SOUTHGOBI RESOURCES LTD.

Annual Information Form

For the year ended
December 31, 2012

Dated March 25, 2013

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FORWARD LOOKING STATEMENTS

Certain statements made herein, including statements relating to matters that are not historical facts and statements of the Company (as defined herein) beliefs, intentions and expectations about developments, results and events which will or may occur in the future constitute "forward-looking information" within the meaning of applicable Canadian securities legislation and "forward-looking statements" within the meaning of the "safe harbor" provisions of the United States Private Securities Litigation Reform Act of 1995. Forward-looking information and statements are typically identified by words such as "anticipate," "could," "should," "expect," "seek," "may," "intend," "likely," "plan," "estimate," "will," "believe" and similar expressions suggesting future outcomes or statements regarding an outlook. These include, but are not limited to, statements respecting business outlook; anticipated stock market conditions; future prices and amounts of the Common Shares (as defined herein); anticipated business activities; planned expenditures; corporate strategies; proposed acquisitions and dispositions of assets; discussions with third parties respecting material agreements; anticipated capital expenditures; anticipated financing needs; development plans; future production; future coal market conditions in The PRC, including supply and demand for coal; expected impacts of the administrative restrictions on certain of the Company's Mongolian assets; the impact of future disclosure of the results of the internal investigations being conducted by the Company's Audit Committee; expected production at the Ovoot Tolgoi Mine (as defined herein) expected mine life and payback period of capital of the Ovoot Tolgoi Mine; mining methods used at the Ovoot Tolgoi Complex (as defined herein); the proposed coal beneficiation process at Ovoot Tolgoi; effects of the EIA (as defined herein) and Addendum (as defined herein) for the Ovoot Project (as defined herein); the effects of the rotary breaker at the Ovoot Tolgoi Mine on screening costs and yield recoveries; utilization of wet washing facility to toll-wash coal from the Ovoot Tolgoi Mine; the effects of toll washing on the Company's coal products; the proposal to connect the coal handling facility at the Ovoot Tolgoi Complex to the power line from the PRC (as defined herein); effects of the curtailment of operations in 2012 on the payback period of capital; future exploration, development and expenditures on the Soumber Deposit (as defined herein), Zag Suuj Deposit (as defined herein), and other projects in Mongolia; the intention of the Company to maintain its own database for storing data; increased coal transportation capacity; the anticipated yields from the washing plant and the dry coal handling facilities; the receipt of a fully executed pre-mining agreement for both the Soumber Deposit and the Zag Suuj Deposit; the ability to retain customers; the time to complete construction of the paved highway from the Ovoot Tolgoi Complex to the Shivee Khuren Border Crossing (as defined herein) and the effect of the highway on trucking costs and export capacity; expenditures and actions taken for the purpose of mitigation of potential environmental impacts; planned actions relating to the Company's health and safety policy and CSR (as defined herein) commitments; adequacy of the Company's funding sources; estimates of reserves and resources; the impact of amendments to, or the application of, the laws of Mongolia and other countries in which the Company carries on business; the adequacy for any particular purpose of the coal products, if any, that may, in the future, be mined from the Company's coal exploration and development properties; the type of coal products being produced; and other statements that are not historical facts.

All such forward-looking information and statements are based on certain assumptions and analyses made by the Company's management in light of their experience and perception of historical trends, current conditions and expected future developments, as well as other factors management believes are appropriate in the circumstances. These statements; however, are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking information or statements. Assumptions on which these forward-looking statements are based include, but are not limited to, assumptions regarding: the global economic environment; the timing and receipt of regulatory approvals; the coverage of mining leases; the availability of financing for activities when required and on acceptable terms; current and projected coal prices; coal markets; costs and availability of drilling services and heavy equipment, supplies and personnel; the accuracy of component costs of capital and operating cost

estimates; the accuracy of the interpretation of drill results and the estimation of mineral resources and reserves; the consistency of future exploration, development of mining results with the Company's expectations; taxes, royalties and other government levies on mining operations; and the economic, political and legal climate in the PRC (as defined herein) and Mongolia. This list is not exhaustive of the factors that may affect any of the Company's forward-looking statements. A discussion of these and other factors that could cause actual results to differ from these forward-looking statements include those described under the heading "Risk Factors" elsewhere in this Annual Information Form. The reader is cautioned not to place undue reliance on forward-looking information or statements.

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

DEFINITIONS AND OTHER INFORMATION

Currency and Exchange Rates

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

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

(Stated in Canadian dollars)

	Year Ended December 31		
	2012	**2011**	**2010**
End of period	0.9949	1.0170	0.9946
High for the period	1.0418	1.0604	1.0778
Low for the period	0.9710	0.9449	0.9946
Average for the period	0.9996	0.9894	1.0299

The Bank of Canada noon buying rate as of March 22, 2013 for the purchase of one United States dollar using Canadian dollars was Cdn$1.0225 (one Canadian dollar on that date equalled US$0.98).

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

(Stated in Canadian dollars)

	Year Ended December 31		
	2012	**2011**	**2010**
End of period	0.1284	0.1309	0.1280
High for the period	0.1343	0.1362	0.1382
Low for the period	0.1253	0.1213	0.1280
Average for the period	0.1289	0.1271	0.1326

The Bank of Canada noon buying rate as of March 22, 2013 for the purchase of one Hong Kong dollar using Canadian dollars was Cdn$0.1317 (one Canadian dollar on that date equalled HK$7.59).

Defined Terms and Abbreviations

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

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

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

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

"**ASTM**" means American Society for Testing Materials.

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

"**B.C.**" means British Columbia, Canada.

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

"**Biluut**" means the area delineated and identified as the Biluut coal field in the Soumber Deposit.

"**Board**" means the Board of Directors of the Company.

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

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

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

"**CHALCO**" means Aluminum Corporation of China Limited.

"**CMC**" means China Mongolia Coal Co. Ltd.

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

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

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

"**Company**" means SouthGobi Resources Ltd. and includes, as the context requires, one or more of its subsidiaries.

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

"**Director(s)**" means director(s) of the Company.

"**DCHF**" means the Company's dry coal handling facility located at the Ovoot Tolgoi Mine.

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

"**Ejin Jinda**" means Ejinaqi Jinda Coal Industry Co. Ltd.

"**EIA**" mean Environmental Impact Assessment.

"**EPP**" means Environmental Protection Plan.

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

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

"**GSC**" means Geological Survey of Canada.

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

"**IAAC**" means the Mongolian Independent Authority Against Corruption.

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

"**Jargalant**" means the area delineated and identified as the Jargalant coal field in the Soumber Deposit.

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

"**MAK**" means Mongolyn Alt MAK LLC.

"**MAK-Qinghua**" means the joint venture between MAK and Qinghua.

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

"**MEL**" means a Mongolian mineral exploration license.

"**McElroy Bryan**" means McElroy Bryan Geological Services.

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

"**Mineral Deposit of Strategic Importance**" means under the 2006 Minerals Law, a deposit that may have the potential to impact national security, or the economic and social development of Mongolia at the national and

regional levels, or that is generating, or has the potential to generate, more than 5% of Mongolia's gross domestic product in any given year.

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

"**Modun**" means Modun Resources Limited.

"**MRAM**" means the Mineral Resources Authority of Mongolia.

"**Nariin Sukhait Mine**" means the coal mine operated by Mak-Qinghua located immediately north of the Sunrise field of the Ovoot Tolgoi Mine.

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

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

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

"**Norwest**" means Norwest Corporation of Salt Lake City, Utah.

"**OT LLC**" means Oyu Tolgoi LLC (formerly Ivanhoe Mines Mongolia Inc. LLC), a company incorporated under the laws of Mongolia and a subsidiary of Turquoise Hill (as herein defined).

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

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

"**Ovoot Tolgoi Mining License**" means license no. 12726A covering an area of approximately 9,300 hectares encompassing the areas of the Sunset Pit and the Sunrise Pit.

"**Ovoot Tolgoi Technical Report**" means a Technical Report on the Ovoot Tolgoi Complex dated March 19, 2012, prepared by RungePincockMinarco.

"**Ovoot Tolgoi Underground Deposit**" means the Company's underground development project at Ovoot Tolgoi, comprising coal resources from a depth of 300 to 600 metres below surface.

"**Oyu Tolgoi Project**" means TRQ's Oyu Tolgoi copper and gold exploration and development project in Mongolia.

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

"**PMA**" means pre-mining agreement.

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

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

"**QP**" means Qualified Person as defined under NI 43-101.

"**Renminbi**" or "**RMB**" means the lawful currency of the PRC.

"**Rio Tinto**" means Rio Tinto plc together with its direct and indirect subsidiaries.

"**ROM**" means run-of-mine.

"**RungePincockMinarco**" means Minarco-Mine Consult.

"**Sapphire**" means Sapphire Geo Ltd.

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

"**SEHK**" means the Stock Exchange of Hong Kong Limited.

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

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

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

"**Soumber Deposit**" means the Company's coal exploration project located approximately 20 kilometres east of the Sunrise Pit.

"**Soumber Technical Report**" means the technical report on Soumber dated March 25, 2013, prepared by RungePincockMinarco.

"**South Biluut**" means the area delineated and identified as the South Biluut coal field in the Soumber Deposit.

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

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

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

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

"**TAG**" means The Americas Group.

"**Tanan Impex**" means Tanan Impex Co. Ltd.

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

"**TRQ**" or "**Turquoise Hill**" means Turquoise Hill Resources Ltd. (formerly Ivanhoe Mines Ltd.), a corporation incorporated under the laws of the Yukon Territory.

"**Tsagaan Tolgoi Deposit**" means the Company's Tsagaan Tolgoi coal exploration project in Mongolia.

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

"**TSX**" means the Toronto Stock Exchange.

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

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

"**US$**" means United States dollars, the lawful currency of the United States.

"**VAT**" means value added tax.

"**Winsway**" means Winsway Coking Coal Holdings Limited.

"**Zag Suuj Deposit**" means the Company's coal exploration project located approximately 150 kilometres east of the Ovoot Tolgoi Complex.

"**Zag Suuj Technical Report**" means the technical report on the Zag Suuj Deposit dated March 25, 2013, prepared by RungePincockMinarco.

Conversion Factors

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

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

Glossary of Geological and Mining Terms

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

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

ha: hectares.

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

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

Kcal: means kilocalorie.

Km: means kilometres.

km^2: means square kilometres.

lb: pound.

m: metres.

mm: millimetres.

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

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

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

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

mm: millimetres.

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

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

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

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

RC: reverse circulation.

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

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

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

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

CORPORATE STRUCTURE

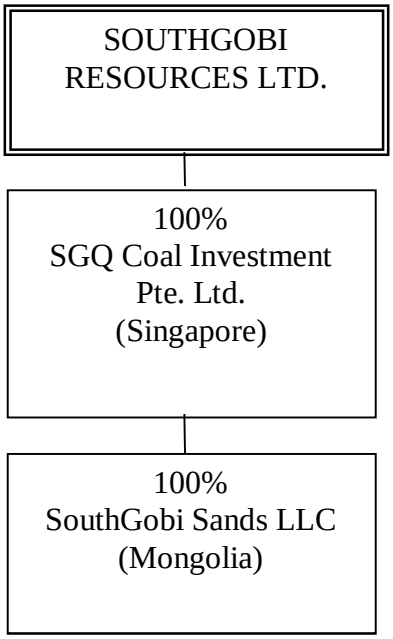
Name, Address and Incorporation

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

The Company's head office and registered office are located at 615 - 999 Canada Place, Vancouver, British Columbia, Canada, V6C 3E1.

Intercorporate Relationships

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



GENERAL DEVELOPMENT OF THE BUSINESS

Overview

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

The Company's common shares trade on the TSX under the symbol SGQ and on SEHK under the stock code symbol 1878.

The Company owns the following significant coal projects in Mongolia: the Ovoot Tolgoi Mine and three development projects, the Soumber Deposit, the Zag Suuj Deposit and the Ovoot Tolgoi Underground Deposit. These projects are located in the Umnugobi Aimag (South Gobi Province) of Mongolia, within 150 km of each other and in close proximity to the Mongolia-PRC border.

The Ovoot Tolgoi Mine, together with the Ovoot Tolgoi Underground Deposit, forms the Ovoot Tolgoi Complex. The Ovoot Tolgoi Complex is separated into two distinct areas, the Sunrise and Sunset Pits.

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

The Soumber Deposit, comprising the Central Soumber, East Soumber, Biluut, South Biluut and Jargalant Fields, is located approximately 20 km east of the Ovoot Tolgoi Mine, which will allow any future mining operation at the Soumber Deposit to share existing infrastructure with the Ovoot Tolgoi Mine. A NI 43-101 compliant resource has been established and exploration results indicate potential for thick coking coal seams. On July 6, 2011, the Company announced that the MRAM issued the Company a mining license pertaining to the Soumber Deposit. The 10,993 ha mining license was granted for an initial term of 30 years with an option for two 20 year extensions. Further, on January 18, 2013, MRAM issued the Company a PMA pertaining to the Soumber Deposit, complementing its existing mining license. The Company has applied for a mining license on the area of the Soumber Deposit covered by the PMA.

Resources associated with the South Biluut and Jargalant Fields have been through the resource registration process and the exploration licenses pertaining to resources outside the mining license and the PMA are subject to valid PMA applications. Subsequent to the receipt of the PMAs, the Company intends to proceed through to the mining license application process.

The Zag Suuj Deposit is located approximately 150 km east of the Ovoot Tolgoi Mine and approximately 80 km north of the Mongolia-PRC border. A NI 43-101 compliant resource has been established for the Zag Suuj Deposit. Exploration results indicate potential for thick coal seams and it is anticipated that the coals from the Zag Suuj Deposit can be washed to produce a coking coal or coking coal blend product. The Zag Suuj Deposit resource has been through the resource registration process and the exploration licenses pertaining to it are subject to valid PMA applications.

The Company has conducted substantial exploration activities at the Ovoot Tolgoi Underground Deposit and has delineated mineral resources. The Ovoot Tolgoi Underground Deposit is covered by the existing Ovoot Tolgoi mining license.

As at December 31, 2012, the Company owned 19.9% of Aspire, a company listed on the Australian Stock Exchange under the symbol AKM. Aspire's primary focus is its Mongolian coal assets, particularly those pertaining to the Ovoot Coking Coal Project.

As at March 25, 2012, Turquoise Hill directly owned 104.8 million common shares representing approximately 58% of the issued and outstanding common shares of the Company.

Three Year History

2010

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

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

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

In May 2010, Shareholders approved a special resolution to change the name of the Company from SouthGobi Energy Resources Ltd. to SouthGobi Resources Ltd.

In June 2010, the Company announced a share repurchase program to purchase up to 2.5 million Common Shares of the Company on each or either of the TSX or the SEHK. The share repurchase program was extended in 2011.

In June 2010, the Company announced the commencement of construction of a coal handling facility at the Ovoot Tolgoi Mine. The coal handling facility was commissioned in February 2012.

In October 2010, the Company executed a special agreement with a subsidiary of Winsway for the purchase of a million tonnes of the Company's Sunset Pit 8/9/10 seam coal and 200,000 tonnes of the #5 seam semi-soft coking coal.

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

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

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

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

2011

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

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

In March 2011, Curt Church was appointed as the Company's Chief Operating Officer.

In June 2011, the Company announced that the Soumber Deposit had been officially registered with the MRAM.

In June 2011, the Company announced an extension to the existing share repurchase program to purchase up to 3.1 million Common Shares of the Company on of the TSX or the SEHK. As of March 15, 2012, the Company had purchased a total of 3,319,150 Common Shares under both the June 2010 and the June 2011 share repurchase programs.

In July 2011, Matthew O'Kane was appointed as the Company's Chief Financial Officer taking over for Terry Krepiakevich who left the Company to pursue other business opportunities.

In July 2011, the Company entered into an agreement with Ejin Jinda, a subsidiary of CMC, to toll wash medium and higher-ash coals from the Ovoot Tolgoi Mine with only basic processing through the dry coal handling at Ceke. Washed coal will generally meet semi-soft coking coal specifications.

In July 2011, the Company announced that MRAM had issued a mining license pertaining to the Soumber Deposit. The new 10,993 ha mining license was granted for an initial term of 30 years with an option for two 20 year extensions.

In August 2011, SGS, a wholly owned Mongolian subsidiary of the Company, was awarded the tender to construct a paved highway from the Ovoot Tolgoi Complex to the Shivee Khuren Border Crossing with consortium partner NTB LLC. When completed, the paved highway will reduce trucking costs and increase export capacity to 20 million tonnes per annum.

In August 2011, Curt Church, the Company's COO received the award of Altan Gadas (Order of the Polar Star) from Mongolia in recognition of his contribution to developing the mining sector in Mongolia and bilateral cooperation between Mongolian and Canada in the field of mining.

2012

In February 2012, the Company announced the successful commissioning of the DCHF at the Ovoot Tolgoi Mine. The DCHF has capacity to process nine million tonnes of ROM coal per year. The DCHF includes a 300-tonne-capacity dump hopper, which receives ROM coal from the Ovoot Tolgoi Mine and feeds a coal rotary breaker that sizes coal to a maximum of 50 mm and rejects oversize ash. The rotary breaker is anticipated to reduce screening costs and improve yield recoveries.

In March 2012, the Company announced an agreement for the sale of the Tsagaan Tolgoi Deposit to Modun, a company listed on the Australian Stock Exchange under the symbol MOU. Under the transaction, the Company expects to receive $30 million of total consideration, comprising US$7.5 million up-front in cash, $12.5 million up-front in Modun shares and deferred consideration of an additional $10.0 million also payable in Modun shares.

In March 2012, RungePincockMinarco completed and updated technical report on the Ovoot Tolgoi Complex estimating total proven and probable reserves at 175.6 million tonnes and combined surface and underground resources in the measured and indicated category of 302.3 million tonnes with an additional inferred coal resource of 86 million tonnes.

In March 2012, RungePincockMinarco updated the resource estimate at the Soumber Deposit estimating combined surface and underground resources in the measured and indicated category at 137.2 million tonnes with an additional inferred coal resource of 83 million tonnes.

