crushing plants started in April 2011 and is expected to be completed in June 2011. While there is limited production from these plants when modifications are being made, regular commercial production is expected to resume in September 2011 concurrently with the completion of the Lincheng Reservoir water pipeline project. BDASIA believes both the Lincheng Reservoir water pipeline project and modifications to the crushing plants are in the long term best interest of the Yanjiazhuang Mine to minimize production down time and maximize production efficiencies going forward. An original 1,200 tonnes per day ("tpd") open-air wet magnetic separation plant for iron concentrate production has been upgraded to a covered 3,000-tpd (or 900,000 tonne per annum ("tpa") based on 300 working days per annum) plant (the No.1 concentrator). An original 2,400 tpd open-air wet magnetic separation plant has been covered and was being upgraded into a 4,000-tpd (or 1.2-Mtpa) plant (the No.2 concentrator), which is expected to be completed in May 2011. These two wet magnetic separation plants are located approximately 3 kilometers ("km") east of the southern end of the Yanjiazhuang deposit, and approximately 500 m from each other. The two concentrators were also put into commercial production on January 1, 2011. The combined Phase I raw ore production capacity for the mine and plants is currently approximately 2.15 Mtpa, and will be approximately 3.0 Mtpa when all the Phase I construction, upgrading, modification and adjustment are completed. The designed Phase I production capacity is expected to be reached in October 2011.

Lincheng Xingye plans to further increase the raw ore production capacity of the Yanjiazhuang Mine to 7.0 Mtpa and 10.5 Mtpa in Phase II and Phase III expansions by September 2011 and June 2012, respectively, by constructing one 4.0-Mtpa crushing plant and one 2.8-Mtpa concentrator for Phase II and by constructing one 3.5-Mtpa crushing plant and one 2.45-Mtpa concentrator for Phase III, producing approximately 2.66 Mtpa of iron concentrate with an average TFe grade of 66% when all the mine expansions are completed. Based on the current construction progress, the 4.0-Mtpa No.3 crushing plant is expected to be completed in September 2011; the 2.8-Mtpa No.3 concentrator is expected to be completed in August 2011. Commercial production for Phase II and Phase III facilities is expected to start in October 2011 and July 2012, respectively. The designed production capacity for Phase II and Phase III of the Yanjiazhuang Mine is expected to be reached in January 2012 and October 2012, respectively. BDAsia believes the production expansion and ramp up schedule can be reasonably achieved as planned. However, any delays in construction and the equipment adjustment process could cause some production short falls in the initial periods. The produced iron concentrates will be sold to the customers in the surrounding area in Hebei Province.

In addition to the iron mineralization, there are also significant gabbro-diabase resources occurring as footwalls and hangingwalls of the iron mineralized bodies at the Yanjiazhuang Mine. Gabbro-diabase is an igneous rock known for its hardness, abrasive resistant qualities and durability. A resource estimate for the gabbro-diabase at the Yanjiazhuang Mine was completed by the First Geological Exploration Institute of China Metallurgical Geology Bureau in March 2010 and a scoping-level technical study was completed by Hebei Construction Material Industrial Design and Research Institute Company Limited in April 2010. The scoping-level technical study discussed the possibility of mining the gabbro-diabase resources in conjunction with the open-pit iron ore mining to produce crushed stone (for highway and railroad construction), stone slabs and tiles (for making high-end countertops, interior decorative materials and indoor flooring), and other materials to increase the economic value of the Yanjiazhuang Mine.

The Company proposes to prepare a prospectus to be issued in support of an initial public offering ("IPO") for a listing on the main board of The Stock Exchange of Hong Kong Limited ("SEHK") and to raise capital for further exploration, project development, expansion and acquisition. Citigroup Global Markets Asia Limited ("Citigroup"), Macquarie Capital Securities Limited ("Macquarie") and Rothschild (Hong Kong) Limited ("Rothschild") are the Company's Joint Sponsors for the IPO.

The Board of Directors of the Company engaged Behre Dolbear Asia, Inc. ("BDASIA"), a wholly-owned subsidiary of Behre Dolbear & Company, Inc. ("Behre Dolbear"), as their independent technical advisor to undertake an independent technical review of the Company's Yanjiazhuang Mine and to prepare a Competent Person's Report ("CPR") in connection with the Company's IPO. This BDASIA report is intended to be included in the Company's IPO prospectus.

BDASIA's project team for this technical review consisted of senior-level professionals from Behre Dolbear's offices in Denver, Colorado in the United States, Toronto in Canada, and Sydney in Australia. Behre Dolbear personnel contributing to the study and to this CPR include:

- **Dr. Qingping Deng (B.S., M.S. and Ph.D.)**, a senior associate of Behre Dolbear's Denver office, was BDASIA's **Project Manager** and **Project Geologist** for this technical review. Dr. Deng is a geologist with more than 26 years of professional experience in the areas of exploration, deposit modeling and mine planning, estimation of mineral resources and ore reserves, geostatistics, cash-flow analysis, project evaluation/valuation, and feasibility studies in North, Central and South America, Asia, Australia, Europe and Africa. Dr. Deng is a Certified Professional Geologist with the American Institute of Professional Geologists, a Qualified Professional Member of The Mining and Metallurgical Society of America and a Registered Member of The Society of Mining, Metallurgy, and Exploration, Inc. ("SME") and meets all the requirements for "Competent Person" as defined in the 2004 Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves ("the JORC Code") and all the requirements for "Qualified Person" as defined in Canadian National Instrument 43-101. In recent years, he has managed a number of CPR studies for filing with SEHK and other securities exchanges. Dr. Deng is fluent in both English and Chinese. He was the president and chairman of the board of directors of BDASIA before June 30, 2010.
- **Mr. Derek Rance (B.S. and MBA)**, a senior associate of Behre Dolbear's Toronto office, was BDASIA's **Project Mining Engineer** and **Project Metallurgist**. Mr. Rance has over 30 years of worldwide experience in the engineering, executive and senior management of mining operations. In particular he was the General Manager of the Carol Lake project of the Iron Ore Company of Canada, which annually produced 10 Mt of pellets and 8 Mt of sinter feed. He later became president and COO of that company. While consulting for Behre Dolbear, he has completed numerous iron ore assignments throughout the world, conducting due diligence assessments, valuations of iron ore properties, optimizations, rehabilitations of closed properties, product marketing and iron ore price forecasting. Mr. Rance is a Professional Engineer registered in Ontario, Canada and a Fellow of The Canadian Institute of Mining, Metallurgy and Petroleum.

- **Ms. Janet Epps (B.S. and M.S.)**, a senior associate of Behre Dolbear's Sydney, Australia office, was BDASIA's **Project Environmental and Occupational Health and Safety Specialist**. She has over 30 years experience in environmental and community issues management, sustainability, policy development and regulatory consultancy services. Ms. Epps has worked extensively with the private sector, government and the United Nations, the World Bank, the IFC and the Multilateral Investment Guarantee Agency ("MIGA"), as well as with the mining industry. She has provided policy advice to governments of developing countries on designated projects and contributed toward sustainable development and environmental management strategies. She has completed assignments in Australasia, the Pacific, Asia, the Middle East, the CIS countries, Africa, Eastern Europe, South America and the Caribbean. Ms. Epps is a Fellow of the Australasian Institute of Mining and Metallurgy.
- **Mr. Michael Martin (B.Sc. and M.A.)**, a senior associate of Behre Dolbear's Denver, Colorado, USA office, was BDASIA's **Project Advisor.** He has over 30 years of experience in the areas of engineering, operations, management, exploration, acquisitions, and development in the mineral industry, principally in the open pit mining of gold, copper, molybdenum and iron. He has had responsibility for capital and operating costs, infrastructure, and organization. He has been involved in many feasibility and due diligence studies, property evaluations, operational audits and optimizations, and mine equipment selection and costing. In addition, Mr. Martin has been responsible for all mining related items, including mine schedules, ore control, mine equipment, cash flow forecast reviews, and site management assessment. His consulting activities have included work in the United States and more than 20 foreign countries. Mr. Martin is a Qualified Professional Member of The Mining and Metallurgical Society of America and a Member of SME.

BDASIA's project team, with the exception of Mr. Martin, traveled to China to visit the Company's Yanjiazhuang Mine in Lincheng, Hebei, that is reviewed in this report. Dr. Deng visited the Yanjiazhuang Mine from October 27 to October 29, 2009. Dr. Deng, Mr. Rance and Ms. Epps visited the Yanjiazhuang Mine from February 6 to February 13, 2010. Dr. Deng visited the Yanjiazhuang Mine from December 3 to December 5, 2010, from January 29 to January 31, 2011, and from April 22 to April 24, 2011. During BDASIA's visit, discussions were held with technical and management personnel of the Company as well as with the Company's outside consultants. Historical operating performance and production schedules, life-of-mine budgets and forecasts were reviewed.

This BDASIA report contains forecasts and projections prepared by BDASIA, based on information provided by the Company. BDASIA's assessment of the projected production schedules and capital and operating costs is based on technical reviews of project data and project site visits.

The metric system is used throughout this report. The currency used is the Chinese Yuan ("RMB") and/or the United States dollar ("US$"). The exchange rate used in the report is RMB6.55 for US$1.00, the rate of the People's Bank of China prevailing on March 31, 2011.

2.0 QUALIFICATIONS OF BEHRE DOLBEAR

Behre Dolbear & Company, Inc. is an international minerals industry advisory group which has operated continuously in North America and worldwide since 1911. Behre Dolbear and its parent, Behre Dolbear Group Inc., currently have offices in Beijing, Denver, Guadalajara, London, New York, Santiago, Sydney, Toronto, Vancouver, and Hong Kong.

The firm specializes in performing mineral industry studies for mining companies, financial institutions, and natural resource firms, including mineral resource/ore reserve compilations and audits, mineral property evaluations and valuations, due diligence studies and independent expert reviews for acquisition and financing purposes, project feasibility studies, assistance in negotiating mineral agreements, and market analyses. The firm has worked with a broad spectrum of commodities, including base and precious metals, coal, ferrous metals, and industrial minerals on a worldwide basis. Behre Dolbear has acted on behalf of numerous international banks, financial institutions and mining clients and is well regarded worldwide as an independent expert engineering consultant in the minerals industry. Behre Dolbear has prepared numerous CPRs for mining projects worldwide to support securities exchange filings of mining companies in Hong Kong, China, the United States, Canada, Australia, the United Kingdom, and other countries.

Most of Behre Dolbear's associates and consultants have occupied senior corporate management and operational roles and are thus well-experienced from an operational view point as well as being independent expert consultants.

BDASIA is a wholly-owned subsidiary of Behre Dolbear established in 2004 to manage Behre Dolbear's projects in China and other Asian countries. Project teams of BDASIA commonly consist of senior-level professionals from Behre Dolbear's offices in Denver, Colorado, of the United States, Sydney of Australia, London of the United Kingdom and other worldwide offices. Since its establishment, BDASIA has conducted over 50 technical studies for mining projects in China or mining projects located outside of China to be acquired by SEHK-listed Chinese companies, including preparing CPRs for the SEHK IPO prospectuses of Hunan Nonferrous Metals Corporation Limited, Zhaojin Mining Industry Company Limited, Hidili Industry International Development Limited, Real Gold Mining Limited, China Vanadium Titano-Magnetite Mining Company Limited, China Gold International Resources Corporation Limited, and China Kingstone Mining Holdings Limited and for the Shanghai Stock Exchange ("SSE") IPO listing of Western Mining Company Limited. These eight companies were successfully listed on the SEHK/SSE from 2006 to 2011.

3.0 DISCLAIMER

BDASIA has conducted an independent technical review of the Company's Yanjiazhuang Mine and holdings. Site visits have been made to the project site by BDASIA professionals involved in this study. BDASIA has exercised all due care in reviewing the supplied information and believes that the basic assumptions are factual and correct and the interpretations are reasonable. BDASIA has independently analyzed the Company's data, but BDASIA did not perform an audit on the Company's data. BDASIA has relied on the data provided by the Company, and the accuracy of the conclusions of the review largely relies on the accuracy of the supplied data. The Company has guaranteed that the data provided for BDASIA's review is true, accurate and complete. Other than the disclaimers made in this section of the BDASIA report, there are no any other indemnities provided to BDASIA by the Company.

4.0 PROPERTY DESCRIPTION

4.1 Location, Access and Infrastructure

The Yanjiazhuang Mine is located approximately 40 km west of the Lincheng County seat (Figure 1.1), in the southwestern section of the Hebei Province in China. The geographic location of the property is defined by longitudes from 114°09'45"E to 114°11'15"E and latitudes from 37°29'15"N to 37°31'30"N. The Lincheng County has a total area of 797 square kilometers ("km^2") and a population of approximately 196,000. The project is located west of the village of Yanjiazhuang, which is administrated by the Haozhuang Township in the county.

Access to the Yanjiazhuang Mine is generally good. There is a newly-constructed 5.5-km long dirt/gravel mine access road connecting Lincheng Xingye's office and its two existing concentrators to a north-south provincial highway (S202, the Pingshan-Shexian highway) at a point approximately 2 km south of the Haozhuang Township; another east-west provincial highway (S328, the Nangong-Haozhuang highway) continues from Haozhuang for approximately 32 km to the east to the Lincheng County seat. The Lincheng County seat is located west of the Beijing-Zhuhai Expressway, the Beijing-Guangzhou Railroad and state highway G107. The distance from the county seat is 78 km to Shijiazhuang, the capital city of Hebei Province, 350 km to Beijing in the north and 54 km to Xingtai in the south.

Hebei Province is the largest steel-producing province and also the largest iron ore-producing province in China. Iron concentrates produced in the province, however, are insufficient to satisfy the needs of the steel mills in the province, and a large quantity of iron ore and/or iron concentrates are imported from outside the province as well as from outside China every year, making Hebei Province also the largest iron ore/concentrate importing province in China. As a result, iron concentrates produced in the province are in high demand by the local steel industry. Iron concentrates produced by the Yanjiazhuang Mine will be sold to the steel manufacturers in the surrounding areas in the province. Concentrate transportation from the project will generally be by truck to Lincheng Xingye's customers in Hebei Province within a 100 km radius and the transportation costs have been and will generally be paid by the customers.

Within the Yanjiazhuang mining property, Lincheng Xingye has constructed access roads to the planned open pits in the southern and central portions of the over 4-km long strike of the Yanjiazhuang iron deposit along the north-northeast direction. These roads will be sufficient to support the planned Phase I production. Lincheng Xingye understands that these roads will need to be extended to the northern portions of the planned open pit mining area to support the Phase III expansion of the project.

Currently, the electricity supply to Yanjiazhuang is from the local Lincheng County power grid through the 35-kV Haozhuang substation located approximately 7-km to the east. Power transmission lines and substations have been constructed to Lincheng Xingye's office and the two crushing plants and two concentrators. Electricity for the Phase I concentrating plants will be supplied by the existing power transmission lines. For the Phase II/III expansions of the project, two new 35-kV substations will be constructed at Haozhuang and a new power transmission line is being constructed from Haozhuang to the Yanjiazhuang Mine to provide electricity for the Phase II and Phase III plants, respectively. Lincheng Xingye has reached an agreement with the county power-supply company for the construction of the new power-supply facilities. Lincheng Xingye's management has stated that power supply will be sufficient for the planned mining and processing operations.

