OVERVIEW

We are one of the largest coal producers in Mongolia in terms of coal sales for export based on the first nine months of 2009. Our operations focus on mining, development and exploration of coking and thermal coals in Mongolia's South Gobi Province to supply premium quality coals to customers in China.

We own licences for three significant coal projects in Mongolia: a producing mine, the Ovoot Tolgoi Mine, and two development projects, the Soumber Deposit and the Ovoot Tolgoi Underground Deposit. In addition, we hold 18 mineral exploration licences in Mongolia. Each of these licences and the related mining assets are wholly-owned by us.

The Ovoot Tolgoi Mine, strategically located approximately 40 kilometres from the China-Mongolia border, is our flagship asset. We commenced mining at Ovoot Tolgoi's Sunset Pit in April 2008 and commenced coal sales in September 2008. The products from the Ovoot Tolgoi Mine include coking, premium and thermal coals, which are being sold to customers in China. Since the commencement of production in late 2008 until September 30, 2009, we have sold approximately 1.1 million tonnes of coal from the Ovoot Tolgoi Mine. The Ovoot Tolgoi Mine is covered by a single 9,308 hectare mining licence and corresponding permit to mine. Norwest, our Independent Technical Expert, considers it possible that our total coal production from the Ovoot Tolgoi Mine could increase to approximately eight million tonnes per annum from 2012 and onward. We estimate that aggregate capital expenditure in relation to this production ramp-up will be US$140 million up to the end of 2012.

Our Soumber Deposit is located approximately 20 kilometres to the east of our Ovoot Tolgoi Mine, which could allow the operations to share existing infrastructure in the event a mine is developed there. Preliminary exploration results show potential for thick seams of coking coal, and a resource has been established confirming a deposit. We are planning to do more exploration work on the east and the west parts of the deposit to fully investigate the feasibility of this project and to prepare for licensing.

We have conducted substantial exploration activities at the Ovoot Tolgoi Underground Deposit and have delineated mineral resources at this project. The Ovoot Tolgoi Underground Deposit is covered by the existing Ovoot Tolgoi Mining Licence.

Our 18 exploration licences in Mongolia comprise an area of 784,358 hectares. These licences are located around our existing mining area in the western part of the South Gobi Province, but also further east, including a substantial holding around another known third-party owned Mongolian coal deposit called Tavan Tolgoi. Out of these 18 licences, four may be affected by a new Mongolian law that prohibits minerals exploration and mining in certain areas. See "Business — Our Mining and Exploration Operations — Mongolia". We intend to explore certain priority exploration targets over the next 12 months.

Our priority is to expand production at the Ovoot Tolgoi Mine, to investigate the feasibility of the Soumber Deposit and to continue exploration at the Ovoot Tolgoi Underground Deposit and our priority exploration targets.

In addition, we own a mining licence for the Tsagaan Tolgoi Deposit in Mongolia. We have no immediate plans to advance the development of the Tsagaan Tolgoi Deposit.

Prior to December 23, 2009, we also held an 85% interest in the Mamahak Deposit in Indonesia. In the third quarter of 2009, we, in the normal course of business, performed a more detailed operational review of the Mamahak Deposit. To minimise cash outflows pending the results of the operational review, we suspended operations at the Mamahak Deposit in October 2009 and recorded an impairment charge of US$23 million for the nine months ended September 30, 2009. On December 15, 2009, we announced that we had entered into an agreement to divest our 85% interest in the Mamahak Deposit in Indonesia to Kangaroo. The sale of our interest in the Mamahak Deposit was completed on December 23, 2009. For further details, see "— Our Mining and Exploration Operations — Indonesia — Mamahak Deposit".

We have been engaged in mining exploration activities and have a short operating history. To date, we have not generated net profits and have recorded operating cash outflows.

The tables below present our estimated coal reserves and coal resources.

Summary of Our Coal Reserves[(1)]

	Proven	Probable	Total
	(million tonnes)		
Ovoot Tolgoi Mine[(2)]	105.0	9.1	114.1

Summary of Our Coal Resources[(1)]

	Measured	Indicated	Total Measured and Indicated	Inferred
	(million tonnes)			
Ovoot Tolgoi Mine[(2)]	135.9	35.1	171.0	13.0
Soumber Deposit[(3)]	13.1	8.3	21.4	55.5
Ovoot Tolgoi Underground Deposit[(2)]	45.8	33.0	78.8	20.5
Tsagaan Tolgoi Deposit[(4)]	23.4	13.0	36.4	9.0
Total	218.2	89.4	307.6	98.0

Notes:

(1) These numbers have been prepared in accordance with the Canadian NI 43-101 standards which are materially similar to the standards prescribed by the JORC Code.

(2) Estimate for resources is as of June 1, 2009 and estimate for reserves is as of July 1, 2009. See the Ovoot Tolgoi Technical Expert Report dated October 21, 2009 in Appendix V-A to this prospectus for the details of the assumptions and parameters used to calculate these coal resources and coal quality.

(3) Estimate is as of August 11, 2009. See the Soumber Technical Expert Report dated October 21, 2009 in Appendix V-B to this prospectus for the details of the assumptions and parameters used to calculate these coal resources and coal quality.

(4) Estimate is as of December 31, 2007. See the Tsagaan Tolgoi Technical Expert Report dated March 25, 2008, in Appendix V-C to this prospectus for the details of assumptions and parameters used to calculate these coal resources and coal quality. Except for the receipt of a mining licence, this report represents the current status of the Tsagaan Tolgoi Deposit given that there have been no material advancements to the project since the date of the report.

OUR COMPETITIVE ADVANTAGES

Our projects are strategically located close to China, especially to the fast growing Gansu and Inner Mongolia regions

Our Ovoot Tolgoi Mine is situated approximately 40 kilometres north of the Shivee Khuren-Ceke border crossing on the Mongolia-China border. At Ceke an existing north-south railway line with a coal loading facility at Ceke connects with Jiayuguan in Gansu Province and the Chinese rail network. A second east-west railway line from Ceke to Linhe, an industrial city in China, is under construction and is expected to be operational in 2010.

According to the National Bureau of Statistics of China, Inner Mongolia was the fastest growing province in China in 2007 in terms of GDP growth with a 19.1% growth rate, while Gansu recorded a 12.3% GDP growth rate. This trend of economic growth continued in 2008. According to the National Bureau of Statistics of China, in 2008, Inner Mongolia recorded a 17.2% GDP growth rate, while Gansu recorded a 10.1% GDP growth rate, both above the China national GDP growth rate of 9%.

The western region of Gansu is one of our key markets and, given the proximity of our projects to the region, we believe that we are well positioned to exploit consumption growth in the area. Our Ovoot Tolgoi Mine is located 492 kilometres from Jiayuguan, while mines in the next closest major supply base, Hami in Xinjiang, are located 619 kilometres away.

Coal produced in the southeastern part of Gansu is mainly sold to neighboring provinces to the south and east. As China's coal supply mainly follows the west to east coal distribution routes, the central and western part of Gansu has experienced supply shortages. Coal supply has been particularly tight in the Hexi corridor, which includes the cities of Jiuquan, Jiayuguan, Zhangye and Jinchang.

Between 2009 and 2020, power plants with an additional 16.8 gigawatts of electricity generation capacity are planned to be constructed in these four cities, the majority of which will be coal fired power plants. These power plant expansions are expected to increase thermal coal demand in these four cities from approximately 7 million tonnes in 2008 to approximately 51 million tonnes in 2020.

Gansu has no production of coking coal and all coking coal used in the steel industry is sourced from other provinces. With strong growth in steel production as the key driver for coking coal demand, Fenwei projects Gansu's coking coal demand to reach approximately 11 million tonnes in 2010 and approximately 13 million tonnes in 2015.

Inner Mongolia is a power supply base for China. While Inner Mongolia is currently the largest coal producing province in China, most of its coal deposits are located in its eastern regions. Therefore, its western regions including Alashan, Wuhai and Bayannao'er, have to source coal from other provinces in China or from South Gobi Province in Mongolia. Alashan and Bayannao'er are located in the most western part of Inner Mongolia, and are closer to the Ovoot Tolgoi Complex than to other coal producing regions in Inner Mongolia. Wuhai, an important industrial city with a large concentration of coke producers and chemical companies, is located at the end of the existing northern coal railway system which has been experiencing capacity bottlenecks making it difficult to transport coal from eastern Inner Mongolia. As a result, Wuhai has had to purchase coal from other Chinese provinces and from Mongolia. There are 23 new coal fired power plants with a total capacity of 9.4 gigawatts currently under construction or planned in these three regions, and are expected to come onstream during the period 2009 to 2015, significantly increasing thermal coal demand. These power plant expansions are the main driver behind the expected increase in thermal coal demand in these three regions from approximately 12 million tonnes in 2008 to approximately 42 million tonnes in 2020.

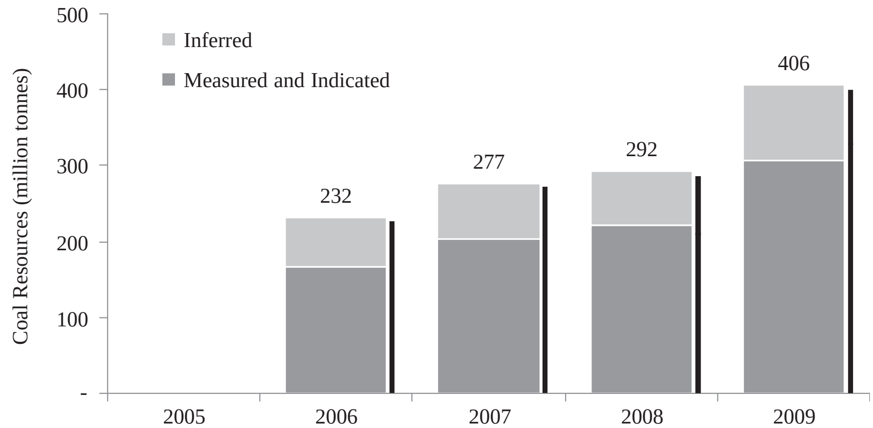
Inner Mongolia is a net consumer of coking coal and produces a relatively small amount of coking coal. Coking coal demand has been growing at a compound annual growth rate of 12.5% during the period 2003 to 2009 (annualised based on year-to-date June 2009 demand), while production has been growing at a slower rate of 8.4% during the same period. Consequently, Inner Mongolia had been purchasing coking coal from other provinces in China and from Mongolia, totalling 9 million tonnes in 2009 (annualised based on year-to-date June 2009 purchase). Fenwei forecasts Inner Mongolia coking coal purchases from other provinces in China and from Mongolia to reach approximately 19 million tonnes in 2010 and approximately 22 million tonnes in 2015.

We have substantial and growing resources and reserves

Our aggregate coal resources (including reserves) comprised 307.6 million tonnes in the measured and indicated categories and 98.0 million tonnes in the inferred category.