In March 2012, the Company announced a new resource estimate at its Zag Suuj Deposit estimating total resources in the indicated category at 17 million tonnes with an additional inferred coal resource of 66 million tonnes.

In April 2012, the Company signed a Cooperation Agreement with CHALCO and received notification of CHALCO's intention to make a proportional take-over bid for up to 60% of the Company's common shares, at Cdn$8.48 per share.

In April 2012, MRAM announced a request to suspend exploration and mining activity on certain licenses owned by SGS. The requested suspension included the license pertaining to the Company's Ovoot Tolgoi Mine.

In April 2012, the Company announced the resignation of John Macken as a member of the Board of Directors.

In April 2012, the Company announced that the expected closing date for the sale of the Tsagaan Tolgoi Deposit to Modun had been extended to on or before December 31, 2012.

In May 2012, the Company reported that eight new border gates, created exclusively for coal transportation, were opened at the Shivee Khuren Border Crossing.

In June 2012, the Company announced that as a result of a regulatory issue in Mongolia, the PRC market conditions and infrastructure constraints in Mongolia, the Company has curtailed mining operations and suspended uncommitted capital expenditure and exploration expenditure.

In July 2012, the Company announced that SGQ Coal Investment Pte. Ltd. had filed a Notice of Investment Dispute on the Mongolian Government pursuant to the Bilateral Investment Treaty between Mongolia and Singapore. The notice of investment dispute consisted, among other things, of the failure by the MRAM to execute pre-mining agreements for which valid applications had been lodged.

In August 2012, the Company announced that the proposed sale of Tsagaan Tolgoi Deposit had been cancelled.

In September 2012, the Company was notified that Turquoise Hill and CHALCO had agreed to terminate the proportional takeover bid for the Company.

In September 2012, the Company announced the resignation of directors Edward Flood, the Honourable Robert Hanson and chairman Peter Meredith, and the appointment of Lindsay Dove, Sean Hinton, Kay Priestly, Brett Salt and Kelly Sanders as directors of the Company.

In September 2012, the Company announced that Ross Tromans had been appointed President and Chief Executive Officer replacing Alexander Molyneux who resigned.

In October 2012, the Company announced the departure of Curtis Church as Chief Operating Officer and Ross Tromans assumed those duties.

In November 2012, the Company announced the departure of Matthew O'Kane as Chief Financial Officer. The Company is in the process of identifying a candidate for the Chief Financial Officer role. In the interim, Mr. Tromans has acted as the Company's Principal Financial Officer.

In November 2012, Ross Tromans was appointed to the Company's Board of Directors.

2013 to date

On March 22, 2013, the Company announced the recommencement of mining activities at the Ovoot Tolgoi Mine.

On March 25, 2013, SouthGobi announced updated NI 43-101 compliant resource estimates for the Soumber and Zag Suuj Deposits, which increased the Company's total measured and indicated resources to 533 million tonnes (8% increase) and inferred resources to 302 million tonnes (24% increase). For more information see "Description of Material Properties – Soumber Deposit" and "Description of Material Properties - Zag Suuj Deposit".

Outlook

The year ended December 31, 2012 has been a tumultuous year for the Company with full curtailment of production from the end of June 2012 with the position unchanged at year end, the announcement of a proportional takeover bid by CHALCO and subsequent termination of the bid, ongoing investigations by the Mongolian authorities and claims of wrongdoing and involvement in investigations against Mongolian public figures. In addition, there were significant changes at the board and senior management level within the organization and the year culminated in the necessity to reduce the Company's overall workforce by nearly one third. The subsequent net loss of $103.0 million recorded by the Company in 2012 reflects these conditions.

The curtailment of production necessitated taking actions to suspend uncommitted capital expenditure and reduce spending in other areas in order to preserve the Company's financial resources whilst at the same time protecting its existing assets. Exploration expenditure was reduced to the level required to protect the Company's rights under existing licenses and moneys were spent in defending the Company from ongoing investigations.

The outlook for 2013 still has a number of uncertainties that need to be overcome but the position going forward is much more positive. The Mongolian coal industry is quite dependent on the Chinese market and this market has been waiting for the conclusion of the Chinese Lunar New Year to get some direction as to what economic changes are likely to occur in the PRC. Generally, most commentators' view is that the coking coal market is improving with demand in the PRC to increase at levels which will support better market conditions

for the producer. The strength of the potential supply response to this demand is likely to cap price increases and lead to less volatility in pricing and market conditions throughout 2013.

In March 2013, the Company recommenced mining activities at the Ovoot Tolgoi Mine; however, the production levels will reflect both market conditions and the Company's capability to produce. Production is forecast to be 3.2 million tonnes in 2013. The capability to begin supplying a washed semi-soft product in the second half of the year is another important step in improving both the Company's market position and access to end customers. Once toll washing commences, it will enable SouthGobi to develop a predominantly two product strategy of a premium and standard semi-soft coal product from the Ovoot Tolgoi Mine. The premium product will be washed and the standard product will be predominantly unwashed product. Although production has recommenced, the Company continues to minimize uncommitted capital expenditures and exploration expenditures in order to preserve the Company's financial resources. The Company's liquidity beyond December 31, 2013 is dependent on the success of the recommencement of operations and ongoing demand and prices in the coal market.

Longer term, SouthGobi remains well positioned, with a number of key competitive strengths, including:

- Strategic location – SouthGobi is the closest major coking coal producer in the world to the PRC. The Ovoot Tolgoi Mine is approximately 40 km from the PRC, which is approximately 190 km closer than Tavan Tolgoi coal producers in Mongolia and 7,000 to 10,000 km closer than Australian and North American coking coal producers. The Company has an infrastructure advantage, being approximately 50 km from existing railway infrastructure, which is approximately one tenth the distance to rail of Tavan Tolgoi coal producers in Mongolia.

- Premium quality coals – Most of the Company's coal resources have coking properties, including a mixture of semi-soft coking coals and hard coking coals. SouthGobi is also completing its investment in processing infrastructure to capture more of the value from the products it sells.

- Favorable cost structure – The long-term cost structure of SouthGobi provides a strong base for sustainable growth when access to end-user markets is obtained even though competition from other Chinese and Mongolian semi-soft coals indicate that capturing margins relative to other international coals is difficult.

- Substantial resource base – The Company's aggregate coal resources (including reserves) include measured and indicated resources of 533 million tonnes and inferred resources of 302 million tonnes.

Objectives

SouthGobi's objectives for 2012 were impacted by the external conditions faced by the Company. SouthGobi has attempted to mitigate the issues by reducing capital expenditures, operating costs and exploration to preserve the Company's financial resources.

The Company's objectives for 2013 are as follows:

- Resume production at the Ovoot Tolgoi Mine – The Company has reviewed the overall structure of its workforce and market conditions and has recommenced mining activities at the Ovoot Tolgoi Mine in March 2013 with the capacity to produce 3.2 million tonnes in 2013. The focus is to do this in a safe manner that provides a sustainable long-term operating base.

- Continue to develop regional infrastructure – The Company's priority is to complete the construction of the paved highway from Ovoot Tolgoi to the Shivee Khuren Border Crossing as part of the existing consortium that was awarded the tender by the end of 2013.

- Advance the Soumber Deposit – The Company intends to substantially advance the feasibility, planning and physical preparation for a mine at Soumber by 2014.

- Value-adding/upgrading coal – Implement an effective and profitable utilization of the wet washing facility contracted with Ejin Jinda to toll-wash coal from the Ovoot Tolgoi Mine and further develop the Company's marketing plans on product mix and seek to expand the Company's customer base.

- Re-establish the Company's reputation – The Company's vision is to be a respected and profitable Mongolian coal company. This will require re-establishing good working relationships with all its external stakeholders.

- Operations – Continuing to focus on production safety, environmental protection, operational excellence and community relations.

GOVERNMENTAL, REGULATORY AND INTERNAL INVESTIGATIONS

The Company is subject to continuing investigations by the IAAC and other governmental and regulatory authorities in the Republic of Mongolia regarding allegations against SouthGobi and some of its employees involving possible breaches of Mongolian laws, including anti-corruption and taxation laws. Certain of those allegations (including allegations of bribery, money laundering and tax evasion) have been the subject of public statements and Mongolian media reports, both prior to and in connection with the recent trial and conviction of the former Chairman and the former director of the Geology, Mining and Cadastral Department of the MRAM, and others. SouthGobi was not a party to that case. The Company understands that the court's decision is the subject of an appeal.

A number of the media reports referred to above suggest that, in its decision, the court in the above-mentioned case referred to two matters specifically involving SouthGobi Sands LLC.

In respect of the first matter, being an alleged failure to meet minimum expenditure requirements under the Minerals Law of Mongolia in relation to four exploration licenses, the Company is investigating these allegations, but advises that three of the four licenses were considered to be non-material and allowed to lapse between November 2009 and December 2011. Activities historically carried out on the fourth (and the only currently-held) license include drilling, trenching and geological reconnaissance. The Company has no immovable assets located on this license and it does not contain any of SouthGobi's NI 43-101 Reserves or Resources. This license does not relate to the Company's Ovoot Tolgoi mine and SouthGobi does not consider this license to be material to its business.

The second matter referred to by the court was an alleged impropriety in the transfer of License 5261X by SGS to a third party in March 2010 in violation of Mongolian anti-corruption laws. The Company understands, based on media reports, that the court has invalidated the transfer of this license, and so the license's current status is unclear.

In addition, the IAAC has advised the Company that it is investigating other alleged improprieties by SGS as described above. Neither SouthGobi nor any of its employees have been charged in connection with the IAAC's investigation, but certain current and former employees have been advised that they are suspects. The IAAC has imposed orders placing a travel ban on those employees, and administrative restrictions on certain of the Company's Mongolian assets, including local bank accounts, in connection with its continuing investigation of those allegations. While the orders restrict the use of in-country funds pending the outcome of the investigation, they are not expected to have a material impact on the Company's activities in the short term, although they could create operational difficulties for the Company in the medium to long term. SouthGobi is taking and intends to take all necessary steps to protect its ability to continue to conduct its business activities in the ordinary course.

Through its Audit Committee (comprised solely of independent directors), SouthGobi is conducting an internal investigation into possible breaches of law, internal corporate policies and codes of conduct arising from the allegations that have been raised. The Audit Committee has the assistance of independent legal counsel in connection with its investigation. The Chair of the Audit Committee is also participating in a tripartite committee, comprised of the Audit Committee Chairs of the Company and Turquoise Hill and a representative of Rio Tinto, which is focused on the investigation of those allegations, including possible violations of anti-corruption laws. Independent legal counsel and forensic accountants have been engaged by this committee to assist it with its investigation. All of these investigations are ongoing but are not yet complete. Information that has been provided to the IAAC by the Company has also been provided by the tripartite committee to Canadian and United States regulatory authorities that are monitoring the Mongolian investigations. The Company continues to cooperate with all relevant regulatory agencies in respect of the ongoing investigations.

The investigations referred to above could result in one or more Mongolian, Canadian, United States or other governmental or regulatory agencies taking civil or criminal action against the Company, its affiliates or its current or former employees. The likelihood or consequences of such an outcome are unclear at this time but could include financial or other penalties, which could be material, and which could have a material adverse effect on the Company. For more information see "Risk Factors - The Company is subject to continuing governmental, regulatory and internal investigations, the outcome of which is unclear at this time but could have a material adverse effect on the Company."

Pending the completion of the investigations, the Company, through its Board of Directors and new management, has taken a number of steps to focus ongoing compliance by employees with all applicable laws, internal corporate policies and codes of conduct, and with the Company's disclosure controls and procedures and internal controls over financial reporting.

RISK FACTORS

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

Risks Relating to the Company's Projects in Mongolia

The Company is subject to continuing governmental, regulatory and internal investigations, the outcome of which is unclear at this time but could have a material adverse effect on the Company.

The Company is subject to continuing investigations by the IAAC and other governmental and regulatory authorities in the Republic of Mongolia regarding allegations against SouthGobi and some of its employees involving possible breaches of Mongolian laws, including anti-corruption and taxation laws. For more information see "Governmental, Regulatory and Internal Investigations".

Neither SouthGobi nor any of its employees have been charged in connection with the IAAC's investigation, but certain current and former employees have been advised that they are suspects. The IAAC has imposed orders placing a travel ban on those employees, and administrative restrictions on certain of the Company's Mongolian assets, including local bank accounts, in connection with its continuing investigation of those allegations.

Through its Audit Committee (comprised solely of independent directors), SouthGobi is conducting an internal investigation into possible breaches of law, internal corporate policies and codes of conduct arising from the allegations that have been raised.

The Chair of the Audit Committee is also participating in a tripartite committee, comprised of the Audit Committee Chairs of the Company and Turquoise Hill and a representative of Rio Tinto, which is focused on the investigation of those allegations, including possible violations of anti-corruption laws. All of these investigations are ongoing but are not yet complete. Information that has been provided to the IAAC by the Company has also been provided by the tripartite committee to Canadian and United States regulatory authorities that are monitoring the Mongolian investigations. The Company continues to cooperate with all relevant regulatory agencies in respect of the ongoing investigations.

The investigations referred to above could result in one or more Mongolian, Canadian, United States or other governmental or regulatory agencies taking civil or criminal action against the Company, its affiliates or its current or former employees. The likelihood or consequences of such an outcome are unclear at this time but could include financial or other penalties, which could be material, and which could have a material adverse effect on the Company.

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

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

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

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

If an event of default occurs under the Convertible Debenture, CIC has the right to accelerate amounts owing thereunder.

Subsequent to December 31, 2012, the Mongolian IAAC informed the Company that orders, placing restrictions on certain of its Mongolian assets, had been imposed in connection with its continuing investigation. The orders relate to certain items of operating equipment and infrastructure and the Company's Mongolian bank accounts. The orders placing restrictions on certain of the Company's Mongolian assets could ultimately result in a breach of covenants under the Convertible Debenture. Furthermore, the terms of the Convertible Debenture provide for a 1.6% share interest payment in Common Shares of the Company. As a result of the FIL (as defined below), the Company expected it would require parliamentary approval for Common Shares to be issued to CIC for the November 19, 2012 interest payment due pursuant to the terms of the Convertible Debenture. The Company settled the 1.6% share interest payment due through the payment of $4.0 million in cash which was accepted by CIC. Pursuant to the terms of the Convertible Debenture, the Company is required to make annual interest payments in the form of Common Shares. Failure to issue Common Shares to CIC to discharge such interest payment could result in a breach of covenants pursuant to the Convertible Debenture. In the event that the Company breaches any of the covenants under the Convertible Debenture in any material respect and such breach remains uncured for ten business days, the principal amount owing and all accrued and unpaid interest will become immediately due and payable upon notice to the Company by CIC which would have a material adverse affect on the business and operations of the Company.

The Application of the Foreign Investment Law approved by the Parliament of Mongolia is uncertain.

On May 17, 2012, the Parliament of Mongolia approved a Foreign Investment Law ("FIL") that regulates foreign direct investment into a number of key sectors of strategic importance, which includes mineral resources. The FIL is extremely ambiguous and leaves a lot of discretion in the parliamentary approval process. If foreign shareholding exceeds 49% of an asset and the amount of the investment at the time is to exceed MNT100 billion (approximately $71.5 million), then parliamentary approval is required. In the case of

state owned entities ("SOE") there is no minimum threshold and all proposed investments from SOE's require parliamentary approval. In addition, if a foreign entity wants to acquire one third or more of the shares in an investment in a strategic sector, then the MNT100 billion threshold is not applicable and cabinet approval for the investment is required regardless of the value. As a result of the FIL, the Company will require parliamentary approval to issue the CIC their 1.6% share interest payments to CIC, in accordance with the terms of the Convertible Debenture. If the Company is not able to obtain either a waiver from CIC for the payment of the interest shares or parliamentary approval it risks being in default of the terms of the Convertible Debenture.

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

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

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

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

The Company's Tsagaan Tolgoi mining license and exploration licenses pertaining to the Zag Suuj Deposit and the South Biluut and Jargalant fields within the Soumber Deposit, as well as one other exploration license may be included on MRAM's draft list of licenses, and may be included on the final list published by the Government of Mongolia, potentially affecting the status of those licenses under the Mining Prohibition in Specified Areas Law. The Company has no immovable assets located in any of the potentially affected areas and the loss of any or all of the potentially affected properties would not materially and adversely affect its existing operations. However, the loss of the Tsagaan Tolgoi mining license and exploration licenses pertaining to the Zag Suuj Deposit and the South Biluut and Jargalant fields within the Soumber Deposit would impact the Company's resources.

In December 2012, the President's Office of Mongolia developed draft amendments to the Minerals Law and released it to the public for discussion. The main focus of this draft law is to encourage and enhance the involvement of local communities to participate more effectively in investment decisions and benefits arising from mine development. It also includes measures to tighten environmental protections and minimize challenges associated with the environmental impact of exploration and mining activities. To date the draft Minerals Law is still under stakeholder consultations initiated by the President's Office of Mongolia and no information has been released to the public on the timing of its submission to the Parliament for review and approval.

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

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

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

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

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

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

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

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

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

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

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

Risks relating to the Company's business and industry

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

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

The Company's projects are subject to technical risk in that they may not perform as designed. Increased development costs, lower output or higher operating costs may all combine to make a project less profitable than expected at the time of the development decision. This would have a negative impact on the Company's business and results of operations. No assurance can be given that the Company would be adequately compensated by third party project design and construction companies (if not performed by the Company) in the event that a project did not meet its expected design specification.

The Ovoot Tolgoi Technical Report assumes that the Ejin Jinda wet wash plant at Ceke processes 1.5 million tonnes of coal in 2012. Construction of the wet wash plant was completed in 2012 but commencement of toll washing of coals from the Ovoot Tolgoi Mine has been delayed due to the curtailment of the Company's mining operations at the Ovoot Tolgoi Mine. The pre-feasibility study also assumes that the Ejin Jinda wet wash plant is expanded to process 7.0 million tonnes annually from mid-2014. The Company has not commenced negotiations with Ejin Jinda to expand processing capacity due to the curtailment of its Ovoot Tolgoi Mine in the last three quarters of 2012. Any delay in expanding annual capacity to 7.0 million tonnes by mid-2014, would likely impact the project economics, as the coal would be sold as lower value coal; however, these delays would be unlikely to impact on total reserve estimates.