There are significant surface waters in the Yanjiazhuang Mine area. During the wet season (July to September), waterflows from surface drainages in the project area can provide a significant portion of the fresh water needed for the existing and proposed wet magnetic concentrating plants. However, local surface drainage water is insufficient for planned production during the dry season and a major fresh water source is required. Northern China, including the Yanjiazhuang Mine area, had been suffering from a severe drought since last winter and it had a significant impact on the production of the Yanjiazhuang Mine. Because of the drought, plant production was significantly reduced since March 2011 and the Company was concentrated working on the plant construction, upgrading, modification and adjustment. In order to provide a reliable major fresh water source for the Yanjiazhuang Mine, the Company has reached an agreement with local authorities to use up to 10 million m^3 water per annum from the 170 million m^3 Lincheng Reservoir, located approximately 20 km east of the Project area. A 630-millimeter-diameter pipeline with two pump stations was being constructed during BDASIA's visit in April 2011 and the construction is expected to be finished in August 2011. In addition, there are four smaller water reservoirs east of the mining license area, the Yanjiazhuang Reservoir, the Huangmi No.1 and No.2 Reservoirs, and the Longjiawan Reservoir with a current water storage capacity of 120,000 cubic meters ("m^3"), 600,000 m^3, 1,200,000 m^3, and 300,000 m^3, respectively. These four smaller reservoirs and the local surface drainages will provide supplemental fresh water for the Yanjiazhuang Mine. Water from the concentrating plants and from the tailings storage facilities will also be recycled for concentrate production.

4.2 Climate and Physiography

The Yanjiazhuang Mine is located in a mountainous area in the eastern part of the Taihang Mountains. Local elevations in the project area range from 577 m to 1,128 m, with a maximum relief of approximately 550 m. The elevation is high in the northwest and low in the southeast. The area is characterized by steep mountains with deep valleys, and is the headwater of the Shi River.

The Yanjiazhuang Mine area has a continental temperate zone monsoonal climate with distinct seasonal changes. Summers are wet and hot with a maximum temperature of approximately 43°C; winters are dry and cold with a minimum temperature of approximately -24°C. The average annual temperature is around 13°C. Annual precipitation generally ranges from 500 millimeters ("mm") to 600 mm, which mostly occurs as rain in the wet season from July to September. There are generally 200 frost-free days in a year.

The area is a rural agricultural district, and primary crops include wheat, corn and millet and a variety of legumes. The economic crops include walnuts, persimmons, apples, chestnuts and other fruits. Industries in the Lincheng County area are relatively underdeveloped and consist mostly of coal and iron ore mining as well as transportation. Labor supplies are abundant in the area.

4.3 Property Ownership

Under the "Mineral Resource Law of the PRC", all mineral resources in China are owned by the state. A mining or exploration enterprise may obtain a permit for the mining or exploration right to conduct mining or exploration activities in a specific area during a specified period of validity. The permits are generally extendable at the expiration of their period of validity. The renewal application must be submitted to the relevant state or provincial authorities at least 30 days before the expiration of a permit. To renew an exploration permit, all exploration permit fees must be paid and the minimum exploration expenditure must have been made for the area designated under the exploration permit. To renew a mining permit, all mining permit fees and resource compensation fees must be paid to the state for the area designated under the mining permit. A mining permit has both horizontal limits and elevation limits, but an exploration permit has only horizontal limits.

Lincheng Xingye currently holds a permit for a mining right of 5.22348 km^2 in area for the Yanjiazhuang Mine; this permit was issued by the Land and Resource Department of Hebei Province. The horizontal boundary of the mining license is defined by 12 corner points and its elevation range is from 500 m to 1,028 m. The license number is C1300002009052110018498. This license is valid until July 20, 2017 and is extendable thereafter. The license permits Lincheng Xingye to conduct open pit iron ore mining at a rate of 3 Mtpa. The production rate can be increased if Lincheng Xingye can find sufficient iron ore resources to support the production expansion. BDASIA recommends that Lincheng Xingye apply for a production rate revision to the planned 10.5 Mtpa of ore for the mining license. All currently defined mineral resources and ore reserves reviewed by this report are contained within the limits of the mining license. As the iron mineralization continues to the north-northeast, crossing the current Yanjiazhuang mining license boundary, Lincheng Xingye is considering expanding the mining license to the north for an additional 0.7531 km^2.

According to information provided by the Company, iron ore production from the Yanjiazhuang Mine will be subject to a resource tax of RMB7.20/t (US$1.10/t), however, only 3.5 t of ore production will be assessed for each tonne of concentrate sold by the mine. A value added tax ("VAT") of 17% will be included in the sale price of iron concentrates produced from the Yanjiazhuang Mine, and there is also a city-maintenance-and-construction levy of 1% of the VAT and an education levy of 4% of the VAT. The corporate income tax rate for Lincheng Xingye is 25%.

BDASIA has not undertaken a legal due diligence review of Lincheng Xingye's mining license as such work is outside the scope of BDASIA's technical review. BDASIA has relied upon the Company's advice as to the validity of the mining license. BDASIA understands that the legal due diligence review of the mining license has been undertaken by the Company's PRC legal advisers.

Lincheng Xingye has secured sufficient surface land areas through short-term and long-term leases for the planned mining operation and expansion, including lands for the open pits, waste dumps, processing plant, tailings storage facilities ("TSFs"), office buildings, mine camp, and other mine infrastructural items. There are no claims that may exist over the land on which mining activity is being carried out.

BDASIA has been informed by the Company that there is no legal claim or proceeding that may have an influence on the Company's rights to explore and/or mine at the Yanjiazhuang Mine; the Company's Yanjiazhuang Mine operation has been in compliance with Chinese laws, regulations and permits, all taxes and fees to the relevant governments have been made or will be made on time based on payment schedule.

4.4 History

Metamorphosed sedimentary banded magnetite iron mineralization in the Yanjiazhuang Mine area was identified by regional geological investigation conducted by the Regional Geological and Surveying Brigade of the Geological Bureau of Hebei Province in 1960. However, this iron deposit did not become economic until the significant increase in iron ore and iron concentrate prices in recent years occurred.

Preliminary exploration of the iron deposit in the Yanjiazhuang Mine area was conducted by Brigade 11 from May 2006 to May 2007. Exploration work completed in the period includes 1:5,000 scale geological mapping, drilling 3 diamond drill holes ("DDH") with a total drilled length of 493.8 m, adit development of 308.5 m, and surface trenching of 1,200 m^3. The deposit was sampled by surface trenches along the normal 200-m spaced exploration lines with limited testing by drilling and underground adits for the deposit below the surface. Based on the result of this exploration work, a mining license for the Yanjiazhuang Mine was issued to Lincheng Xingye in May 2009, and a preliminary mining operation was established at Yanjiazhuang by Lincheng Xingye.

In July 2009, Brigade 11 completed another study of the Yanjiazhuang iron deposit, based mostly on work completed from 2006 to 2007. Brigade 11 estimated an expanded resource potential for the Yanjiazhuang mining license area in the study. This work provided a basis for a scoping level technical study by the Sinosteel Institute and a guide for the follow-up extensive detailed exploration work of the project.

An extensive detailed exploration of the Yanjiazhuang deposit was conducted by Brigade 11 from October to December 2009. Exploration work completed includes a detailed ground magnetic survey and drilling 47 DDH holes with a total drilled length of 10,672 m. Drill hole spacing for the near surface portion of the deposit is generally around 200 m (along strike) by 100 m (in the dip direction), increasing to approximately 400 m by 200 m at depth. A new geological report with updated resource estimation was completed in January 2010 by Brigade 11, and this report is used as the basis for a pre-feasibility-level technical study completed by the Sinosteel Institute in February 2010 and updated in December 2010. This updated resource estimate by Brigade 11 and the updated pre-feasibility-level study by the Sinosteel Institute, supplemented by additional information provided by the Company, form the basis for BDASIA's technical review and this CPR for the Yanjiazhuang Mine.

5.0 GEOLOGY AND DATABASE

The Hebei Province is currently the largest steel-producing province in China, and the province also has abundant iron deposits. Iron mineralization hosted by old metamorphosed sedimentary rocks, such as the Yanjiazhuang iron deposit, is one of the most import iron ore deposit types in the province.

5.1 Geology

5.1.1 Regional Geology

The Yanjiazhuang Mine area is tectonically located in the middle portion of the Sino-Korean paraplatform. Stratigraphy outcropping in the area consists primarily of Late Archean and Early Proterozoic rocks.

The Late Archean Wangjiachong gneissic sequence (referred to as the Shijialan Formation of the Archean Wutai Group in a 1987 regional geological survey report) occurs in the east part of the area, and the Nansizhang Formation and Nansi Formation of the Early Proterozoic Gantaohe Group occur in the western part. Lithologically, the former consists of mostly gneisses and is believed metamorphosed from deep intrusives; the latter consists of metamorphosed feldspar-quartzose pebble-sandstones, metamorphosed feldspar-quartzose sandstones, sandy slates and metamorphosed basalts. Magnetite iron mineralization is hosted by the metamorphosed pebble-sandstones with well-developed cross-bedding at the bottom of the Early Proterozoic Nansizhang Formation, which overlies unconformably on the Late

Archean gneisses. The Proterozoic strata strike north-northeasterly and dip to the northwest. The contact zone between the Late Archean gneisses and the Early Proterozoic metamorphosed sediments was intruded by numerous phases of gabbro and diabase, which have also been metamorphosed.

5.1.2 Geology of the Yanjiazhuang Iron Deposit

Strata outcropping at the surface in the Yanjiazhuang Mine area include the Late Archean Wangjiachong biotite-plagioclase gneisses and hornblende-plagioclase gneisses in the east and the Nansizhang Formation metasediments of the Early Proterozoic Gantaohe Group in the west. Quaternary sediments consisting of deluviums and alluviums are distributed mainly in the valleys (Figure 5.1).

The Nansizhang Formation strikes from 360° to 10°, and dips to the northwest at dip angles generally between 60° and 75° at the surface. It occupies about half of the surface area at Yanjiazhuang. The formation overlies unconformably on the Late Archean gneisses and is the primary iron mineralization host stratum in the area. Lithology in the formation includes a lower section of magnetite-bearing metamorphosed feldspar-quartzose pebble-sandstones and an upper section of metamorphosed feldspar-quartzose sandstones. The two rock types are gradational to each other in both lithology and magnetite content. Continuous sampling is needed to determine the boundary of the iron mineralized bodies.

The magnetite-bearing metamorphosed feldspar-quartzose pebble-sandstone at the bottom of the Nansizhang Formation is the primary iron mineralized stratum. This rock is light-gray to dark-gray in color, and locally changes to yellowish brown due to oxidation. The particle size in the rock ranges largely from 0.5 mm to 1.2 mm, and a small portion of the grains is 3-4 mm in size; the grain size generally decreases gradually upward. Feldspar (mostly oligoclase and microcline) and quartz are the primary minerals in the rock with small amounts of biotite, muscovite, epidote/chlorite and sericite. Magnetite is disseminated in the rock or occurs in enriched cross bedding bands or masses. Magnetite content in the rock generally ranges from 10% to 35%.

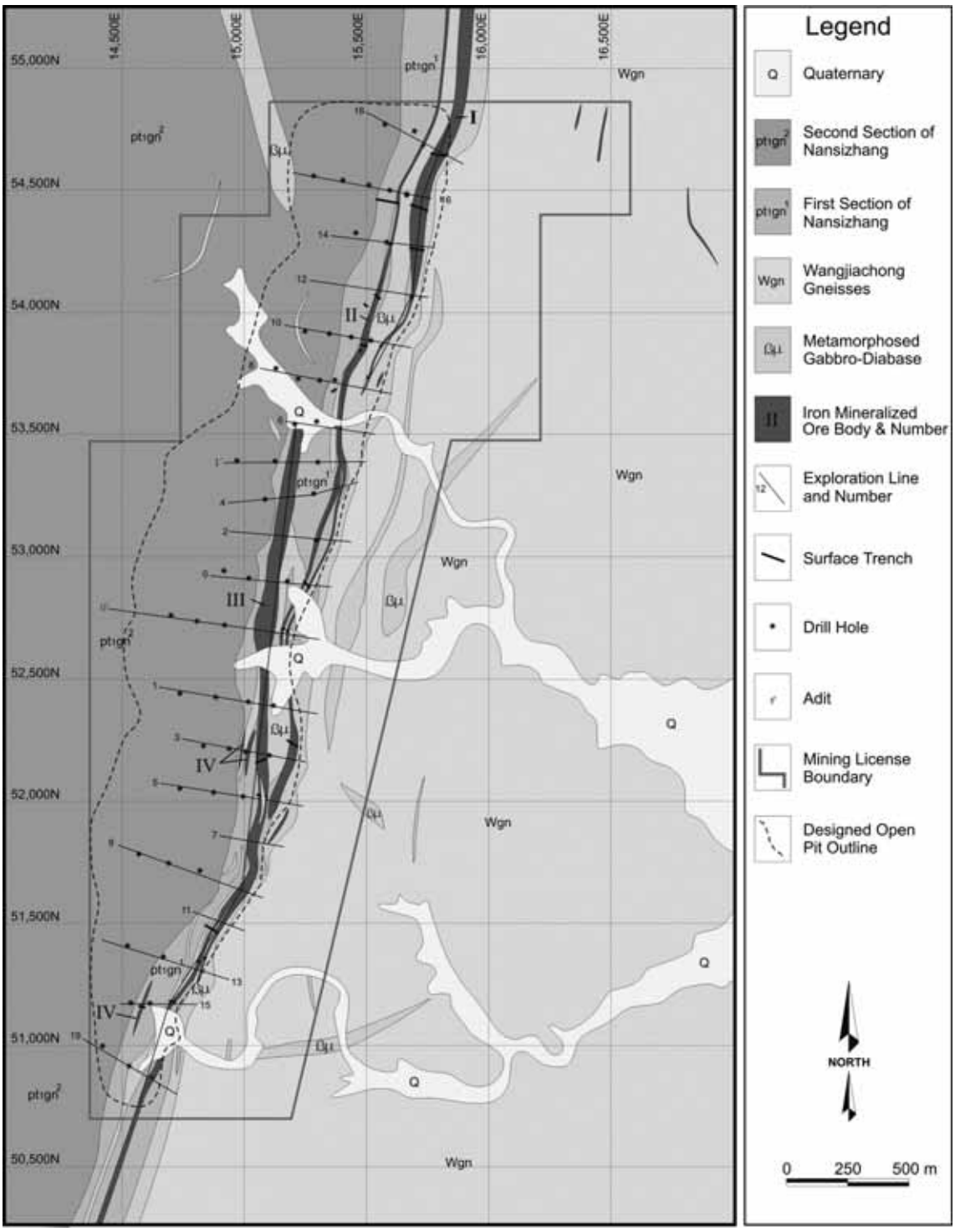

Figure 5.1 Geology Plan Map of the Yanjiazhuang iron deposit

Structures in the Yanjiazhuang Mine area are relatively simple. East of the mining license area, there is a Shiwopu syncline with a near-north-south fold axis, approximately 20-km long. The syncline is about 5-km wide. As predicted by BDASIA during the initial site visit in October 2009, the east portion of an open syncline with a near-north-south fold axis was well defined by the latest drilling in the mining license area. Fault structure is generally not well developed in the area. The magnetite-bearing zones near the surface generally dip to the west at an intermediate to high angle, but they become flat rapidly to depth, making the deposit amenable to an open pit mining operation.