We have a history of increasing our resources base through a substantial focus on exploration activities, which we believe differentiates us from our Hong Kong listed peers. Exploration has also enabled us to increase our resource base at a relatively low cost. For the period from January 1, 2005 to September 30, 2009, our and Ivanhoe's total exploration costs in Mongolia for coal have amounted to US$63.2 million, which equates to US$0.16 per tonne of resources discovered in Mongolia.

SouthGobi's Coal Resources Development



	2005	2006	2007	2008	2009
Cumulative exploration drilling (m)	**50,272**	**87,817**	**103,648**	**147,444**	**148,777**
Deposits	0	2 Ovoot Tolgoi (open-pit) Ovoot Tolgoi (underground)	3 Ovoot Tolgoi (open-pit) Ovoot Tolgoi (underground) Tsagaan Tolgoi	3 Ovoot Tolgoi (open-pit) Ovoot Tolgoi (underground) Tsagaan Tolgoi	4 Ovoot Tolgoi (open-pit) Ovoot Tolgoi (underground) Tsagaan Tolgoi Soumber

Note: Exploration drilling represents cumulative drilling, and includes reverse circulation, rotary and core drilling. Figures for 2009 have been taken from the Ovoot Tolgoi Technical Expert Report, the Soumber Technical Expert Report and the Tsagaan Tolgoi Technical Expert Report.

We believe that we are well positioned to expand our current coal resources and reserves. The Soumber Deposit has potential to increase coal resources to the east and to the west as well as at depth. For example, Norwest believes additional coal tonnages in the east and the west areas would be in the range of 32 to 56 million tonnes. Additionally, we have multiple exploration targets in the regions to the east and to the west of the Ovoot Tolgoi Complex known as the Alphabet Fields, and in additional locations.

We have proven and probable reserves of 114.1 million tonnes of coal at the Ovoot Tolgoi Mine. These reserves are sufficient for a 16 year mine life, assuming a ramp up to eight million tonnes per year of production.

We produce premium quality coals

All of our coal reserves and coal resources are bituminuous coals, with the majority being premium coals and coking coals. Coal reserves at the Ovoot Tolgoi Mine have a weighted average energy value of 6,054 kcal/kg, which compares favourably to the energy value of coal from the major Chinese state-owned enterprises internationally listed in Hong Kong.

The following table describes the average coal quality of our attributable recoverable coal reserves compared to that of certain Hong Kong listed companies(1). The table is subject to the following reservations, and as a result, caution should be applied when referring to the following figures in the table:

- the figures have been compiled using publicly available data released by our Hong Kong listed peers, which have not been independently verified by us or any of our advisors;
- the figures reflect estimates at different dates, which may have materially changed thereafter;
- some of the figures have used a technical standard or classification system that is different from NI 43-101 in calculating their average quality of attributable recoverable coal reserves(1). Therefore, their average quality of attributable recoverable coal reserves(1) may not be directly comparable with the average quality of attributable recoverable coal reserves of our Ovoot Tolgoi Mine; and
- there are also coal producers that are unlisted and are not reflected in the following table.

SouthGobi Coal Quality Compared to that of Certain Major Chinese State-owned Enterprise Coal Producers Internationally Listed in Hong Kong

Producer	Coal Quality (kcal/kg)(1)
SouthGobi Energy Resources Ltd.	6,054(2)
China Shenhua Energy Company Limited	5,294(3)
China Coal Energy Company Limited	6,042(4)
Yanzhou Coal Mining Company Limited	5,710(5)

Source: Initial public offer prospectus and/or regulatory filings for each listed company

Notes:

(1) Average quality of attributable recoverable coal reserves, except for China Shenhua Energy Company Limited which is based on average quality of attributable marketable coal reserves and for Yanzhou Coal Mining Company Limited which is based on average quality of attributable in-place coal reserves and attributable recoverable coal reserves.

(2) As disclosed in the Ovoot Tolgoi Technical Expert Report dated October 21, 2009.

(3) As disclosed in the technical report, appended in the prospectus dated June 2, 2005, for China Shenhua Energy Company Limited initial public offering on the Stock Exchange.

(4) As disclosed in the technical report, appended in the prospectus dated December 6, 2006, for China Coal Energy Company Limited initial public offering on the Stock Exchange.

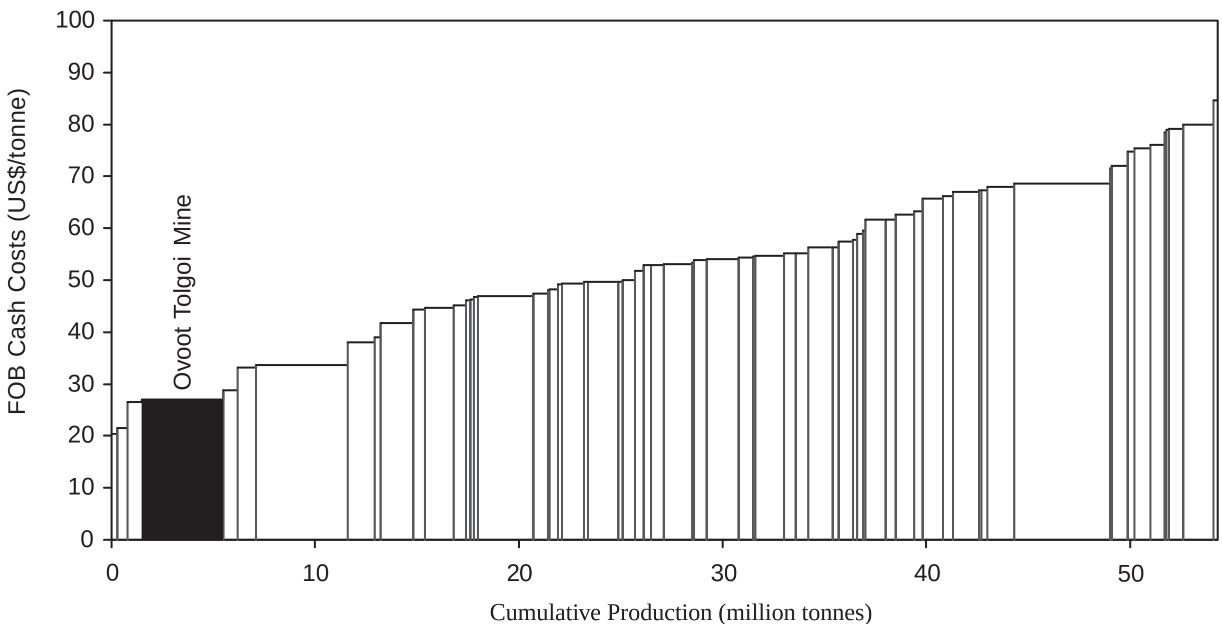
(5) As disclosed in Yanzhou Coal Mining Company Limited Form 20-F for the fiscal year ended December 31, 2008 filed with the United States Securities and Exchange Commission.

We have a low cost structure due to favourable geographic and geological conditions

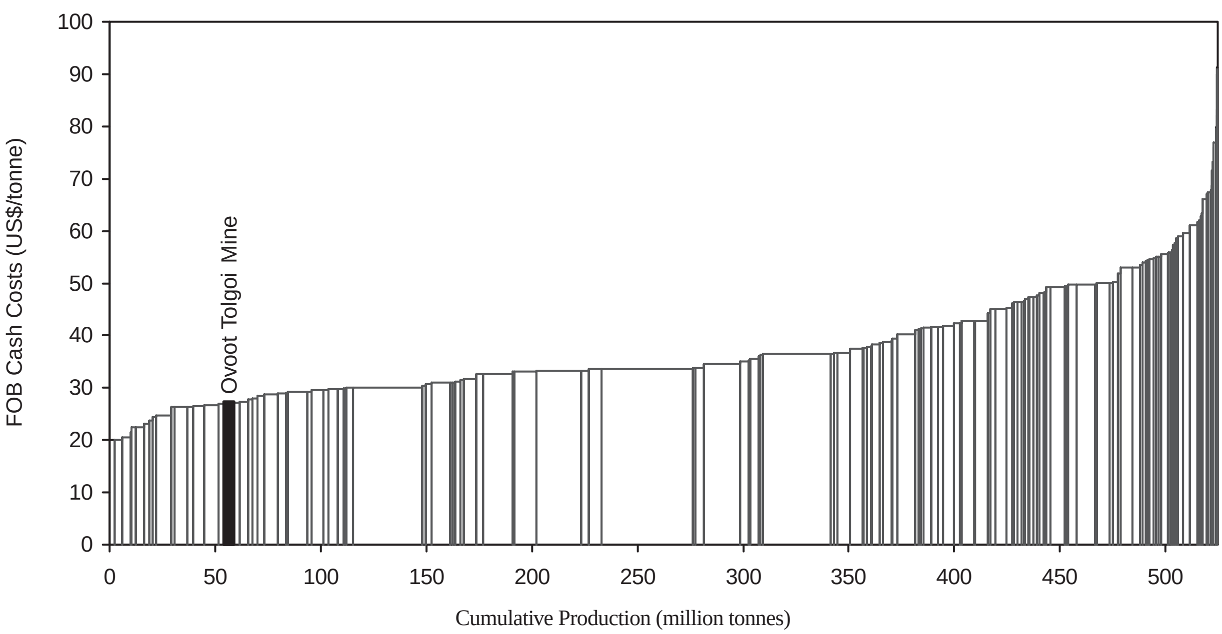
Our low cost structure is partly attributable to the favourable geological conditions of the coal seams at our projects. The majority of our coal deposits are close to the surface, which enables the development of lower cost open pit mines. Our Ovoot Tolgoi Mine contains thick coal seams that extend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

Our cost structure when assessed by AME Consulting Pty Limited ("AME"), a well known global industry expert, is considered at approximately the first decile when compared to global coal producers. The chart below represents a cost curve for the global coal industry and our Ovoot Tolgoi Mine's position on that curve.

2010 Estimated Semi-soft Coking/High Volatile Pulverised Coal Injection ("PCI") Coal Mines Cash Costs Curve — FOB(5)



2010 Estimated Thermal Coal Mines Cash Costs Curve — FOB(5)



Source: AME

Notes:

(1) The cash costs curve chart above is prepared on FOB basis for comparability purposes. AME has estimated transportation cost by rail from mine gate to Qinhuangdao Port in China, and port charges in Qinhuangdao Port, for Ovoot Tolgoi Mine's FOB cash costs calculation. The cash costs for Ovoot Tolgoi Mine excludes coal washing and processing costs. The Company has no intention to transport its coal to Qinhuangdao Port.

(2) The 2010 cash costs for Ovoot Tolgoi Mine, excluding the transportation cost by rail from mine gate to Qinhuangdao Port and port charges in Qinhuangdao Port will be approximately US$10 per tonne according to the Ovoot Tolgoi Technical Expert Report.