As with all exploration properties or projects taken on by mining companies, there is a risk that exploration projects will not be converted to commercially viable mines, in part because actual costs from capital projects may exceed the original budgets. As a result of project delays, cost overruns, changes in market circumstances or other reasons, the Company may not be able to achieve the intended economic benefits or demonstrate the

commercial feasibility of these projects, which in turn may materially and adversely affect the Company's business, results of operations and growth projects.

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

The coal reserve and resource estimates are based on a number of assumptions that have been made by the QPs in accordance with NI 43-101. Reserve and resource estimates involve expressions of judgment based on various factors such as knowledge, experience and industry practice, and the accuracy of these estimates may be affected by many factors, including quality of the results of exploration drilling and analysis of coal samples, as well as the procedures adopted by and the experience of the person making the estimates.

The Ovoot Tolgoi Technical Report assumes that the Company's mining lease will extend across its lease boundary and into the lease held by MAK. A memorandum of understanding covering mining across the lease boundary was signed in May 2007. Discussions are continuing with an in-principle agreement, subject to legal documentation and relevant authorities' approval expected to be finalized in 2013. The resource and reserve estimates in the Ovoot Tolgoi Technical Report do not include any coal within the MAK lease; however, the geological models and mining pits extend into the MAK lease. If an operational agreement cannot be finalized, then the reserve estimate could be materially affected.

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

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

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

The Company commenced mining in April 2008, and has recorded operating losses and operating cash outflows to date. From, the second quarter of 2012 until March 22, 2013, the Company's operations at the Ovoot Tolgoi Mine were curtailed. Due to the Company's limited operating history and curtailment of operations, there may not be an adequate basis on which to evaluate the Company's future operating results and prospects. Investors may have difficulties evaluating the Company's business and prospects because the Company's past results may not be indicative of the Company's results in the future.

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

For certain aspects of the Company's business operations, insurance coverage, in particular business interruption insurance, is restricted or prohibitively expensive. The Company currently holds its primary insurance policies through Canadian insurance providers to insure its properties. The Company has taken out insurance for risks including commercial general liability, and aviation premises liability. The Company maintains mining property insurance for all of its mining assets wherever located, property insurance on its office premises and liability insurance for its directors and officers. However, no assurance can be given that the Company will elect or be able to obtain such insurance coverage at economically reasonable premiums (or at all), or that any coverage it obtains will be adequate to cover the extent of any claims brought against it.

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

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

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

In April 2012, MRAM announced the suspension of exploration and mining activity on certain of the Company's licenses including the license pertaining to the Ovoot Tolgoi Mine. Although the Company did not receive official notification of a suspension of licenses and had no reason to believe its licenses were not in good standing, this announcement caused a significant disruption in the Company's business which ultimately lead to the curtailment of operations at the Ovoot Tolgoi Mine. Although the Company received a letter from MRAM on September 3, 2012 confirming that all exploration and mining licenses were in good standing there is still a risk that its licenses could be revoked.

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

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

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

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

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

In 2012, the Company experienced a softening in the coal markets closest to its operations. The Company observed substantial deterioration in demand sentiment amount its customers which led to a substantial decline in key reference prices and key end-use markets. The softening demand contributed to the decision to continue the curtailment of the Company's mining operations and has resulted in reduced revenue. If realized coal prices remain below the full cost of production of any of its future mining operations and remain at such a level for any sustained period, the Company could experience increased losses and may decide to discontinue operations, which could require the Company to incur closure costs and result in further reduced revenues.

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

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

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

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

In Mongolia, a bottleneck in the transportation of coal from the Ovoot Tolgoi Mine to customers in the PRC may arise if the road connecting the Ovoot Tolgoi Mine to the Shivee Khuren Border Crossing does not have sufficient capacity to support the increased amount of cargo traffic, is affected by external factors such as disruptions caused by bad weather or is closed for repair. During 2012, the road connecting the Ovoot Tolgoi Mine to the Shivee Khuren Border Crossing was closed for over four weeks for repair, which impacted customers' ability to export coal.

The opening hours of the Shivee Khuren Border Crossing also affect the Company's ability to expedite the movement of its coal shipments. There can be no assurance that there would be any other cost effective means of transporting the coal to the Company's primary market in the PRC. As a result, the Company may experience difficulty expediting the movement of its coal shipments and/or significant cost escalation for the transportation services, which could affect its production and reduce its profitability.

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

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

Recruiting, retaining and training qualified personnel is critical to the Company's success. The number of persons skilled in the acquisition, exploration and development of mining properties is limited and competition

within the mining industry for such persons is intense, in particular, Mongolian law requires that at least 90% of a mining company's employees be of Mongolian nationality. This provision of the law, coupled with the large number of active mining projects in Mongolia, further limits the number of available personnel and increases competition for skilled personnel. The reputation and capability to operate continuously over the longer term are key factors in also attracting key personnel to its business. The Company is reinforcing its core values of ethical behavior in dealing with all its stakeholders from senior management down in order to ensure the Company attracts the right people to its business. As the Company's business activity grows, it will require additional key financial, administrative, mining, marketing and public relations personnel as well as additional operations staff. If the Company is not successful in attracting such key personnel, or retaining existing key personnel, its business and results of operations could be materially and adversely affected.

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

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

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

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

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

The Company depends on a relatively small number of customers. The incremental cost of transporting coal products from the Ovoot Tolgoi Mine and its other coal projects over long distances effectively limits the Company's potential customer base to a relatively proximate geographical area. This market has also been price sensitive and significant price volatility impacts contract performance.

Additionally, the Company has been selling its coal products only since September 2008. The Company currently has six active customers with the largest customer representing approximately 40%, the second largest customer representing approximately 31% and the remaining customers accounting for 29% of the Company's total sales for the year ended December 31, 2012. In order to mitigate this risk, the Company is continually expanding its customer base.

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

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

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

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

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

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

Foreign currency fluctuations could affect expenses and any future earnings.

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

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

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

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

The interests of the Company's principal shareholder, Turquoise Hill, may differ from those of its other shareholders.

As of March 25, 2013, TRQ holds approximately 58% of the Common Shares. The interests of TRQ may conflict with the interests of the Company's other shareholders and there is no assurance that TRQ will vote its common shares in a way that benefits the Company's minority shareholders. Subject to CIC's right to appoint a director, TRQ's ownership interest enables TRQ to elect the entire Board without the concurrence of any of the Company's other shareholders. Accordingly, unless applicable laws or regulations would require approval by the Company's minority shareholders, TRQ is in a position to: (i) control the Company's policies, management and affairs; (ii) subject to applicable laws, regulations and the Articles, adopt amendments to certain provisions of the Articles; and (iii) otherwise determine the outcome of most corporate actions, including a change in control, merger or sale of all or substantially all of the Company's assets.

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

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

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

Future stock market conditions may change.

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

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

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

DESCRIPTION OF MATERIAL PROPERTIES

Qualified Persons

Disclosure of a scientific or technical nature in this Annual Information Form, as derived from the Ovoot Tolgoi, Soumber, and Zag Suuj Technical Reports, in respect of each of the Company's material mineral projects was prepared by or under the supervision of the qualified persons listed below. Copies of the Ovoot Tolgoi Technical Report, the Soumber Technical Report, and the Zag Suuj Technical Report are available on SEDAR at www.sedar.com.

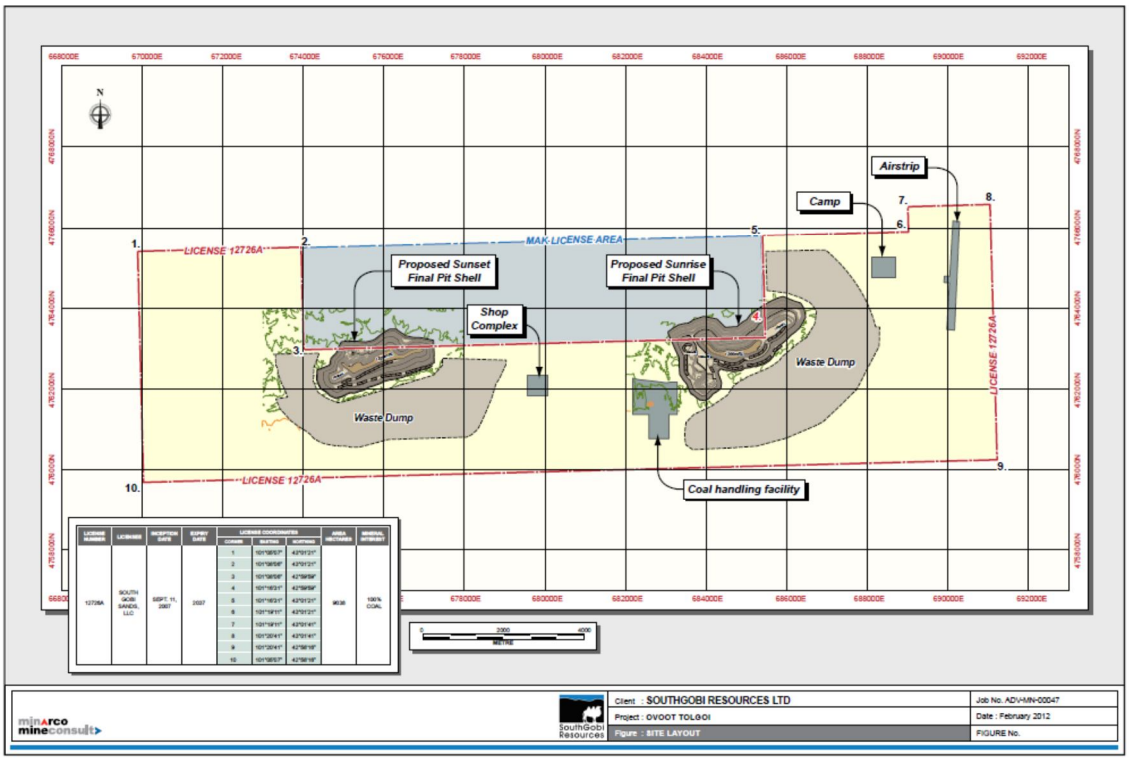
Property	Qualified Persons	Relationship to Company
Ovoot Tolgoi	Merryl Peterson	Independent Consultant
Ovoot Tolgoi	Robert Mackenzie	Independent Consultant
Ovoot Tolgoi	Ross Seedsman	Independent Consultant
Ovoot Tolgoi	David Morris	Independent Consultant
Ovoot Tolgoi	Michael Evans	Independent Consultant
Soumber	Merryl Peterson	Independent Consultant
Zag Suuj	Merryl Peterson	Independent Consultant

Ovoot Tolgoi Complex

Property Description and Location

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

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



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

SGS's Mine License 12726A was granted on September 20, 2007 for the development of an open-pit coal mine. RungePincockMinarco has sighted a copy of the mine license. The SGS lease more specifically is adjacent to mine license held by MAK. The coal deposits extend across the lease boundary. The Resource and Reserve estimates are limited to the SGS lease, even though the open pits are assumed to develop across the lease boundaries in order to extract all economic coal within the SGS lease. SGS and MAK have a Memorandum of Understanding, covering mining across the lease boundary. For the pre-feasibility study, a series of rules have been developed for practical mining across the boundary.

The primary requirements to maintain mining licenses in Mongolia are: pay annual renewal fee of $5.00/ha; submit and have approved an Annual Mine Plan; report mining quantities and pay appropriate royalties; submit and have approved annual Environmental Protection Plan for mining activities; and submit annual report on mining activities by February 15 of the following year.

A mining license is granted for a period of 30 years, with the right to extend the period for two additional 20 year periods. The mining license covers both mineral and surface lease rights. Portions of existing MELs held by the Company were converted to the Ovoot Tolgoi Mining License, granted in September 2007, for the development of an open-pit coal mine. The Ovoot Tolgoi Mine is covered within the Ovoot Tolgoi Mining License.

The following taxes, royalties, and other government levies applicable to the Ovoot Tolgoi mining operation were assumed in the pre-feasibility study:

- Royalty payments to the Government of Mongolia, based on SGS's understanding of the Mongolian royalty legislation;
- 7% of sales price for Product A (Sunset seam 5 of < 10% ash after processing in the rotary breaker, only and thus considered "unprocessed coal" under Mongolian royalty regulations);
- 6% of sales price for washed product from Ejin Jinda wash plant (this coal will have been treated in the rotary breaker and FGX separator before washing and thus considered "Concentrated Coal" under Mongolian royalty regulations); and
- 5% of sales price for Product D (product coal after treatment in the rotary breaker and FGX separator and thus considered "Concentrated Coal" under Mongolian royalty regulations). This is only a small quantity which is in excess of the annual Ejin Jinda wash plant capacity in some years.

Accessibility, Climate, Local Resources, Infrastructure and Physiography

The area around the Ovoot Tolgoi Complex currently supports a traditional subsistence economy focused on raising sheep, goats, and camels. The Umnugobi Aimag is the most sparsely populated province in Mongolia with a density of 0.8 people/km^2. There are two primary sources of mining labour – Ulaanbaatar and the local soum. Currently, approximately 57% of SGS employees are local. The remaining employees are flown to and from Ulaanbaatar. Employees work on a two-week on, one-week off rotation.

The surface expression of the deposit ranges from flat, gravel-covered desert plains to moderately hilly terrain. Surface elevation ranges from 1,515 to 1,555 m above sea level. Vegetation is sparse, consisting primarily of small shrubs and grasses. The region experiences a continental desert climate. Temperature typically ranges from 0° to -30°C in the winter, increasing to 30° to 35°C in the summer months. High winds occur frequently, particularly throughout the spring. Average annual rainfall is approximately 130 mm with most precipitation

occurring during the summer months. The weather is acceptable for exploration activities from April through October. Exploration activities are not recommended during the harsh winters; however, the climate allows year round mining operations.

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

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

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

Waste disposal areas have been identified and approved in the mining permit. A key feature of the coal seams is their friable nature which allows removal of some waste by treatment in a rotary breaker, which was commissioned in February 2012. SGS is currently installing a dry processing plant, consisting of three FGX dry separators with associated conveyors and truck loading hoppers. Construction of the FGX dry separators has been delayed to preserve the Company's financial resources. The plant will have a capacity to process up to 9 million tonnes annual when complete.

History

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

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

Geological Setting

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

Regional Geology

The South Gobi region of Mongolia reflects a complex geologic history of continental accretion and Basin and Range style crustal extension. The region is dominated by elongate, east-west trending mountain ranges and

intervening basins. The intervening basins are comprised of sediments of Late Cretaceous to Permian age, overlain by a relatively thin Quaternary gravel layer or thin Aeolian deposit. The mountain ranges separating these sedimentary basins comprise mostly crystalline basement rocks dominated by intermediate to high angle faults that show evidence of both compressional and extensional movement.

Coal Occurrences

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

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

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

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

Structural Geology

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

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

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

Exploration

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

Geologic mapping was initiated by OT LLC in early 2005 and continued during 2006 to define the trend of outcrops and locate coal occurrences in the hanging wall of the Nariin Sukhait fault. Reconnaissance exploration work was contracted primarily to Sapphire and supervised by the Company. Norwest provided assistance in the review of activities and interpretation of results in 2005 and 2006, while SGS directly supervised and provided assistance to Sapphire in the review of activities and interpretation of results in 2007, 2008 and 2011. McElroy Bryan supervised the 2010 exploration program. The majority of the reconnaissance work was conducted prior to transfer of the mineral exploration licenses to the Company. Satellite imagery was used in conjunction with the geological mapping to locate surface exposures of coal and identify structures.

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

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

Drilling

Drilling through December 31, 2011 at Ovoot Tolgoi holdings includes a total of 535 exploration holes completed and 126,611 m drilled. This does not include limited drilling that took place under the Soviet-Government of Mongolia sponsored exploration programs.

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

Historic Coal Exploration Drilling Activity

Field	Year	Reverse Circulation		Rotary		Core		Combination[1]		Total		Management Company/
		No. Holes	Meters Drilled	No. Holes	Meters Drilled	No. Holes	Meters Cored	No. Holes	Meters Cored	No. Holes	Metres Drilled	Field Geologist Company
Sunrise	2004	-	-	-	-	5	750			5	750	TRQ
	2005	76	14,425	18	2,807	34	5,525			128	22,757	TRQ

Field	Year	Reverse Circulation		Rotary		Core		Combination[1]		Total		Management Company/
		No. Holes	Meters Drilled	No. Holes	Meters Drilled	No. Holes	Meters Cored	No. Holes	Meters Cored	No. Holes	Metres Drilled	Field Geologist Company
	2006	11	4,855	12	1,999	5	1,860	-	-	28	8,714	SGQ/Sapphire
	2007	-	-	17	3,542	1	254	-	-	18	3,796	SGQ/Sapphire
	2010	35	6,671	16	3,486	6	993			57	11,150	McElroy Bryan/ Tanan Impex
	Total	**122**	**25,951**	**63**	**11,834**	**51**	**9,382**	**0**	**0**	**236**	**47,167**	
Sunset	2005	70	12,861	17	2,223	13	2,034			100	17,118	Norwest/Sapphire
	2006	48	10,203	0	0	25	5,737			73	15,940	Norwest/Sapphire
	2007	-	-	23	5,430	7	2,699	-	-	30	8,129	SGQ/Sapphire
	2008	-	-	-	-			41	23,189	41	23,189	SGQ/Sapphire
	2011							55	15,068	55	15,068	SGQ/Sapphire
	Total	**118**	**23,064**	**40**	**7,653**	**45**	**10,470**	**96**	**38,257**	**299**	**79,444**	
TOTAL		**240**	**49,015**	**103**	**19,487**	**96**	**19,852**	**96**	**38,257**	**535**	**126,611**	

[1] Combination holes with RC and/or PCD rotary and/or core method.