The main intrusives in the Yanjiazhuang mining license area are the Lüliang gabbro-diabase dykes that intruded along the contact zone of the Early Proterozoic Nansizhang Formation and the Late Archean Wangjiachong gneisses. There are also some small later felsic dikes locally in the mining license area.

5.1.3 Geology of the Iron Mineralized Bodies

Based on its 2006-2007 and 2009 work, Brigade 11 has identified four iron mineralized bodies at the bottom of the Nansizhang Formation in the Yanjiazhuang Mine area. The direct footwall of the mineralized bodies is generally the metamorphosed gabbro-diabase and the indirect footwall is the Wangjiachong gneisses. The hangingwall of the iron mineralization is generally metamorphosed feldspar-quartzose pebble-sandstones, sandstones and metamorphosed gabbro-diabase.

These iron mineralized bodies are bedded and parallel; they strike approximately N10°E and dip to the northwest at dip angles between 17° and 84° at surface.

- The No.1 mineralized body is a magnetite-bearing layer at the bottom of the Nansizhang Formation located in the northern portion of the deposit, between Exploration Lines 8 and 18. It extends further north out of the mining license boundary. This mineralized body is approximately 1,300-m long on the surface with thickness ranging from 4.1 m to 105.4 m and averaging 57.5 m. It dips to the northwest with dip angles between 45° and 85° on the surface, but becomes flat rapidly to depth, forming a syncline. The mFe grade ranges from 6.14% to 32.65%, averaging 19.64%; the TFe grade averages 22.02%. Both thickness and grade of the mineralized body are quite stable. This mineralized body was defined by 9 DDH drill holes and 6 surface trenches.

- The No.2 mineralized body is a magnetite-bearing layer above the No.1 mineralized body in the Nansizhang Formation. It is located in the northern and central portions of the deposit, between Exploration Lines 7 and 18. It extends further north out of the mining license boundary. The mineralized body is approximately 2,900-m long on the surface with thicknesses ranging from 4.1 m to 43.6 m and averaging 13.2 m. Its middle section splits and merges locally. This mineralized body dips to the northwest with dip angles between 35° and 82° on the surface, but it becomes flat to depth. The mFe grade ranges from 6.16% to 33.21%, averaging 20.89%; the TFe grade averages 23.11%. Both thickness and grade are quite stable. This mineralized body was defined by 30 DDH holes and 14 surface trenches.

- The No.3 mineralized body is a magnetite-bearing layer above the No.2 mineralized body in the Nansizhang Formation located in the central and southern portions of the deposit, between Exploration Lines 6 and 19. It extends further south out of the mining license boundary. This mineralized body is approximately 2,800-m long on the surface with thicknesses ranging from 6.0 m to 120.4 m and averaging 45.9 m. The mineralized body splits and merges locally. It dips to the northwest with dip angles between 17° and 79° on the surface, but rapidly becomes flat at depth. The mFe grade ranges from 6.18% to 33.51%, averaging 19.87%. The TFe grade averages 22.20%. Both thickness and grade are quite stable. This mineralized body was defined by 25 DDH holes, 13 surface trenches, and one adit.

- The No.4 mineralized body consists of two small magnetite-bearing lenses above the No.3 mineralized body located in the southwestern portion of the deposit, intersected by drill holes and trenches in Exploration Lines 3 and 15. Each lens is controlled by only one to two drill holes and one surface trench, and is generally less than 300-m long along strike with an average thickness of 20.5 m. These lenses dip to the northwest on the surface and become flat to depth. The mFe grade averages 18.08%, and the TFe grade averages 20.53%.

Figures 5.2 and 5.3 are two cross sections produced by Brigade 11 in January 2010 for the Yanjiazhuang iron deposit, showing the distribution of the mineralized bodies in depth and the planned open pit.

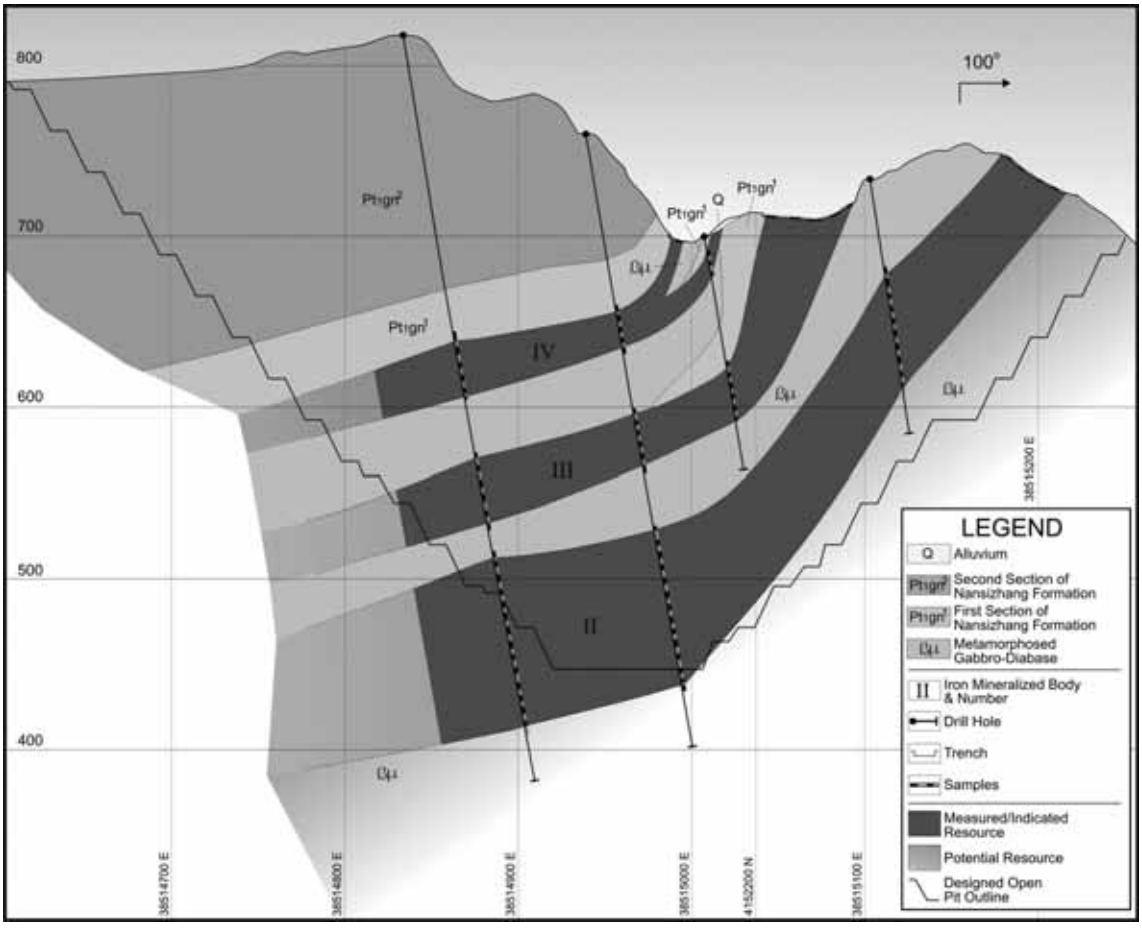

Figure 5.2 Exploration Line 3 section of the Yanjiazhuang iron deposit
(Location of the section is shown in Figure 5.1.)

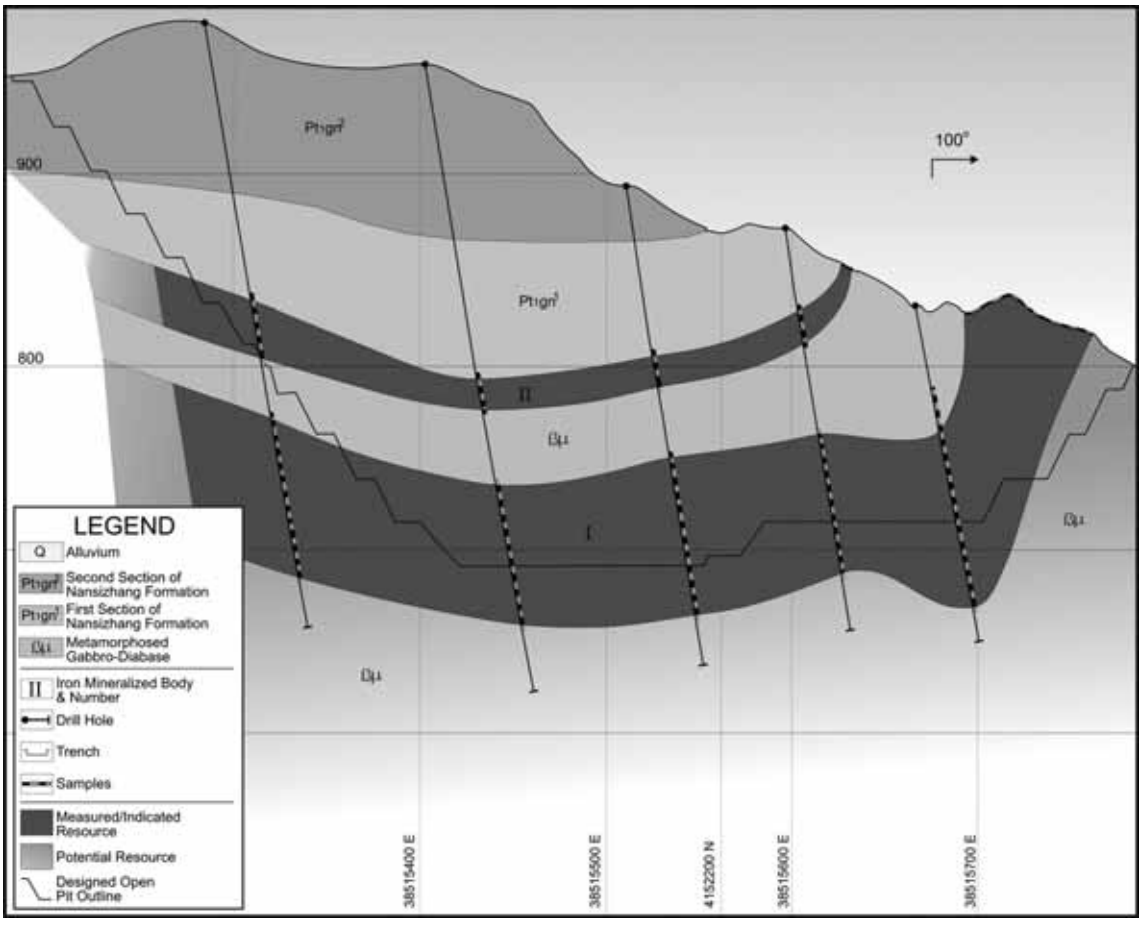

Figure 5.3 Exploration Line 16 section of the Yanjiazhuang iron deposit
(Location of the section is shown in Figure 5.1.)

Magnetite is the primary metallic mineral in the mineralized zones. It occurs as rounded fine grains mostly ranging from 0.25 mm to 0.8 mm. The mineral distribution is generally oriented along the bedding in the host rock, and locally enriched into small masses. Magnetite is partially oxidized to limonite near the surface, forming a thin film on the surface of the magnetite grains. The magnetite content in the mineralized zones generally ranges from 10% to 35%. Gangue minerals in the mineralized zone include quartz, oligoclase, microcline, sericite, epidote/chlorite and occasionally apatite.

Table 5.1 summarizes the results of chemical analysis of other elements for five composite samples from the mineralized zones. As the $(CaO+MgO)/(SiO_2+Al_2O_3)$ ratio is less than 0.5 to 1 in the mineralized zones, the iron ore in the Yanjiazhuang Mine area is considered as acid ore. The chemical analyses also show that the content of harmful elements, such as P and S, in the mineralized bodies is low. The level of the harmful elements in the deposit should not cause any quality problem for iron concentrate produced from the iron ore, and this is supported by the fact that the iron concentrate produced during trial and commercial production of the Yanjiazhuang Mine meets all the quality specifications of local iron concentrate customers.

Table 5.1 Chemical Analytical Results for Composite Samples of the Mineralized Zones at Yanjiazhuang

Sample Number	YZH01	YZH02	YZH03	YZH04	YZH05
Mineralized Body	I	II	III	III	IV
S (%)	0.016	0.031	0.016	0.008	0.016
P (%)	0.04	0.03	0.03	0.05	0.04
As (%)	0.58	0.32	0.27	0.40	0.42
Sn (%)	0.023	0.026	0.021	0.028	0.016
Pb (%)	0.0007	0.0007	0.0007	0.0007	0.0007
Zn (%)	0.0066	0.0056	0.0052	0.0060	0.0052
Cu (%)	0.0009	0.0004	0.0004	0.0004	0.0004
CaO (%)	0.49	1.23	1.28	1.81	0.49
MgO (%)	0.059	0.470	0.150	1.120	0.470
SiO_2 (%)	63.11	63.96	67.00	62.37	69.13
Al_2O_3 (%)	8.67	7.13	8.67	9.22	9.09

The magnetite-bearing mineralized zones are generally more resistant to erosion than the surrounding host rocks, and they generally outcrop as ridges in the field, making them a good target for open pit mining operations.

The Yanjiazhuang iron deposit is generally considered to be formed by metamorphism of banded magnetite-bearing sedimentary rocks. Intrusion of the gabbro-diabase was also believed to have played a partial role locally in the enrichment of iron content.

5.2 Geological Database

5.2.1 Database Used for the Mineral Resource Estimates

Databases used for the mineral resource estimation are generated by licensed exploration entities and/or by the mining companies themselves in China. Guidelines specifying the appropriate sampling, sample preparation and assaying techniques and procedures for different types of mineral deposits are issued by the relevant government authorities. The databases used for mineral resource estimation are generally produced following these set guidelines.

The principal sample types included in the assay database for the Yanjiazhuang Mine reviewed in this report comprise core samples of surface drilling and channel samples from surface trenches and underground adits.

Table 5.2 summarizes the database used for the mineral resource estimation for the Yanjiazhuang iron deposit reviewed in this report.

Table 5.2 Mineral Resource Database Statistics for the Yanjiazhuang Iron Deposit

Sample Type	Yanjiazhuang Mine
Core Drilling	
Holes	50
Meters	11,165.5
Surface Trenching	
Cubic Meters	1,200
Underground Adit Development	
Meters	308.5
Assays	
Core Samples	1,220
Channel Samples	329
Composite Samples	5
Density Measurements	
Core/Rock	81

5.2.2 Drilling, Logging and Survey

The purpose of the preliminary exploration work conducted by Brigade 11 in 2006-2007 was mostly to define the near surface portion of the Yanjiazhuang iron deposit. The primary exploration method used was surface trenching, which was supported by limited DDH drilling and underground adit development. Only 3 DDH holes were drilled and two underground adits were developed for the deposit to test the depth extension of the iron mineralization. These three holes and the two adits have all successfully intersected the expected iron mineralization zones.

The 2009 detailed exploration work was to systematically define the mineralized bodies in order to produce Measured and Indicated mineral resource estimates that can be used for mine planning and production scheduling in a pre-feasibility study of the Yanjiazhuang deposit. A total of 47 surface DDH holes were drilled with a total drilled length of 10,671.7 m. These drill holes, together with the surface trenches and underground adits, have successfully defined the mineralized bodies.

