TECHNICAL REPORT
SOUMBER PROPERTY
UMNUGOBI AIMAG, MONGOLIA

Submitted to:
SouthGobi Energy Resources Ltd.

October 21, 2009

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NORWEST
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October 21, 2009

File No. 4349

To: The Directors
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Subject: Cover Letter to Soumber Technical Report Stating Resources

Dear Sirs:

This report summarizes the Norwest Corporation's (Norwest) findings of a study to determine coal resources at the Soumber deposit, located near SouthGobi Energy Resource's (SGER) Ovoot Tolgoi Mine in the Omnogovi Aimag (South Gobi province) of Mongolia. Norwest understands that this report will used as the basis of disclosure to the Toronto Stock Exchange (TSX) and the Securities Commissions of various Canadian provinces. In addition, this report will be used as part of SGER's efforts to place an Initial Public Offering (IPO) with the Hong Kong Exchange (HKEx).

The Technical Report "*Soumber Project, Umnugobi Aimag, Mongolia*" currently dated October 7, 2009, is a summary of Norwest's estimates of coal resources at the Soumber deposit. In conducting this work, Norwest has relied upon information gathered through various exploration programs in 2005 and 2009, some of which Norwest was involved with in an advisory role. Norwest has also relied upon its prior experience with similar studies on coal resources within Mongolia. In addition, a Norwest Qualified Person (QP) has made a personal, current, inspection of the project site and has gathered relevant data. Finally, SGER has provided data used in the estimate of resources.

This Technical Report was prepared in accordance with Canada's National Instrument 43-101 *Standards of Disclosure for Mineral Projects*, and meeting the criteria set forth in Form 43-101(F1).

Yours sincerely,

NORWEST CORPORATION

Alister Horn
Project Manager

Enclosures: None

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3 SUMMARY

The following report was prepared by Norwest Corporation (Norwest) for SouthGobi Energy Resources Ltd. (SGQ), a minerals exploration company based in Vancouver, British Columbia, Canada. It addresses the coal geology and resources of the Soumber Property, located in southern Mongolia.

The Soumber Property is covered by Mongolian Exploration License (MEL) 9443X and consists of 38,128 hectare in Gurvantes Soum of Umnugobi Aimag. The property lies approximately 1000km southwest of Ulaanbaatar and 300 km west of the town of Dalanzadgad, within the Gobi Desert physiographic province of Mongolia as shown on Figure 3.1. It is approximately 30-50km from a railroad that terminates at the Chinese border. The property is accessed over desert trails to local administrative units, Gurvan Tes Soum, Noyon Soum and the military base. Figure 7.1 shows the location of the property in relation to cultural and transportation infrastructure.

Ivanhoe Mines Ltd. (Ivanhoe) and its wholly owned subsidiary, Ivanhoe Mines Mongolia, Inc. (IMMI) began exploration activities at Soumber in 2005. The coal division of IMMI and all its coal exploration licences (including the exploration licenses at Soumber) were sold to SGQ, formerly Asia Gold Corporation (Asia Gold) in 2007. Southgobi sands LLC (SGS), the operating company under SGQ, is a Mongolian-registered company that holds the exploration license to Soumber. SGQ is an 80% owned subsidiary of Ivanhoe Mines Ltd.

The exploration license for the Soumber property was transferred from IMMI to SGS in February 22, 2007 with the rights to conduct any mineral exploration. Current holder right is valid through December 28, 2010.

Resource areas detailed in this document are approximately 20km to the existing Nariin Sukhait Mine, owned and operated by the MAK-Qin Hua Mongolian/Chinese Joint Venture (MAK) and Ovoot Tolgoi Mine, owned and operated by SGS. The MAK operation currently consists of three open-pit mines on its 1,227 hectare mining license. The Ovoot Tolgoi resource is contained within SGS-controlled mining licenses that cover a 9,308 hectare area. In 2007, a mining license 12726A, under SGS control, was granted to operate mining activity in Ovoot Tolgoi resource area. SGS is currently operating two open pit mines. Figure 4.1 shows the location of the property relative to other exploration and mining licenses.