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

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

Mineralization

Early work adopted the seam nomenclature presented by Dashkhoral, thereby calling the very thick coal in the middle of the sequence the No. 5 Seam, and naming the upper seams in ascending order. As exploration work progressed, numerous additional seams and splits were discovered within the overall packages of coal previously described. As correlation and modelling has gone forward, coal seams were named and organized into a series basis as shown in the table below. Thicknesses reported are based on drill intercepts and represent apparent thickness. The following tables present the coal seam characteristics on a seam by seam basis:

Ovoot Tolgoi Complex Coal Seam Characteristics

Sunset Field Coal Seam Thickness

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

Sunrise Field Coal Seam Thickness

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

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

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

Coal Quality

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

Sunset – Summary of Drill hole Quality Data

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

Sunrise – Summary of Drill hole Quality Data

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

Sample Preparation, Analysis and Security

The majority of exploration holes at Ovoot Tolgoi have been drilled with rotary techniques, which means that only drill cuttings have been sampled. All quality analyses used for modelling were taken from core samples, which were obtained using triple-tube coring equipment.

Core drilling was used to collect complete representative samples of the coal seams, observe structural details, and to accurately measure the depths of lithologic contacts. Although some of the initial holes were drilled with single-tube Russian made core equipment, the majority of core drilling was done with wireline drilling systems and triple-tube core barrels. Work was conducted by Sapphire under Norwest supervision during the 2005 and 2006 programs, whereas in 2007, 2008 and 2011 it was under SGS supervision, and in 2010 it was under McElroy Bryan supervision.

Core was retrieved, logged, and sealed according to Norwest conventions established in 2005. Each core run was measured for total core cut versus core recovered. Photographs were taken at 0.5 m intervals. Coal showing distinct lithologic variation was sampled separately, as were partings over 0.05 m. Otherwise, coal intervals with a uniform appearance were bagged in 0.6 m sample increments as per the core box length. When zones of core loss greater than 0.1 m were encountered, separate samples were collected both above and below the zone.

A large number of reverse circulation and a minor amount of conventional air-rotary holes were drilled. Samples of cuttings were collected at 1m intervals and laid out in rows on the ground for examination and logging. A portion of the reverse circulation samples were used for basic proximate and thermal analysis as a comparison to the core samples. The remaining portion of the samples has been stored in Ulaanbaatar. Analytical results from these samples have not been included in the geological model.

Core Drilling Samples

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

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

Collected samples are cleaned of any mud contamination and placed in individual, core-sleeve style, plastic bags. The bags are labelled on the outside with both the core hole and sample number and sealed with plastic tape to prevent excessive moisture loss. Samples are then placed in sequence into waxed-cardboard core boxes. Core boxes are sealed with tape. Core boxes from the 2005 program were transported to OT LLC in Ulaanbaatar, then shipped to SGS[1] Mineral Labs in Denver, Colorado (ISO-9000 certified, accredited by the NQA in the United States of America). Core from the 2006 program was similarly transported to SGS Laboratories offices in Ulaanbaatar, and then shipped to SGS[1] Laboratories in Tianjin, PRC (currently holds ISO-17025 certification, accredited by the China National Accreditation Service for Conformity Assessment (the "CNAS")).

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

Reverse Circulation Samples

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

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

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

Data Verification

Between 2005 and 2006, Norwest directly managed the exploration program from conceptual planning of exploration targets, through data collection, to interpretation and analysis. Norwest provided on-site management throughout the majority of the exploration project during those two years. All data collection was done under a defined set of protocols established in 2005 by QPs for Norwest and TAG at Ovoot Tolgoi during 2005 and 2006. Norwest site geologists were responsible for the training and administration of data collection procedures and were responsible for reviewing all data. Norwest maintained oversight of all data collection throughout the exploration program, and the QP visited these operations and reviewed these procedures. The steps included in these written procedures are described in the preceding sections under drilling, coring, sampling methodology and sample preparation.

During 2007, 2008, 2010 and 2011, although Norwest was no longer involved at Ovoot Tolgoi, those field protocols established by Norwest and implemented by Sapphire field geologists were continued, supervised by SGS and McElroy Bryan geological personnel. However, RungePincockMinarco has audited a subset of the data. Scanned field lithology logs and geophysical logs were provided to RungePincockMinarco. A representative number were checked against the seam picks used to generate the geological model. Drill hole collars were also compared to elevations in the Digital Terrain Model. No material errors were encountered.

Mineral Resource Estimate

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

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

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

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

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

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

Coal resources at the Ovoot Tolgoi Complex are defined for the categories of measured, indicated and inferred, as summarized in the table below.

Total (Surface and Underground) Coal Resources effective October 31, 2011

Field	Type	Seam group	Measured Mt	Indicated Mt	Inferred Mt
Sunset	Surface (depth < 300m)	10	8.8	2.4	1
		9	20.9	6.2	3
		8	5.1	1.7	1
		5U	17.4	15.51	4
		5L	5.5	10	5
		Total	**57.8**	**35.5**	**15**
	Underground (depth 300m-600m)	5U	47.4	10.9	9
		5L	3.8	9.5	16
		Total	**51.2**	**20.4**	**25**
Sunrise	Surface (depth < 300m)	7L/6U/6L	7.3	8.3	4
		5U3/5U2	21.8	9.4	4
		5U1/5U0	6.3	2.1	1
		5L2	27.2	3.7	0
		5L1/5L0	12.8	0.9	0
		Total	**75.5**	**24.4**	**9**
	Underground (depth 300m-600m)	5U3/5U2	0.02	0.9	4
		5U1/5U0	0.1	0.8	1
		5L2	5.7	11.5	19
		5L1/5L0	8.9	9.9	13

Field	Type	Seam group	Measured Mt	Indicated Mt	Inferred Mt
		Total	**14.63**	**22.9**	**37**
Grant total	**Surface (depth < 300m)**		**133.3**	**59.7**	**24**
	Underground (depth 300m-600m)		**65.8**	**43.3**	**62**

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

Geological models for the Sunrise and Sunset Fields were developed by McElroy Bryan using Minex™ software. Resources were estimated from these geological models by RungePincockMinarco. Key horizons or "surfaces" were modeled to provide the necessary limits for volume estimation. Volumes were converted to tonnages by application of density values representative of the coal seams as derived from available coal quality data. The Company has indefinitely delayed studies to determine the feasibility and economics of conducting an underground mining operation at the Ovoot Tolgoi Underground Deposit.

Mineral Reserve Estimate

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

Total mineral reserves as of October 31, 2011 are summarized in the table below.

Summary of Mineral Reserves Ovoot Tolgoi Mine

Reserve Area	ASTM Coal Rank	Open pit Reserves Tonnes in Millions		
		Proven	**Probable**	**Total**
Sunset	hvB to hvA	47.6	31.4	79.1
Sunrise	hvB to hvA	71.5	25.1	96.6
Ovoot Tolgoi Mine	hvB to hvA	119.1	56.5	175.7

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

Mining Operations

Mining Method

The mining method employed at the Ovoot Tolgoi Complex could be described as open pit terrace mining utilizing large scale hydraulic excavators and shovels and trucks. Terrace mining is utilized where coal seams dip steeply and operating machinery on the coal seam roof and floor is not possible, due to the steep seam dips. Terraces, or benches, are excavated along fixed horizontal horizons and these benches intersect both coal and waste. Coal and waste are mined separately on each bench with dozers being used, as needed, to push coal or waste down to the excavator for loading onto trucks. This mining method allows large scale open pit mining to occur productively in steeply dipping coal seam environments. All waste will be dumped ex-pit, as the steep dips preclude in pit dumping.

The run of mine (ROM) coal will be hauled to the coal handling facility, comprising a rotary breaker (commissioned in February 2012) and FGX dry separators which will remove some of the stone within the ROM coal. Construction of the FGX dry separators has been delayed to preserve the Company's financial resources. The majority of the coal will then be transported by trucks to the Ejin Jinda wash plant. Some Sunset seam 5 coal will achieve less than 10% ash after processing in the rotary breaker and no further processing will be required before sale "at the mine gate". Some coal from the FGX dry separators will exceed the feed capacity of the Ejin Jinda wash plant and this coal will be sold as Product D "at the mine gate".

Separate mine plans have been considered by RungePincockMinarco for Sunrise and Sunset with an overall aim of producing a total of 9 million tonnes of ROM coal annually from 2015 and by mining in both pits at the same time. Mining is completed in 2031. Initially, the majority of the coal is mined from the lower strip ratio Sunset pit then, from 2017, the majority of coal is mined from the Sunrise pit.

The mine planning process consisted of the following steps: determination of a potential economic mining pit shell using the Minex mine planning software "Pit Optimiser" module; designing a practical pit shell, based on the Optimiser results but addressing practical mining issues, such as, access and geotechnical requirements provided by the QP (geotechnical); scheduling waste and coal mining within the practical pit to achieve the annual target quantities; designing suitable waste dumps and scheduling waste and coal quantities to estimate waste and coal haulage distances on an annual basis; estimating mining fleet equipment requirements to achieve the required annual waste and coal schedule quantities; estimating annual product coal quantities and qualities based on annual ROM coal quantities and qualities, and yield and product quality regression equations, provided by the QP (coal processing); estimating capital and operating costs for the mining equipment on an annual basis; economic modelling by combining the mining costs and physical quantities with cost estimates for the other parts of the Ovoot Tolgoi Complex and revenue assumptions to determine annual economic parameters (costs, margin etc) and project net present value.

The open pit limits will extend across the lease boundary into the adjacent lease held by MAK. The Company and MAK have a memorandum of understanding to allow mining across the boundary. The reserves estimate does not include any coal within the MAK lease that must be extracted as part of the Company mining operation. For the pre-feasibility study, waste and coal within the pit and within the MAK lease has been treated as waste (i.e. costs have been assumed for mining of the MAK waste and coal but no revenue has been assumed for the MAK coal).

Production Forecast

The following table sets out the production forecast over the life of mine at the Ovoot Tolgoi Mine from the Ovoot Tolgoi Technical Report. The Company cautions that it will not meet the 2013 quantities listed below and its ability to meet the 2014 quantities below are subject to a number of risks. For a list of risks that may affect production levels see "Risk Factors":

Life of Mine Summary Quantities

(in thousands)	2013	2014	2015	2016	2017	2018	2019	2020	2021
ROM Coal (kt)	8,000	8,000	9,000	9,300	9,300	9,300	9,100	9,100	9,000
Product Coal (kt)	6,901	6,550	7,468	7,711	7,761	7,462	7,336	7,702	7,454

(in thousands)	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Total
ROM Coal (kt)	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	8,052	169,152
Product Coal (kt)	7,508	7,727	7,636	7,783	7,636	7,692	7,606	7,743	7,941	7,179	142,796

The following table sets out the production forecast over the life of mine for each type of coal expected to be mined from Ovoot Tolgoi. The Company cautions that it will not meet the 2013 quantities listed below and its ability to produce 6,550 (kts) of coal in 2014 is subject to a number of risks. For a list of risks that may affect production levels see "Risk Factors":

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

	Sunset			Sunrise				Total		
Year	**Waste (kbcm)**	**ROM Coal (kt)**	**Strip Ratio (bcm/t)**	**Waste (kbcm)**	**Cont. Waste (kbcm)**	**ROM Coal (kt)**	**Strip Ratio (bcm/t)**	**Waste (kbcm)**	**ROM Coal (kt)**	**Strip Ratio (bcm/t)**
2013	24,300	5,000	4.9	10,700		3,000	3.6	35,000	8,000	4.4
2014	24,300	6,000	4.1	21,200		2,000	10.6	45,500	8,000	5.7
2015	24,300	5,500	4.4	34,700		3,500	9.9	59,000	9,000	6.6
2016	27,800	5,500	5.1	38,200		3,800	10.1	66,000	9,300	7.1
2017	38,000	4,200	9.0	38,000		5,100	7.5	76,000	9,300	8.2
2018	38,100	4,800	7.9	38,200		4,500	8.5	76,300	9,300	8.2
2019	44,000	4,300	10.2	41,500	5,500	4,800	9.8	91.000	9,100	10.0
2020	44,500	4,000	11.1	41,500	8,500	5,100	9.8	94,500	9,100	10.4
2021	34,000	4,000	8.5	41,500	8,500	5,000	10.0	84,000	9,000	9.3

	Sunset			Sunrise				Total		
Year	**Waste (kbcm)**	**ROM Coal (kt)**	**Strip Ratio (bcm/t)**	**Waste (kbcm)**	**Cont. Waste (kbcm)**	**ROM Coal (kt)**	**Strip Ratio (bcm/t)**	**Waste (kbcm)**	**ROM Coal (kt)**	**Strip Ratio (bcm/t)**
2022	26,000	3,500	7.4	41,500	6,500	5,500	8.7	74,000	9,000	8.2
2023	17,200	3,000	5.7	41,500	6,500	6,000	8.0	65,200	9,000	7.2
2024	13,000	3,000	4.3	41,500	11,000	6,000	8.7	65,500	9,000	7.3
2025	15,500	3,000	5.2	37,500		6,000	6.2	53,000	9,000	5.9
2026	12,000	3,000	4.0	36,500		6,000	6.1	48,500	9,000	5.4
2027	14,000	3,000	4.7	31,500		6,000	5.3	45,500	9,000	5.1
2028	8,200	3,000	2.7	23,000		6,000	3.8	31,200	9,000	3.5
2029	8,200	3,000	2.7	16,000		6,000	2.7	24,200	9,000	2.7
2030	5,500	3,000	1.8	16,000		6,000	2.7	21,500	9,000	2. 4
2031	4,559	2,510	1.9	11,470		5,542	2.1	16,029	8,052	2.0
TOTAL	423,459	74,010	5.6	601,270	46,500	93,642	7.1	1,025,429	167,652	6.3

Metallurgical Process

The ROM coal product is inevitably a combination of coal and dilution by waste rock due to the inability of the mining equipment to precisely follow the interfaces between coal and waste, especially at Ovoot Tolgoi due to the mining method (horizontal benches that intersect the steeply dipping coal seams with multiple coal plies and thin parting.

The proposed coal beneficiation process will comprise three stages. Stages 1 (Rotary Breaker) and 2 (Dry Separator) will occur at the coal handling facility at Ovoot Tolgoi. Stage 1 was commissioned in February 2012 and Stage 2 construction has been delayed to preserve the Company's financial resources. Stage 2 includes product stockpiles and truck loading bins. Until Stage 2 is completed, product from the rotary breaker will be directed to temporary stockpiles for loading with mobile equipment into trucks. Stage 3 will occur at the wash plant, located approximately 45 km away at Ceke, PRC, which is owned by Ejin Jinda. SGS has a contract with Ejin Jinda for washing of 3.5 million tonnes annually. The wash plant has been constructed and the Company is planning to commence wet washing coals in the second half of 2013. In the Ovoot Tolgoi Technical Report, it has been assumed that the wash plant will be operational by mid-2012 and will be capable of annual capacity of 3.0 million tonnes. The QP (wet processing) has estimated the annual capacity of 3 million tonnes, based on design limitations at the Ejin Jinda wash plant. The Company has not commenced negotiations with Ejin Jinda to expand processing capacity due to the curtailment of its Ovoot Tolgoi Mine in the last three quarters of 2013. Any delay in expanding annual capacity to 7.0 million tonnes by mid-2014, would likely impact the project economics, as the coal would be sold as lower value coal; however, these delays would be unlikely to impact on total reserve estimates. For the purpose of the reserve estimate, overall project yield is estimated to be 84.5%

Coal Markets, Marketing and Sales Contracts

For information on sales and marketing see "Description of Material Properties – Sales and Marketing".

Environmental Conditions

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

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

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

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

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

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

Another potential issue is the flooding of the final pit. As backfilling is not proposed as a significant part of the mine plan it is possible that a pit lake would appear as a result of re-establishment of the groundwater table. If a pit lake is a part of the post mining reclamation, then this creates a potential water quality liability. It is recommended that appropriate study be performed to determine if the pit lake will discharge to the surface water system or the alluvium in order to estimate the long term effect of water in the final pit. Detailed plans for reclamation of the final mining pit have yet to be determined as the final pit would provide possible access for future open pit or underground mining to extract some of the remaining coal, if economic. The

pre-feasibility study includes an allowance of US$0.25/product tonne for annual environmental work, such as progressive rehabilitation of waste dumps, as dumps reach their final shape. A further allowance of US$20 million has been assumed in the pre-feasibility study for final rehabilitation, such as covering exposed coal seams with waste, securing the final pit walls by dozing the unconsolidated upper materials and constructing bunds to ensure public safety and rehabilitation (dozing and seeding) of final waste dumps.

Taxes

The following taxes, royalties, and other government levies applicable to the Ovoot Tolgoi mining operation, were assumed in the pre-feasibility study:

- Royalty payments to the Government of Mongolia, based on SGS's understanding of the Mongolian royalty legislation;
- 7% of sales price for Product A (Sunset seam 5 of <10% ash after processing in the rotary breaker, only and thus considered "Unprocessed Coal" under Mongolian royalty regulations);
- 6% of sales price for washed product from Ejin Jinda wash plant (this coal will have been treated in the rotary breaker and FGX separator before washing and thus considered "Concentrated Coal" under Mongolian royalty regulations);
- 5% of sales price for Product D (product coal after treatment in the rotary breaker and FGX separator and thus considered "Concentrated Coal" under Mongolian royalty regulations). This is only a small quantity which is in excess of the annual Ejin Jinda wash plant capacity in some years;
- Property Tax – 0.06% on acquisition value in 2012 and 0.1% in subsequent years;
- Mining License - $5/ha x 9,308 ha = $46,540/year;
- VAT – 10% on capital, materials and supplies. VAT is assumed to be refunded in the following year, based on SGS understanding of the Mongolian VAT refund for processed coal;
- Income Tax – 10% of the first 3B MNT, 25% thereafter; and
- Depreciation – 10 years on equipment, 40 years on fixed assets, 3 years on minor assets.

Expected Payback period of Capital

According to the Ovoot Tolgoi Technical Report, the current base case indicates that the development capital will be recovered during 2013. The Company believes that based on the curtailment of operations in 2012, there will be a delay in the payback period of capital.