Drilling was conducted using Chinese-made drill rigs. Drill hole size was generally 105 mm at the top, reducing to 89 mm and then to 75 mm. Core recovery was reasonable, averaging around 79% for mineralized intervals (ranging from 76% to 100%) and 78% for the host rocks (ranging from 73% to 92%). These core recoveries are relatively low for a modern drilling program as relatively old Chinese-made drill rigs were used for the drilling, but they do meet the Chinese drilling standards. As magnetite is generally distributed rather homogeneously throughout the mineralized bodies, BDASIA considers that the core recovery provides a reasonable basis to estimate the grade and thickness of the deposit.

All drill holes were drilled at a dip angle of 80° in the direction perpendicular to the strike of the mineralized bodies. Drill hole collar locations were surveyed by a differential GPS instrument after drilling, and down-hole deviation was measured in 50-m to 100-m intervals using down-hole survey techniques with drill hole depth checks at the same intervals. Drill cores were logged in detail by a project geologist at the drill site before sampling.

5.2.3 Sampling, Sample Preparation and Assaying

Surface trenching was the primary exploration method used in the 2006-2007 Brigade 11 exploration program. The entire Yanjiazhuang deposit was sampled by surface trenches at a spacing of approximately 200 m. Two adits were also developed at locations with high relief, and the subsurface portions of the mineralized zones can be easily accessed. Surface trenches and underground cross cuts were sampled by channel samples oriented as close to the true thickness direction of the mineralized zones as possible. Channels were cut 10-centimeters ("cm") wide and 3-cm deep. Sample lengths were generally 2 m to 4 m, covering the entire magnetite-bearing metamorphosed feldspar-quartzose pebble-sandstone interval, as the mineralization is gradational and the ore-waste boundaries can only be determined based on assay results.

Surface drilling was the primary exploration method used in the 2009 Brigade 11 exploration program. Drill core was split by a mechanical core splitter along the central line of the core; half of the core was sent for assay, and the other half was retained for record. Typically the core was sampled in 4-m lengths, although variation in intervals does occur to coincide with geological contacts. Generally, the entire magnetite-bearing metamorphosed feldspar-quartzose pebble-sandstone interval was sampled and assayed.

Sample preparation and analysis were conducted by the Brigade 11 assay laboratory located in Xingtai, Hebei, which is accredited at the provincial level and has a good quality control program. Samples were prepared by a two-stage crushing and one-stage grinding procedure to reduce the sample particle size to approximately -200 mesh (0.074 mm).

Analytical methods adopted for TFe grade were wet chemical analyses. The mFe grade was determined by separating the magnetic portion of a sample using a magnet before the analysis. The wet chemical analytical method for iron grade is widely used in the mining industry in China and generally produces reliable results if conducted correctly. BDASIA would note that the standard method to separate the magnetic portion of an iron ore sample in the West is by using the Davis Tube, which can produce a nearly perfect separation for the magnetic portion of the sample. Separation of the magnetic portion of an iron ore sample using a magnet may be incomplete, resulting in a slightly conservative estimate for its mFe content.

5.2.4 Quality Control and Quality Assurance

Assay quality control and quality assurance programs include internal check assays, external check assays, and analysis of assay standards. For samples analyzed in Brigade 11's 2006-2007 exploration program for the Yanjiazhuang deposit, 42 of the total of 403 samples (10.4%) were subject to internal check assays, and 30 (7.4%) were sent for external check assays. For samples analyzed in Brigade 11's 2009 exploration program, 120 of the total of 1,146 samples (10.5%) were subject to internal check assays, and 60 (5.2%) were sent for external check assays. The internal check assays were conducted by a different operator at the same laboratory and the external check assays were conducted by Hebei Baoding Central Analytical Laboratory, an unpaired assay laboratory, located in Baoding City in Hebei province. To determine the assay quality, check assay results were compared with the original assay results, and the variance was compared to permitted random error limits specified by government regulation for various grade ranges. It was reported that the internal and external check assay results for the Brigade 11's 2006-2007 and 2009 exploration programs were all within the permitted range.

From analysis of sampling, sample preparation and analysis procedures, check assay results, Lincheng Xingye's June 2008 test run of facilities and equipment data as well as BDASIA professionals' field and drill core observation of the mineralized bodies for the Yanjiazhuang iron deposit, BDASIA concludes that the analytical methods used for the Yanjiazhuang iron deposit produced acceptable results with no material bias.

5.2.5 Bulk Density Measurements

Bulk density data was collected using core/rock samples. The bulk density of core or rock samples was measured using the wax-coated water immersion method. The average bulk density for the 73 measurements of samples from the iron mineralized bodies undertaken for the Brigade 11's 2006-2007 and 2009 exploration programs is 3.12 t/m^3.

BDASIA considers that the average bulk density adopted is reasonable and appropriate, based on the mineral composition of the Yanjiazhuang deposit.

6.0 MINERAL RESOURCES AND ORE RESERVES

6.1 Mineral Resource/Ore Reserve Classification System

The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia in September 1999 and revised in December 2004 ("the JORC Code") is a mineral resource/ore reserve classification system that has been widely used and is internationally recognized. It has also been used previously in CPRs for mineral resource and ore reserve statements for other Chinese companies reporting to SEHK. The JORC Code is used by BDASIA to report the mineral resources and ore reserves of the Company's Yanjiazhuang Mine in this report.

A Mineral Resource is defined in the JORC Code as an identified in-situ mineral occurrence from which valuable or useful minerals may be recovered. Mineral Resources are classified as Measured, Indicated or Inferred according to the degree of confidence in the estimate:

- a Measured Resource is one which has been intersected and tested by drill holes or other sampling procedures at locations which are close enough to confirm continuity and where geoscientific data are reliably known;
- an Indicated Resource is one which has been sampled by drill holes or other sampling procedures at locations too widely spaced to ensure continuity, but close enough to give a reasonable indication of continuity and where geoscientific data are known with a reasonable level of reliability; and
- an Inferred Resource is one where geoscientific evidence from drill holes or other sampling procedures is such that continuity cannot be predicted with confidence and where geoscientific data may not be known with a reasonable level of reliability.

An Ore Reserve is defined in the JORC Code as that part of a Measured or Indicated Resource which could be mined and from which valuable or useful minerals could be recovered economically under conditions reasonably assumed at the time of reporting. Ore reserve figures incorporate mining dilution and allow for mining losses and are based on an appropriate level of mine planning, mine design and scheduling. Proved and Probable Ore Reserves are based on Measured and Indicated Mineral Resources, respectively. Under the JORC Code, Inferred Mineral Resources are deemed to be too poorly delineated to be transferred into an ore reserve category, and therefore no equivalent Possible Ore Reserve category is recognized or used.

The general relationships between exploration results, mineral resources and ore reserves under the JORC Code are summarized in Figure 6.1.

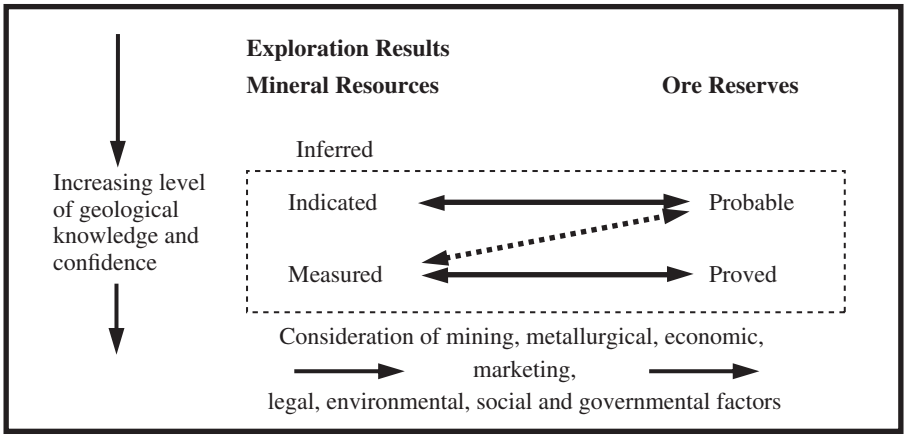

Figure 6.1 Schematic Mineral Resources and Their Conversion to Ore Reserves

Generally, ore reserves are quoted as comprising part of the total mineral resource rather than the mineral resources being additional to the ore reserves quoted. The JORC Code allows for either procedure, provided the system adopted is clearly specified. In this BDASIA CPR, all of the ore reserves are included within the mineral resource statements.

6.2 General Procedures and Parameters for the Mineral Resource Estimation

The methods used to estimate mineral resources and the parameters used to categorize the mineral resources for a particular type of mineral deposit are generally prescribed by the relevant PRC government authorities. The mineral resource estimates are based on strictly defined parameters, which include minimum grades and minimum thicknesses. The mineral resources for a deposit are generally estimated by an independent engineering entity with a government-issued license.

The exploration work and the resource estimation for the Yanjiazhuang iron deposit were conducted by Brigade 11, which holds a Class A exploration license for solid minerals issued by the Land and Resource Department of Hebei Province.

The drill hole or channel sampling density required to define a certain class of mineral resource depends on the type of deposit. Based on the mineralized body size and complexity, a deposit is classified into certain exploration types before mineral resource estimation. As the iron mineralization at Yanjiazhuang generally comprises large stratiform mineralized bodies of hundreds to thousands of meters in dimension with good continuity in both grade and thickness, the deposit was categorized as exploration type I under the Chinese classification system for iron deposits.

For the purpose of mineral resource estimation, all drilling and sampling data, along with other relevant geological information, were digitized into the MAPGIS system by Brigade 11. MAPGIS is a computer software system widely used in China for preparation of plans and sections for mineral resource estimation. Sections and plans used for the 2007, 2009 and 2010 mineral resource estimations for the Yanjiazhuang Mine were produced by MAPGIS.

The parallel section method, a polygonal method based on projected cross sections, was used for the mineral resource estimation of the Yanjiazhuang iron deposit by Brigade 11. Based on the resource estimation report provided by Brigade 11 and discussions with Brigade 11's technical personnel, the general procedures and parameters used in the mineral resource estimation are described below.

6.2.1 Determination of "Deposit Industrial Parameters"

The economic parameters for mineral resource estimation are referred to as "deposit industrial parameters" ("DIP") in Chinese literature or technical reports and are normally approved by government authorities for each deposit or type of deposit based on the government's industry specification. These parameters generally include the cutoff grades (separated into boundary cutoff grade, drill hole cutoff grade and/or block cutoff grade), minimum mining width, and minimum waste exclusion width. The DIP used for the mineral resource estimates of the Yanjiazhuang iron deposit reviewed in this report are summarized in Table 6.1.

Table 6.1 Deposit Industrial Parameters for Mineral Resource Estimation

Metal	Boundary Cutoff Grade	Drill Hole/Trench Cutoff Grade	Minimum Width	Minimum Waste Exclusion Width
mFe	6%	8%	4m	4m

6.2.2 Determination of Block Boundaries and Confidence Levels

In the parallel section mineral resource estimation, a mineralized body on a cross section was separated into a number of blocks, with each block assigned a mineral resource confidence level based on the type, density and quality of available geological data. A Measured resource block was defined by surface drilling, surface trench channel sampling and underground channel sampling with a data spacing of approximately 200 m (along strike) by 100 m (in the dip direction). An Indicated block was defined by a data spacing of at least 400 m by 200 m. Extrapolation from a data point for the Measured and Indicated resource blocks was limited to 50 m. No Inferred block was defined by Brigade 11 in the current resource estimation. BDASIA believes that the geological interpretation for the Yanjiazhuang deposit is generally reasonable and reliable, which provides a solid basis for the resource/reserve estimation and mine planning. Figure 6.2 shows the resource classification for the No. III mineralized body in the Yanjiazhuang iron deposit on a projected plan map.

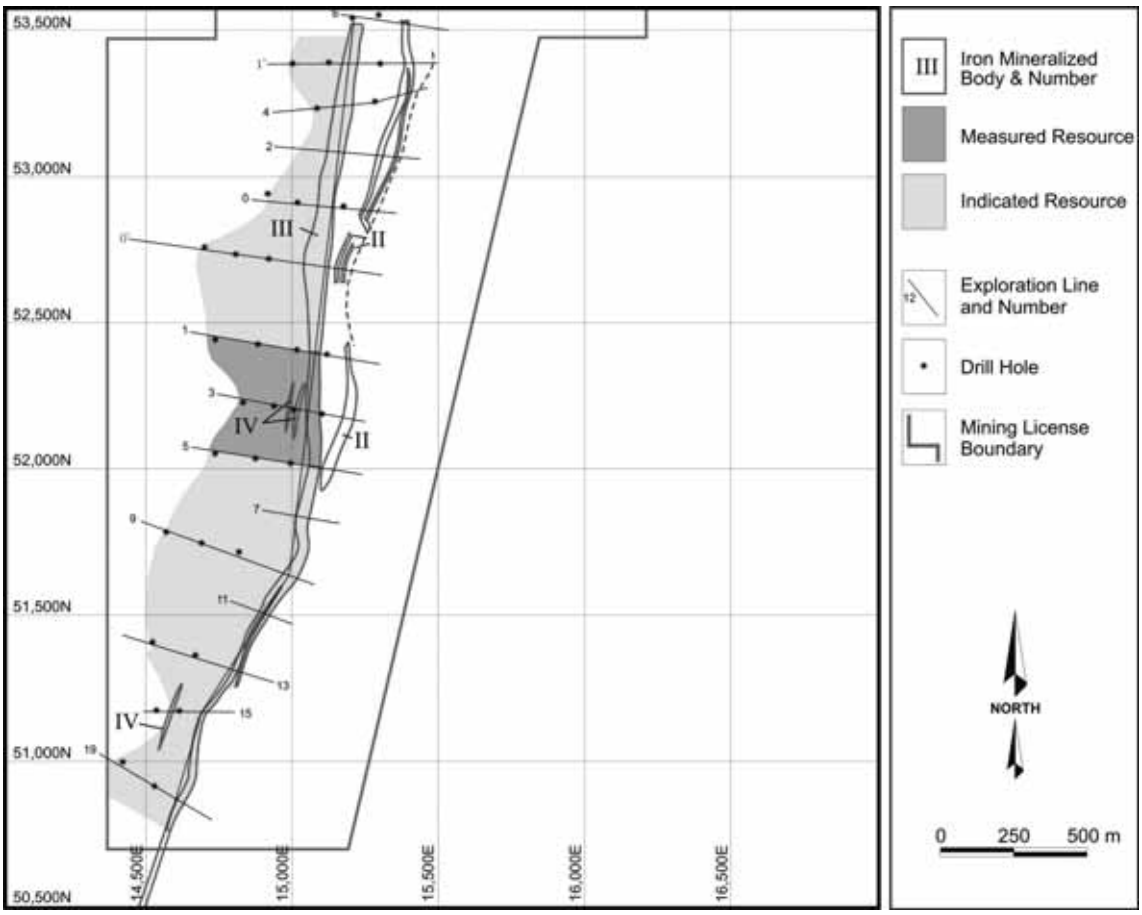

Figure 6.2 Block Mineral Resource Classification for the No.III Mineralized Body on a Projected Plan

6.2.3 Mineral Resource Estimation

In the mineral resource estimation process, the corresponding two-dimensional blocks on two neighboring parallel cross sections were used to define a three-dimensional block. The area of the three-dimensional block (S) was calculated from the areas of the two-dimensional blocks on cross sections (S_1 and S_2). When the area difference for the two blocks on cross sections was less than 40%, the following trapezoid formula was used for the three-dimensional block sectional area calculation:

$$S = \frac{S_1 + S_2}{2}$$

When the area difference for the two blocks on cross sections was more than 40%, the following frustum formula was used for the three-dimensional block sectional area calculation:

$$S = \frac{S_1 + S_2 + \sqrt{S_1 X S_2}}{2}$$

When a block on a cross section pinches out, the three-dimensional block sectional area was half the two-dimensional block area if the block pinches out to a line or one third of the two-dimensional block area if the block pinches out to a point.