(3) FOB cash costs components include estimated: mine labour (direct labour costs), other on-site mining and processing (site costs), freight (inland transport from the mine to port), port loading (receipt, stockpiling and vessel loading) and royalties.

(4) AME's cost models have been developed from basic engineering principles using mine-specific operating parameters and disclosed company costs where available. All costs are on a cash basis and exclude non-cash or indirect costs such as interest, and the costs of working capital and servicing debt. The cost data provided for the Ovoot Tolgoi Mine excluded washing and processing costs and this has been noted on the cost curves within the AME report. Available data varies greatly between coal operations and projects. Furthermore, much information is not reliable due to language difficulties, the confidential nature of the information, the inability to estimate the reliability of AME's sources and general lack of data. Consequently, much data has to be estimated and the quality, accuracy and completeness of the resulting cost comparisons will reflect this. Furthermore, forecast costs embody a number of significant assumptions with respect to exchange rates and other technical variables. Because of these factors, direct comparability between individual projects may be limited, and as such our production and cost estimates must be treated with caution and cannot be relied upon.

(5) The costs curve is a chart of the FOB cash costs as a function of production. The chart is constructed with data from mines which is available to AME or estimated by AME and includes data for the Ovoot Tolgoi Mine.

Each block in the chart represents a mine. The width of the block represents the estimated production of that particular mine in 2010, and the height of the block represents the estimated FOB cash costs of that particular mine in 2010.

Each block is arranged in a chart left to right from the mine with lowest costs to the mine with highest cost. A mine located to the left of the Ovoot Tolgoi Mine on the costs curve chart has lower FOB cash costs compared to the Ovoot Tolgoi Mine, while a mine located to the right of the Ovoot Tolgoi Mine on the costs curve chart has higher FOB cash costs compared to the Ovoot Tolgoi Mine.

(6) We paid AME a total of A$32,250 in fees for the preparation of the cash costs curve report.

We have established production and have strong growth potential through future expansion of our existing mine capacity and development of our priority assets

We have already commenced production at our Ovoot Tolgoi Mine in Mongolia. Since the commencement of sales in late 2008 until September 30, 2009, we had sold approximately 1.1 million tonnes of coal from the mine. Norwest, our Independent Technical Expert, considers it possible that our total coal production from the Ovoot Tolgoi Mine could increase to approximately eight million tonnes from 2012 and onward. We estimate that capital expenditure in relation to this production ramp-up will be US$140 million up to the end of 2012.

In addition, we continue to progress exploration activities at the Soumber Deposit and the Ovoot Tolgoi Underground Deposit.

We currently hold a total of 18 exploration licences covering 784,358 hectares in Omnigovi Aimag in Mongolia. Many of our exploration licences have yet to be fully explored. Our exploration programme in 2010 will include drilling, trenching and geological reconnaissance on a number of the licence areas which are identified as having good potential for coking and thermal coal deposits.

We have an experienced management team with strong skills in mining, exploration and marketing and are able to leverage the expertise, experience and relationships of our principal shareholder, Ivanhoe

Our Board and senior management team have extensive experience in the coal and mining industries. Most of our Board and senior management team have experience in mining and/or exploration activities. Of our Board members and senior managers, seven individuals (namely, Pierre Bruno Lebel, Raymond Edward Jr. Flood, Gavin Peter May, David Lynn Bartel, Geoffrey Brian Harding, Curtis Church and Bat-Erdene Dash) have experience as mining managers, mining engineers and/or geologists, and all have significant experience in the mineral resources industry, acting or having acted as directors, financial or legal advisors, marketing specialists, compliance officers or corporate secretaries for other companies in this industry. The management team of our Ovoot Tolgoi Mine is comprised of a combination of foreign professionals and Mongolian nationals, who have the ability to effectively manage Mongolian business and cultural issues whilst employing international mining practices.

Ivanhoe, our principal shareholder, is a diversified resources company with experience in advancing exploratory and development resource projects through to production. Ivanhoe, also a major investor in Mongolia, focuses on developing its flagship Oyu Tolgoi Project there, and has experience with operations in Mongolia and dealing with all levels of government. We will be able to access the expertise and experience of our principal shareholder as we seek opportunities to grow our business within Mongolia and in other countries.

OUR BUSINESS STRATEGIES

Our vision is to become a leading coal producer that supplies premium quality coals from Mongolia to key growth areas in China. We plan to accomplish our goal through the following strategies:

Expanding production at the Ovoot Tolgoi Mine

We intend to continue to ramp up production at the Ovoot Tolgoi Mine. A second mining fleet was delivered in September 2009 and is expected to be commissioned in 2010. We expect that a third fleet, already ordered, will be delivered in 2010, with an additional fleet likely to be ordered for 2011. We consider that the addition of the second fleet will increase the cumulative production capacity for the Ovoot Tolgoi Mine to 4.2 million tonnes and that the addition of the third fleet will further increase the cumulative production capacity to 6.6 million tonnes. Norwest, our Independent Technical Expert, considers it possible that our total coal production from the Ovoot Tolgoi Mine could increase to approximately eight million tonnes from 2012 and onward. The additional fleet likely to be ordered in 2011 is expected to increase the cumulative production capacity to the planned 8.0 million tonnes.

Developing integrated infrastructure for the area around the Ovoot Tolgoi Mine

The close proximity of the Ovoot Tolgoi Mine to the Shivee Khuren-Ceke border crossing allows our customers to truck coal from our mine site to China. We are currently studying the feasibility of building additional road infrastructure from our Ovoot Tolgoi Complex to the Mongolian border with China. These studies are not yet at a stage which would enable us to comment on the likelihood and timing of, and expected capital expenditure involved in, the building of the road infrastructure. Since December 2008, we have also engaged in various levels of discussions with railway contractors regarding the possibility of developing a Chinese gauge coal railway from the Ovoot Tolgoi Mine to the Mongolian border with China to connect with China’s railway system.

Continuing to advance value enhancing coal projects, with a near-term emphasis on the Soumber Deposit

Our strategy is to develop assets that maximise value for us and our shareholders. In addition to the expansion of the Ovoot Tolgoi Mine, our immediate priorities are to continue to investigate the feasibility of developing the Soumber Deposit and the Ovoot Tolgoi Underground Deposit. The Ovoot Tolgoi Underground Deposit is within the same seams as the Ovoot Tolgoi Mine, and contains a large resource base. In the future, we will continue to evaluate projects in our pipeline to ensure that we prioritise the development of key feasible and attractive assets.

The Soumber Deposit is located approximately 20 kilometres to the east of the Ovoot Tolgoi Mine. Due to its proximity, it will likely be able to share some common infrastructure with the Ovoot Tolgoi Mine.

Exploration data obtained to date demonstrates potential for thick seams of thermal and coking coals. Coal resources at the Soumber central field are comprised of measured coal resources of 13.1 million tonnes, indicated coal resources of 8.3 million tonnes and inferred coal resources of 55.5 million tonnes. The coal rank ranges between high to medium volatile bituminous coal, having an average calorific value range of 5,100 to 6,700 kcal/kg. See “Appendix V-B — Soumber Technical Expert Report” to this prospectus.

The coal occurrence on the Soumber Deposit central field can be divided into seven separate seams, or benches of a seam separated by rock interburden. The seams themselves are composed of coal intercalated with numerous rock partings.

We plan to carry out additional exploration activities and investigate the feasibility of developing the Soumber Deposit. We are also considering building a coal preparation plant for the Soumber coal to remove rock partings, improve quality and add value to the coal produced.

Enhancing the value of our products that are delivered to end customers

We continue to seek value optimising opportunities at the Ovoot Tolgoi Complex. We plan to conduct more washability tests to consider construction of a coal wash plant. The Company believes the plant would help to lower impurities, with the aim of achieving higher selling prices for our coals.

We are considering establishing a direct selling and delivery channel to end customers of our coal in China to capture higher margins in the value chain. We intend to enter into long-term supply contracts with large customers in China to secure stable and long-term demand from the Chinese market.

Undertaking exploration initiatives to establish additional resources and mineable reserves

We will continue to utilise exploration as a core strategy to expand our reserves and resources. We have a proven track record of successful exploration as shown in the development of our resource base. We believe that exploration offers the lowest cost of acquiring resources given the high potential of our exploration tenements.

Continuing to focus on production safety, environmental protection, operational excellence and community relations

We are committed to maintaining the highest international standards in relation to safety, environmental protection and community relations at our projects. As an international company with a long term objective of investing in Asia, we consider sustained high performance in these key areas as critical to our long term success. We have been working closely with the local communities in the South Gobi Province of Mongolia and are fully compliant with relevant mining safety and environment regulations in Mongolia. We intend to:

- continue to devote substantial resources to keep our operations at the highest international operating standards;
- utilise automated mining methods to minimise mine accidents and enhance production safety; and
- increase employment opportunities for local residents.

OUR MINING AND EXPLORATION OPERATIONS

Mongolia

We have one operating mine, the Ovoot Tolgoi Mine, and three development projects in southern Mongolia, namely the Soumber Deposit, the Ovoot Tolgoi Underground Deposit and the Tsagaan Tolgoi Deposit. Each of these projects is operated through our wholly-owned Mongolian subsidiary. We also have several other coal exploration properties in various locations throughout Mongolia. The following map illustrates the location of these assets:

The following table summarises our Mongolian coal reserves and resources under NI 43-101 as of the Latest Practicable Date.

Summary of Our Coal Reserves(1)

	Proven	Probable	Total
		(million tonnes)	
Ovoot Tolgoi Mine(2)	105.0	9.1	114.1

Summary of Our Coal Resources in Mongolia(1)

	Measured	Indicated	Total Measured and Indicated	Inferred
		(million tonnes)		
Ovoot Tolgoi Mine(2)				
Sunset Pit	82.1	19.4	101.5	8.1
Sunrise Pit	53.8	15.7	69.5	4.9
Total Ovoot Tolgoi Mine	135.9	35.1	171.0	13.0
Ovoot Tolgoi Underground Deposit(2)				
Sunset Pit	34.6	27.8	62.4	9.3
Sunrise Pit	11.2	5.2	16.4	11.2
Total Ovoot Tolgoi Underground Deposit	45.8	33.0	78.8	20.5
Soumber Deposit(3)	13.1	8.3	21.4	55.5
Tsagaan Tolgoi Deposit(4)	23.4	13.0	36.4	9.0
Total	218.2	89.4	307.6	98.0

Notes:

(1) These numbers have been prepared in accordance with the Canadian NI 43-101 standards which are materially similar to the standards prescribed by the JORC Code.

(2) Estimate for resources is as of June 1, 2009 and estimate for reserves is as of July 1, 2009. See the Ovoot Tolgoi Technical Expert Report dated October 21, 2009 in Appendix V-A to this prospectus for the details of the assumptions and parameters used to calculate these coal resources and coal quality.