Soumber Deposit

Property Description and Location

The Soumber Deposit is located in the western part of the Umnugobi Aimag (South Gobi Province) of Mongolia, within the Uvuljuu Uul area of Gurvantes Soum. The property lies approximately 1,000 km

southwest of Ulaanbaatar, 300 km west of the town of Dalanzadgad, 45 km southeast of Gurvantes Soum. The approximate center of the MEL area is located at latitude 42°58'00"N and longitude 101°32'00"E.

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

The Soumber Deposit consists of three distinct fields, the Soumber field, the Biluut field and the Jargalant field. The Soumber Deposit consists of two exploration licenses, MEL XV-009443, totalling 23,970 ha (which expires on December 31, 2015) MEL 9449X totalling 168,539 ha (which expired on December 2011) and mining license MV016869 which expires in July 2041. Mongolian mineral laws allow for the signing of a pre-mining agreement with MRAM, which allows an expiring license to be extended by up to 3 years to perform certain activities, including additional exploration, pre-feasibility studies, and certain development work. SGS was granted a pre-mining agreement over MEL XV-009443 on January 18, 2013 and has applied for and met all of the requirements to receive a pre-mining agreement on MEL 9449X and subsequent exploration license extension, and expects to receive formal approval from MRAM in due course. Obligations for the holder of a pre-mining agreement are the same as those for an exploration license.

SGS holds the licenses and permits to the Soumber Deposit. The Government of Mongolia grants MELs for a period of three years with the right to extend the period twice for three additional years each. Exploration license holders are subject to various environmental protection obligations including preparation and acceptance of detailed EIAs and EPPs, as well as the annual posting of a bond equal to 50% of expected reclamation costs. Other obligations are for exploration license holders to pay a fee and incur a minimum expenditure per hectare of license area (see table below). The Company has completed its EIA and EPP and has all necessary permits to continue operations at the Soumber Deposit.

Mongolian Mineral Exploration License Fees

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

Following successful exploration, an exploration license holder can apply for a mining license to any portion of the exploration license area.

For details of the environmental liabilities and the terms of applicable royalties, see "Ovoot Tolgoi Complex – Property Description and Location".

Accessibility, Climate, Local Resources, Infrastructure and Physiography

The area currently supports a traditional subsistence economy focused on raising sheep, goats, and camels. The Umnugobi Aimag is the most sparsely populated province in Mongolia with a density of 0.8 people/km^2.

The number of skilled persons in the exploration and development of mining properties in Mongolia is limited. To date, SGS has been successful in recruiting key personnel to assist in the exploration.

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

The Soumber Deposit can be reached via chartered aircraft from Ulaanbaatar. Regular air service is also available from Ulaanbaatar to Dalanzadgad. Travel from Dalanzadgad to the property takes approximately seven hours over unpaved roads. All parts of the property can be reached with four-wheel-drive vehicles. The property is also accessed over desert trails from the Gurvantes Soum via the Ovoot military base.

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

Electrical power is available from a power line distributing power from The PRC to the MAK-Qinghua coal mine, Gurvantes Soum the military base and Ovoot Tolgoi Mine. No surface water is currently available in the immediate area of the Soumber, Biluut and Jargalant fields. Water for the Ovoot Tolgoi mine camp and shop complexes is being supplied from water supply wells drilled near each location as part of hydrological investigations. The infrastructure plans include water treatment to allow well water to be used for potable purposes.

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

History

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

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

The “N”, “O” and “N Extension” fields are now the Soumber Deposit. The name was proposed by the Buddhist Purevbat Lama of Mongolia and means "beginning of the universe."

MEL 9443X is owned by SGS, a former subsidiary of TRQ and established as the license holder on February 22, 2007. The license was initially granted to OT LLC on December 28, 2002 (inception date), who

transferred it to SGS on February 22, 2007. Part of 9443X has been converted to Mining License MV016869 while the remainder is covered as the pre-mining agreement application. For additional information see "Description of Material Properties - Soumber Deposit – Property Description and Location".

Geological Setting

Regional Geology

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

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

Coal Occurrences

The coal occurrence within the Soumber field measures approximately 12 km long east to west and 2 km wide north to south, whilst the strike length of the Biluut/Jargalant field is approximately 25 km. Based on past geological mapping, the coal-bearing Deliin Shand suite is exposed along the trend of the Nariin Sukhait thrust fault. The exposed sediments mapped in the vicinity of Soumber and Biluut are thought to have been deposited in the series of geologic sequences of Permian, Triassic, Jurassic, and Quaternary Age.

The coal sequence contains many rock partings and interburden of varying thicknesses and it is a multi-seam deposit. The groupings of coal beds often occur close together, so each discrete group is referred to as a "seam" that is part of a depositional unit that theoretically coalesces at a central depocenter.

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

Work by Norwest at the Soumber Deposit identified seven coal seams, named S6 (top) through S0 (base). Their work identified S4 as the main seam, having more continuity than the other seams, and containing the majority of the coal resource. The S1 and S2 seams varied considerably in both thickness and quantity of in-seam partings, but contribute locally to the coal resource. The S0 seam was intercepted in a number of drill holes, but did not appear to represent any significant resources. Norwest interpreted the seam sequence as being repeated three times by two major east-west trending faults.

The 2010 and 2011 exploration programs have led to a re-interpretation of the stratigraphy at the Soumber Deposit. Six major (0 to 5) and two minor (6 and 7) seams have been identified, which have been further split into plies based on stone partings within the seams. Approximately 40% of the resources are held in the 2 seam, which averages 5.9 m thick. McElroy Bryan consider that the two east-west faults interpreted by Norwest do not exist, and that the seams can be correlated through the area with the aid of downhole geophysics.

Three major seams have been identified in the Biluut/South Biluut/Jargalant area, which have again been further sub-divided into plies based on stone partings. No attempt has yet been made to correlate coal seam nomenclature with Soumber.

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

Structural Geology

The geologic framework of the Soumber, Biluut and Jargalant fields appears to be of high structural complexity. The geometry of the strata is interpreted to be a shallow structural basin, created by post-depositional compression. The basin structure appears to continue through the adjacent areas to the east. Between the Central Soumber and East Soumber areas, there is a barren area where coal deposition did not occur. The most prominent structure relating to the Soumber and Biluut coal deposits is the arcuate, east-west-trending, moderately-dipping Nariin Sukhait fault, which occurs to the north of the coal deposit.

Exploration

The first exploration of the deposit occurred in 2005 under supervision of Norwest. Excavations, including trenches and exploratory drilling in 2005 indicated the potential for thick coal deposits in the area of the MEL 9443X. Exploration campaigns on the Soumber Deposit continued in 2006 that carried over to 2007 through 2009, 2010 and 2011, eventually drilling a total of 388 exploration drill holes and 68,779 m drilled. The Biluut field exploration campaigns in 2005, 2008, 2010 and 2011 resulted in drilling a total of 250 exploration drill holes and 47,564 m drilled. During 2011, 22 holes were drilled at South Biluut, for 13,619 m drilled. The first holes were drilled at Jargalant in 2005, with subsequent drilling in 2011 yielding a total of 91 drillholes for 15,857 m drilled. There has been no further exploration work conducted on the deposit since 2011.

Exploration geology fieldwork, including reconnaissance mapping, trenching, geologist descriptions of drilling returns, geotechnical data, field logs, and database development, was contracted primarily by Sapphire and supervised by TAG in 2009, McElroy Bryan in 2010 and the Company in 2011. Norwest provided assistance in the review of field activities and interpretation of results in 2005 and 2006. Drilling was performed by a number of drilling contractors, Erd Geo Inc., Tanan Impex and Major Drilling Mongolia Co. Ltd. Drill hole survey and surface topography were conducted by Mongolian contractor TopCadd Co. Ltd.

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

Drilling

Drilling to date on the Soumber Deposit includes a total of 751 exploration holes completed and 145,819m drilled. At the Soumber Deposit, drilling has been concentrated in the central and eastern areas, whilst limited drilling has taken place in the western part of the field. In the central and eastern areas, traverse spacing is 120 – 150 m, whilst hole spacing along the traverses is 30 – 100 m. Average hole depth is 170 m, whilst the deepest hole drilled is 347 m. Drilling coverage at Biluut is quite regular with traverses spaced at approximately 150 m, and hole spacing along the traverse 50 – 150 m. Average hole depth is 170 m whilst the maximum is 340 m. At Jargalant traverse spacing is 250 – 300 m, with hole spacing along the traverses 70 – 120 m. Hole depths are similar to Biluut. Only limited drilling has taken place at South Biluut to date, with

traverse spacing around 700 m and hole spacing along traverses around 300m. Average depth is 620 m, whilst the deepest hole is 950 m deep.

All holes were drilled from surface to total depth and oriented vertically. Drilling contractors provided truck-mounted drill rigs equipped for wireline coring and reverse circulation with larger (approximately 110 mm) diameter. Drill depths were measured from surface and recorded based on the length of the drill string and coring tools at the start and end of each core run.

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

Geophysical logs were recorded by Monkarotaj Co Ltd., a geophysical company based in Ulaanbaatar. Natural gamma and natural density (gamma gamma) logs were obtained through the drill pipe for most holes. Open hole logs were then obtained consisting of gamma, density, resistivity and calliper. The open hole logs varied in depth dependent upon hole conditions. All holes were geophysically logged except where holes caved, preventing geophysical logging tools from proceeding further. Verticality logs were not run.

Total drilling to date is summarized in the table below.

Soumber and Biluut/Jargalant – Drilling Summary by Year

Year	Soumber		Biluut		South Biluut		Jargalant	
	No. Holes	Meters drilled	No. Holes	Meters drilled	No. Holes	Meters drilled	No. Holes	Meters drilled
2005	35	4,535	12	1,648	-	-	13	1,788
2006	27	3,596	-	-	-	-	-	-
2007	23	3,905	-	-	-	-	-	-
2008	98	20,607	-	-	-	-	-	-
2009	6	1,333	-	-	-	-	-	-
2010	65	10,469	67	13,958	-	-	-	-
2011	134	24,334	171	31,958	22	13,619	78	14,069
TOTAL	**388**	**68,779**	**250**	**47,564**	**22**	**13,619**	**91**	**15,857**

Mineralization

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

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

Soumber Field Summary of Thickness

Seam	Mean (m)	Minimum (m)	Maximum (m)
7	2.1	0.5	4.6
6	1.5	0.6	3.4
5	10.3	0.7	44.5
4	12.5	0.7	58.2
3	9.8	0.5	58.5
2	5.9	0.4	23.7
1	9.1	1.7	21.3
0	8.6	1.6	34.5

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

Biluut Field Summary of Thickness

Seam	Mean (m)	Minimum (m)	Maximum (m)
3	3.7	0.1	15.9
2U	5.0	0.4	19.4
2L	5.1	0.1	25.0
1U	0.8	0.1	2.8
1L	2.5	0.1	10.9

Deposit Type

Structural geology at Soumber and Biluut/Jargalant shows evidence of folding and faulting with some steeply inclined limbs. The deposit has been subjected to relatively high level of deformation and seam thicknesses have been substantially modified form their pre-deformation thickness. The deposit is classified as "Complex" based on these criteria that describe in the GSC Paper 88-21.

"Deposit Type" as defined in GSC Paper 88-21 refers to the extraction method most suited to the coal deposit. There are four categories, which are "surface," "underground," "non-conventional," and "sterilized".

The Soumber and Biluut/Jargalant coal sequence, based on the low cumulative stripping ratio and depth of the coal occurrence below ground surface within the exploration licenses, is considered to be a "surface" deposit type. Very little drilling to date has been done downdip; it is possible if such a drilling program were undertaken that the deposit could be extended with underground potential.

Sample Preparation, Analysis and Security

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

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

Core from the drill hole was logged (i.e., measured and described) by a geologist using standard geological terms to document various attributes. The geologist's core log consists of the measured depths and description of the coal, inter-seam partings, adjacent roof and floor rock, and details of any sample intervals removed for analysis. Core handling was performed promptly and follows a distinct sequence of activities as follows: the core is pumped out of the core barrel, excess mud is washed off and the core fitted back together, recovered length is measured and depths are marked, core photos are taken on 0.5 m intervals, lithologic logging is completed, and other parameters for sample identification and processing as described below.

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

Incremental samples were identified by Sapphire based on comparison of field geologic and geophysical logs. Physical composite samples were identified following the receipt of the initial analytical results from the increment samples. Geophysical logs have been used to confirm the thickness of coal bearing zones.

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

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

Collected samples were cleaned of mud contamination and placed in individual 6 mm plastic core sleeves and sealed air-tight to prevent loss of moisture and volatiles. The bags were labelled on the outside with the core hole, sample number, and depth interval. Samples were placed in sequence into waxed-cardboard core boxes. Boxes were sealed with tape and shipped to the SGS Group analytical prep laboratory (until 2010) or the Stewart Mongolia laboratory (during 2011) in Ulaanbaatar. At the prep lab, the samples were weighed, dried, crushed, split and repackaged for shipment to the SGS Group analytical laboratory in Tianjin, PRC. In 2011 all testing was performed at the Stewart laboratory in Ulaanbaatar.

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

Analytical work was performed by SGS Laboratories Inc. in Tianjin, PRC from 2005 to 2010, and by Stewart Mongolia LLC in Ulaanbaatar in 2011. Both laboratories currently hold ISO-17025 certification, accredited

by the CNAS. The laboratories are certified to ASTM and ISO standards. Sample handling and quality control measures used practices that are considered to be standard to the international coal industry. Coal sampling and analyses were performed to a level adequate for the conclusions reached in the technical report. As with other coal work, no special security arrangements were made for the shipping and storage of samples. Additional security methods are not commonly employed, as coal is a relatively low-value bulk commodity.

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

All geologic, geophysical, and sampling data was entered and maintained on a site in an electronic database maintained by Norwest and/or Sapphire in early exploration programs. All mapping was entered and maintained in electronic format on a CAD-based system. Data entry of all geologic data was managed by Norwest at the project site. All electronic data was forwarded on a routine basis to Norwest's office in Salt Lake City. Results from coal quality testing were added into the database in the Salt Lake office. From 2006 onwards similar procedures were in place with data routinely sent through to TAG's office in Lakewood Colorado. During the 2010 field season, data was managed at site by McElroy Bryan personnel and in 2011 it was managed by SGS.

Data Verification

Several levels of data verification were applied to the field and laboratory data under the supervision of the QP. Typical verification included: direct comparison of geologist core log intervals with down-hole geophysical logs; reconciliation of coal sample intervals and recovered coal core to down-hole geophysical logs; and comparison of laboratory coal quality results with geophysical and geologists core logs.

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

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

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

Mineral Resource Estimate

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

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

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

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

Criteria Used to Define Assurance of Existence

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

Coal resources at the Soumber Deposit are defined for the categories of measured, indicated and inferred, as summarized in the tables below. This updated estimate is based on the same technical data, geological model, and estimation methodology as the 2012 estimates. The resource estimate for Soumber field is materially unchanged from the 2012 quantities. The total resource estimate for the Biluut, South Biluut, and Jargalant fields have increased approximately 54%, 68%, and 83% respectively from the 2012 resource estimates. The increases in resource estimate over 2012 were identified by RungePincockMinarco when reviewing the technical data for the resources in the course of on-going mine planning studies for the Company. These studies included the reconciliation of MMC Minescape and MGBS Minex models. This reconciliation identified aggregation anomalies which resulted in an increase in the resource estimates that were originally reported.

Summary of Soumber Deposit Resources 10th January 2013

Area	Measured Mt	Indicated Mt	Mes+Ind Mt	Inferred Mt
Surface Depth < 300m				
Central Soumber	30.8	16.3	47.1	11
East Soumber	16.9	15.1	32.0	10
Biluut	14.7	50.9	65.5	18
South Biluut	0.0	0.0	0.0	0

Area	Measured Mt	Indicated Mt	Mes+Ind Mt	Inferred Mt
Jargalant	0.0	20.5	20.5	19
Underground Depth 300m – 600m				
Biluut	0.0	2.3	2.4	18
South Biluut	0.0	4.2	4.2	41
Jargalant	0.0	1.0	1.0	5
Grand Total				
Central Soumber	30.8	16.3	47.1	11
East Soumber	16.9	15.1	32.0	10
Biluut	14.7	53.2	67.9	36
South Biluut	0.0	4.2	4.2	42
Jargalant	0.0	21.5	21.5	24
TOTAL	**62.4**	**110.3**	**172.7**	**123**

The geologic model was developed using industry-accepted gridded seam modeling conventions using Minex™ software. Bulk density values derived from the incremental samples from drill hole core samples were incorporated into the geologic model and subsequently used to estimate coal resource tonnages. Zones of core loss within coal seams were assigned an average density as per the judgment of the geologist. Trends in density values were interpolated and extrapolated across the areal extent of the property via the modeling process.

Seam thicknesses of less than 0.3 m and partings of greater than 0.3 m were excluded from the resource calculations. The resources for the "surface" deposit type are limited to 300 m depth from surface, a depth viewed as the maximum depth from which coal can be extracted using surface mining methods. Based on the 81 core holes at Soumber and 69 cored holes at Biluut/Jargalant, the coal quality model was developed using Minex™ software.

Potential Coal Tonnage

"Potential coal tonnage" has been estimated where drill hole coverage is insufficient for resource classification under the NI 43-101 rules. The criteria demand that there are at least three drillholes per section or traverse. For traverse lines where only one or two holes have been drilled to date, this coal has been classified as "potential tonnage" rather than an Inferred Resource. A confidence discount of -30% has then been applied to the figure calculated from the software to obtain the upper limit of the range. In all other respects this coal has been estimated in the same manner as the resources. The potential tonnages are conceptual in nature. There has been insufficient exploration to define the Potential Coal Tonnage as a coal resource, and it is uncertain if further exploration will result in the target being delineated as a coal resource.

Soumber Field "Potential Coal Tonnage" 10 January 2013

Area	Tonnage estimate range Mt	
	From	To
Surface: depth < 300m		

Area	Tonnage estimate range Mt	
	From	To
Central Soumber	0	1
East Soumber	0	3
Biluut	0	8
South Biluut	0	0
Jargalant	0	8
Underground: depth 300m – 600m		
All areas	0	<3

Exploration and Development

Development Plan

Environmental baseline studies have been completed and general environmental impact assessments have been approved. The Company is planning to complete a pre-feasibility study for the Soumber Deposit, pertaining to resources located above 300m, by September 2013. However, the Company has delayed studying the feasibility of building a coal preparation plant for the Soumber coals to preserve the Company's financial resources and is reviewing other alternatives.