The volume of the three-dimensional block was determined by multiplying the sectional area (S) by the distance (L) between the two sections.

When the two sections used for block resource volume calculation were not parallel, the following formula was used for the three-dimensional block volume calculation:

$$S = \left(\frac{S_1 + S_2}{2}\right) \text{ X } \left(\frac{L_1 + L_2}{2}\right)$$

where L_1 and L_2 were perpendicular distances from the barycenter of one of the two sections to the other section.

The block mineral resource tonnage was determined by multiplying the volume by the average bulk density of the type of the mineral resources in the block, based on the bulk density measurements. The mineralized body and deposit tonnages were based on the sum of the block tonnages.

Average drill hole or channel sample metal grades were calculated using the length-weighted average of all the drill hole or channel samples within the block boundary. The block average grade was calculated using the length-weighted average of all drill hole or channel intersections inside the block. The mineralized body grade was calculated using the tonnage-weighted average of all blocks inside the mineralized body. The deposit grade was calculated using the tonnage weighted average of all the mineralized bodies in the deposit.

6.2.4 Discussion

Based on BDASIA's review, BDASIA considers the geological interpretation, mineral resource estimation procedures and parameters applied by Brigade 11 to the Yanjiazhuang Mine to be generally reasonable and appropriate. The deposit is a metamorphosed sedimentary banded iron deposit with good spatial and grade continuity. The Measured category blocks were defined by drill holes and surface trenches at a data spacing of approximately 200 m (along strike) by 100 m (in the dip direction) and have good geological control. The Indicated category blocks were defined by a data spacing of no more than 400 m × 200 m and have a reasonable level of geological control. There was only limited extrapolation (50 m) from data points for the Measured and Indicated category resource. No Inferred resource blocks were estimated.

The Yanjiazhuang Mine had some limited trial production in 2008 and 2009. Based on Lincheng Xingye's record, a total of 40,000 t and 78,000 t of ore were processed by the No.1 and No.2 processing plants, respectively, for the test run of facilities and equipment in the month of June 2008, and the average ore TFe grade was 19.59%. The processed ore was from the No.3 mineralized body located in the southern portion of the Yanjiazhuang Mine area. This average TFe grade of 19.59% is generally in line with the average TFe grade of 20.64% in the resource estimation for the No.3 mineralized body of the Yanjiazhuang deposit, after considering mining dilution.

Based on reviewing the deposit geology, drilling and sampling data, and procedures and parameters used for the estimation of mineral resources, BDASIA is of the opinion that the Measured and Indicated mineral resources estimated under the 1999 Chinese mineral resource system for the Yanjiazhuang iron deposit by Brigade 11 conform to the equivalent JORC mineral resource categories. The economic portion of the Measured and Indicated resources can accordingly be used to estimate Proved and Probable ore reserves.

6.3 Mineral Resource Statement

The mineral resource estimates under the JORC Code as of December 31, 2010 for the Yanjiazhuang Mine, as reviewed by BDASIA, are summarized in Table 6.2. The mineral resources estimated by Brigade 11 were dated December 31, 2009. As there was negligible production at the Yanjiazhuang Mine in 2010, the mineral resources as of December 31, 2010 are essentially the same as that at December 31, 2009. The mineral resource estimates are inclusive of mineralization comprising the ore reserves. The Measured and Indicated mineral resources can be used for ore reserve estimation and mine planning.

Table 6.2
Yanjiazhuang Mine Mineral Resource Summary – December 31, 2010
(The Company's attributable share of the following mineral resource is 99%.)

Mineralized Body Number	JORC Mineral Resource Category	Tonnage Mt	Grades		Contained Metals	
			TFe %	mFe %	TFe Mt	mFe Mt
I	Measured	40.32	23.36	21.00	9.42	8.47
	Indicated	20.24	20.60	17.96	4.17	3.64
	Subtotal	60.56	22.43	19.98	13.59	12.10
II	Measured	40.28	22.46	18.37	9.05	7.40
	Indicated	61.10	22.20	17.67	13.50	10.79
	Subtotal	101.38	22.24	17.94	22.55	18.19
III	Measured	19.20	20.92	18.52	4.02	3.56
	Indicated	129.81	20.60	18.53	26.74	24.05
	Subtotal	149.01	20.64	18.53	30.76	27.61
IV	Indicated	0.81	19.15	16.78	0.16	0.14
Total	Measured	99.80	22.53	19.46	22.48	19.42
	Indicated	211.96	21.03	18.22	44.57	38.62
	Total	311.76	21.51	18.62	67.05	58.04

6.4 Gabbro-Diabase Resources

In order to investigate the possibility of utilizing the gabbro-diabase resources occurring as the footwalls and hangingwalls of the iron mineralization in the Yanjiazhuang Mine area, Lincheng Xingye engaged the First Geological Exploration Institute of China Metallurgical Geology Bureau to conduct an estimate for the gabbro-diabase resources based primarily on the drilling data generated by Brigade 11 in the exploration process for iron resources for the Yanjiazhuang Mine. This gabbro-diabase resource estimate was summarized in a geological report dated March 2010. Based on this report and BDASIA's review, the gabbro-diabase resources at the Yanjiazhuang Mine were estimated at approximately 207 million cubic meters with an Indicated Resource category under the JORC Code. It is expected that when the commercial production of the gabbro-diabase begins, there would be some cost sharing with the iron ore production.

BDASIA would note that mineral resources that are not mineral reserves do not have demonstrated economic viability.

6.5 Ore Reserve Estimation

Ore reserves comprise that portion of the Measured and Indicated mineral resources that are planned to be mined economically and delivered to the concentrator for processing. Ore reserves and the mine plan for the Yanjiazhuang Mine were developed by the Sinosteel Institute in a pre-feasibility-level technical study report for the project dated December 2010 using the January 2010 Brigade 11 mineral resource estimate. Only the Measured and Indicated mineral resources were considered as potential ore in the Sinosteel Institute's ore reserve estimation and mine planning.

As the mineralized zones are large, tabular mineralized bodies exposed at surface and forming a syncline at depth, they are suitable for open pit mining operations. The Sinosteel Institute used a Chinese mining software, 3DMine, for pit optimization and mine planning of the Yanjiazhuang deposit. The sectional resource model produced by Brigade 11 was converted to a 3-dimensional block model with a block size of 12×12×12 m. The sectional polygonal mineralized body boundary was transported into the 3-dimensional blocks based on the block location. Pit optimization was performed on the block model using the economic and technical parameters listed in Table 6.3.

Table 6.3
Economic and Technical Parameters Used for Pit Optimization of the Yanjiazhuang Mine

Item	Unit	Parameter
Ore production rate	Mtpa	10.5
Average TFe concentrator feed grade	%	20.43
Overall Processing TFe recovery	%	81.7
Net block ore value	RMB/t	120/105/90/75/60/45
Approximate 66% TFe iron concentrate price (excluding VAT)	RMB/t	705/647/588/529/471/412
Base waste mining cost	RMB/t	10.00
Waste mining cost increment (below the pit rim surface)	RMB/km	2.00
Ore mining cost	RMB/t	16.15
Processing cost	RMB/t	26.71
G&A and other cost	RMB/t	10.48
Resource Tax	RMB/t	7.20
All ore related operating costs	RMB/t	60.54
Pit slope (inter-ramp)	degrees	50
Mining dilution factor (Chinese)	%	5.0
Mining recovery factor	%	95.0

It was assumed that all blocks have the same TFe average grade of 20.43%, which was diluted by 5% (Chinese mining dilution factor) from the original in-situ resource TFe grade of 21.51%. The overall processing TFe recovery used was 81.7%. The net block ore value was calculated from the average TFe grade, overall processing TFe recovery, ore-related operating costs and a number of assumed 66% TFe iron concentrate prices (excluding VAT) as listed in the table. According to BDASIA's calculation, the break even cutoff TFe grade under the assumed overall processing TFe recovery and ore-related operating costs is approximately 6.85% at the 66% TFe iron concentrate price of RMB705/t (US$107.6/t, excluding VAT). As all the blocks in the Brigade 11 resource model have TFe grade higher than the break-even TFe grade, all the resource blocks were used as potential ore in pit optimization and mine planning.

It should be noted that the definition of the mining dilution factor in China is different from that in most Western countries. The mining dilution factor in China is defined as the ratio of the waste tonnage in the concentrator feed to the total concentrator feed tonnage, but the mining dilution factor in the West is defined as the ratio of the waste tonnage in the concentrator feed to the ore tonnage in the concentrator feed. Therefore, when using the same data for calculation, the Western mining dilution factor is always higher than the Chinese mining dilution factor, with the difference getting larger when the dilution factor is higher. For example, the Chinese mining dilution factor of 5.0% is equivalent to a Western mining dilution factor of 5.3%, and the Chinese mining dilution factor of 9.0% is equivalent to a Western mining dilution factor of 9.9%.

Six pit shells were produced in the Sinosteel Institute's pit optimization at net block ore values of RMB45/t, RMB60/t, RMB75/t, RMB90/t, RMB105/t and RMB120/t. The RMB90/t pit shell was selected for final pit design as it has a reasonable incremental strip ratio for the assumed economic and technical conditions.

The final pit design was performed by the Sinosteel Institute by smoothing the pit walls and by incorporating a ramp system into the selected optimized pit shell using the pit design parameters listed in Table 6.4.

Table 6.4
Final Pit Design Parameters for the Yanjiazhuang Mine

Parameter	Number
Bench Height (m)	12
Crest Elevation of the Top Pit Bench (m)	1,124
Toe Elevation of the Bottom Pit Bench (m)	452
Number of Benches	56
Final Pit Surface Outline Length (m)	4,310 (east-northeast)
Final Pit Surface Outline Width (m)	778
Bench Face Slope Angle (degrees)	65
Maximum Inter-Ramp Slope Angle (degrees)	50
Double Bench Berm Width (m)	9.46
Two-Way Haul Road Width (m)	22
One-Way Haul Road Width (m)	15
Maximum Haul Road Slope (%)	9.0

The designed final pit contains 260.01 Mt of ore and 748.88 Mt of waste with an average waste to ore strip ratio of 2.88:1.

BDASIA's review indicates that the Sinosteel Institute's pit optimization and final pit design for the Yanjiazhuang Mine has generally been performed correctly. A Chinese mining dilution factor of 5.0% (5.3% Western) and a mining recovery factor of 95% were used for the mine planning and ore reserve estimation. BDASIA considers these factors to be appropriate at the planning stage as the mineralized zones in the Yanjiazhuang deposit are large tabular bodies. The diluting waste was assumed to have a zero metal grade. No detailed geotechnical study has been performed to determine the appropriate inter-ramp pit slope, but a relatively conservative slope angle of 50° was used in the Sinosteel Institute's pit optimization and final pit design. BDASIA recommends that Lincheng Xingye carry out a detailed geotechnical study to determine the appropriate pit slope angles in the early years of mining operation so that the western high wall of the open pit can be designed appropriately. A slightly higher pit slope angle can reduce the waste stripping significantly, resulting in meaningful savings for Lincheng Xingye. A consistent TFe grade was assumed for all the model blocks in pit optimization, pit design, and ore reserve estimation. This is acceptable for a pre-feasibility-level technical study as the TFe grade has good continuity and only small variations. However, BDASIA believes that it is important to use an appropriately constructed TFe grade block model to refine the pit optimization and final pit design in the early years of mining operation to produce a truly optimized pit design.

6.6 Ore Reserve Statement

Ore reserve statements as of December 31, 2010 for Lincheng Xingye's Yanjiazhuang Mine as estimated by the Sinosteel Institute and adopted by BDASIA in this CPR are summarized in Table 6.5. The ore reserve estimates include both Proved and Probable ore reserves, which were converted from Measured and Indicated mineral resources, respectively. Mining dilution factors and mining recovery factors for the ore reserve estimates are as shown in Table 6.3.

Table 6.5
Yanjiazhuang Mine Ore Reserve Summary – December 31, 2010
(The Company's attributable share of the following mineral resource is 99%.)

		Grades		Contained Metals	
JORC Ore Reserve Category	**Tonnage (Mt)**	**TFe %**	**mFe %**	**TFe Mt**	**mFe Mt**
Proved	85.80	21.39	18.48	18.35	15.85
Probable	174.21	19.97	17.30	34.79	30.13
Total	260.01	20.43	17.68	53.14	45.98
Waste	748.88				
Strip Ratio (waste t/ore t)		2.88			

6.7 Mine Life Analysis

The ore reserve mine life of the Yanjiazhuang Mine reviewed in this study based on the December 31, 2010 ore reserve estimate and the long-term raw ore production rate at the full designed capacity of 10.5 Mtpa is approximately 24.8 years. However, as there is a production ramp up process in the beginning and a production ramp down process at the end, the actual mine life of the Yanjiazhuang Mine will be approximately 26 years based on the current production plan. This ore reserve mine life may change significantly in the future due to the following reasons:

- additional exploration and development of the mines could increase the Measured and Indicated mineral resources, which in turn might be partially converted to Proved and Probable ore reserves. These new ore reserves would increase the mine life;
- the additional mineralization located north and west of the Yanjiazhuang mining license area could be acquired by Lincheng Xingye from the government. This will increase Yanjiazhuang Mine's mineral resources and ore reserves significantly and further extend the mine life; and
- changes in the production rate would also change the mine life. The mine life would be shortened if the production rate is increased to a level higher than the anticipated long-term production level.

7.0 POTENTIAL FOR DEFINING ADDITIONAL MINERAL RESOURCES AND RESERVES

The Yanjiazhuang Mine was explored by Brigade 11 in 2006-2007 and 2009, using surface DDH holes, surface trenches and limited underground adit development. These exploration programs have successfully defined the upper eastern portion of the deposit. However, all mineralized bodies defined by the exploration work are still open along strike and to the west along the dip direction. The current resource estimate has only projected the Measured/Indicated mineral resource from the data points for 50 m, and no Inferred mineral resource was estimated. Therefore, there is a significant additional exploration potential along strike (to the north and south) and in the dip direction (to the west) for the Yanjiazhuang deposit.

Figure 5.1 of this report clearly shows that the iron mineralized bodies extend further north outside the current Lincheng Xingye license boundary. Lincheng Xingye is in the process of applying for an expansion of the current mining license to the north for an additional 0.7531 km^2.