The Soumber property is regionally situated in the Ovoot Khural Basin, located in the same trend of the Nariin Sukhait and Ovoot Tolgoi resources. Intermittent coal outcrops believed to be late Permian in age occur along a strike-length of 100km in the upper plate sequence of an arcuate, east-west trending thrust fault, the dominant structural feature of the basin. Figure 9.1 illustrates the regional geology of the Ovoot Khural Basin.

Strata within the Soumber property consist of interbedded fine grained to conglomeratic sediments with locally thick coal. The property is overlain by unconsolidated Quaternary age sediments ranging in thickness from several meters to approximately 5m, covering bedrock exposures over most of the property. The distribution of geologic units at Soumber is shown in Figure 9.2.

Structural geology at Soumber shows evidence of folding and faulting with some steeply inclined limbs. The seam thicknesses have been modified from their pre-deformation thickness. The deposit is classified as “Complex” based on criteria set forth in the Geological Survey of Canada Paper 88-21.

The Soumber coal field can be divided into three areas (or fields), Central, East and West. This separation is derived from the drill hole data distribution. The majority of exploration activity was focused on the Central Soumber field where a total of one hundred twelve holes were drilled. The East Soumber field is located east of Central Soumber field. There are a total of sixty two holes completed in the East Soumber field. The least amount of

exploration was focused on the West Soumber field where fifteen drill holes were completed. The locations of drill holes are shown in Figure 12.1.

The coal occurrence on the Central Soumber 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. Figure 9.4 illustrates typical seam geometry of the Central Soumber field, and the relationship of the seam benches and rock partings. The coal seams in the Soumber field may not be directly correlative to the Ovoot Tolgoi and Nariin Sukhait coal seams.

Exploration work was initiated by IMMI in 2005 that carried over into 2009; eventually drilling a total of 189 holes with 25% of all holes cored. Norwest personnel were on-site for the completion of most the holes drilled in 2005 and 2006 or approximately 30% of the total drilling. Hydrologic and geotechnical characterization programs are underway to be completed by Aquaterra and Norwest in 2009.

Exploration was mainly focused on the Central Soumber field totaling 112 drill holes. The eastern part of the field is defined by 62 drill holes that are relatively scattered between drill lines. More limited drilling was completed in the western side of the field with a total of 15 drill holes.

The objectives of exploration efforts have been to delineate the extent of the deposit, to refine the seam stratigraphy, and to characterize the coal quality of the deposit. Sufficient exploratory drilling has been performed to permit an initial scoping level study however, additional drilling will be required for the completion of a pre-feasibility level study.

Norwest prepared a coal resource estimate using Mintec Inc. MineSight™ software, a leading geologic and mine planning package. Volumes were converted to tonnage using density data from core sample analyses. In accordance with National Instrument 43-101, Norwest has used the Canadian Institute of Mining, Metallurgy and Petroleum's "CIM Definition Standards on Mineral Resources and Reserves," and referenced GSC Paper 88-21 and Companion Policy 43-101CP during the classification, estimation and reporting of coal resources for the property.

According to the criteria "CIM Definition Standards on Mineral Resources and Reserves" and referenced GSC Paper 88-21, complex deposit types require tighter drill hole and cross section spacing and more data points per drill lines. In this regard, only the center of the Soumber property is classified into compliant resource that satisfies the requirements of NI43-101. The other adjacent areas (the West and East Soumber) are determined as non-compliant though both are to be considered for future investigation. Estimated coal resources and representative coal rank for the Central Soumber are shown in Table 3.1. Despite the fact that average coal quality data reveals the coal rank of medium volatile bituminous coal, some intervals indicate the rank of high volatile bituminous coal. The resource estimation is current as of August 11, 2009 and have been estimated to a maximum depth of 250m, viewed as the maximum potential depth for extraction of coal using surface mining methods.

Table 3.1
A Summary of In-Place Coal Resource in Central Soumber Area

ASTM Coal Rank	Measured (million tonnes)	Indicated (million tonnes)	Inferred (million tonnes)
Medium volatile bituminous	13.1	8.3	55.5
* Coal Rank is calculated based on the average laboratory data			

The coal resources at Central Soumber are classified as bituminous coal and the rank ranges from high volatile bituminous to medium volatile bituminous based on ASTM standards. Typical coal quality of the Central Soumber resource is presented in Table 3.2.