Zag Suuj Deposit

Property Description and Location

The Zag Suuj field is located in south-central Mongolia, in the Noyon and Bayandalai Soums, in the southwest corner of the Umnugobi Aimag (South Gobi Province). It is approximately 200 km southwest of the provincial capital of Dalanzadgad, 950 km south of the nation's capital Ulaanbaatar, 150 km east of the Company owned Ovoot Tolgoi mine, and 45 km north of the Chinese border. The Umnugobi Aimag is the most sparsely populated province in Mongolia with less than one person/km^2.

The Zag Suuj field is composed of two licenses: XV-013779 which is 67,689 ha, and XV-005267 which is 33,296 ha. SGS holds the licenses and permits to the Zag Suuj deposit. The terms of the licenses are governed by a pre-mining agreement. Mongolian mineral laws allow for the signing of a pre-mining agreement with MRAM, which allows an expiring license to be extended by up to 3 years to perform certain activities, including additional exploration, pre-feasibility studies, and certain development work. The Company has applied for and met all of the requirements to receive a pre-mining agreement and subsequent exploration license extension, and expects to receive formal approval from MRAM in due course. Obligations for the holder of a pre-mining agreement are the same as those for an exploration license.

For details of the exploration and mining license regimes, environmental liabilities and the terms of applicable royalties, see "Description of Material Properties - Ovoot Tolgoi Complex – Property Description and Location."

Accessibility, Climate, Local Resources, Infrastructure, and Physiography

The Zag Suuj deposit is accessible via an airport at the Ovoot Tolgoi Mine which has regular daily flights from Ulaanbaatar. Zag Suuj is approximately 150 km east of the Ovoot Tolgoi Mine via unpaved roads. Regular air service is also available between Ulaanbaatar and Dalanzadgad which is approximately seven hours away via unpaved roads. There is a railroad terminus at Ceke, approximately 45 km south of the Ovoot Tolgoi Mine which is connected to the PRC rail network which is accessible via truck.

Zag Suuj is in a region that experiences a continental desert climate. Temperatures range from 0° to -30°C in the winter and from 30° to 35°C in the summer. High winds frequently occur throughout the spring. Average annual rainfall is 130 mm with most of the precipitation occurring during the summer months. The weather allows for exploration activities from mid-March through October and allows for year-round mining operations.

The Umnugobi Aimag is within the physiographic region of the Gobi Desert. The topography of the deposit varies from flat, gravel-covered plains to moderately hilly terrain. Surface elevation ranges from 1,200 to 1,250 m above sea level. Vegetation is sparse, consisting primarily of small shrubs and grasses. The area currently supports a traditional subsistence economy focused on raising sheep, goats and camels.

Initially diesel generators will be used for power, but eventually it is expected that Zag Suuj will be connected to a power line that runs from The PRC to Gurvantes Soum and the Ovoot Tolgoi mine camp.

No surface water is currently available in the immediate area of Zag Suuj. It is expected that Zag Suuj will use a similar water program to that used at Ovoot Tolgoi where the mine camp and shop complex is supplied from water wells.

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

History

The first geologic investigations in the Zag Suuj region were led by V.S. Volkhonina in 1951 and 1952. They included mapping at a scale of 1:500,000. Further geological investigations were carried out by Russians during the 1960s, including a geological mapping at 1:200,000 in 1968.

The first drilling program was carried out by SGS in 2007. Two holes, which both intersected significant thicknesses of coal were drilled. Based on this, the Company conducted detailed exploration and drilling programs from 2007 to 2011. There has been no production from the property to date.

Geological Setting

The Umunugobi Aimag of Mongolia has a geologic history of continental accretion and Basin and Range style crustal extension followed by compressional folding and faulting. The region has elongated, east-west trending mountain ranges and intervening basins, which comprise sedimentary rocks of Late Cretaceous to Permian age, overlain by a relatively thin Quaternary gravel layer or thin aeolian deposits. Mountain ranges between the basins comprise mostly crystalline basement rocks dominated by intermediate to high angle faults that show evidence for both compressional and extensional movement.

The basement of the Zag Suuj area is composed of the Silurian-Devonian Tumuurt Formation conformably overlain by the Carboniferous Khadanus Formation consisting of rhyolite, andesite porphyry and tuff.

Overlying these volcanics is the upper Permian Deliin Shand Formation consisting of brown to grey sandstone, siltstone, breccia and coal. These older rocks are unconformably overlain by the upper Cretaceous Bortolgoi and Amgalan Teeg Formations.

The coal deposit at Zag Suuj occurs within the Deliin Shand suite, which is estimated to be up to 1,300m thick in the Ovoot Khural Basin. The Deliin Shand suite is described as a sedimentary sequence of intercalated claystones, siltstones, sandstones, conglomerates and coal.

Coal Occurrences

The coal occurrence within the Zag Suuj field measures approximately 12 km long east to west and 3 km wide north to south. The exposed sediments mapped in the vicinity of Zag Suuj are thought to have been deposited in the series of geologic sequences of Permian, Triassic, Jurassic, and Quaternary Age.

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

The coal sequence contains many rock partings and interburden of varying thicknesses. It is a multi-seam deposit. The groupings of coal beds often occur close together; each coal bed or seam is part of a depositional unit that theoretically coalesces at a central depocenter.

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

Structural Geology

The geologic framework of the Zag Suuj Deposit appears to be of high structural complexity. The geometry of the strata is interpreted to be a shallow structural basin, created by post-depositional compression. The basin structure appears to continue through the adjacent areas to the east.

The coal bearing section structure trends from west to east. The coal seams occur in what is believed to be a localised synclinal structure, with dips generally ranging from 15 to 30 degrees.

Exploration

The first geologic investigations in the Zag Suuj region occurred between 1951 and 1952. This initial geologic investigation led by V. S. Volkhonina in 1952, included mapping at a scale of 1:500,000. Further geological investigations were carried out by Russians during the 1960's. In 1968 geological mapping at 1:200,000 scale was carried out.

The first drilling program was carried out by SGS in 2007. Two holes which both intersected significant thicknesses of coal were drilled. Based on this, SouthGobi conducted detailed exploration and drilling programs from 2007 to 2011. There has been no further exploration work conducted at Zag Suuj since December 2011.

Exploration geology fieldwork, including reconnaissance mapping, trenching, geologist descriptions of drilling returns, geotechnical data, field logs, and database development, was contracted to Sapphire and supervised by the Company. Drilling was performed by drilling contractors, Tanan and Major Drilling Mongolia Co. Ltd.

Drill hole survey and surface topography were conducted by Mongolian contractor TopCadd Co. Ltd. As well as the drilling program, 16 trenches in 2009 and 55 trenches in 2010, were dug to intersect coal seams at the subcrop.

Drilling

To date at the Zag Suuj Deposit, 211 exploration holes consisting of 45,445 m have been drilled. Drilling has been concentrated in the central area, with limited drilling taking place in the eastern and western parts of the field. All holes have been drilled from surface to total depth and oriented vertically. The average depth of the holes was 220 m, with 155 holes being greater than 200 m depth, and a maximum depth drilled of around 300 m. Drilling contractors provided truck-mounted drill rigs equipped for wireline coring and reverse circulation drilling. Core rigs were equipped with HQ size coring tools (approximately 63.5 mm) and reverse circulation with larger (approximately 110mm) diameter. Drill depths were measured from ground surface and recorded based on the length of the drill string and coring tools at the start and end of each core run.

Sapphire recorded most of the core logs. All core logs were recorded by wellsite geologists. These logs contain lithologic descriptions, sample interval identification, and core depths.

Geophysical logs were recorded by Monkarotaj Co Ltd., a geophysical company based in Ulaanbaatar. Natural gamma and density (gamma gamma) logs were obtained through the drill pipe for most holes. Open hole logs were then obtained consisting of gamma, density, resistivity and caliper. The open hole logs varied in depth dependent upon hole conditions. All holes were geophysically logged except where holes caved preventing geophysical logging tools from proceeding further. No verticality logs were run.

Total drilling to date is summarized in the table below:

Zag Suuj Drilling Summary by Year

Year	Open Holes	Cored Holes	Total Meters	Drilling Company	Geophysical Company
2007	2	0	500	Tanan Impex	Monkorataj
2008	11	0	2522	Tanan Impex	Monkorataj
2009	4	1	922	Tanan Impex	Monkorataj
2010	112	18	31,647	Tanan Impex	Monkorataj
2011	29	35	9,854	ErdGeo	Monkorataj
Total	**157**	**54**	**45,445**		

Hole locations were initially recorded by GPS; however, at the end of each program, all holes were surveyed.

Mineralization

The coal occurrence within the Zag Suuj field measures approximately 12 km long east-west and 3 km wide north-south. The exposed sediments mapped in the vicinity of Zag Suuj are thought to have been deposited in the series of geologic sequences of Permian, Triassic, Jurassic, and Quaternary Age.

The coal sequence contains many rock partings and interburden of varying thicknesses and it is a multiseam deposit. The groupings of coal beds often occur close together, so within this report each discrete group will be referred to as a "seam" that is part of a depositional unit that theoretically coalesces at a central depocenter.

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

The table below shows the full sequence:

Zag Suuj Deposit Summary of Seam Thickness

Seam Group	Coal Thickness (m)	
	Mean	Maximum
D	19.1	39.3
C	22.4	52.4
B4	15.1	52.4
B3	9.9	32.5
B2	5.8	17.8
B1	7.2	15.6
A	4.5	9.3

Deposit Type

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

"Deposit Type" as defined in GSC Paper 88-21 refers to the extraction method most suited to the coal deposit. There are four categories, which are "surface," "underground," "non-conventional," and "sterilized".

The Zag Suuj coal sequence, based on the low cumulative stripping ratio and depth of the coal occurrence below ground surface within the MELs, is considered to be a "surface" deposit type. Very little drilling to date has been done downdip; it is possible if such a drilling program were undertaken that the deposit could be extended with underground potential.

Sample Preparation, Analysis, and Security

For a description of the Sample Preparation, Analysis and Security methods employed at Zag Suuj see "Description of Material Properties - Soumber Deposit – Sample Preparation Analysis and Security".

Data Verification

Data collection, verification and storage at Zag Suuj has been managed by various independent consultants employed by the Company since the start of the exploration programs. A set of procedures was set up by

Norwest and TAG in 2005 when exploration at the Company license areas commenced. Norwest and TAG were responsible for the initial training and implementation of these procedures. Sapphire field geologists have been responsible for all exploration programs at Zag Suuj, using the procedures set up by Norwest and TAG.

The QP was not able to personally verify that these protocols for the logging of rotary and percussion holes were being followed in any of the field seasons 2007 to 2011 as the QP was not present during logging and did not visit while drilling was in progress. The QP has reviewed the protocols set up by Norwest for the collection of geological data and considers them reasonable for this style of deposit.

Mineral Resource Estimate

For a description of the key assumptions and parameters used to estimate the resources at Zag Suuj, see "Description of Material Properties - Soumber Deposit – Mineral Resource Estimate".

The surface resource depth cut-off of 300 m was used, as pit optimisation studies of the Ovoot Tolgoi Complex indicate that mining to such a depth is feasible. There is insufficient deep drilling to quote any potential Underground coal tonnage below 300 m.

This updated estimate is based on the same technical data, geological model, and estimation methodology as the 2012 estimate. Of the seven seams in the Zag Suuj Deposit, the resource estimate for six of the seams remains materially unchanged from the 2012 quantities. The total resource estimate for Zag Suuj has increased approximately 27% from the 2012 resource estimate due to anomalies which were identified in respect to how the software package used for the estimate aggregated and reported the resource. The increases in resource estimate over 2012 were identified by RungePincockMinarco when reviewing the technical data for the resources in the course of on-going mine planning studies for the Company. These studies included the reconciliation of MMC Minescape and MGBS Minex models. This reconciliation identified aggregation anomalies which resulted in an increase in the resource estimates that were originally reported.

Summary of Zag Suuj Resources 10th January 2013

Indicated (Mt)	Inferred (Mt)
21.5	84

Potential Coal Development

Potential coal tonnage has been estimated where drill hole coverage is insufficient for resource estimation. The criteria demand that there are at least three drillholes per section or traverse. For traverse lines where only one or two holes have been drilled to date, this coal has been classified as "potential tonnage" rather than an Inferred Resource. A confidence discount of -30% has then been applied to the figure calculated from the software to obtain the lower limit of the range. In all other respects this coal has been estimated in the same manner as the resources. The potential tonnage is conceptual in nature and it is uncertain if further exploration will result in the target being delineated as a mineral resource.

Zag Suuj Deposit "Potential Coal Tonnage" 10th January 2013

Tonnage Estimate Range (Mt)	
From	**To**
20	29

Exploration and Development

Development Plan

The 2012 exploration program at the Zag Suuj Deposit planned to better define and expand the existing resource at the Zag Suuj Deposit; however, exploration expenditures were curtailed while mining operations at the Ovoot Tolgoi Mine were suspended. It is anticipated that coals from the Zag Suuj Deposit can be washed to produce a coking coal product or a coking coal blend product. Limited exploration is planned for 2013 to meet the requisite requirements under the Mongolian Minerals Law.

Other Coal Assets

Tsagaan Tolgoi Deposit

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

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

Effective August 12, 2009, the Government of Mongolia issued a mining license for the Tsagaan Tolgoi coal field. The technical and economic study has been completed and was approved by the Government of Mongolia on March 4, 2010. The detailed EIA was approved on April 9, 2010.

The Tsagaan Tolgoi Deposit mining license may be affected by a new Mongolian law that prohibits minerals exploration and mining in certain areas. Pursuant to the Mining Prohibition in Specified Areas Law, the Government of Mongolia was to define the boundaries of the areas in which exploration and mining would be prohibited by October 16, 2009; however, the Government of Mongolia has not yet approved and published this information.

Other Exploration Targets

The Company currently holds a total of six exploration licenses (including three which have PMA's) lodged, one which has been approved as a PMA on the 18th January 2013 covering 347,502 ha in the Umnugobi Aimag in Mongolia. Mongolian regulations require the Company to spend between US$0.00 - US$1.50/ha annually in exploration expenses to retain these exploration licenses. The cost to maintain the licenses increases incrementally each year from no cost in the first year to $1.50/ha in years seven through nine. A number of these exploration licenses are associated with the broader Ovoot Tolgoi Complex and the Soumber Deposit.

The Company's exploration program from 2005 to 2012 included drilling, trenching and geological reconnaissance on a number of these license areas which are identified as having good potential for coking and thermal coal deposits, including the following:

M Coalfield — Core drilling and coal sampling are required on this coalfield to better understand coal quality. Coal seam thickness at M Coalfield varies from 2 m to 5 m.

Green Fields

SW Coalfield — This coalfield contains very high volatile coal, varying from 45-50% according to laboratory analysis done in 2009. The true thickness of the coal seam varies from 2 m to 8 m and the dip of the coal seam is steep.

The Company completed one (l) drill hole on the 13916X license area in 2012 to ensure the Company meets the minimum expenditure requirements required by the Minerals Law of Mongolia.

Sales and Marketing

The Company expects that all production from the Ovoot Tolgoi Mine will continue to be marketed and sold into the PRC. Up until the end of December 2012 the products marketed have been a portfolio of the Company's premium semi-soft coking coal, medium ash coal and high ash coal.

Whilst the mine ceased production at the end of June 2012 and remain curtailed as at the end of December 2012, the sales and marketing function continued at a lower level in order to maintain relationships with the Company's historical customer base The curtailment has also allowed the Company to review its product mix for its expected return to operations. The majority of previous coal sales by the Company were "mine-gate", in which customers took delivery and ownership of the coal at the Ovoot Tolgoi Mine site and made their own arrangements to transport the coal through the Shivee Khuren Border Crossing. At the PRC side of the border, Ceke is a major Chinese coal distribution terminal with rail connections to key coal markets in the PRC. End users and logistics specialists generally undertake logistics from there, with the coal destined for use in coke-making.

The Company continues to seek to expand its customer base and sales channels with a longer term strategy to have a larger end-user customer base to complement its existing markets. Wuhai, Wusitai, Jining and Baotou of Inner Mongolia, Tangshan and Xingtai of Hebei province, Dawukou of Ningxia, Jiayguan of Gansu, as well as Anyang of Henan have become the Company's key target markets given the presence of large coking facilities in those locations. A toll washing agreement was signed between the Company and Ejina Jinda in 2011 whereby the Company have the right over 100% of the Jinda Wash Plant's capacity for a term of 5 years. Construction of the wet wash plant was completed in 2012 but commencement of toll washing of coals from the Ovoot Tolgoi Mine has been delayed until the second half of 2013 due to the curtailment of the Company's

mining operations at the Ovoot Tolgoi Mine. Once toll washing commence, it will enable SouthGobi to develop a predominantly two product strategy of a premium and standard semi-soft coal product from Ovoot Tolgoi. The premium product will be washed and the standard product will be predominantly unwashed product. The Company intends to continue to develop markets for both its premium and standard quality brands and to pursue long-term supply offtake with end users in the PRC to complement its existing customer base and to gain best value of the Company coal in the PRC market.

Direct and Indirect Employees

As at December 31, 2012, the Company had approximately 465 employees working at various locations.

Social and Environmental Policies

Environmental Policy

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

The Company has policy to reduce its land use footprint at mining site. Each year the Company determines potential area that has to be reclaimed. Total of 10.2 ha land has been reclaimed in 2012 and reclaimed land size will increase year by year.

There are no endangered plant and animal species in the Company's Ovoot Tolgoi Mine area. However, the Company monitors distribution and abundance of biodiversity in whole license area and its surrounding territories. The biodiversity conservation and impact mitigation measures in mining areas are follows-up.

Acid rock drainage analysis of rock has been completed by Canadian professional entity and acid drainage is not anticipated due to the low sulphur content of the coals and waste rocks. The Company is planning to purchase automatic environmental monitoring equipment (dust gauges and groundwater logger) to monitor dust generated by the Sunset and Sunrise Pits and improve methodology to monitor water quality and quantity around mining operations.