(3) Estimate is as of August 11, 2009. See the Soumber Technical Expert Report dated October 21, 2009 in Appendix V-B to this prospectus for the details of the assumptions and parameters used to calculate these coal resources and coal quality.

(4) Estimate is as of December 31, 2007. See the Tsagaan Tolgoi Technical Expert Report dated March 25, 2008, in Appendix V-C to this prospectus for the details of assumptions and parameters used to calculate these coal resources and coal quality. Except for the receipt of a mining licence, the report represents the current status of the Tsagaan Tolgoi Deposit given that there have been no material advancements to the project since the date of the report.

We have obtained all requisite rights, permits and approvals necessary to mine over an area of 9,308 hectares at the Ovoot Tolgoi Mine. In addition, we have six land use certificates at the Ovoot Tolgoi Complex, as well as two mining licences and 18 exploration licences in various locations in Mongolia.

The following table sets forth a summary of our mining licences as at the Latest Practicable Date:

Project/Location	Area(hectares)	Registered Holder	Ultimate licence expiration date
Ovoot Tolgoi Complex	9,308	SGS	September 2077
Tsagaan Tolgoi Deposit	10,552	SGS	August 2079

The following table sets forth a summary of our land use rights at the Ovoot Tolgoi Complex as at the Latest Practicable Date:

Use	Area (hectares)	Registered Holder	Expiration date
Mine accommodation camp	2.3	SGS	January 2013
Equipment maintenance shop	2.4	SGS	January 2013
Field geology	2.0	SGS	June 2012
Explosives magazine	1.7	SGS	September 2013
Open pit mine	69.9	SGS	September 2013
Exploration camp	4.6	SGS	September 2013

The following table sets out a summary of our exploration licences at the Latest Practicable Date:

Project/Location	Area (hectares)	Number of exploration licences	Registered licence holder	Ultimate licence expiration dates (number of licences)
Ovoot Tolgoi Complex	74,782	2	SGS	May 2012 (1), September 2012 (1)
Soumber Deposit	34,882	1	SGS	December 2010 (1)
Tsagaan Tolgoi Deposit	41,350	2	SGS	April 2013 (1), December 2010 (1)
Tavan Tolgoi Extension area	319,016	7	SGS	January 2010 (2), March 2010 (1); December 2010 (3); July 2017 (1)
Other Exploration Projects	314,328	6	SGS	June 2010 (2), December 2010 (4)
Total	784,358	18		

Pursuant to the 2006 Minerals Law, exploration licences granted on or after August 26, 2006 have an initial term of three years. We are obligated to pay the applicable licence fees, conduct minimum exploration activities and comply with various environmental protection requirements to extend the term of an exploration licence. For the details of each exploration licence we hold, fees payable and obligations to which we are subject, see "Laws and regulations relating to the industry — Mongolian Laws and Regulations Relating to Exploration for Minerals and Mining — Mongolian Exploration Licences" and "Appendix VII — Statutory and General Information — Further Information about the Company — Exploration Licences" of this prospectus. The exploration programmes on these exploration properties are based on the best available geological information. As a result of the large area covered by the exploration licences, exploration programmes are designed to take place over multiple years. We make decisions on an annual basis, at the end of each exploration season, whether to conduct further exploration or to fully or partially relinquish the exploration licences. When making such determinations, as well as whether or not to acquire new exploration licences, we consider factors such as the success of the exploration activities; the cost of maintaining the exploration licences; the availability of new attractive exploration licences; the relative prospectivity of other exploration licences within the group; the financial capacity of the group; and total budgeted exploration costs and competing investment opportunities.

Pursuant to the Mining Prohibition in Specified Areas Law, the Mongolian Government was instructed to define the boundaries of the areas in which exploration and mining would be prohibited by October 16, 2009. However, the Mongolian Government has not yet approved and published this information.

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

Four of our exploration licences — included on MRAM's draft list of licences — may be included on the final list published by the Mongolian Government, potentially affecting the status of those licences under the Mining Prohibition in Specified Areas Law.

Licence #	Property Name	Project Area	Approximate Total (hectares)	Book value of licence (US$)
11187X	Gashuu Tolgoi-1	Portion of Alphabet Fields	66,193	0
5267X	Tovon Uul	Green Fields — Zagsuuj Coalfield	33,328	0
9449X	Galyn Ovoo-1	Green Fields — SW Coalfield	169,183	0
13779X	Khongor Uul-1	Green Fields — Zagsuuj Coalfield	67,915	0

Activities currently being carried out on these properties include drilling, trenching and geological reconnaissance. We have no immovable company 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 our existing operations. We do not plan to use any of the proceeds from the International Offering in connection with exploration activities at these four properties.

Ovoot Tolgoi Complex

Project overview

The Ovoot Tolgoi Complex comprises the Ovoot Tolgoi Mine together with the Ovoot Tolgoi Underground Deposit. The Ovoot Tolgoi Mine is our flagship coal mine. It is located in the southwest corner of the Omnigovi Aimag (South Gobi Province) of Mongolia, approximately 40 kilometres north of the China-Mongolia border. The region experiences a continental desert climate.

We hold a mining licence covering the Ovoot Tolgoi Mine and the Ovoot Tolgoi Underground Deposit and have been granted approval to mine an area of 9,308 hectares at the Ovoot Tolgoi Mine. We also control two additional exploration licences that cover an aggregate area of 74,782 hectares within the Ovoot Tolgoi Complex.

The coal deposits at the Ovoot Tolgoi Mine contain two distinct resource areas, namely the Sunset Pit to the west and the Sunrise Pit to the east. The Ovoot Tolgoi Mine has proven and probable resources totalling 114.1 million tonnes and the Ovoot Tolgoi Complex has measured and indicated resources of 249.8 million tonnes, as detailed in "Appendix V-A — Ovoot Tolgoi Technical Expert Report".

Exploration activities at Ovoot Tolgoi began in 2004. In April 2008, with basic infrastructure largely constructed, we began removing the overburden and produced our first coal. Coal was stockpiled on site, with initial coal sales beginning in September 2008. Since our first coal sales in September 2008 until September 30, 2009, total coal sales from the Ovoot Tolgoi Mine were approximately 1.1 million tonnes.

We expect to continue conducting open-pit mining for the near-surface reserves and resources at the Ovoot Tolgoi Mine. Underground resources at the Ovoot Tolgoi Underground Deposit have been identified and we are separately investigating the possibility of mining the deeper potential coking coal resources via underground mining methods.

For details regarding the economic analysis and our cash flow estimates relating to the Ovoot Toloi Mine, please see "Financial Information —Economic Analysis of Ovoot Tolgoi Mine".

Exploration activities

We commenced exploration in late 2004 with the completion of five boreholes in the area of the Sunrise Pit. The programme was expanded in early 2005 to include general exploration activities along the entire Ovoot Tolgoi Complex trend, as well as resource delineation drilling in the Sunrise Pit and Sunset Pit. A multi-faceted exploration approach has been used to identify drilling targets for coal resource delineation. Exploration methods used at the Ovoot Tolgoi Complex include filed reconnaissance mapping, satellite imagery, surface-resistivity geophysical surveying, trenching and drilling.

Coal deposits and quality

The following table summarises the coal mineral reserve and resource estimates at the Ovoot Tolgoi Mine and the Ovoot Tolgoi Underground Deposit, as detailed in "Appendix V-A — Ovoot Tolgoi Technical Expert Report".

	Coal Reserves(1)		
	Proven	**Probable**	**Total**
	(million tonnes)		
Ovoot Tolgoi Mine(2)	105.0	9.1	114.1

	Coal Resources(1)			
	Measured	**Indicated**	**Total Measured and Indicated**	**Inferred**
	(million tonnes)			
Ovoot Tolgoi Mine(2)				
Sunset Pit	82.1	19.4	101.5	8.1
Sunrise Pit	53.8	15.7	69.5	4.9
	135.9	35.1	171.0	13.0
Ovoot Tolgoi Underground Deposit(2)				
Sunset Pit	34.6	27.8	62.4	9.3
Sunrise Pit	11.2	5.2	16.4	11.2
	45.8	33.0	78.8	20.5
Total	181.7	68.1	249.8	33.5

Notes:

(1) These numbers have been prepared in accordance with the Canadian NI 43-101 standards which are materially similar to the standards prescribed by the JORC Code.

(2) Estimate for resources is as of June 1, 2009 and estimate for reserves is as of July 1, 2009. See the Ovoot Tolgoi Technical Expert Report dated October 21, 2009 in Appendix V-A to this prospectus for the details of the assumptions and parameters used to calculate these coal resources and coal quality.

According to the Ovoot Tolgoi Technical Expert Report, the coal rank of the Ovoot Tolgoi deposit is high volatile B to A bituminous. High volatile B produces between 7,212 to 7,785 kcal/kg and high volatile A produces greater than 7,785 kcal/kg heat output. The detailed sample analyses undertaken by Norwest also identify the coal at Ovoot Tolgoi Mine to be a mixture of coking and thermal coals with low ash at less than 20 percent (dry basis) and sulphur at or around one percent (dry basis). Inherent, or residual moisture, in the coal remains at less than 2 percent of the coal. See "Appendix V-A — Ovoot Tolgoi Technical Expert Report".

Production process and products

The coal seams at the Ovoot Tolgoi Mine generally dip steeply to the south, and outcrop at the surface. These geological features combined with the thick nature of the seams allow for initial mining to be carried out by surface mining methods. Coal is removed from an ever-increasing pit, following the seam dip to a maximum depth of 250 metres.

The initial step in the open pit mining process is stripping to remove the topsoil. Removed topsoil is stockpiled for future use in reclamation activities. The waste (or overburden) is then drilled and blasted to loosen the rock, which is loaded into end-dump trucks and hauled to a waste dump located beyond the pit limit. After the overburden is removed, the same shovels mine both the waste and the coal. The coal is soft enough that it may be removed by shovels and blasting is not required. The coal is then loaded onto customers' trucks.

Mining operations at the Ovoot Tolgoi Mine are currently spread over two pits. We commenced stripping and developing the first coal-mining production benches for the Sunset Pit in January 2008, including site clearing, topsoil stockpiling, drainage control and road construction, and started mining and stockpiling coal following the grant of the approval to mine on April 2, 2008.