Table 3.2*
In-Place Coal Quality in Central Soumber Area
(Air Dry Basis)

	Average	Minimum	Maximum
Total Moisture (%)	7.0	5.2	10.0
Air Dry Moisture (%)	0.6	0.4	1.3
Ash (%)	27.4	19.5	33.6
Volatile Matter (%)	18.3	16.7	20.1
Sulfur (%)	0.9	0.3	2.7
Calorific Value (KCal/kg)	5,906	5,172	6,728
Free Swelling Index	4	1	6
Specific Gravity	1.60	1.49	1.70

* Quality characteristics presented here are composited weighted averages of actual laboratory data.

Additional mineralization located in the east and west Soumber fields and outside the Inferred Mineral Resource boundary in the Central Soumber is shown to contain potential coal deposits, under the assumptions used to assess reasonable prospects of future exploration. Estimated coal tonnage in these areas would be in the range of 32 to 56 million tonnes.

Norwest cautions that the potential tonnages are conceptual in nature, that there has been insufficient exploration to define the Potential Coal Deposit as a Coal Resource, and that it is uncertain if further exploration will result in the target being delineated as a Coal Resource. The Potential Coal Deposits lie outside the Inferred Coal Resource and adjacent to the Central Soumber field. There is no guarantee that all or any part of the potential estimated tonnages will be recoverable.

Future exploration efforts should focus on infill drilling to increase resource base in measured plus indicated categories and to better define seam structure and fault boundary as well as collect additional coal quality data. Analysis of bench composites for metallurgical testing and processing properties is recommended. Acquisition of additional hydrologic and geotechnical data will be necessary in order to conduct prefeasibility level mining studies.

The accuracy of resource and reserve estimates is, in part, a function of the quality and quantity of available data and of engineering and geological interpretation and judgment. Given the data available at the time this report was prepared, the estimates presented herein are considered reasonable. However, they should be accepted with the understanding that additional data and analysis available subsequent to the date of the estimates may necessitate revision. These revisions may be material. There is no guarantee that all or any part of the estimated resources or reserves will be recoverable.

4 INTRODUCTION AND TERMS OF REFERENCE

Norwest has prepared this Technical Report at the request of SouthGobi Energy Resource Ltd. (SGQ). This Technical Report has been prepared in accordance with the current requirements of National Instrument 43-101, including topics specified in Form 43-101F1. The purpose of the report is to describe the coal geology and resources of the Soumber Property and present other aspects pertinent to the project's assessment.

Norwest conducted the following tasks in order to arrive at the coal quantity and quality estimates presented in this report:

1. Validated the borehole data provided by SGS;
2. Constructed a geologic database using geophysical log intercept picks and lithology logs;
3. Constructed a coal quality database with sample intervals reconciled to geophysical log depths;
4. Created digital geologic model using MineSight™ software; and
5. Produced resource estimates using geologic model and assurance-of-existence categories.

The Soumber Property is located within the Mongolian Exploration License (MEL) 9443X as shown on Figure 4.1 and covers approximately an area of 24 square kilometers (km^2). Exploration efforts over the past five years have shown that the property is underlain by a resource of bituminous coal.

This Technical Report utilizes data collected at Soumber by Ivanhoe & SGS and provided to Norwest. This information consists of drill hole data collected between the 2005 and 2009 exploration campaigns mainly conducted by SGS. The initial exploration stage in 2005 and 2006 was completed under partial supervision of Norwest. The Americas Group consulted on the exploration planning during 2007-2008. A Norwest representative supervised the field activities of the Geotechnical program from April 12 through May 17, 2009 and instituted geotechnical core logging, sampling and assurance procedures to the coring program during this time. Data from drill holes have been validated by review of geophysical logs and other hardcopy data.

The Norwest "qualified person" visited the property on June 15, 2009 after the Geotechnical drilling program and verified the locations of some of the exiting drill holes, topography and field data.

Norwest certifies that we have partially supervised the field work and carried out the work as described in this report. The report is based on and limited by circumstances and conditions referred to throughout the report, and on information available at the time of this investigation. Norwest has exercised reasonable skill, care and diligence to assess the information acquired during the preparation of this report.