Recycling of waste oil is being completed by a professional waste oil recycling contractor. Other non-toxic waste recyclables are given to a local village to add income and provide work opportunities. The Company is working together with first ever local waste service company in Mongolia to improve non-minerals waste handling and management.

The Company is committed to sustain and provisioning ecosystem service to the region where it operates and within this framework the Company worked on several projects to increase the benefit that gain from natural ecosystem.

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

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

The Company expects to fulfil its commitment to the environment by:

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

Health and Safety Policy

The most important assets of the Company and its subsidiaries are its employees. Injuries to its employees and/or damage to its physical assets are unacceptable and threaten the reputation of the Company and its financial success.

The Company remains committed to a target of zero incidents in all of its activities by implementing industry best practices and by demonstrating leadership in occupational health and safety.

The Company will utilize appropriate recognized management systems, including documentation of all relevant occupational health and safety matters and compliance auditing internally and other third parties, if necessary, to support the concept of continued improvement. The Company will also provide effective training and appropriate and sufficient resources for people to work safely and effectively.

All the Company's group employees and contractors must accept as their shared responsibility that zero harm and loss is a priority when performing all activities associated with the company. To achieve this target it is essential that all employees and contractors believe that all loss is preventable and accept responsibility for their personal safety and the safety of others and to protect the integrity of the company's physical assets at all times.

The Company commits:

- to plan for safe, efficient and productive work;

- to ensure that all employees and contractors are made aware of their responsibilities towards loss control;

- to assess and control the risk of loss as part of every decision it makes;

- to comply with relevant legislation and internal occupational health and safety policies and procedures;

- that all employees and contractor Managers will demonstrate and promote safety leadership;

- that all employees and contractors will participate in managing health and safety related issues;

- that final contractor selection will include an acceptable review of their Health and Safety programs and a commitment to meeting the Company occupational health and safety standards; and

- that all reported incidents will be investigated with a view to preventing recurrence.

All the Company's group employees and contractors are required to understand and act in accordance with this policy.

Community Relations

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

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

The Company has played a significant role in contributing to the infrastructure in the South Gobi region. Most notable was the paving of the runway at the Ovoot Tolgoi airport, which has helped to enhance trade and economic activity in the local communities of the South Gobi region. Roads to both Gurvantes and the Shivee Khuren-Ceke border checkpoint have been improved and upgraded which facilitates local residents' movement, increasing traffic safety and reducing travel time. The Company has improved living and working conditions for Mongolian border officers by building two buildings at the Shivee Khuren-Ceke border station. The Company has also renovated the Gurvantes secondary school dormitory to provide the students with a better learning and living environment and constructed a kindergarten in Gurvantes for 100 additional children, and as a result 10 new teachers and staff have jobs that bring additional income to their families.

Significant contributions in 2012 include:

1. university scholarships to 15 students from Umnugobi;

2. contribution to cultural heritage of local community including supporting important events such as camel festival, mountain worshipping and Naadam celebration; and

3. continued to assist with the harsh winters through providing coal to Soum residents.

Corporate Social Responsibility

The Company and its subsidiaries strive to be a leader in Corporate Social Responsibility ("CSR") across all of the company's investments and exploration, mining and processing activities in Mongolia, and across all stages of the project life cycle. This policy commits all of its employees, board members and contractors and demonstrates the Company's commitments and values to its partners in social responsibility.

CSR for the Company is a continuous commitment to behave ethically, contribute to sustainable development while improving quality of life for the Company's workforce, their families, local communities where it works, and the wider Mongolian society. The Company commits to understanding and responding to concerns and aspirations of the community to enhance the quality of life for communities impacted by its business activities, and work in partnership to create a positive legacy.

The Company strives to do no harm to communities and the natural resource base on which people depend, and to respect human rights in accordance with international norms.

The Company strives to go 'beyond compliance'; that is, to act lawfully, and do more than is required by national and local law, and take a long term strategic view in its operations and activities. In taking this enduring view, the Company and its subsidiaries seek to be the employer and operator of choice for employees and communities in Mongolia, where it seeks acceptance and participation from the local community and stakeholders. The approach requires efforts for continuous improvement and being alert and responsive to new issues and considerations as these emerge over time.

The Company's CSR commitment also requires transparency in reporting periodically on its progress: to its employees, shareholders, Governments, to the public, and to the communities where it works. The Company recognizes the value of its partnerships with the community, stakeholders and government. The Company's profitability is influenced by the strength of these partnerships, and so its ability to contribute to the sustainable development of Mongolia through ongoing investment into the community.

The Company will act across the following four CSR themes:

1. Responsible Economic Development commits the Company to pursuit of its business objectives lawfully, ethically and always respectfully of its employees, host communities and the environment for shared sustainable development outcomes.

2. The Environment CSR theme means that the Company is committed to responsive and effective environmental impact management, across all of its exploration, development and production activities, through ongoing risk assessment, openness and partnership working with stakeholders to implement best practices in environmental management.

3. Under the Human Capital CSR theme, the Company acknowledges that its employees are its most important assets, and maintains its commitment to providing safe and healthy work conditions with fair remuneration for its people, with a target of zero incidents in all its activities.

4. The Company aspires to be a leader in community relations. Fundamental to this is treating people with dignity and respect, and ensuring it works effectively and respectfully with stakeholders in a consultative framework to establish priorities and implement agreed actions. These aspects comprise the Community theme of the Company's CSR.

DESCRIPTION OF CAPITAL STRUCTURE

The authorized share capital of the Company consists of an unlimited number of Common Shares without par value and an unlimited number of Preferred Shares. As at March 22, 2013 there were 181,947,310 Common Shares and no Preferred Shares issued and outstanding. Rights and restrictions in respect of the Common Shares and Preferred Shares are set out in the Company's Articles and in the BCBCA, and its regulations.

Common Shares

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

Preferred Shares

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

MARKET FOR SECURITIES

The Common Shares of the Company are traded in Canada on the TSX under the symbol "SGQ" and in Hong Kong on the SEHK under the stock code 1878. The closing price of the Common Shares on the TSX on March 22, 2013 was Cdn$2.16 and on the SEHK was HK$16.16.

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

TSX
(stated in Canadian dollars)

Period	High	Low	Volume
January 2012	$7.41	$5.75	1,778,603
February 2012	$7.62	$6.68	1,486,576
March 2012	$7.50	$6.09	6,032,435
April 2012	$7.77	$6.22	15,439,914
May 2012	$6.99	$5.13	10,142,040
June 2012	$5.57	$3.62	2,701,942
July 2012	$5.27	$3.53	3,312,344
August 2012	$4.36	$2.64	4,011,675
September 2012	$2.70	$1.90	5,067,672
October 2012	$2.29	$1.98	1,950,102
November 2012	$2.25	$1.96	1,744,347
December 2012	$2.05	$1.83	1,524,750

SEHK
(stated in Hong Kong dollars)

Period	High	Low	Volume
January 2012	$55.75	$45.20	1,286,922
February 2012	$59.40	$52.05	903,200
March 2012	$58.30	$47.75	2,211,937
April 2012	$61.60	$47.50	5,148,787
May 2012	$54.60	$40.00	1,460,318
June 2012	$42.30	$28.10	1,600,500
July 2012	$39.80	$27.75	1,521,050
August 2012	$33.50	$21.20	3,498,506
September 2012	$21.80	$15.80	5,063,950
October 2012	$17.88	$16.02	4,331,229
November 2012	$17.32	$15.50	2,732,650
December 2012	$16.26	$15.10	1,447,450

DIRECTORS AND OFFICERS

Biographical Information

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

Name and Municipality of Residence	Position with Company	Principal Occupation During Past Five Years
ANDRÉ DEEPWELL B.C., Canada	Director (Director since 2003)	Chief Financial Officer and Corporate Secretary, Imperial Metals Corporation and predecessor (1992 – present).
LINDSAY DOVE Surrey, United Kingdom	Director (Director since September 2012)	Independent International Mining Consultant (June 2006 to present).
SEAN HINTON Beijing, PRC	Director (Director since September 2012)	Founder and principal of Terbish Partners (June 2007 to present).
W. GORDON LANCASTER B.C., Canada	Director (Director since May 2010)	Independent Business Consultant (November 2009 - present); Chief Financial Officer, Ivanhoe Energy Inc. (January 2004 – November 2009).
PIERRE LEBEL B.C., Canada	Lead Director (Lead Director since 2007)	Chairman of the Board of Directors, Imperial Metals Corporation (2003 – present).
KAY PRIESTLY, B.C., Canada	Chairman and Director (Director and Chairman since September 2012)	Chairman of the Company (September 2012 – present); Chief Executive Officer, Turquoise Hill Resources Ltd. (May 2012 – present); Interim Chief Executive, Turquoise Hill Resources Ltd. (April 2012 – May 2012); Chief Financial Officer; Rio Tinto Copper (November 2008 to May 2012).

Name and Municipality of Residence	Position with Company	Principal Occupation During Past Five Years
BRETT SALT British Columbia, Canada	Director (Director since September 2012)	Senior Vice President, Strategy and Development, Turquoise Hill Resources Ltd. (May 2012 to present); General Manager Business Development and Chief Financial Officer, Rio Tinto (February 2010 to April 2012); Managing Director, Green Recycling Initiative (February 2009 to January 2010); General Manager Commercial and Strategy, Rio Tinto Marine (January 2007 to February 2009).
KELLY SANDERS Utah, U.S.A.	Director (Director since September 2012)	President and CEO, Kennecott Utah Copper (November 2009 to present); Chief Operating Officer, Kennecott Utah Copper (January 2008 to October 2009); Vice President Operations, Rio Tinto Energy America - Colowyo (December 2005 to December 2007).
K. ROSS TROMANS Ulaanbaatar, Mongolia	Director, President and Chief Executive Officer (Director since November 2012)	President and Chief Executive Officer of the Company (September 2012 - present); General Manager Marketing, (November 2007 to September 2012).
	Principal financial officer	Principal financial officer of the Company (November 2012 – present)

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

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

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

- is, as at the date of this Annual Information Form, or has been, within 10 years before the date of this Annual Information Form, a Director or executive officer of any company (including the Company) that, while that person was acting in that capacity;

- was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days;

- was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days;

- within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or

- has, within the 10 years before the date of this Annual Information Form, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the proposed director.

Shareholdings of Directors and Senior Management

As at March 22, 2013, the Directors and executive officers, as a group, beneficially owned, directly or indirectly, or exercised control or direction over, 11,802 Common Shares representing approximately 0.00% of the outstanding Common Shares.

Pursuant to Rio Tinto compensation policies, Rio Tinto seconded employees and Rio Tinto nominees to the boards of directors of subsidiary companies are not permitted to receive securities of subsidiary companies.

Committees of the Board

The committees of the Board consist of an Audit Committee, a Nominating and Corporate Governance Committee, a Compensation and Benefits Committee, a Health, Environment, Safety and Social Responsibility Committee and a Mergers and Acquisitions Committee.

The members of the Audit Committee are André Deepwell (Chair), Pierre Lebel and Gordon Lancaster.

The members of the Nominating and Corporate Governance Committee are Pierre Lebel (Chair), André Deepwell, Sean Hinton, Gordon Lancaster and Kay Priestly.

The members of the Compensation and Benefits Committee are Gordon Lancaster (Chair), André Deepwell, Lindsay Dove and Pierre Lebel.

The members of the Health, Environment, Safety and Social Responsibility Committee are Kelly Sanders (Chair), Lindsay Dove, Brett Salt and Ross Tromans.

The members of the Mergers and Acquisitions committee are Lindsay Dove (Chair), Pierre Lebel, Brett Salt and Ross Tromans.

Conflicts of Interest

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

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

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

Audit Committee Information

Audit Committee Charter

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

Composition of Audit Committee

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

Relevant Education and Experience

André Deepwell

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

Pierre Lebel

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

W. Gordon Lancaster

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

Pre-Approval Policies and Procedures

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

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

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

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

Audit Fees

PricewaterhouseCoopers ("PwC") has served as the Company's auditor since April 2, 2012. Prior to PwC's appointment, Deloitte LLC served as the Company's auditors from August 14, 2003 to April 2, 2012.

Fees billed by PwC and its affiliates during fiscal 2012 were approximately Cdn$440,000. Fees billed by Deloitte and its affiliates during fiscal 2012 and fiscal 2011 were approximately and Cdn$142,000 and Cdn$496,000, respectively. The aggregate fees billed by the auditors in fiscal 2012 and fiscal 2011 are detailed below.

	Combined	**PwC**[4]	**Deloitte**	**Deloitte**
(Canadian $ in 000's)	2012	2012	2012	2011
Audit Fees[1]	420	420	-	275
Audit Related Fees	14	-	14	-
Tax Fees[2]	118	-	118	153
All Other Fees[3]	30	20	10	68
Total	582	440	142	496

NOTES:

(1) Fees for audit services billed relating to fiscal 2012 and fiscal 2011 consisted of:
- audit of the Company's annual financial statements;
- reviews of the Company's quarterly financial statements; and

- comfort letters, consents, and other services related to Canadian securities regulatory authorities' matters.

(2) Fees for tax services provided during fiscal 2012 and 2011 consisted of income tax compliance and tax planning and advice relating to transactions and proposed transactions of the Company and its subsidiaries.

(3) All Other Fees pertaining to fiscal 2012 and 2011 related to:
- translation services and employee immigration matters handled by Deloitte; and
- Mongolian salary survey costs performed by PwC.

(4) Deloitte were the auditors of the Company from January 1, 2012 to April 2, 2012, with PwC being the Company's auditors from April 3, 2012 to December 31, 2012.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Funding Agreements

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

Corporate Administration Cost Sharing Arrangements

The Company is a party to a shareholders' cost-sharing agreement with certain other public and private companies, including TRQ (the "Other Companies"), pursuant to which the Company and the Other Companies are equal shareholders in Global Mining Management Corporation ("GMM") and through GMM, share office space, furnishings and equipment and communications facilities (on a cost recovery basis) and the employment, on a part-time basis, of various administrative, office and management personnel in Vancouver, British Columbia. The Other Companies are TRQ, Ivanhoe Energy Inc., Ivanhoe Capital Corporation, Ivanplats Limited., GoviEx Uranium and I-Pulse Inc. Costs of the shared office facilities and the shared part-time employees are recovered from the Company proportionate to the time spent by the shared part-time employees on matters pertaining to the Company. Certain of the Directors and officers of the Company are also Directors and officers of GMM. During the year ended December 31, 2012, the Company's share of these costs was US$703,053.

Services Agreement

The Company, through its subsidiary SGS, is a party to a services agreement with I2MS.net Pte. Ltd. ("I2MS"), in relation to the Company's global information technology infrastructure, support and information technology projects. I2MS is a wholly-owned subsidiary of TRQ. Costs of the services provided are recovered from the Company proportionate to the time spent by the I2MS employees on matters pertaining to the Company. During the year ended December 31, 2012, the Company's share of these costs was US$1,011,844.

CIC Debenture Offering

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

TRANSFER AGENTS AND REGISTRARS

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

MATERIAL CONTRACTS

Material contracts under NI 51-102 are contracts, other than contracts entered into in the ordinary course of the Company's business that are material to the Company. There have been no such contracts entered into by the Company since January 1, 2012. Prior to January 1, 2012, the following contract was entered into that remains in effect:

CIC Debenture Offering

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

Transaction:	US$500 million principal amount of senior debentures convertible into Common Shares (US$485 million net of advisory fees).
Maturity:	30 years.
Interest:	The Convertible Debenture carries interest of 8.0% per annum made up of: (i) a cash coupon of 6.4% payable semi annually; and (ii) additional interest of 1.6% per annum payable in Common Shares to be issued on each anniversary of the issue. Share value shall be calculated based on the 50 business day volume weighted average price ("VWAP") prior to each anniversary of the issue.
Conversion Price:	Cdn$11.88 shall be considered the "Base Conversion Value" and ordinarily, the conversion price will be set at the Base Conversion Value, subject to the adjustments set out below. At the time of conversion, the VWAP of the Common Shares for the 50 business days prior to the conversion date will be calculated (the "Conversion Date Value"). In the event the Conversion Date Value is lower than the Base Conversion Value, then the conversion price will be the Conversion Date Value. The conversion price will be subject to a "Floor Price" of Cdn$8.88. The conversion price, so determined, is referred to as the "Conversion Price" in this summary of key investment terms.