Most of the mine infrastructure is in place or is currently being constructed. As at September 30, 2009, our equipment fleet consisted of the following equipment:

Quantity	Equipment	Make/Model	Size
1	Hydraulic Shovel	Liebherr R994	13.5 m^3
1	Hydraulic Excavator	Liebherr 974C HD449 Litronic	5.0 m^3
1	Hydraulic Excavator	Liebherr R944B	4.8 m^3
6	End Dump Trucks	Terex TR100C	100T (91 tonnes)
1	Front-End Loader	LeTorneau L-950	10/17 m^3
1	Wheel Loader	Liebherr L580	5.0 m^3
1	Track Dozer	Liebherr Pr764	300 kW
2	Track Dozer	D10T	433 kW
1	Drill	Atlas Copco DM45LP	N/A
1	Drill	Atlas Copco DM45HP	N/A
1	Rubber Tyre Dozer	Kawasaki 95ZV	250 kW
1	Grader	Tiger PY280	5 m
1	Grader	16 M	5 m

Additional equipment will be required as production at the mine expands, including larger hydraulic shovels, larger end dump trucks and larger dozers and graders. We have entered into an agreement with Monnis for additional equipment for a second fleet including a larger Liebherr 996 34 m^3 shovel, four 260-tonne Terex haul trucks and various auxiliary equipment. The second fleet was delivered in September 2009 and the majority of the second fleet is expected to be commissioned in 2010. We expect that a third fleet, already ordered, will be delivered in mid-2010, with an additional fleet likely to be ordered for 2011. The acquisition and financing costs for the second fleet and the third fleet were US$26.8 million and US$24.5 million. The Company believes the larger equipment will increase productivity. However, we plan to continue to employ the smaller initial fleet in areas of thinner seams and to supplement the larger equipment.

Our products from the Ovoot Tolgoi Mine are coking, premium and thermal coals. All three coal types are sold directly from the mine without any beneficiation or washing. In-pit sampling and on-site coal laboratory analysis determines which product is currently being mined and the products are then separately stockpiled and blended to meet specific customer requirements. We may in the future develop beneficiation facilities to provide a higher quality coal depending on customer requirements.

Infrastructure

The Ovoot Tolgoi Mine is situated approximately 40 kilometres north of the Shivee Khuren-Ceke border crossing on the Mongolia-China border. In January 2009, China and Mongolia officially approved permanent status of the Shivee Khuren-Ceke border crossing. In January and February 2009, we experienced some difficulty expediting the movement of its coal through this border crossing due to erratic and unpredictable opening hours and sporadic closures. This led to us suspending production temporarily on February 24, 2009 to manage stockpiles and preserve cash. Throughout this time, we continued coordinating efforts with the Mongolian government and various agencies to improve border crossing access. With increasing sales and a reduction in its coal inventory, we resumed full mining operations effective July 1, 2009. Since mid-2009, the border crossing has been open eleven hours per day, six days per week (closed Sundays and public holidays). Transportation of coal through this border crossing has been increasing over the past year.

In order to increase the amount of coal traffic across the border, in July 2009, Chinese and Mongolian authorities agreed to build a designated coal transportation corridor at the Shivee Khuren-Ceke border crossing. This facility is currently under construction and is expected to be operational in 2010. When completed, it will permit coal to be transported across the border through three corridors that are separate from other, non-coal, traffic. We believe that these improvements in the border crossing capacity will allow us to continue to substantially increase the amount of coal we ship into China. This facility, the capacity of which is yet to be determined by the relevant Mongolian/Chinese authorities, would be used by us as well as by other companies.

The Ovoot Tolgoi Mine's proximity to the Shivee Khuren-Ceke border crossing allows our customers to truck coal on an unpaved road from our mine site to China. We are currently studying the feasibility of building additional road infrastructure from our Ovoot Tolgoi Complex to the Mongolian border with China. These studies are not yet at a stage which would enable us to comment on the likelihood and timing of, or the expected capital expenditure involved in, the building of the road infrastructure.

A north-south railway line connects Ceke with Jiayuguan City in Gansu Province and with the interior of the PRC. Another east-west railway line from Ceke to Linhe, an industrial city in eastern Inner Mongolia, is expected to be operational in 2010. This line is anticipated to have capacity to transport approximately 20 million tonnes of coal in 2011. Using this route our coal can be shipped to Baotou and further east to ports on China's Bohai Gulf.

Since December 2008, we have engaged in various levels of preliminary discussions with railway contractors regarding the feasibility of developing a coal railway from the Ovoot Tolgoi Mine to the Mongolian border with China. We, through CRCC, have also conducted a scoping study on the railway construction project. We further anticipate forming a joint venture with one or more other parties for railway development. To date, we have not appointed any joint venture partners and have not conducted any feasibility studies. As such, no investments have been made in such joint ventures to date, nor have any applicable government approvals or consents been sought. The Company believes that, once formed, this joint venture would likely revise any transportation studies available to meet the combined requirements of all partners. The Company intends that the revised study would form the basis of overall capital costs and the Company's required contribution.

We have built a permanent accommodation camp and a maintenance work shop facility at the Ovoot Tolgoi Mine site. We have an operating on-site airport with a concrete runway and currently run charter flights to and from the Mongolian capital of Ulaanbaatar four times per week.

Electricity is available from a power line distributing power from China and additional electric power is provided by onsite diesel generators as required. There is currently no surface water available in the immediate vicinity of the Ovoot Tolgoi Complex; however, water wells have been drilled to supply water for the mining and exploration operations.

We are currently completing construction of the Ovoot Tolgoi customs bonded yard situated to the east of the Sunset Pit boundary. This is a customs controlled impound area which will allow mine operations to safely and efficiently load coal trucks destined for China from the stockpiles under the direct supervision of Mongolian customs officers.

Development plan

We conduct mining operations 24 hours per day, 365 days per year. Although severe winter temperatures may result in the reduction of mining operations to protect the equipment, historical data shows a minimal risk of extreme low temperatures. Severe weather conditions may also impact on the flight schedules to the Ovoot Tolgoi Mine. Severe weather conditions have not caused any material delay or damages to our operations to date. Norwest, our Independent Technical Expert, considers it possible that our total coal production from the Ovoot Tolgoi Mine could increase to approximately eight million tonnes from 2012 and onward.

Ovoot Tolgoi Underground Deposit

The Ovoot Tolgoi Underground Deposit is contiguous to, and located directly below, the surface mine development. The entire extension of the coal seams at depth from 250 to 600 m that is designated for the underground development is located inside the existing Ovoot Tolgoi Mining Licence.

As detailed in the Ovoot Tolgoi Technical Expert Report, the Ovoot Tolgoi Underground Deposit had approximately 45.8 million tonnes of measured resources, 33.0 million tonnes of indicated resources and 20.5 million tonnes of inferred resources based upon exploration data gathered through 2008. Details of assumptions and parameters used to calculate these coal resources and coal quality estimates are set out in the Ovoot Tolgoi Technical Expert Report in Appendix V-A.

The 2008 exploration programme concentrated on the underground portion of the Sunset Pit. Drilling was conducted to obtain additional information respecting the structure and quality of the deep underground coal. The drilling conducted in 2006 and 2007 has identified coking and semi-soft coking coal at depths of between 250 m and 600 m beneath the lower boundaries of the planned open pits at the Sunrise and Sunset Pits.

Soumber Deposit

The Soumber Deposit is located approximately 20 kilometres east of the Ovoot Tolgoi Mine. It lies within the administrative unit of Gurvantes Soum in the Omnigovi Aimag (South Gobi Province), approximately 50 kilometres northeast of the Shivee Khuren-Ceke border crossing. We hold one exploration licence for the Soumber Deposit which covers an area of 34,882 hectares.

The Soumber Deposit is regionally situated in the Ovoot Khural Basin, located in the same trend of the Nariin Sukhait and Ovoot Tolgoi deposits. Based on the drill hole data distribution, the Soumber coal field could be divided into three areas: central, east and west. The majority of exploration activity has focused on the Soumber central field. The coal occurrence on the Soumber central field can be divided into seven separate seams, or benches of a seam separated by rock interburden. The seams themselves are composed of coal intercalated with numerous rock partings. The coal seams in the Soumber Deposit may not be directly correlative to the Ovoot Tolgoi and Nariin Sukhait coal seams.

Exploration and drilling programmes at the Soumber Deposit first started in 2005 in the western field. Sixty two holes were drilled during 2005 and 2006 that confirmed the potential for a significant coal deposit in the area. Between 2007 and 2008, over 121 drill holes, totalling 24,512 metres of drilling were completed. In 2009, the Company conducted geotechnical and hydrological programmes in the Soumber Deposit central field. The exploration geology fieldwork included reconnaissance mapping, trenching, geologic descriptions of drilling returns, geotechnical data, field logs and database development.

The coal resources at the Soumber Deposit central field are comprised of measured coal resources of 13.1 million tonnes, indicated coal resources of 8.3 million tonnes and inferred coal resources of 55.5 million tonnes. Laboratory data demonstrated that some of the coal benches possess a potential of coking coal characteristics. The coal rank ranges between high to medium volatile bituminous coal, having an average calorific value range of 5,172 to 6,728 kcal/kg. The Soumber Deposit has potential to increase coal resources to the east and to the west as well as at depth. For example, Norwest believes additional coal tonnage in the east and the west areas would be in the range of 32 to 56 million tonnes. See “Appendix V-B — Soumber Technical Expert Report” to this prospectus.

Due to the proximity to the Ovoot Tolgoi Mine, the Soumber Deposit will likely be able to share common infrastructure with the Ovoot Tolgoi Mine. We plan to conduct additional exploration activities and investigate the feasibility of developing this project and work towards obtaining a mining licence to develop an open pit mine at the Soumber Deposit. We are also studying the feasibility of building a coal preparation plant for the Soumber Deposit coal to remove rock partings and improve quality.

Tsagaan Tolgoi Deposit

The Tsagaan Tolgoi Deposit is located in south-central Mongolia in the Omnigovi Aimag (South Gobi Province), approximately 115 kilometres west of the Oyu Tolgoi Project and approximately 100 kilometres north of the Chinese border. We control two exploration licences that cover 41,350 hectares of the resource area. We received a mining licence for the Tsagaan Tolgoi Deposit in August 2009 with a total mining licence area of 10,552 hectares.

Norwest completed a geological exploration programme during the summer of 2004 and a second exploration programme 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 13.0 million tonnes and inferred resources of nine million tonnes, as detailed in “Appendix V-C — Tsagaan Tolgoi Technical Expert Report”. According to the Tsagaan Tolgoi Technical Expert Report, coal at the Tsagaan Tolgoi Deposit is found in a sedimentary basin of approximately four kilometres by 20 kilometres 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 metres to 24.7 metres.