The two cross sections in Figure 5.2 and 5.3 of this report clearly show that the iron mineralized bodies have not been closed by drilling to the west. There are still some areas (approximately 30% to 40% of the drilled areas of the Yanjiazhuang deposit) to the west of the currently defined mineral resources within the current Lincheng Xingye license boundary that have not been drilled to date. Therefore, there is an additional exploration potential within the current mining license. Furthermore, the iron mineralized bodies will very likely extend outside the Lincheng Xingye license boundary, and Lincheng Xingye can acquire additional license areas to the west, which will bring further additional exploration potential to the Yanjiazhuang Mine.

Drilling for additional resources in these areas can start when the license expansion application is approved. BDASIA estimates that a further 30 to 50 DDH holes will be needed to explore these potential areas at a cost of RMB10 M to RMB25 M. Additional drilling may also be justified if these drill holes still cannot close the iron mineralized bodies. As a result of the additional drilling, the mineral resource of the Yanjiazhuang Mine will be increased significantly and the additional resources will be likely to have similar TFe and mFe grades as the currently defined mineral resources on the property, and this may provide a basis for further production expansion for the project.

8.0 MINING

Based on the Sinosteel Institute pre-feasibility study report, the Yanjiazhuang Mine will be mined as an open pit operation. Ore will be transported from the open pit to one of the four crushing plants located to the east side of the over 4-km long open pit; after crushing and dry magnetic cobbing to reduce approximately 30% of the volume, the pre-concentrated ore will be trucked (in the earlier years) or transported by conveyors constructed overland and in declines (after the system is constructed) to one of the four concentrators for further processing. Waste rock will be conventionally transported by truck haulage from the mine to the waste dumps located in the valleys lying to the east on the footwall area of the orebodies.

The Yanjiazhuang open pit was designed based on an optimized pit shell developed using the Chinese 3DMine mining software and a 50° inter-ramp pit slope angle. The pit will extend along the entire strike length of the Yanjiazhuang iron deposit inside the current mining license boundary and will be locally deepened in four areas where deeper mineralized zones occur. No detailed geotechnical assessment has yet been made on the rock walls of the pit; consequently the estimate of ore and waste tonnages may change somewhat after this assessment has been made. Loss of ore is estimated to be 5% and mining dilution (Chinese) is estimated at 5%. Other mine design parameters include the use of 12-m high benches and 22-m wide two-way haul roads with a maximum gradient of 9%.

The total mineable ore tonnage within the designed pit was determined to be 260.01 Mt and waste tonnage was estimated to be 748.88 Mt for an average strip ratio of 2.88:1. A preliminary mine production schedule was developed for the designed Yanjiazhuang open pit by the Sinosteel Institute and has been adjusted by the Company according to the initial commercial production results in January 2011 and current progress of mine construction as summarized in Table 8.1. This mine production schedule is based on 300 working days per annum, which BDASIA considers to be a conservative estimate and the actual working days per annum could be significantly more than the estimate and could reach 330 days.

Table 8.1
Forecast Mine production Schedule for the Yanjiazhuang Mine
(The Company's attributable share of the production is 99%.)

Production Year	Actual Time Period	Ore Mining (kt)	Waste Stripping (kt)	Strip Ratio
Year 1	2011	790	1,900	2.41
Year 2	2012	6,300	15,800	2.51
Year 3	2013	10,500	31,500	3.00
Year 4	2014	10,500	31,500	3.00
Year 5	2015	10,500	31,500	3.00
Year 6	2016	10,500	31,500	3.00
Year 7 – 21	2017 – 2031	10,500	35,700	3.40
Year 22 – 26	2032 – 2036	10,500	13,900	1.32
Year 27	2037	921	179	0.19
Total		260,011	748,879	2.88

Mine operations will be conducted by a standard drill-and-blast, excavator-and-truck method working on a three eight hour shifts per day, 300 days per year schedule. The initial mining rate started in December 20, 2010 is approximately 3.0 Mtpa, being then incrementally increased toward 10.5 Mtpa by the fourth quarter of the second year (2012) of the operation. Due to ore geometry, the stripping ratio for the initial two years (2011 and 2012) is expected to be around 2.5:1.0 waste:ore and 3.0:1.0 for the following four years (2013 to 2016). After that, the stripping ratio is expected to be stable at 3.4:1.0 from year 7 through year 21.

BDASIA notes that the annual stripping ratio in Table 8.1 for the Yanjiazhuang Mine is not based on detailed production scheduling; therefore, actual waste stripping requirement in the early years could be different from planned. Although having a detailed mining plan is not critical to the operation and profitability of Yanjiazhuang Mine, especially at the early stage of the operation, and many profitable open pit iron ore mines in China do not use detailed mine plans, if waste stripping is not scheduled appropriately, ore production in the following years could be affected. BDASIA recommends that Lincheng Xingye conduct a detailed mine production scheduling study to find out the true waste stripping needs for the project in the early years. BDASIA understands that the Company is currently preparing more detailed two-year and 10-year mine plans which are expected to be completed in September 2011, and has started to conduct a detailed 26-year mine plan which is expected to be completed in December 2011.

For capital cost and supply reasons, Lincheng Xingye has decided to source its fleet of mining equipment from equipment manufactured within mainland China. Equipment sizes are therefore limited to manufactured supply criteria.

The ore and waste will be drilled using YZ-35B rotary drills drilling 250-mm-diameter holes inclined at 75°. 2-m subgrade drilling will ensure pit floors will be maintained at an even elevation. The actual drill pattern is yet to be established, but all holes will be blasted using non-electric ignition with an en-echelon pattern. ANFO will be the standard explosive charge, but emulsion will be used for water-filled holes. 4-m^3 shovels will load ore to 45-t trucks and 10-m^3 shovels will load waste into 86-t trucks, which will haul to ore crushing plants and waste dumps, respectively.

9.0 METALLURGICAL PROCESSING

Processing magnetite iron ore to produce a magnetite iron concentrate is a relatively simple, low cost, and environmentally safe process. The process will involve three-stage crushing, dry magnetic cobbing, two-stage grinding, wet magnetic separation and concentrate dewatering for the Yanjiazhuang Mine.

The Yanjiazhuang Mine iron ore is a banded iron formation with idiomorphic and allotriomorphic magnetite grains. The major contaminant content in the ore is desirably low. The chemical analysis of a raw ore sample used for the metallurgical testwork is shown in Table 9.1 below.

Table 9.1
Raw Ore Chemical Analysis Result (%)

TFe	FeO	SiO_2	Al_2O_3	CaO	K_2O	Na_2O	Cu	Pb	Zn	P	Mn	TiO_2	MgO	S
21.62	7.94	56.38	7.90	0.69	1.86	1.15	0.001	0.016	0.004	0.06	0.23	1.13	0.58	0.021

The Yanjiazhuang Mine started Phase I commercial production on January 1, 2011. There was limited trial production for the Yanjianzhuang Mine before the formal commercial production. A total of 32 working days were realized in the period from December 20, 2010 to January 27, 2011 for the processing plants. Actual production results during this period are summarized in Table 9.2.

Table 9.2
Initial Production Results from Yanjiazhuang Mine Processing Plants, Dec 20, 2010 – Jan 27, 2011

Item	Unit	Number
Raw ore feed		
tonnage	t	167,693
TFe grade	%	22.96
mFe grade	%	17.93
TFe content	t	38,502
mFe content	t	30,067
mFe/TFe Ratio		0.781
Grinding ore feed (after dry magnetic cobbing)		
tonnage	t	124,522
grinding ore/raw ore ratio		0.743
Concentrate produced (after wet magnetic separation)		
tonnage	t	40,863
TFe grade	%	64.24
TFe content	t	26,189
Raw ore/Concentrate ratio		4.104
Processing iron recovery		
raw ore to concentrate	%	68.18
Productivity		
number of working days	day	32
raw ore processing	tpd	5,240
grinding ore processing	tpd	3,902
concentrate production	tpd	1,277
Wet magnetic separation tailings grade		
TFe	%	3.41
mFe	%	0.87

Iron concentrates produced from the initial production period have the following average specifications:

grain size	approximately 85% -200 mesh (0.074 mm)
TFe	63.0% to 66.6%
SiO_2	3.73% to 3.97%
CaO	0.04% to 0.07%
MgO	0.09% to 0.10%
Al_2O_3	1.17% to 1.27%
K_2O	0.03% to 0.04%
Na_2O	0.12% to 0.16%
TiO_2	0.56% to 0.81%
S	0.01%
P	0.02%
Cu	0.005%
Pb	0.003%
Zn	0.008%

These specifications meet the industrial quality requirements for acid iron concentrate of 65% -200 mesh, TFe≥62%, S≤0.3%, P≤0.03%, and SiO_2≤7%. This indicates that iron concentrate produced from the Yanjiazhuang Mine will be of good quality.

As part of the Sinosteel Institute pre-feasibility study, the Hebei Geology and Mineral Resource Center Laboratory was engaged by Lincheng Xingye to conduct a series of metallurgical tests on the ore samples from the Yanjiazhuang Mine and a report titled "Yanjiazhuang Iron Ore Processing Test Report" was submitted in January 2010.

The conclusions of this report are:

- The magnetic iron content of the raw ore test sample is 18.86%, which accounts for only 87.24% of the total iron content. The remaining 12.76% of total iron content is represented by iron silicate, siderite, pyrite and hematite minerals. These other iron-bearing minerals are not recoverable by conventional magnetic separation techniques.
- Dry magnetic cobbing tests were conducted on samples with crushed sizes of -15 mm and -8 mm under the magnetic field intensity of 2,500 Oersted ("Oe"). A better recovery was obtained for the -8-mm sized sample with a TFe recovery of 92.91% and mFe recovery of 96.80%.
- Wet magnetic separation tests were then conducted on a -8-mm dry magnetic-separated concentrate sample using a standard coarse-grinding and magnetic separation – concentrate re-grinding – magnetic separation process. The initial grinding size was 38% -200 mesh, and initial concentration was done with a magnetic field intensity of 1,500 Oe. The second regrinding size was 60.0% -200 mesh and final concentration was with a magnetic field intensity of 1,000 Oe. The final iron concentrate had a TFe grade of 67.74%, with a TFe recovery ratio of 88.11% and a mFe recovery ratio of 97.46% for the wet magnetic separation process. Compared with the total iron content of the raw ore, the overall recovery with both dry magnetic cobbing and wet magnetic separation totaled 81.87% for TFe and 94.32% for mFe.

These findings are summarized in Table 9.3 below.

Table 9.3
Quantitative Results for Magnetic Separation

		Grade (%)		Recovery Rate (%)	
Product	**Output %**	**TFe**	**MFe**	**TFe**	**MFe**
Concentrates	25.97	67.74	67.13	81.87	94.32
Wet magnetic separation tailings .	35.59	6.67	1.28	11.04	2.46
Dry magnetic cobbing tailings ...	38.44	3.96	1.55	7.09	3.22
Total tailings	74.03	5.26	1.42	18.13	5.68
Raw ore	100.00	21.48	18.48	100.00	100.00

Chemical analysis of the final iron concentrate produced from the processing test is summarized in Table 9.4.

Table 9.4
Iron Concentrate Chemical Analysis Result (%)

TFe	SiO_2	Al_2O_3	CaO	K_2O	Na_2O	Cu	Pb	Zn	P	TiO_2	MgO	S
67.74	2.30	0.84	0.31	0.12	0.025	0.001	0.016	0.0037	0.015	0.46	0.071	0.016

The initial production from December 20, 2010 to January 27, 2011 has achieved a TFe recovery of 68.18% from raw ore to the final concentrate, less than the TFe recovery of 81.87% achieved in the metallurgical test. The primary reason for the difference is that the ore used for the initial production was from the near-surface portion of the Yanjiazhuang deposit, which was partially oxidized as indicated by

its average mFe/TFe ratio of 0.781, significantly lower than the average mFe/TFe ratio for the entire Yanjiazhuang Mine ore reserve of 0.865. A second reason is that there are indications during the initial production period that some adjustment and optimization are needed for the two crushers and two concentrators. BDASIA believes that when the ore production gets into the unoxidized zone and after the needed adjustment and optimization are made, the TFe recovery should improve significantly from the initial production period from December 20, 2010 to January 27, 2011, and therefore, the raw ore/concentrate ratio would drop from the current rate of 4.104 to further reduce the operating cost.

Based on the testwork and the initial production results, the following operating flowsheet was developed by the Sinosteel Institute for the concentrating plants of the Yanjiazhuang Mine (Figure 9.1).

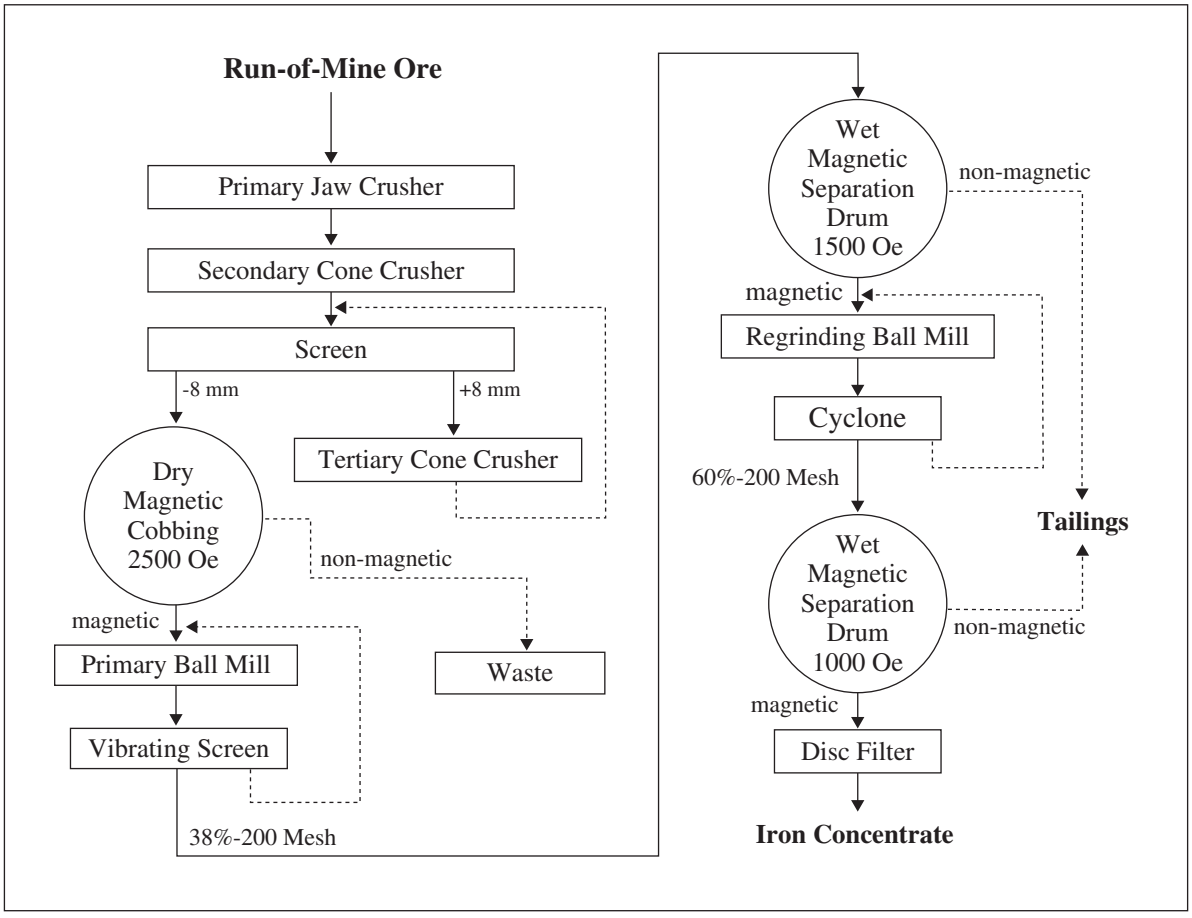

Figure 9.1 Proposed Processing Flowsheet for the Yanjiazhuang Mine

The crushing plants with dry magnetic cobbing systems and wet-magnetic concentrators will be built and put into production in three phases. There will be a total of four crushing plants and four concentrators when construction for the processing facilities is completed in June 2012.