CIC's Conversion Right:	Convertible by CIC Subco into Common Shares at any time after 12 months from closing at the Conversion Price. There are no lock-up arrangements on Common Shares to be issued to CIC Subco upon conversion. There are no early redemption rights granted to CIC Subco.
The Company's Early Conversion Right:	After the earlier of two years from closing or the time of the Qualified Float (as defined below), the Company will have the right to require conversion of up to 50% of the initial principal amount of US$500 million at the Conversion Price. The Company exercised this conversion right and on March 29, 2010, the Company converted US$250 million of the debt into 21,560,961 Common Shares at a price of US$11.64 per share.
The Company's Normal Conversion Right:	After 60 months from closing, if at any time the VWAP of the Common Shares for 50 consecutive business days is 20% higher than the Floor Price, the Company will be entitled to require conversion of the entire Convertible Debenture at the Conversion Price.
Qualified Float:	A transaction achieving the listing of the Common Shares on the TSX or the SEHK and that meets the following three criteria, shall be considered a "Qualified Float": (i) not less than 25% of the issued and outstanding Common Shares (on a non-diluted basis, except including the initial principal amount of the Convertible Debenture on an as-converted basis) are held by persons who are not insiders of the Company (i.e. insider holdings cannot exceed 75%); (ii) the offering price of the Common Shares issued to achieve the public float is not less than the base conversion value unless CIC consents; and (iii) the Common Shares are listed on the Hong Kong Stock Exchange.
Turquoise Hill Support:	Turquoise Hill will vote in favour of the issuance of the Convertible Debenture, to support any Shareholder vote required on conversion, and for the nominee, if any, of CIC Subco to the Board.
Right to Nominate Director:	While the Convertible Debenture is outstanding, or while CIC Subco has a 15% direct or indirect shareholding interest in the Company, CIC Subco has the right, but not the obligation, to nominate one person to the Board. When CIC Subco nominates a person, the Board is not obliged to appoint such nominee as a Director. The election of a nominee to the Board is subject to Shareholders' approval. Furthermore, the CIC Subco cannot require that its nominee be employed by or participate as the Company's executive or manager, and the sole entitlement of the nominee is to act in the capacity of Director. The nominee would be a non-independent non-executive Director.
Voting Restriction:	CIC or any transferee will be entitled to one vote per Common Share held on matters to be voted on by Shareholders. However, if conversion results in CIC Subco, or its affiliates, directly or indirectly owning more than 29.9% of the fully diluted Common Shares outstanding, CIC Subco will not vote any Share in excess of 29.9%. This cap in CIC's voting rights is a contractual agreement between CIC and the Company and will not extend to third party transferees of all or a part of any Common Shares issued to CIC and

	thereafter sold to a third party. The cap does include shares held by CIC affiliates, and shares beneficially owned by CIC, so affiliate transferees are part of the aggregate summation to determine the 29.9%. Further, if CIC transfers its interest, in the Convertible Debenture or the ancillary agreements, the latter being the security holder's agreement and the registration rights agreement made in connection with the Convertible Debenture financing, to an affiliate, the transferee of the interest would be bound by the contractual voting limitation.
Use of Proceeds:	In addition to repaying the Turquoise Hill credit facility, the proceeds from the Convertible Debenture are to be used mainly for the continuing development and expansion at the Ovoot Tolgoi Mine, the development of the Soumber Deposit, the development of infrastructure to support current and future coal mining and related projects, and for exploration activities, as set out in the agreement. The majority of the funds from the financing are expected to be used within the next three years.
Security:	The Convertible Debenture is secured by a first charge over the Company's assets. Standard loan restrictive covenants regarding incurring additional debt and granting additional security to third parties (with standard carve-outs and grace periods for issues of this type) apply to the Company and its direct and indirect subsidiaries.
Pre-emptive Right:	While the Convertible Debenture is outstanding, or while CIC Subco has a 15% direct or indirect shareholding interest in the Company, the CIC Subco has a pre-emptive right on a pro rata basis to subscribe for any new Common Shares issued during the period which the Convertible Debentures remain outstanding. The pre-emptive right will not apply to new Common Shares issued pursuant to pro-rata public equity offerings made to all Shareholders, or the exercise of stock options and shares to achieve a 25% public float.
Right of First Offer:	While the Convertible Debenture is outstanding, or while CIC Subco has a 15% direct or indirect shareholding interest in the Company, CIC Subco has a right of first offer for any direct or indirect sale of Turquoise Hill's stake in the Company.
Liquidity Rights:	CIC Subco has registration rights for Common Shares received upon conversion of the Convertible Debenture.
Regulatory Approval:	The TSX-V granted final approval for the issuance of the Convertible Debenture on November 20, 2009.
Advisors:	Citigroup Local Markets Asia Limited served as the financial advisor to CIC with respect to the Convertible Debenture. Macquarie Capital Securities Limited served as the Company's financial advisor and Projects Investment Group (H.K.) Limited provided the Company with additional advisory services.

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

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

INTERESTS OF EXPERTS

PWC is the independent auditor of the Company and they have advised they are independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of B.C. and, to the knowledge of the Company, neither PwC nor any of their "designated professionals", as defined in NI 51-102, hold any securities of the Company.

Disclosure in this Annual Information Form of scientific and technical information with respect to the Ovoot Tolgoi Complex, the Soumber Deposit, and the Zag Suuj Deposit is based on the Ovoot Tolgoi Technical Report, the Soumber Technical Report, and the Zag Suuj Technical Report, each of which were prepared by RungePincockMinarco.

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

INSURANCE

The Company currently holds their primary insurance policies through Canadian insurance providers to insure its properties. The Company has taken out insurance for risks including commercial general liability, umbrella liability and aviation premises liability. The Company maintains mining property insurance for all of its mining assets wherever located, property insurance on their office premises and liability insurance for its Directors and officers. However, no assurance can be given that the Company will elect or be able to obtain such insurance coverage at economically reasonable premiums (or at all), or that any coverage it obtains will be adequate to cover the extent of any claims brought against it.

ADDITIONAL INFORMATION

Additional information, including Directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under equity compensation plans is contained in the management proxy circular for the annual general meeting of the Company to be held on May 8, 2013, which is available on SEDAR at www.sedar.com. Additional financial information is contained in the Company's comparative financial statements and MD&A as at and for the years ended December 31, 2012 and 2011. Copies of the proxy circular, financial statements and MD&A are available on SEDAR, and may also be obtained upon request from the Corporate Department at 615 – 999 Canada Place, Vancouver, British Columbia, V6C 3E1.

Additional information relating to the Company may be found on SEDAR at www.sedar.com.

SCHEDULE "A"
AUDIT COMMITTEE CHARTER

I. Purpose

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

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

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

II. Organization

The Committee shall consist of three or more independent non-executive directors of the Company. The Committee membership shall satisfy, at a minimum, the laws governing the Company and the independence, financial literacy, expertise and financial experience requirements under applicable securities laws, rules and regulations, stock exchange and any other regulatory requirements applicable to the Company.

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

Members of the Committee must be financially literate, as the Board interprets such qualification in its business judgment and all members shall be able to read and understand fundamental financial statements, including a company's balance sheet, income statement and cash flow statement. No member of the Committee shall have (i) been a partner of or otherwise have had a financial interest in the Auditors during the past year; or (ii) participated in the preparation of the financial statements of the Company or any current subsidiary at any time during the past three years. At least one member of the Committee shall have past employment experience in finance or accounting of public companies, requisite professional certification in accounting, or any other comparable experience or background which results in such individual's financial sophistication (including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities).

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

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

III. Meetings

The Committee shall meet as frequently as circumstances require, but not less frequently than four times per year. The Committee shall meet at least quarterly with management, the Company's financial and accounting officer(s) and the Auditors in separate executive sessions to discuss any matters that the Committee or each of these groups believe should be discussed privately. Meetings may be held telephonically to the extent permitted by the Company's organizational documents and applicable British Columbia law.

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

The Committee will appoint a Secretary who will keep full minutes of all meetings. The Secretary may be the Company's Corporate Secretary or another person who does not need to be a member of the Committee. Draft and final versions of the meeting minutes should be sent to all members of the Committee within a reasonable time following such meetings. The Chair shall ensure that the agenda for each upcoming meeting of the Committee is circulated to each member of the Committee as well as the other directors in advance of the meeting.

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

IV. Authority and Responsibilities

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

In fulfilling its duties and responsibilities under this Charter, the Committee will be entitled to reasonably rely on (a) the integrity of those persons within the Company and of the professionals and experts (such as the Auditors) from which it receives information, (b) the accuracy of the financial and other information provided to the Committee by such persons, professionals or experts and (c) the representations made by the Auditors as to any services provided by it to the Company.

The Committee shall have the following responsibilities:

(a) Auditors

1. Recommend to the Board the independent auditors to be nominated for appointment or reappointment as Auditors of the Company at the Company's annual meeting and the remuneration to be paid to the Auditors for services performed during the preceding year; approve all auditing services to be provided by the Auditors; be responsible for the oversight of the work of the Auditors, including the resolution of disagreements between management and the Auditors regarding financial reporting; and recommend to the Board and the shareholders the termination of the appointment of the Auditors, if and when advisable.

2. When there is to be a change of the Auditors, (i) review all issues related to the change, including any notices required under applicable securities law, stock exchange or other regulatory requirements, and the planned steps for an orderly transition; and (ii) be primarily responsible for questions relating to such change.

3. Review the Auditors' audit plan and discuss the Auditors' scope, staffing, materiality, and general audit approach.

4. Review and monitor the Auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the Auditors the nature and scope of the audit and reporting obligations prior to the commencement of the audit.

5. Review on an annual basis the performance of the Auditors, including the lead audit partner.

6. Take reasonable steps to confirm the independence of the Auditors, which include:

   (a) Ensuring receipt from the Auditors of a formal written statement in accordance with applicable regulatory requirements delineating all relationships between the Auditors and the Company;

   (b) Considering and discussing with the Auditors any disclosed relationships or services, including non-audit services, that may impact the objectivity and independence of the Auditors;

   (c) Develop and implement policy on the provision of non-audit related services provided by the Auditors to the Company and approve in advance the provision of and the fees for such services, with a view to ensure independence of the Auditors, and in accordance with applicable regulatory standards, including applicable stock exchange requirements with respect to approval of non-audit related services performed by the Auditors (for the purposes of this Part IV(a)(6)(c), Auditors include any entity that is under common control, ownership or management with the Auditors or any entity that a reasonable and informed third party knowing all the relevant information would reasonably conclude to be part of the Auditors, nationally or internationally); and

   (d) As necessary, taking or recommending that the Board take appropriate action to oversee the independence of the Auditors.

7. Review and approve any disclosures required to be included in periodic reports under applicable securities laws, rules and regulations and stock exchange and other regulatory requirements with respect to non-audit services provided by the Auditors.

8. Confirm with the Auditors and receive written confirmation at least once per year (i) indicating that the Auditors are a member in good standing with the Canadian Public Accountability Board (CPAB) and comparable bodies elsewhere to the extent required and disclosing any sanctions or restrictions imposed by the CPAB and such other comparable bodies; and (ii) responding to any other reasonable request of the Audit Committee for confirmation as to their qualifications to act as the Company's Auditors.

9. Consider the tenure of the lead audit partner on the engagement in light of applicable securities law, stock exchange or applicable regulatory requirements.

10. Review all reports required to be submitted by the Auditors to the Committee under applicable securities laws, rules and regulations and stock exchange or other regulatory requirements.

11. Receive all recommendations and explanations which the Auditors place before the Committee.

12. Ensure any provision of non-audit related services by the Auditors does not impair their independence or objectivity and develop and implement any necessary policies in that regard.

(b) Financial Statements and Financial Information

13. Review and discuss with management, the financial and accounting officer(s) and the Auditors, the Company's annual audited financial statements, including disclosures made in management's discussion and analysis, prior to filing or distribution of such statements and recommend to the Board, if appropriate, that the Company's audited financial statements be included in the Company's annual reports distributed and filed under applicable laws and regulatory requirements.

14. Review and discuss with management, the financial and accounting officer(s) and the Auditors, the Company's interim financial statements, including management's discussion and analysis, and the Auditors' review of interim financial statements, prior to filing or distribution of such statements.

15. Review any earnings press releases of the Company before the Company publicly discloses this information.

16. Be satisfied that adequate procedures are in place for the review of the Company's disclosure of financial information and extracted or derived from the Company's financial statements and periodically assess the adequacy of these procedures.

17. Discuss with the Auditors and review the matters required to be discussed by applicable auditing standards requirements relating to the conduct of the audit including:

    (a) the adoption of, or changes to, the Company's significant auditing and accounting principles and practices, including significant assumptions and qualifications;

    (b) the management letter provided by the Auditors and the Company's timely response to that letter;

    (c) any difficulties encountered in the course of the audit work, including any restrictions on the scope of activities or access to requested information, or personnel and any significant disagreements with management; and

    (d) any material queries raised by the Auditors to management about accounting records, financial accounts or systems of control and management's response.

18. Discuss with management and the Auditors major issues regarding accounting principles used in the preparation of the Company's financial statements, including any significant changes in the Company's selection or application of accounting principles at least twice a year. Review and discuss analyses prepared by management and/or the Auditors setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative approaches under generally accepted accounting principles.

19. Review any report under applicable securities law, stock exchange or other regulatory requirements, including any reports required to be included in statutory filings, including in the Company's annual proxy statement.

(c) Ongoing Reviews and Discussions with Management and Others

20. Obtain and review an annual report from management relating to the accounting principles used in the preparation of the Company's financial statements, including those policies for which management is required to exercise discretion or judgments regarding the implementation thereof.

21. Periodically review separately with each of management, the financial and accounting officer(s) and the Auditors; (a) any significant disagreement between management and the Auditors in connection with the preparation of the financial statements, (b) any difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information and (c) management's response to each.

22. Periodically discuss with the Auditors, without management being present, (a) their judgments about the quality, integrity and appropriateness of the Company's accounting principles and financial disclosure practices as applied in its financial reporting and (b) the completeness and accuracy of the Company's financial statements.

23. Monitor the integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and review significant financial reporting judgments contained therein. In reviewing such reports before submission to the Board, the Committee's review shall include a review of:

    (a) any changes in accounting policies and practices;

    (b) major judgmental areas;

    (c) significant adjustments resulting from audit;

    (d) going concern assumptions and any qualifications;

    (e) compliance with accounting standards; and

    (f) compliance with applicable stock exchange regulations and other legal requirements relating to financial reporting.

24. Consider and approve, if appropriate, significant changes to the Company's accounting principles and financial disclosure practices as suggested by the Auditors or management and the resulting financial statement impact. Review with the Auditors or management the extent to which any changes or improvements in accounting or financial practices, as approved by the Committee, have been implemented.

25. Review and discuss with management, the Auditors and the Company's independent counsel, as appropriate, any legal, regulatory or compliance matters that could have a significant impact on the Company's financial statements, including applicable changes in accounting standards or rules, or compliance with applicable laws and regulations, inquiries received from regulators or government agencies and any pending material litigation.

26. Enquire of the Company's financial and accounting officer(s) and the Auditors on any matters which should be brought to the attention of the Committee concerning accounting, financial and operating practices and controls and accounting practices of the Company and give due consideration to such matters.

27. Review the principal control risks to the business of the Company, its subsidiaries and joint ventures; and verify that effective control systems are in place to manage and mitigate these risks.

28. Review and discuss with management any earnings press releases, including the use of "pro forma" or "adjusted" non-GAAP information, as well as any financial information and earnings guidance provided to analysts and rating agencies. Such discussions may be done generally (i.e. discussion of the types of information to be disclosed and the types of presentations made).

29. Review and discuss with management any material off-balance sheet transactions, significant or unusual items, arrangements, obligations (including contingent obligations) and other relationships of the Company with unconsolidated entities or other persons, that may need to be reflected in the reports or accounts, or may have a material current or future effect on financial condition, changes in financial condition, results of operations, liquidity, capital resources, capital reserves or significant components of revenues or expenses. Obtain explanations from management of all significant variances between comparative reporting periods.

30. Review and discuss with management the Company's major risk exposures and the steps management has taken to monitor, control and manage such exposures, including the Company's risk assessment and risk management guidelines and financial and accounting policies.

(d) Risk Management and Internal Controls

31. Review, based upon the recommendation of the Auditors and management, the scope and plan of the work to be done by the Company's financial and accounting group and the responsibilities, budget and staffing needs of such group.

32. Discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. Such discussions should include adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

33. Ensure that management has designed and implemented effective systems of risk management and internal controls and, at least annually, review and assess the effectiveness of such systems.

34. Approve and recommend to the Board for adoption policies and procedures on risk oversight and management to establish an effective system for identifying, assessing, monitoring and managing risk.

35. In consultation with the Auditors and management, review the adequacy of the Company's internal control structure and procedures designed to ensure compliance with laws and regulations, and discuss the responsibilities, budget and staffing needs of the Company's financial and accounting group.

36. Establish and review procedures for (a) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and (b) the confidential, anonymous submission by employees of the Company of concerns, including without limitation, concerns with respect to internal controls, financial reporting and questionable accounting

or auditing matters. The Committee should ensure that proper arrangements are in place for fair and independent investigation of such matters and for appropriate follow-up.

37. Ensure coordination between the internal and external auditors and ensure that the internal auditor function is adequately resourced and has appropriate standing within the Company. Maintain a direct report relationship with the internal auditors and review: (i) the internal control reports prepared by management, including management's assessment of the effectiveness of the Company's internal control structure and procedures for financial reporting; (ii) the Auditors' attestation, and report, on the assessment made by management; and (iii) the performance of the internal auditors on an annual basis.

38. Review the appointment of the chief financial officer and any key financial executives involved in the financial reporting process and recommend to the Board any changes in such appointment.

39. Review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The audit committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; and act as the key representative body for overseeing the Company's relations with the external auditor.

(f) Other Responsibilities

40. Create an agenda for the ensuing year and confirm a timetable for the Audit Committee for the ensuing year.

41. Review and approve related-party transactions if required under applicable securities law, stock exchange or other regulatory requirements.

42. Review and approve (a) any change or waiver in the Company's code of ethics applicable to senior financial officers and (b) any disclosures made under applicable securities law, stock exchange or other regulatory requirements regarding such change or waiver.

43. Establish, review and approve policies for the hiring of employees, partners, former employees or former partners of the Company's Auditors or the Company's former independent auditors.

44. Review and reassess the duties and responsibilities set out in this Charter annually and recommend to the Nominating and Corporate Governance Committee and to the Board any changes deemed appropriate by the Committee.

45. Review its own performance annually, seeking input from management and the Board.

46. Confirm annually that all responsibilities outlined in this Charter have been carried out.

47. Perform any other activities consistent with this Charter, the Company's articles and by-laws and governing law, as the Committee or the Board deems necessary or appropriate.

V. Reporting

The Committee shall report regularly to the Board, including on matters set out in applicable stock exchange regulations, and shall submit the minutes of all meetings of the Audit Committee to the Board (which minutes shall ordinarily be included in the papers for the next full board meeting after the relevant meeting of the Committee).

The Committee shall also report to the Board on the proceedings and deliberations of the Committee at such times and in such manner as the Board may require. The Committee shall review with the full Board any issues that have arisen with respect to quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements, the performance or independence of the Auditors or the performance of the Company's financial and accounting group.

VI. Resources and Access to Information

The Committee shall be provided with sufficient resources to perform its duties. The Committee shall have the authority to retain independent legal, accounting and other advisors or consultants to advise the Committee, as it determines necessary to carry out its duties.

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

The Committee shall determine the extent of funding necessary for payment of (a) compensation to the Company's independent public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company, (b) compensation to any independent legal, accounting and other advisors or consultants retained to advise the Committee and (c) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.