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

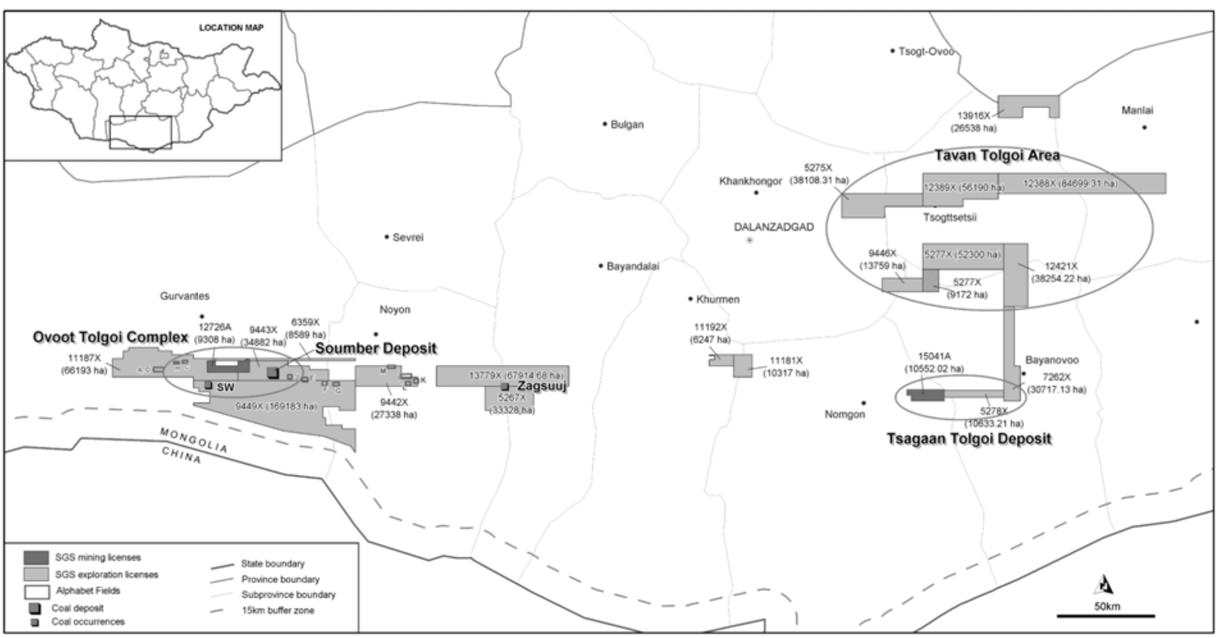
The Tsagaan Tolgoi Deposit is located close to the Oyu Tolgoi Project and has the potential to supply coal to any power project there. We may decide at some stage to develop the Tsagaan Tolgoi Deposit with or without a potential decision to develop a power station associated with Ivanhoe's Oyu Tolgoi Project. The Company considers, at present, such development is dependent on the feasibility and the potential return of the project relative to our other projects.

Other Exploration Targets

We currently hold a total of 18 exploration licences, covering 784,358 hectares in Omnigovi Aimag (South Gobi Province) in Mongolia. Mongolian regulations require us to spend up to a maximum of US$1.50/hectare annually in exploration expenses depending on the length of time we have held each licence to retain these exploration licences. A number of these exploration licences are associated with the broader Ovoot Tolgoi Complex and the Soumber Deposit, but we consider many of these to be prospective exploration properties which have yet to be fully explored.

The following map illustrates our exploration licences and mining licences:

Map of Our Exploration Licences and Mining Licences



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

Alphabet Fields

- E Coalfield — This coalfield is located approximately 10 kilometres east of the Soumber Deposit, which may allow it to share infrastructure with the Ovoot Tolgoi Mine. The Company intends that its exploration will focus on gaining a better understanding of the coal quality and thickness of the coal seam. According to laboratory analysis done in 2008, there is low and mid volatile coking coal at E Coalfield. The true thickness of the coal seam varies from 2.0 to 8.0 metres.
- G Coalfield — This coalfield is not proximate to the Ovoot Tolgoi Mine although it has characteristics similar to the E Coalfield.
- M Coalfield — Core drilling and coal sampling is required on this coalfield to better understand coal quality. Coal seam thickness at M Coalfield varies from 2.0 to 19.0 metres.

Green Fields

- Zagsuuj Coalfield — This coalfield is located approximately 130 kilometres east of the Ovoot Tolgoi Mine. Laboratory analysis done in 2009 indicates that there is low and mid volatile metallurgical coking coal at this coalfield. Coal seam thickness varies from 2.0 to 8.0 metres.
- SW Coalfield — This coalfield contains very high volatile coal, with volatile matters varying from 45-50% according to laboratory analysis done in 2009. The true thickness of the coal seam varies from 2.0 to 8.0 metres.

We plan to do additional drilling and trenching on the other exploration properties to ensure we meet the minimum expenditure requirements as stipulated by the 2006 Minerals Law.

Sales and Marketing

Currently we expect all production from the Ovoot Tolgoi Mine will continue to be marketed and sold into China. Since the commencement of sales in late 2008 until September 30, 2009, we had sold approximately 1.1 million tonnes of coal from the mine. This includes our premium and thermal coal production.

The western region of Gansu is one of our key markets and, given the relatively close proximity of our projects to the region, we believe that we are well positioned to exploit consumption growth in the area. Power plant expansion, currently underway, in Gansu is expected to increase thermal coal purchases from outside Gansu from approximately 13 million tonnes in 2008 to approximately 55 million tonnes in 2020. Gansu has no production of coking coal and all coking coal used in the steel industry is sourced from other provinces. Our Ovoot Tolgoi Mine is located 492 kilometres from Jiayuguan, while mines in the next closest major supply base, Hami in Xinjiang, are located 619 kilometres away.

In anticipation of commencing production at the Ovoot Tolgoi Mine, we began negotiating coal sales contracts in late 2007 and executed two contracts in May 2008. Both contracts provided for delivery of coal priced in Renminbi and payable in U.S. dollars. The initial sales of coal commenced in October and November 2008.

The first agreement provided for the delivery of approximately 300,000 tonnes of coal during the term of the agreement, subject to continuous quality monitoring. The agreement expired in January 2009 and the remaining tonnage was carried over to June 2009. In 2009 we signed two more new contracts with the same customer for total of approximately 700,000 tonnes. The first contract expired at the end of September 2009 and the second contract expired on December 31, 2009. We have signed another contract with the customer commencing January 1, 2010 to supply 25,000 tonnes per month through to the end of March 31, 2010.

The second agreement was signed with another customer in May 2008 and expires in January 2013. It provided for the delivery of approximately 400,000 tonnes of coal in 2008 and approximately 400,000 tonnes of coal in 2009, subject to annual pricing and quality reviews. It also provides that quantities of coal to be delivered in 2010 through 2012 on an annual basis will be a minimum of 400,000 tonnes per year and that the parties to this agreement will discuss any potential annual increases in tonnages in this period by no later than December 31 of the previous year.

We also signed a contract with a new customer for the sale of up to 400,000 tonnes during the period from August to December 2009.

At September 30, 2009, the Company had three customers with the largest customer represented approximately 62%, and the remaining customers accounted for 38% of our total sales for the first nine months of 2009. One customer is involved in coal trading and the remaining two customers are involved in coke production. Customers either use the coal directly or sell it throughout different regions of China. We understand that the coal is used in various ways including using it as a thermal feed for their power plants or as a coking coal blend or is used directly by a customer as a coking coal blend for its coke plant in Inner Mongolia.

Under these agreements, the buyer is responsible for transporting the coal to China and for providing clean trucks ready for loading at the point of delivery. Each customer has the right to suspend the coal shipments if certain quality parameters are not met.

We currently intend to pursue long-term supply contracts with large customers in China to secure stable and long-term demand from China.

We are required to pay to the Mongolian Government a royalty of 5% of the sale value of coal shipped for sale to non-Mongolian customers.

We intend to continue to develop markets for our premium quality coals. Fenwei has conducted a complete market analysis of the coal markets in western Inner Mongolia and Gansu provinces, helping us to identify potential customers in these provinces. Our target customer base consists of a mixture of distributors and end users of coal, including steel mills, power plants and industrial consumers.

We opened a representative office in the PRC in September 2008 to strengthen relationships with existing clients, procure additional PRC customers, and serve as our primary contact with customers in China.

Use of Contractors

As it is typical for many mining and exploration companies, we use contractors for various services associated with exploration, including drilling, conducting geophysical surveys and equipment maintenance. We engage third party contractors either because they are able to provide services more economically or have more experience or better equipment available than we have ourselves or because we have decided to create a strategic partnership with a Mongolian company. We continue to monitor all of our contracts with independent contractors, but have not experienced any material problems in dealing with any of our contractors during the Track Record Period.

At the Ovoot Tolgoi Mine, services that have been contracted out include drilling, the construction of permanent employee housing and maintenance shops, and maintenance of equipment. The major contracts that have been awarded to third party contractors for our projects in Mongolia include the following:

- a two-year equipment maintenance contract with Monnis, pursuant to which Monnis supplies all labour and parts required to perform preventative maintenance and necessary repairs;
- a two-year blasting and supply agreement with Mera LLC, pursuant to which Mera LLC supplies explosives and related storage;
- a drilling services agreement with Tanan — Impex LLC for core drilling;
- a two-year coal analysis services agreement with SGS Mongolia LLC to commission a temporary coal laboratory at the Ovoot Tolgoi Mine;
- a six-month contract with Eznis Airways to provide chartered air services from Ulaanbaatar to our airport at the Ovoot Tolgoi Mine; and
- a three-year fuel supply agreement with Gurvan Zam LLC.

Using contracting arrangements allows us to lower our costs, because we do not need to invest in equipment or the hiring and training of additional personnel. We typically select our contractors through a bidding process to ensure that all contracts are entered into on competitive terms.

We maintain strict supervision over our contractors through regular reporting requirements, strict management of estimated costs and related management oversight. We require that they maintain a high standard of quality, safety and environmental protection.

Supply of Ancillary Materials

In addition to the mining machinery and equipment, the production process at the Ovoot Tolgoi Mine requires ancillary materials, including fuel, explosives and tyres. These products are available to us from several suppliers at competitive market prices.

Our largest supply requirement is diesel fuel, which is used to power light vehicles, trucks, loaders, shovels and electricity generators. Access to diesel fuel is currently provided by Gurvan Zam LLC, a local supplier with a 500,000 litre fuel storage facility located adjacent to the Ovoot Tolgoi Mine. We purchase diesel fuel at the contract price as adjusted in accordance with the market price of diesel fuel and transport the fuel in fuel trucks for distribution to our mining equipment. As part of the fuel supply contract, Gurvan Zam LLC is required to maintain at its facility a quantity of fuel at least equal to our latest estimated monthly fuel requirements for our use at all times.

Explosives are provided under a supply and blasting agreement with Mera LLC (see "— Development plan — Use of Contractors"). A stock of mining truck tyres are owned and maintained by us at the Ovoot Tolgoi Mine.

Competition

We intend to sell a majority of the coal we produce into the PRC. Our projects are located close to and have convenient access to China's coal transportation networks. We believe that the strategic location of our projects in southern Mongolia enables us to deliver our coal more efficiently and effectively to key Chinese markets, particularly to the growing regions of Gansu and Inner Mongolia, which provides us with a competitive advantage over other international coal suppliers.