The accuracy of resource and reserve estimates is, in part, a function of the quality and quantity of available data and of engineering and geological interpretation and judgment. Given the data available at the time this report was prepared, the estimates presented herein are considered reasonable. However, they should be accepted with the understanding that additional data and analysis available subsequent to the date of the estimates may necessitate revision. These revisions may be material. There is no guarantee that all or any part of the estimated resources or reserves will be recoverable.

5 RELIANCE ON OTHER EXPERTS

Norwest has prepared this report specifically for SGQ. The findings and conclusions are based on information developed by SGS, from data collected through exploration programs conducted from 2005 to 2009. Norwest participated in an advisory role for a portion of the project but did not independently drill or complete geophysical logs on drill holes, collect samples, or subject any coal samples to analysis specific to the preparation of this report. Qualified field service and laboratory contractors provided the expertise in each area, including; coal quality analyses, down-hole geophysics and borehole and topographic surveys, to supply suitable data for use in the evaluation of the property. Specific disciplines and professional organizations included the following:

- Field data collection, core logging, sampling; Sapphire Geo Co. Ltd, Ulaanbaatar, Mongolia
- Coal laboratory and analytical services; SGS-SCTC Minerals, Tianjin, China
- Geophysical logging; Monkarotaj Company Ltd., Ulaanbaatar, Mongolia
- Core drilling; ErdGeo Inc, Tanan Impex Company Ltd, Major Drilling Mongolia
- Topographic and borehole surveying; TopCadd, Ulaanbaatar, Mongolia

Norwest has no reason to believe that information supplied by these service contractors is not reliable.

The author of this report has reviewed the exploration licenses held by SGS and has no reason to believe these documents are not reliable. Legal documentation was provided by SGS evidencing the ownership of MEL 9443X.

Guidance and on-site management of exploration activities was provided by Norwest during the initial exploration stage in 2005 and 2006.

6 PROPERTY DESCRIPTION AND LOCATION

The Soumber Property is located in the western part of the Umnugobi Aimag (South Gobi Province) of Mongolia, within the Uvuljuu Uul area of Gurvantes Soum. The property lies approximately 1000 km southwest of Ulaanbaatar, 300 km west of the town of Dalanzadgad, 45 km southeast of Gurvantes Soum. The approximate center of the MEL area is located at latitude 42°58'00" and longitude 101°32'00" as shown in Figure 3.1.

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

The Soumber Property consists of a single exploration license, MEL 9443X, totaling 34,882ha, with boundary corners at the coordinates shown in Table 6.1.

Table 6.1*
Certificate Information of Mineral Exploration License 9443 X

Licensee	Inception Date	Expiry Date	License Coordinates			Area (ha.)	Mineral Interest
			Corner	Easting	Northing		
SGS (transferred from IMMI 22-Feb-2007)	28-Dec-2002	28-Dec-2010	1	101°20'40"	43°01'20"	34,882	100%
			2	101°35'00"	43°01'20"		
			3	101°35'00"	43°00'00"		
			4	101°43'00"	43°00'00"		
			5	101°43'00"	42°59'00"		
			6	101°50'00"	42°59'00"		
			7	101°50'00"	42°56'00"		
			8	101°16'30"	42°56'00"		
			9	101°16'30"	42°58'15"		
			10	101°20'40"	42°58'15"		

The coordinates are defined in the document "Certificate of Exploration License" issued by T. Zanashir, Chairman of the Mongolian Office of Geology and Mining Cadastre, a division of the Mineral and Petroleum Resources Authority of Mongolia (MRAM). A copy of the certificate was supplied to Norwest by Baterdene Dash, Operational Manager of SGS. Norwest reviewed the License Certificate and the legal reviews, plus made an independent check of the MRAM license database. All show SGS to be the unencumbered owner of the license. Norwest is not aware of any other encumbrances on the property.

Exploration licenses are granted in Mongolia for a period of three years with the right to extend the period for a total of nine years from the inception date. License and minimum expenditure fees are charged for exploration licenses, current rates being shown in Table 6.2.

Table 6.2
Mongolian Mineral Exploration License Fees

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

The MEL certificate shows that the first term of the license was extended to December 28, 2005 and the second term/first renewal was granted and extended to December 28, 2007, now expiring on December 28, 2010. The license fees are documented as paid through December 28, 2010. The total allowable term of the MEL after the second renewal would be through December 2011.