Phase I processing facilities consist of two newly-constructed 1.5-Mtpa crushing plants and two upgraded concentrators with a combined processing capacity of 2.1 Mtpa of pre-concentrated ore produced by the dry magnetic cobbing system in the crushing plants. The dry magnetic cobbing system at the crushing plants will reduce approximately 30% of the volume of the crushed raw ore. Therefore, the total raw ore processing capacity of the Phase I processing facilities is approximately 3.0 Mtpa. Phase I commercial production started in January 1, 2011. However, initial commercial production showed that some modification and adjustment have to be made to the two crushing plants, including replacing the tertiary cone crushers. Because of the water shortage caused by the severe drought since last winter, the Company decided to take advantage of the down time from March to August to concentrate working on

the crushing plant modification and adjustment, the upgrading of the No.2 concentrator, as well as the construction of water pipelines. The crushing plant modification and upgrading of the concentrator are expected to be completed in June 2011 and regular commercial production is expected to resume in September 2011 once the Lincheng Reservoir water pipeline project is completed in August 2011. The Phase I production facilities are expected to ramp up to the designed production capacity in October 2011.

Phase II processing facility will consist of one 4.0-Mtpa crushing plant and one 2.8-Mtpa concentrator; the Phase III processing facilities will consist of one 3.5-Mtpa crushing plant and one 2.45-Mtpa concentrator. Construction for the Phase II and Phase III processing facilities is scheduled to be completed at the end of September 2011 and June 2012, respectively. Production capacity for Phase II and Phase III plants is expected to be reached in January 2012 and October 2012, respectively.

10.0 MINE PRODUCTION

Table 10.1 lists the forecast ore production, processing recoveries and iron concentrate production for the Yanjiazhuang Mine for the first 21 years of mine life based on the Sinosteel Institute pre-feasibility study and additional information provided by the Company. This production schedule is based on 300 working days per annum. BDASIA considers that the actual working days per annum could be significantly more than the estimate and could reach 330 days.

Table 10.1
Forecast Production for the Yanjiazhuang Mine
(The Company's attributable share of the production is 99%.)

Item	Year 1 2011	Year 2 2012	Year 3 2013	Year 4 2014	Year 5 2015	Year 6 2016	Year 7-21 2017-2031
Processed Iron Ore							
Tonnage (kt)	790	6,300	10,500	10,500	10,500	10,500	10,500
TFe Grade (%)	20.43	20.43	20.43	20.43	20.43	20.43	20.43
TFe Content (kt)	161	1,287	2,145	2,145	2,145	2,145	2,145
Processing Recovery							
Dry Magnetic Cobbing (%)	91.89	91.89	91.89	91.89	91.89	91.89	91.89
Wet Magnetic Separation (%)	88.91	88.91	88.91	88.91	88.91	88.91	88.91
Overall Recovery (%)	81.70	81.70	81.70	81.70	81.70	81.70	81.70
Final Product							
Iron Concentrate (kt)	200	1,590	2,655	2,655	2,655	2,655	2,655
TFe Grade (%)	66	66	66	66	66	66	66
TFe Content (kt)	132	1,052	1,752	1,752	1,752	1,752	1,752
Ore/Concentrate Ratio	3.954	3.954	3.954	3.954	3.954	3.954	3.954

The Phase I expansion of the Yanjiazhuang Mine will increase the current processing plants and the open pit mine to a 3.0-Mtpa capacity. The Phase I expansion is expected to be completed in June 2011, and initial commercial production started in January 1, 2011 but it was significantly reduced from March to August 2011 due to severe drought in North China. Company has identified Lincheng Reservoir as a reliable water source and commenced construction of a water pipeline to Lincheng Reservoir. While waiting for the Lincheng Reservoir project to be completed, the company decided to undertake measure to make some necessary modification and adjustment to the crushing plants and to make the upgrading to the No.2 concentrator. While there will be limited production during the modification period, regular Phase I commercial production is expected to resume in September 2011 and is expected to ramp up to the designed production capacity of 3.0 Mtpa in October 2011.

Phase II processing plant construction was well underway during BDASIA's April 2011 visit. Foundation for the No.3 concentrator had been poured, equipment had been largely installed, and the steel frame installation was being completed. Construction of the 4.0-Mtpa No.3 crushing plant was in good progress. Construction of these Phase II plants is scheduled to be completed in September 2011 and will be put into production immediately. Designed production capacity of the Phase II plants is expected to be reached in January 2012.

Construction of the 3.5-Mtpa No. 4 crushing plant and the 2.45-Mtpa concentrator for the Phase III expansion is scheduled to be completed in June 2012. The full production capacity of 10.5 Mtpa is expected to be reached in October 2012; after that approximately 2.66 Mt of iron concentrate with an average TFe grade of 66% will be produced each year from the Yanjiazhuang Mine.

BDASIA considers these production targets and ramp up schedule to be reasonable and achievable. However, any delays in construction and equipment adjustment could cause potential production short falls during the ramp-up period.

The projected overall processing recovery is 81.7% for TFe, in line with the metallurgical test result but significantly higher than the average initial production metallurgical recovery of 68.18%. BDASIA believes this projected overall TFe recovery is achievable when mining gets into the unoxidized zone of the deposit and when the equipment for the crushers and concentrates has been adjusted and optimized.

11.0 OPERATING COSTS

Historical operating costs for the initial production period from December 20, 2010 to January 27, 2011 and forecast operating cost for year 1 (2011) through year 21 (2031) of the mine life at production rates from 3.0 Mtpa to 10.5 Mtpa as estimated by the Sinosteel Institute in its December 2010 pre-feasibility study report and adjusted based on additional information provided by the Company are summarized in Table 11.1.

Table 11.1
Actual and Forecast Operating Costs for the Yanjiazhuang Mine

Item	Dec 20, 2010-Jan 27, 2011	2011	2012	2013	2014	2015	2016	2017 to 2031
Open Pit Mining Cost								
Contract Ore Mining Cost (RMB/t of ore)	5.39	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Contract Ore Transportation (RMB/t of ore)	7.20	7.25	7.25	7.25	7.25	7.25	7.25	7.25
Contract Waste Mining Cost (RMB/t of waste)	3.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Contract Waste Transportation (RMB/t of waste)	2.66	2.00	2.00	2.00	2.00	2.00	2.00	2.50
Mining Management (RMB/t of ore)	0.59	2.40	2.40	2.40	2.40	2.40	2.40	2.40
Strip Ratio (waste to ore)	1.00	2.41	2.51	3.00	3.00	3.00	3.00	3.40
Total Mining Cost (RMB/t of ore)	18.84	33.02	33.72	37.15	37.15	37.15	37.15	41.65
Total Mining Cost (US$/t of ore)	2.88	5.04	5.15	5.67	5.67	5.67	5.67	6.36
Processing Cost								
Workforce Employment (RMB/t of ore)	2.92	1.23	1.23	1.23	1.23	1.23	1.23	1.23
Transportation of Workforce (RMB/t of ore)	–	–	–	–	–	–	–	–
Consumables (RMB/t of ore)	6.81	13.27	13.27	13.27	13.27	13.27	13.27	13.27
Fuel, Electricity and Water (RMB/t of ore)	16.87	12.21	12.21	12.21	12.21	12.21	12.21	12.21
Total Processing Cost (RMB/t of ore)	26.60	26.71	26.71	26.71	26.71	26.71	26.71	26.71
Total Processing Cost (US$/t of ore)	4.06	4.08	4.08	4.08	4.08	4.08	4.08	4.08
Total Mining and Processing Cost (RMB/t of ore)	45.44	59.73	60.43	63.86	63.86	63.86	63.86	68.36
Total Mining and Processing Cost (US$/t of ore)	6.94	9.12	9.23	9.75	9.75	9.75	9.75	10.44
Total Mining and Processing Cost (RMB/t of concentrate)[1]	186.49	236.17	238.94	252.50	252.50	252.50	252.50	270.30
Total Mining and Processing Cost (US$/t of concentrate)	28.47	36.06	36.48	38.55	38.55	38.55	38.55	41.27

Table 11.1
Actual and Forecast Operating Costs for the Yanjiazhuang Mine

Item	Dec 20, 2010-Jan 27, 2011	2011	2012	2013	2014	2015	2016	2017 to 2031
G&A and Other Cost								
On and Off-Site Management (RMB/t of ore)	1.04	1.22	2.80	3.15	3.15	3.15	3.15	3.15
Environmental Protection and Monitoring (RMB/t of ore)	0.24	0.67	0.80	1.10	1.10	1.10	1.10	1.10
Product Marketing and Transport (RMB/t of ore)	3.32	8.57	8.57	8.57	8.57	8.57	8.57	8.57
Non-Income Taxes, Royalties and Governmental Charges (RMB/t of ore)	7.24	7.25	7.65	7.60	7.60	7.60	7.60	7.60
Interest Expense (RMB/t of ore)	–	–	–	–	–	–	–	–
Contingency Allowances (RMB/t of ore)	–	1.35	1.66	0.54	0.54	0.54	0.54	0.54
Total G&A and Other Cost (RMB/t of ore)	11.84	19.06	21.48	20.96	20.96	20.96	20.96	20.96
Total G&A and Other Cost (US$/t of ore)	1.81	2.91	3.28	3.20	3.20	3.20	3.20	3.20
Total Operating Cost (RMB/t of ore)	57.28	78.79	81.91	84.82	84.82	84.82	84.82	89.32
Total Operating Cost (US$/t of ore)	8.75	12.03	12.51	12.95	12.95	12.95	12.95	13.64
Total Operating Cost (RMB/t of iron concentrate)[(1)]	235.08	311.54	323.87	335.38	335.38	335.38	335.38	353.17
Total Operating Cost (US$/t of iron concentrate)	35.89	47.56	49.45	51.20	51.20	51.20	51.20	53.92
Depreciation and Amortization (RMB/t of ore)	5.34	3.50	1.70	1.60	1.60	1.60	1.60	1.00
Depreciation and Amortization (US$/t of ore)	0.82	0.53	0.26	0.24	0.24	0.24	0.24	0.15
Total Production Cost (RMB/t of ore)	62.63	82.29	83.61	86.42	86.42	86.42	86.42	90.32
Total Production Cost (US$/t of ore)	9.56	12.56	12.76	13.19	13.19	13.19	13.19	13.79
Total Production Cost (RMB/t of iron concentrate)[(1)]	257.03	325.37	330.59	341.70	341.70	341.70	341.70	357.13
Total Production Cost (US$/t of iron concentrate)	39.24	49.68	50.47	52.17	52.17	52.17	52.17	54.52

Note:

(1) The raw ore/concentrate ratio used in concentrate cost calculation is 3.954.

BDASIA's review indicates that the forecast mining cost, processing cost, and G&A and other cost estimates are generally in line with similar operations in China, and therefore are considered reasonable and achievable. These cost estimates are generally supported by Yanjiazhuang Mine's initial production from December 20, 2010 to January 27, 2011.

BDASIA notes that the ore/waste transportation cost is kept as a constant throughout the mine life in Table 11.1, but the actual ore/waste transportation cost will increase slightly every year after the initial several years when the pit deepens and the waste dumps get higher.

Based on the forecast cost estimates in Table 11.1, BDASIA has calculated total operating cost and total production cost for a tonne of 66% TFe iron concentrate (Table 11.1). BDASIA notes that the forecast cost estimates are higher than the actual cost realized during the initial production despite the fact that the overall processing recovery realized during the initial production was 68.18%, significantly lower than the 81.7% realized from the metallurgical tests results, which were used for the forecast cost estimates by BDASIA, indicating there is room for the actual cost to be lower than the forecast cost estimates. Both actual production costs and forecasted costs are significantly lower than the current and forecast iron concentrate prices in China, indicating the Yanjiazhuang Mine should be a very profitable mining operation.

12.0 CAPITAL COSTS

Total initial capital expenditure estimates for the Yanjiazhuang Mine by the Sinosteel Institute in its pre-feasibility study report and adjusted by the Company based on additional information are summarized in Table 12.1.

Table 12.1
Initial Capital Cost Estimates for the Yanjiazhuang Mine

Item	Capital Costs (RMB M/US$ M)			
	Actual to End of 2010	Estimated 2011-2013	Total	Percentage
Open Pit Mine	134.4/20.52	192.6/29.40	327.0/49.92	36.4%
Processing Plants	118.7/18.12	262.0/40.00	380.7/58.12	42.4%
Electric, water and TSFs	37.5/5.73	94.9/14.49	132.4/20.21	14.8%
Others	4.2/0.64	53.0/8.09	57.2/8.73	6.4%
Subtotal	294.8/45.01	602.5/91.98	897.3/136.99	100.0%
Contingency (10%)	–	60.3/9.21	60.3/9.21	–
Resource Fee	2.0/0.31	310.0/47.33	312.0/47.63	–
Total	296.8/45.31	972.8/148.52	1,269.6/193.83	–

The open pit mine capital will be used for construction of mine access roads, haul roads and equipment purchases. The processing capital will be used to construct four crushing plants, to upgrade the two small existing concentrating plants and to construct two new concentrating plants. Based on information provided by the Company, total capital expenditures up to the end of 2010 were RMB296.8 M (US$45.01 M). Capital expenditures for 2011, 2012 and 2013 are expected to be RMB548.5 M (US$83.74 M), RMB299.4 M (US$45.71 M), and RMB124.9 M (US$19.07 M), respectively. A significant portion of the remaining capital cost estimates are based on actual equipment purchase prices as well as quotes from equipment vendors and construction contractors. A contingency of 10% for the remaining mine/plant capital expenditures was in the capital cost estimates.

In addition to the capital cost estimates in Table 12.1, there will also be a working capital requirement of RMB284.5 M (US$43.44 M) for the Yanjiazhuang Mine.

BDASIA consider these capital cost estimates generally reasonable and achievable. The 10% contingency is appropriate for this stage of the project.

BDASIA would note that the capital cost for construction of the conveyor system and declines from the crushing plants to the concentrators are not included in the initial capital cost estimate as this pre-concentrated ore transportation system is not scheduled to be built in the initial years of the mine life.

13.0 ENVIRONMENTAL MANAGEMENT AND COMMUNITY ISSUES

13.1 Environmental Management

China has in place a comprehensive national framework of environmental laws, regulations, standards and procedures for the management of environmental protection with respect to mining, mineral processing and smelting projects.

Key laws include the National Law for Environmental Protection, National Law for Assessment of Environmental Impact, National Law for Air Pollution Prevention, National Law for Water Pollution Prevention, National Law for Prevention of Noise Pollution and National Law for the Prevention of Solid Waste Pollution.