The Company believes 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.

We also believe that increasing competition exists for mineral deposits in Mongolia. The PRC coal market is highly fragmented and we compete with a number of other companies in selling thermal and coking coals into Gansu, Inner Mongolia and other regions in China. Our potential competitors include companies that produce coal in the same region as the Ovoot Tolgoi Complex including MAK which owns and operates the Nariin Sukhait Mine and MAK-Qinghua which operates one open pit mine. In addition, we may also compete with other companies that have access to the same end markets as we do. We also compete with other mining companies for mining equipment and related services and in the recruitment and retention of qualified employees and consultants. We are unable to disclose any further information regarding our nearest competitors as we cannot obtain verifiable information in relation to them or of their cost structures. See "Risk Factors — Risks Relating to Our Business and the Industry in which we Operate — Our prospects depend on our ability to attract, retain and train key personnel" and "Risk Factors — Risks Relating to Our Business and the Industry in which we Operate — Competition in the coal industry may hinder development plans and adversely affect our coal sales if we are not able to compete effectively" for further details.

Laws and Compliance

After making enquiries with our management and reviewing the relevant documents, Lynch & Mahoney, our Mongolian legal counsel, is of the view that based on a certificate signed by the executive director of SGS, our operating subsidiary in Mongolia, and to the best of their knowledge, we have complied in all material respects with the applicable laws and regulations in Mongolia (including laws and regulations in respect of capital contributions from foreign sources).

We believe that our internal control procedures are designed to assist with our compliance with all applicable laws and regulations.

Indonesia

Mamahak Deposit

Prior to December 23, 2009, we held an 85% interest in one project in Indonesia, the Mamahak Deposit. It is situated in East Kalimantan Province, approximately 30 kilometres from the Mahakam River.

In April 2008, we entered into joint venture arrangements with Score Resources under which we would explore and consider development of the Mamahak Deposit in East Kalimantan.

Under the joint venture agreement, we could earn into a 56% ownership position in SGB by spending US$14.5 million on the development of the project. The remaining 44% ownership interest would be held by Score Resources. The agreement also contained provisions enabling us to increase our ownership position to up to 100%. In September, 2008, based on positive initial results, we decided to increase our equity in SGB to 85% by making a payment of US$13.2 million in cash and shares to Score Resources.

The joint venture agreement also provided for the establishment of PT MMB, a joint venture PMA Company for the purpose of entering into co-operation agreements to provide mining and other services to KP-holding companies. PT MMB entered into an operating and services agreement with PT MCM whereby PT MMB would provide mining services, including the exploration for and exploitation of coal to PT MCM in a concession area covering 4,996 ha, in return for fees payable by PT MCM.

Following enactment of the new Indonesian Mining Law on January 12, 2009, the joint venture through which we held our prior interest in the Mamahak Deposit, through an Indonesian subsidiary, PT KOJ, acquired ownership in PT BKL, PT MBE, PT MCM and PT MEL, each of which held or had held KPs or IUPs related to the Mamahak Deposit.

As with all exploration properties or projects taken on by mining companies, the Company considers that there is a risk that the exploration project will not be converted to a commercially viable mine. As we progressed with efforts to prepare for the mining and shipment of a targeted 30,000 tonne trial cargo from the Mamahak Deposit, during the course of 2009, we became aware of the need for additional capital expenditure beyond what was originally budgeted. Based on these requirements and the revised resource estimates contained in the technical expert report that we had commissioned, in October 2009, our management suspended further development works at the Mamahak Deposit pending a more detailed operational review. Putting the project on a care and maintenance status allowed us to reduce the cash requirements of the project until management had adequate time to make an informed decision as to whether to proceed with the project. As a result of the suspension, we recorded an impairment charge of US$23 million in the third quarter of 2009.

As a result of the suspension of further development works at the Mamahak Deposit, we were also obliged to continue to pay deadrent of approximately Rp.138,900,000 per annum for two licences, for as long as we held these licences. We also had a range of legal obligations to third parties including contract counterparties, employees, companies providing manpower for our operations, lessors of equipment and properties, and providers of coal mining and marketing services. These legal obligations were in the normal course and the position with these parties was considered and managed as part of our care and maintenance review related to the Mamahak Deposit.

We do not consider that the terms of our agreement with our Mamahak Deposit joint venture partner have any obligation or restriction that is contravened by our suspension decision. We believe that an appropriate level of provisions and impairment losses have been recognised and disclosed in the accountants report in relation to the suspension of further development works at the Mamahak Deposit.

On December 15, 2009, we announced that we had entered into an agreement to divest our 85% interest in the Mamahak Deposit in Indonesia to Kangaroo, a mining company focused on the development of a series of coal projects in East Kalimantan, Indonesia, for consideration comprising US$1 million in cash and 50 million shares of Kangaroo. The receipt of shares as partial consideration is a common practice in the mining industry, particularly for companies in the early stages of development, such as Kangaroo, that wish to preserve their capital for use in developing their projects. The sale of our interest in the Mamahak Deposit was completed on December 23, 2009. The Company made a provision of approximately US$2.5 million taking into account, among other things, its legal obligations arising out of the sale of the Mamahak Deposit.

The divestment of our 85% interest in the Mamahak Deposit to Kangaroo will enable us to focus further on our Mongolian coal operations and projects, including the expansion of the Ovoot Tolgoi Mine and investigating the feasibility of developing the Soumber Deposit and the Ovoot Tolgoi Underground Deposit, while enabling us to retain an indirect exposure to the Mamahak Deposit through our minority shareholding in Kangaroo. Kangaroo is listed on the ASX and has seven coking and thermal coal projects in the East Kalimantan region of Indonesia. The acquisition of the Mamahak Deposit by Kangaroo is expected to complement its existing coal projects in Indonesia.

As a result of this transaction, the Company will hold approximately 6.7% of outstanding shares in Kangaroo, which will be subject to a 12 month lock-up.

SUPPLIERS

Our suppliers include our third party contractors and suppliers for equipment and ancillary materials. For the three years ended December 31, 2008 and the nine months ended September 30, 2009, our five largest suppliers accounted for approximately 51%, 64%, 42% and 66%, respectively, of our total purchases, while the largest supplier accounted for 19%, 24%, 13% and 35%, respectively, of our total purchases for the same periods.

As at the Latest Practicable Date, none of the contractors has any relationship, business or otherwise, that is other than on arm's length terms, with any of our Shareholders, Directors or member of our senior management.

None of our Directors or their respective associates, or any Shareholder who, to the knowledge of our Directors, holds more than 10% of our issued Shares, had any interest in any of our customers or our five largest suppliers during the Track Record Period.

CORPORATE SOCIAL RESPONSIBILITY

We have implemented a number of internal policies to embrace responsibility for the impact of our business activities on the environment, employees and local communities.

Compliance with Environmental Law and Regulation

Open pit mining, which we utilise at the Ovoot Tolgoi Mine, is used throughout the world. Environmental challenges associated with this mining method include pit closure plans and the quality of any water potentially impounded in the final pit. By conducting studies, carefully designing mine plans, implementing pollution control recommendations from internal and external sources, monitoring the effects of mining on mining areas and carefully designing mine closure plans, we seek to minimise the impact of our activities on the environment.

We employ a full time environmental manager tasked with monitoring and implementing environmental compliance. Our environmental manager has over twenty years' experience working with governmental entities, including 12 years' experience in environmental management. Her experience includes positions with the World Bank and the Mongolian Ministry of Nature and Environment. We also have environmental officers both at our Ovoot Tolgoi Mine and our office in Mongolia. From time to time we also use internationally renowned consultants to assist our staff. In addition, our entire workforce is charged with complying with our environmental policies. All employees at the Ovoot Tolgoi Mine receive environmental training at initiation and annual refresher training on environmental compliance.

As a responsible and committed entity to the local community, we recognise the importance of internationally accepted social and environmental management practices that go beyond Mongolian government requirements, including World Bank Group environmental and social standards and guidelines, and are using our best efforts to adhere to these practices.

We have received the approval of our detailed Environmental Impact Assessment and Environmental Protection Plan from the Mongolian Ministry of Nature and Environment for the mining operation at our

Ovoot Tolgoi Mine. The measures we are taking or expect to take in relation to the protection of the environment during the life of the Ovoot Tolgoi Mine include:

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

We are currently developing our mine closure plan for the Ovoot Tolgoi Mine with its environmental staff and internationally-recognised consulting companies. According to the Ovoot Tolgoi Technical Expert Report, the Ovoot Tolgoi Mine is expected to produce 420 million cubic metres of waste over the life of mine. The Company considers that the mine closure plan will address any accumulation of waste and may contain mitigation techniques such as reducing the slopes of any displaced earth, covering the area with topsoil set aside during the mining process, and planting vegetation, if such measures are determined to be appropriate for use at the Ovoot Tolgoi Mine.

The Company further considers that the mine closure plan will also address any potential water quality issues caused by the Ovoot Tolgoi Mine. For example, the mine closure plan may call for covering exposed coal seams with an appropriate amount of clay-like material to prevent contamination of water collecting in the pit, if this is determined to be appropriate for use at the Ovoot Tolgoi Mine.

In the years ended December 31, 2007 and 2008 and the nine months ended September of 2009, our environmental compliance costs amounted to US$79,268, US$665,605 and US$193,710, respectively. Our environmental compliance costs are budgeted at US$918,977 for the year ending December 31, 2010.

For further details regarding the environmental laws and regulations with which we must comply, please refer to "Laws and Regulations Relating to the Industry — Mongolian Laws and Regulations Relating to Environmental Protection". We firmly believe that we have complied with such environmental laws and regulations in all material respects.

Environmental Policy

We aspire to become a leading supplier of coal from Mongolia through implementing industry best practices and demonstrating leadership in environmental stewardship.

We are committed to performing all of our mining and exploration activities with full respect for the environment and returning the environment to a natural state as required by the Mongolian Government. We believe that conducting our activities in an environmentally responsible manner is integral to good business management. We will continue to utilise appropriate recognised management systems, including documentation of all relevant environmental matters and compliance auditing from us and other third parties to support the concept of continued improvement.

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

We expect to fulfil our commitment to the environment by:

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

Health and Safety Policy

We believe that one of our most important assets is our employees. We consider injuries to our employees and/or damage to our physical assets threaten our reputation and our financial success. We are therefore committed to a target of zero incidents in all of our activities by implementing industry best practice and demonstrating leadership in loss control.

We will continue to utilise appropriate recognised management systems, including documentation of all relevant loss control matters and compliance auditing from us and other third parties, if necessary, to support the concept of continued improvement. We will also continue to provide effective training and appropriate and sufficient resources for people to work safely and effectively.

We insist that all employees and contractors must accept as their shared responsibility that zero harm and loss is a priority when performing all activities associated with us. To achieve this target it is essential that our 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 our physical assets at all times.