Exploration license holders are also subject to various environmental protection obligations. Within 30 days of receipt of a license, the holder must prepare an environmental protection plan. The holder is required to notify the local governing body (Soum) of annual exploration plans, and must submit a bond consisting of 50% of the estimated cost of any ground reclamation for each year's activities. Norwest is not aware of any existing environmental bonds or liabilities for this property.

Following a successful exploration program, an exploration license holder may apply for a mining license to any portion of the exploration license. A mining license is granted for a period of 30 years, with the right to extend the period twice for 20 additional years with each extension. Under the Mineral Laws of Mongolia (Article 21) an exploration license holder has the right to obtain a mining license for any part of the exploration license area.

Current policy stipulates that any coal extracted and sold during exploitation is subject to a royalty rate of 2.5% and 5% of the sales value for domestic and international sales, respectively. Norwest is not aware of any other royalties that may apply to this property.

7 ACCESSIBILITY, CLIMATE, LOCAL RESOURCES, INFRASTRUCTURE AND PHYSIOGRAPHY

The Soumber deposit is located in south-central Mongolia, approximately 50 km northeast of the border with China, and within the physiographic region of the Gobi Desert. The deposit lies within the administrative unit of Gurvantes Soum within the Omnogovi Aimag or South Gobi Province. The location of Soumber with regard to population centers and transportation infrastructure is shown in Figure 7.1. The area currently supports a traditional subsistence economy focused on raising sheep, goats, and camels. The Omnogovi Aimag is the most sparsely populated province in Mongolia with a density of 0.8 people/km^2. The number of skilled persons in the exploration and development of mining properties in Mongolia is limited. To date, SGS has been successful in recruiting key personnel to assist in the exploration.

The surface expression of the deposit ranges from flat, gravel-covered desert plains to moderately hilly terrain. Surface elevation ranges from 1508 to 1563m above sea level. Vegetation is sparse, consisting primarily of small shrubs and grasses. The region experiences a continental desert climate. Temperature typically ranges from 0° to -30°C in the winter, increasing to 30° to 35° C in the summer months. High winds occur frequently, particularly throughout the spring. Average rainfall is approximately 530mm with most precipitation occurring during the summer months. The weather is acceptable for exploration activities from April through October. Exploration activities are not recommended during the harsh winter months however, the climate is expected to allow year-round mining operations.

An on-site airport has been permitted as of September 2006, and Ovoot Tolgoi and Soumber can now be reached via chartered aircraft from Ulaanbaatar. Regular air service is also available from Ulaanbaatar to Dalanzadgad. Travel from Dalanzadgad to the property takes approximately seven hours over unpaved roads. All parts of the property can be reached with four-wheel-drive vehicles. The property is also accessed over desert trails from the Gurvantes soum via Ovoot military base. The trails are unimproved dirt two-tracks that migrate somewhat in location with use.

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

Electrical power is available from a power line distributing power from China to the MAK-Qin Hua coalmine, Gurvantes soum and the military base. No surface water is available in the immediate area of the Soumber deposit, however water supply wells have been drilled as part of an on-going hydrological investigation.

The project area is within the Gobi Desert physiographic province, a part of the Central Asian Lowlands division. It covers parts of northern and northwestern China, and of southern Mongolia. The desert basins of the Gobi are bound by the Altai Mountains and the grasslands and steppes of Mongolia on the north, by the Hexi Corridor and Tibetan Plateau to the southwest, and by the North China Plain to the southeast. The Gobi is made up of several distinct ecological and geographic regions based on variations in climate and topography. It is the fifth largest desert in the world.

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

8 HISTORY

The first geologic investigations at Soumber region occurred between 1951 and 1952. This initial geologic investigation led by V.S. Volkhonina (1952), included mapping at a scale of 1:500,000. Additional mapping by Burenkhuu (et al 2004) identified the coal bearing Upper Permian Deliin Shand formation as having significant occurrences of bituminous coal.

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

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

MEL 9443X is owned by SGS, a former subsidiary of Ivanhoe and established as the license holder on February 22, 2007. The license was initially granted to IMMI on December 28, 2002 (inception date), who transferred it to SGS on February 22, 2007. The MEL Certificate issued by the Mongolian Mineral and Petroleum Resources Authority documents that license fees were paid by SGS and the license kept in good standing. All lease documentation reviewed by the author indicates that the MEL was unencumbered when transferred to SGS.