Each of these laws is associated with a suite of accompanying regulations, standards and mechanisms for the levying of taxes and penalties, as is appropriate. For example, in the case of the regulation of water use and management, there is a Water Law (1988, revised 2002), a Prevention and Control of Water Pollution Act (1988, amended 1996), and Water and Soil Conservation Act (1991) and detailed rules for implementation of these laws, e.g. for the Prevention and Control of Water Pollution Act, the rules were enacted in 1989 and revised in 2000. A suite of standards are in place to meet various circumstances (e.g. Integrated Standard for Wastewater Discharge, GB8978-1996), and a Water Permit is

required if abstraction of water from surface or groundwater sources is required. A tax is levied on discharged water according to the type and quantity of the discharge, and if the discharge does not meet the national and local standards, the tax levied is doubled.

The Yanjiazhuang Mine has an approved Environmental Impact Assessment for the 3-Mtpa mine production plan, and has subsequently obtained an Environmental Permit from the Xingtai Environment Protection Bureau ("EPB") in December 2007 for mining activity at the proposed production level. The Environment Permit was renewed in July 2010 and the current permit is valid until July 2011, and the permit is extendable at the expiration. Lincheng Xingye is planning to conduct an Environmental Impact Assessment for the 10.5-Mtpa mine production plan.

Lincheng Xingye develops and operates its facilities, and conducts its operations, materially in accordance with internationally accepted good management practices on environmental and social issues, including applicable World Bank Group environmental and social standards.

Environmental measures to be implemented by the Yanjiazhuang Mine (including the upgraded and new plants) comprise:

- Dust mitigation: including the use of dust collectors, exhaust fans, water sprays and enclosure of dust generating activity. Personal protection devices ("PPE") to provide additional personal protection from dust will also be provided to workers. Use of water trucks and wet drilling procedures will reduce dust generated from mining and drilling activities;
- Waste water treatment: the site is being designed as a zero discharge site, with an expectation of recycling up to 80% of used water in processing. Used water (including tailings effluent) will be recycled to the process plants for use in mineral processing or used for dust suppression. Top up and domestic water is being taken from the nearby stream, a branch of the Zhi River, and local reservoirs which can provide a reasonable supply. A Water Permit valid until September 9, 2014 and extendable thereafter, issued by the Lincheng County Bureau and a Wastewater Discharge Permit (in case of extraordinary circumstances) is a component of the Environmental Permit. A 20-km long pipeline with two pump stations was being constructed between the Lincheng Reservoir to the Yanjiazhuang Mine; when completed in August 2011, the Lincheng Reservoir will become the primary fresh water source for the Yanjiazhuang Mine providing up to 10 million m^3 of fresh water each year for mine and processing plant production;
- Solid waste: some of the waste rock from the open pits will be used for construction purposes, and some will be used to produce tiles, but mostly it will be placed in one of a series of engineered waste rock dumps. Tailings from the processing plants are, and will continue to be, stored in engineered TSFs (Table 13.1);
- Noise control: methods of noise control will include use of silencers, noise and vibration dampening and absorbing materials, isolation and enclosure of noisy equipment, and regular equipment maintenance. Company policy will require PPE use, such as ear muffs or ear plugs, for noise-affected workers;
- Environmental monitoring: the mines will undertake a schedule for regular noise, water and air quality monitoring. Monitoring tests are also regularly conducted by the County EPB; and
- Rehabilitation: a rehabilitation and re-planting program for mined and disturbed areas will be ongoing. TSFs and waste rock dumps are to be properly rehabilitated upon mine closure and fruit orchards will be planted on the partially backfilled and reshaped mine pits to provide an economic resource for the post-mine community. The Company has produced an estimated cost of final land reclamation requirements and will be lodging a payment with the relevant authority, based on this amount, as a guarantee that the reclamation will be competently carried out.

Table 13.1 Tailings Storage Facility for the Yanjiazhuang Mine

Design Capacity and Estimated life	Comments
The TSFs will be designed to meet the requirements of the concentrators over the projected mine life.	The TSFs will be constructed in a series of connected valleys adjacent to the four concentrating plant sites. They will provide storage of tailings over the life of the mine. Tailings are gravity fed to the TSFs from the process plant and the supernatant water, together with any collected rainwater, returned to the process plant for recycling. The TSF emplacement has been or will be designed with a 1 in 200 years flood design factor, which includes the provision of a clean water diversion channel, and a series of underdrains, connected to several downpipes, which will permanently drain the emplacement. The TSFs are designed to accommodate a local seismic risk factor of 8 (on the Chinese Richter scale equivalent). The TSFs will be topsoiled and grassed upon closure.

13.2 Community Issues

Approximately 30 households (120 people) have been affected by the Yanjiazhuang Mine, requiring resettlement. The Company has informed BDASIA during the April 2011 site visit that all relocation compensation has been substantially paid to the affected people and all resettlement have been substantially completed by the end of March 2011.

Negotiations for resettlement and compensation of affected villagers, were undertaken in conjunction with the local Land Resources Bureau according to national laws and regulations. Negotiations involved notification of land resumption requirements to the farmers' collective economic units as well as the individual farmers affected, assessment of all land improvements that would require specific additional compensation, availability of hearings in regard to compensation and resettlement provisions, public disclosure of the outcome of the land resumption process, and approval of the resettlement and compensation proposal by the County Government as well as other co-operative action with the Agriculture Bureau and Civil Services Bureau.

Lincheng Xingye is also required by the Government to assist in the provision of alternative employment and training, as required. The Land Resources Bureau cooperates with other arms of government to offer alternative locations and occupations (e.g. farmers moving into new city developments with urban occupations), if affected individuals prefer that option. All negotiations are, however, conducted in conjunction with the farmers' collective economic units, and in this case, most of the affected farmers have opted to move to the nearby Yanjiazhuang Village. Ongoing supervision of the outcome of the resettlement process is the responsibility of the Land Resources Bureau.

Lincheng Xingye has employed a designated manager from the community to oversee the resettlement process.

14.0 OCCUPATIONAL HEALTH AND SAFETY

The Yanjiazhuang Mine is at the Phase I development stage to expand the production capacity to a 3.0-Mtpa mine. Lincheng Xingye has obtained production permits for the mine and processing plants, which are valid until September 2013 from the Hebei Provincial Development and Reform Committee. The safety permit for mine production was issued by Xingtai City Administration of Work Safety in August 2010 and it is valid until August 2013. The safety permit for processing plants will be applied for after the Phase-I plant construction is completed. Lincheng Xingye implements a corporate safety policy which incorporates national safety standards and applies to contractors as well as to company employees.

Lincheng Xingye plans to conduct its operations in accordance with the relevant national laws and regulations covering occupational health and safety ("OH&S") in mining, production, blasting and explosives handling, mineral processing, TSF design, environmental noise, emergency response, construction, fire protection and fire extinguishment, sanitary provision, power provision, labor and supervision.

BDASIA has confirmed with Lincheng Xingye that no fatality has been recorded for the Yanjiazhuang Mine during the period of the Company's ownership and management.

15.0 RISK ANALYSIS

When compared with many industrial and commercial operations, mining is a relatively high risk business. Each orebody is unique. The nature of the orebody, the occurrence and grade of the ore, and its behavior during mining and processing can never be wholly predicted.

Estimations of the tonnes, grade and overall metal content of a deposit are not precise calculations but are based on interpretation and on samples from drilling or channel sampling, which, even at close sample spacing, remain very small samples of the whole orebody. There is always a potential error in the projection of sampling data when estimating the tonnes and grade of the surrounding rock, and significant variations may occur. Reconciliations of past production and ore reserves can confirm the reasonableness of past estimates but cannot categorically confirm the accuracy of future predictions.

Estimations of project capital and operating costs are rarely more accurate than ±10% and will be at least ±15% for projects in the development stages. Mining project revenues are subject to variations in metal prices and exchange rates, though some of this uncertainty can be removed with hedging programs and long-term contracts.

The Company's Yanjiazhuang Mine reviewed in this report is at the Phase-I expansion stage and only limited trial and commercial production has occurred. This brings an additional risk for the project.

In reviewing the Company's Yanjiazhuang Mine, BDASIA has considered areas where there is perceived technical risk to the operation, particularly where the risk component could materially impact the projected production and resulting cashflows. The assessment is necessarily subjective and qualitative. The uncertainty associated with the risk analysis will be reduced when a mining project evolves from the exploration stage to the development stage and the production stage. Risk has been classified as low, moderate, or high based on the following definitions:

- High Risk: the factor poses an immediate danger of a failure, which if uncorrected, could have a material impact (>15%) on the project cash flow and performance and could potentially lead to project failure.
- Moderate Risk: the factor, if uncorrected, could have a significant impact (>10%) on the project cash flow and performance unless mitigated by some corrective action.
- Low Risk: the factor, if uncorrected, could have little or no effect on project cash flow and performance.

Risk Component	Comments
Mineral Resources *Low Risk*	The Yanjiazhuang iron deposit is a metamorphosed sedimentary banded magnetite deposit; it consists of stratiform mineralized bodies of generally hundreds and thousands of meters in dimension along the strike and dip directions and with good continuity in both grade and thickness. Exploration work conducted by Brigade 11 in 2006-2007 and 2009 has reasonably defined the deposit by surface drilling, surface trenching and underground adits at a data spacing of 200-m (along strike) by 100-m (in the dip direction) to 400-m by 200-m. Measured and Indicated mineral resources have been reasonably estimated based on the exploration work. The mineralization remains open to the west, north and south, and BDASIA considers that there is significant additional exploration potential. BDASIA noted some local uncertainties with the geological model of the deposit and believes that some infill drilling will be required in these areas to refine the geological model before actual mining reaches these areas.
Ore Reserves *Low to Moderate Risk*	Proved and Probable ore reserves under the JORC Code have been defined for the Yanjiazhuang Mine based on the Brigade 11 January 2010 resource estimation and the Sinosteel Institute December 2010 pre-feasibility study. Initial production of the Yanjiazhuang Mine since December 20, 2010 has generally confirmed the ore grade and concentrate salability from the project. However, detailed geotechnical studies have not been completed to determine the appropriate pit slopes and the grade model used for pit optimization and ore reserve estimation is also considered preliminary in nature. Although it is not essential to have detailed geotechnical and/or grade studies to conduct efficient and/or profitable mining operation, especially at the early stage of the open pit mining operation, BDASIA recommends the Company to conduct a detailed geotechnical study for the project and to carry out a more detailed grade model for pit optimization and ore reserve estimation in order to fully optimize the mining operation at Yanjiazhuang Mine.

Open Pit Mining *Low to Moderate Risk*	The Yanjiazhuang Mine will utilize conventional drill-and-blast, excavator-and-truck, open pit mining method for its mining operation. However, no detailed mine plan has been completed for the project. Detailed long term production plans require that a detailed geotechnical assessment is made of the wall rock conditions. The decision to use small scale mining equipment imposes a higher operating cost structure and as haul road size is based on the size of this equipment, the ability to lower cost by introducing larger equipment is negated by the very large amount of extra stripping that would then be required. BDASIA notes that the annual strip ratios in the production plan are not based on a detailed production schedule, and recommends that Lincheng Xingye conduct a detailed production scheduling to find out the real waste stripping needs for the early years of the mine life. BDASIA understands that the Company is currently preparing more detailed two-year and 10-year mine plans which are expected to be completed in September 2011, and has started to prepare a detailed 26-year mine plan which is expected to be completed in December 2011.
Concentrating *Low Risk*	The Yanjiazhuang ore is amenable to concentration and upgrading by conventional and widely-used, simple, low-cost, magnetic separation methods. Initial production results indicate that the iron concentrates produced from the project meet all the specifications for iron concentrate of the local steel-mill costumers.
Infrastructure *Low to Moderate Risk*	The access roads to the current mine office, southern portion of the open pit and the Phase I processing plants have been constructed. Additional roads will need to be built to connect to the central and northern portions of the open pit mining area and Phase II/III processing plants. Sufficient power is generally available for mine production for the Yanjiazhuang Mine. Power supply to the Phase I mine and processing facilities has been established. Additional substations and transmission lines will need to be built for the Phase II and Phase III expansions. Water for production will generally be sufficient from the surface drainage systems and water reservoirs.

Production Targets *Low to Moderate Risk*	The Yanjiazhuang Mine is at its initial Phase I commercial production stage and early stage of Phase II development. Phase I construction was substantially completed with a raw ore production capacity of 2.15 Mtpa and was put into commercial production since January 1, 2011. Phase I construction is scheduled to be completed in June 2011; Phase II construction will be completed in September 2011 and Phase III in June 2012. These three phases will increase the raw ore production capacity of the Yanjiazhuang Mine to 3.0 Mtpa, 7.0 Mtpa and 10.5 Mtpa, respectively. Full production capacity is expected to be reached in October 2012. BDASIA believes that the Lincheng Xingye's construction and expansion schedules for the next two years are generally reasonable and achievable, but any delays in construction and equipment adjustment could cause some short fall of the production target in the initial periods.
Operating Cost *Low to Moderate Risk*	Operating costs for the Yanjiazhuang Mine have been estimated by the Sinosteel Institute in a December 2010 pre-feasibility study. These estimates are generally in line with other similar mining operations in China and are supported by Lincheng Xingye's actual initial production operating costs since December 20, 2010. BDASIA would note that no inflation factors have been built into the operating cost estimates and that ore/waste transportation costs will increase slightly every year after the initial several years as the pit deepens and results in an increase in the hauling distances.
Capital Cost *Low*	Capital costs for the Phases I/II/III expansions of the Yanjiazhuang Mine have been estimated by the Sinosteel Institute December 2010 pre-feasibility study report and have been adjusted by the Company according to current status of the mine development. Approximately one quarter of the total capital cost estimate has been spent in 2010. The remaining costs are largely based on actual equipment purchase and/or quotes from equipment vendors and construction contractors. The contingency of 10% is considered as appropriate for this stage of the project.
Environment and Community *Low Risk*	The Yanjiazhuang Mine has an approved Environmental Impact Assessment for the 3-Mtpa mine production plan, and has subsequently obtained an environmental permit from the Xingtai Environment Protection Bureau ("EPB"), for mining activity at the proposed production level. Lincheng Xingye intends to conduct the environmental management of the project in line with international standards and guidelines. Lincheng Xingye has worked in conjunction with the relevant authorities to resettle affected residents and provide compensation, in accordance with national laws and regulations. A designated manager chosen from the community has been hired to oversee the resettlement process.

Occupational Health and Safety
Low Risk

The Yanjiazhuang Mine is at the development stage to expand to a 3.0-Mtpa mine. Production permits for the mine and mill as well as safety permit for the mine production have been obtained. A safety permit for the processing plants will be applied for after the construction is completed. Production permits and safety permits for Phase II and Phase III expansion will also be applied for when the construction is completed.

Lincheng Xingye plans to conduct its operations in accordance with the relevant national laws and regulations covering OH&S in mining, production, blasting and explosives handling, mineral processing, TSF design, environmental noise, emergency response, construction, fire protection and fire extinguishment, sanitary provisions, power provisions, labor and supervision.

BDASIA has confirmed with Lincheng Xingye that no fatality has been recorded for the Yanjiazhuang Mine during the period of the Company's ownership and management.