We endeavour:

- 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 we make;
- to comply with relevant legislation and internal loss control policies and procedures;

- to ensure that all our employees, contractors and managers will demonstrate and promote safety leadership;
- to ensure that our employees and contractors will participate in managing health and safety related issues;
- to ensure that final contractor selection will include an acceptable review of potential contractors' health and safety programmes and a commitment to meeting our loss control standards; and
- to ensure that all reported incidents will be investigated with a view to preventing recurrence.

For further details regarding the health and safety regulations with which we must comply in our operational jurisdictions, please see "Laws and Regulations Relating to the Industry — Mongolian Laws and Regulations Relating to Health and Safety". We firmly believe that we have complied with such applicable health and safety regulations in all material respects.

Community Relations

We aspire 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 industry best practice and environmentally friendly technology for coal exploration and mining — while pursing the underlying business objective of building value.

We employ 313 people in Mongolia, almost all of which are Mongolian nationals. In our effort to recruit from the local area around the Ovoot Tolgoi coal mine, we opened an office in September 2007 in the nearby town of Gurvantes. We also employ full-time Community Relations Officers to directly liaise with local village members to help build understanding of our projects.

We believe we have played a significant role in contributing to the infrastructure in the South Gobi region. Most notable was the paving of the runway at the Ovoot Tolgoi airport, which has helped to enhance trade and economic activity in the local communities of the South Gobi region. Roads to both Gurvantes and the Shivee Khuren-Ceke border checkpoint, also used by the local community, have both been improved and upgraded. We have improved living and working conditions for Mongolian border officers by building two buildings at the Shivee Khuren-Ceke border station. We also have renovated the Gurvantes secondary school dormitory to provide the students with a better learning and living environment. Among other contributions, we have donated MNT10 million to the Gobi Development Fund, computers to the Gurvantes hospital and office furniture to local organisations.

AWARDS

In early 2008, the Mongolian Government's Mineral Resources and Petroleum Authority named our wholly-owned subsidiary in Mongolia, Southgobi sands LLC, the "Best Exploration Company of 2007" for its outstanding achievements in the geology and minerals industry and contribution to the Mongolian economy.

INSURANCE

We hold our primary insurance policies through Canadian insurance providers to insure our properties. We have taken out insurance for risks including commercial general liability, umbrella liability, aviation premises liability, and kidnap and ransom. We maintain mining property insurance for all of our mining assets wherever located, property insurance on our office premises and liability insurance for our Directors and officers.

We maintain, and intend to continue to maintain, insurance within ranges of coverage consistent with industry practice. We will continue to review and assess our risk portfolio and make necessary and appropriate adjustments to our insurance practice.

INTELLECTUAL PROPERTY

We do not currently hold any registered patents, trademarks or other intellectual property rights. We have applied to register our logo in Hong Kong as a service mark. We are not a party to any technology licensing agreements.

PROPERTIES

As at the Latest Practicable Date, we held: (i) six property interests in Mongolia with an aggregate site-area of 82.85 hectares, being land used for support operations for the Ovoot Tolgoi Mine; (ii) one leased property interest in Mongolia comprising a parcel of land and building structures with a total floor space of 168 square metres and a site area of 133.7 hectares for the airport operation at the Ovoot Tolgoi Complex; (iii) eight leased property interests in Mongolia, with a total floor space of approximately 1,572 square metres, being residential and office space; (iv) one leased property interest in Canada, with a total floor area of approximately 1,365 square feet, being office space; (v) one lease property interest in the PRC with a total floor area of approximately 118 square metres, being office space; and (vi) one leased property interest in Hong Kong, with a total floor area of approximately 1,920 square feet, being office space.

Pursuant to six land use certificates issued by the governor of the Omnigovi Aimag (South Gobi Province), an official of the Mongolian Government, we are permitted to use the six parcels of land for a mine accommodation camp, an equipment maintenance shop, field geology site, explosives magazine, open pit mine and exploration camp. Our property at the Ovoot Tolgoi Complex is adjacent to a mine operated by MAK-Qinghua. As at the Latest Practicable Date, there was no pending or threatened proceedings regarding the boundary lines between the Ovoot Tolgoi Complex and the MAK-Qinghua operation, nor do we expect to initiate any proceedings regarding the boundary lines in the future.

We have signed a long-term lease with Gurvan Zam Company Limited with respect to the land comprising the airport at the Ovoot Tolgoi Complex. We have constructed structures, installed equipment and otherwise improved the land. The lessor is the registered owner of the property and our lease agreement is legally valid under Mongolian law. The lease commenced on August 10, 2007 and will terminate on August 10, 2022. It was agreed that the rent for the term of the lease would be a total of US$12,600. Pursuant to the lease agreement, SGS will also have the right to an additional 15 year lease pursuant to the same terms and conditions of the current lease.

We have signed lease agreements with respect to the residential and office spaces we occupy in Mongolia, Canada, China and Hong Kong. Title information has not been obtained from the relevant lessors of the properties in Mongolia and Canada. None of these properties is used for mining or exploration operations; the costs, contribution to profit and legal consequences of defective titles in respect of these leases is immaterial to our business. We have not received any assertions against the validity of our occupation of these premises. We believe that any defects in the lessors' title to any of these properties will not have a material adverse effect on our business.

American Appraisal China Limited, an independent property valuation firm, valued our property interests in Canada, Mongolia, China and Hong Kong as at December 31, 2009, and attributed no commercial value thereto, either as a result of their non-assignability in the market, because there are prohibitions against subletting and/or assignment contained in the respective leases and/or tenancy agreements or otherwise due to the lack of substantial profit rent. For details relating to our properties leased and owned, together with the relevant valuations and valuation certificates, please refer to “Appendix IV — Property Valuation” in this prospectus.

We are in the process of amending the Mongolian leases to designate prices of such leases in local currency and have entered into discussions with relevant parties. Pursuant to the recent interpretation #33 of the Supreme Court of Mongolia dated October 28, 2009 all agreements with prices denominated in foreign currency concluded prior to the effective date of the new law shall be deemed valid and enforceable.

DIRECT OR INDIRECT EMPLOYEES

As at December 31, 2006, 2007 and 2008 and September 30, 2009, we had a total of 30, 96, 245 and 308 individuals, directly and indirectly employed, respectively. As at the Latest Practicable Date, we had a total of 330 employees and full-time consultants based in Canada, Mongolia, China and Hong Kong. The majority of our direct employees are full-time.

The following table sets forth the number of individuals, directly or indirectly employed by their regional location and role as at the Latest Practicable Date (excluding day labourers):

	Location			
Role	**Canada**	**Mongolia**	**China**	**Hong Kong**
Executive Officers and Senior Management	4	4	0	2
Project and Operations Management	0	10	2	1
Accounting and Finance and Procurement	5	20	0	0
Human Resources, Administration and IT	1	103	0	1
Engineers, Geologists and Exploration Personnel	1	12	0	0
Health Safety and Security	0	16	0	0
Environmental and Corporate and Social Affairs	0	12	0	0
Ovoot Tolgoi Facilities, Maintenance and Mining	0	136	0	0
Total	11	313	2	4

More than 90% of our employees at the Ovoot Tolgoi Mine are Mongolian citizens.

The majority of employees at the Ovoot Tolgoi Mine are transported to the mine site from Ulaanbaatar by air. We operate a private airport near the mine on land we lease from Gurvan Zam Company Limited for the transportation of mine employees. The airport is fully operational and licensed with the Mongolian Civil Aviation Authority. Some of the workforce live in the local community of Gurvantes and are transported by bus to and from the mine site. As the Ovoot Tolgoi Mine is in operation 24 hours a day 365 days a year, our mining operation is based on a schedule of two 12 hour shifts, with mine employees working in two week intervals. Recently, all employees moved to the permanent camp which includes a full kitchen, recreation and office facilities in addition to employee rooms.

The majority of our employees are employed under employment contracts which set out fully, among other things, the employee’s responsibilities, remuneration and grounds for termination of employment. We have maintained good working relationships with our employees and have never encountered any difficulties in the recruitment and retention of experienced staff. There has never been any interruption to our operations as a result of labour disputes.

To the best knowledge of our Directors, we have complied with all the relevant laws, regulations and requirements in relation to fair labour standards, working conditions, employment contracts and codes of conduct in respect of our employees in Canada and Mongolia.

Employee Remuneration Policy

Our remuneration policy is designed to attract, retain and motivate highly talented individuals to ensure the capability of our workforce to deliver our business strategy and to maximise shareholder wealth creation. Key principles of the remuneration policy are to:

- set competitive rewards to attract, retain and motivate highly skilled people;
- provide detailed feedback to develop employees' skills and critically analyse employees' contributions to our Company;
- establish short and long-term incentive programmes across the organisation, including, but not limited to, the equity incentive plan;
- ensure remuneration planning continues to be integrated within our business planning process; and
- ensure total reward levels and performance targets are set at appropriate levels to reflect the competitive market in which we operate, the prevailing economic environment and the relevant performance of similar companies.

We seek to accomplish the above goals by conducting annual remuneration reviews which take into account individual performance, the economic environment, the unique requirement for certain employees to travel and spend time in Mongolia, particularly at mine sites and relevant job and industry comparisons. We value the contribution of both individuals and teams in achieving the goals and objectives of our business.

Equity Incentive Plan

The purpose of the equity incentive plan is to provide a means through which we may provide incentives to our Directors, employees and service providers, who will be largely responsible for our future growth and success, by permitting them to participate in our equity ownership. This is achieved through the issuance of options to purchase Shares, the grant of bonus Shares and the opportunity to purchase Shares on a periodic basis through participant and matching corporate contributions. For further information, please refer to the section headed "Share Capital — Equity Based Plans" in this prospectus.

Benefit Schemes

We maintain benefit schemes for our employees as required by statute in Canada and Mongolia.

Injuries

The Ovoot Tolgoi Mine recorded one fatality in April 2008. This fatality was caused when the operator of a mining loader ran over a pickup truck occupied by a mine foreman as the loader operator was backing up. The action of the mining foreman in parking behind and in the blind spot of the loader was found to be against the clearly established safety procedures of the mine. The mine foreman in the pickup truck had recently attended training regarding the safety procedures of the mine, including in relation to the prohibition of parking behind mining equipment. A potential criminal case against the loader operator was dismissed by the relevant prosecutor in July 2008. We were not found responsible for the accident. We continue to hold regular safety training sessions to help provide a safe workplace environment.

RESEARCH & DEVELOPMENT

As our Directors believe is typical for mining and exploration businesses of our size, we do not currently participate in any research and development initiatives.

LEGAL PROCEEDINGS

As at the Latest Practicable Date, we were not a party to any material legal or administrative proceedings.

As at the Latest Practicable Date, we have not received notice of any threatened or pending proceedings by government authorities or third parties, which, if adversely determined, would materially and adversely affect us.