License coordinates for MEL 9443X have been changed twice since the time of its inception in 2002. A part of adjacent license 5264X was transferred to 9443X in March 10, 2005. Ovoot Tolgoi mining license 12726A was granted to SGS in September 20, 2007 and the west portion of the license 9443X was added into adjacent mining license 12726A on September 20, 2007.

IMMI initiated the first exploration in 2005 on MEL 9443X, in the western part of the Soumber field. In 2006, exploration was mainly focused on the central part of the Soumber area. Sixty two holes were drilled during the 2005 and 2006 period that confirmed the potential for a significant coal deposit. Norwest provided oversight for these holes that would bring the data collection, core sampling and handling to international standards.

SGS continued the drilling program on the Soumber in 2007 and 2008, completing one hundred twenty one drill holes, totaling 24,512 meter of drilling. In addition, SGS has been conducting Geotechnical and Hydrological programs in the Central Soumber in 2009. Norwest and Aquaterra, an international water and environment consultancy, have been charged respectively, to provide an oversight for these programs. Previously, a resource estimation report has not been prepared for the Soumber area.

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

9 GEOLOGICAL SETTING

Soumber deposit is structurally located along the Nariin Sukhait thrust fault approximately 25 km east of Ovoot Tolgoi resource area. The coal-bearing strata at Soumber are believed to be Permian in age due to similar sediments, regional structure to Ovoot Tolgoi resource and its proximity of Ovoot Tolgoi and Nariin Sukhait deposit. Coal was deposited along the margins of tectonically active continental basins. The region has subsequently undergone Basin and Range style extensional tectonics followed by a period of compressional folding and faulting. Figure 9.1 shows the geologic surface features of the Ovoot Khural coal basin and illustrates the regional west to east trending the Nariin Sukhait trust fault through Soumber coal field.

9.1 Regional Stratigraphy and Geologic Setting

Pre-Mesozoic rocks of Mongolia and central Asia reflect a complex history of continental accretion (Heubeck, 2001). In southern Mongolia, this took place in the form of Devonian and Carboniferous volcanic island arc units colliding with older cratonic land masses through the early to late Permian periods.

9.2 Coal Occurrences

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

The coal occurrence within the license measures approximately 12 km long east to west and 2 km wide north to south. Based on past geologic mapping, the coal-bearing Deliin Shand suite is exposed along the trend of the Nariin Sukhait thrust fault. The exposed sediments mapped in the Soumber vicinity are thought to have been deposited in the series of geologic sequences of Permian, Triassic, Jurassic, and Quaternary Age as shown in Figure 9.2.

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

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

Seven coal seams have been identified on the Soumber Property, as shown in Figure 9.3. The S4 seam is a ‘main seam’ and has more continuity than any other seam. The majority of the coal resource occurs in the S4. The S1 and S2 seams vary considerably in both thickness and quantity of in-seam partings, but contribute locally to the coal resource. The S0 seam is intercepted in a number of drill holes, but does not appear to represent any significant resources.

9.3 Structural Geology

The geologic framework of the Soumber Property appears to be of high structural complexity. The geometry of the strata penetrated by the drill holes within the deposit is interpreted to be a shallow structural basin, created by post-depositional compression. The basin structure appears to continue through the adjacent areas to the east though adequate drillhole and seam elevation data are not available to form a geologic model in these areas. The geologic mapping with scale 1:50,000 by Burenkhuu (et al 2004) and summary data from boreholes in the adjacent areas would substantiate the continuation of the structure as shown in Figure 9.2.

The coal bearing section structure trends from west to east and is found primarily as a south dipping homocline. Figure 9.4 illustrates the bottom elevation of the Seam S4 in Central Soumber filed. In addition to the east-west trending the Nariin Sukhait thrust fault, a local fault has been postulated based on the structural and stratigraphic data from boreholes within the Central Soumber resource area. The structural model suggests a displacement of the coal strata, most likely by a fault that has elevated the coal sequence by approximately 300m on its northern side as shown in Cross-sections A-A', B-B', C-C' in Figure 9.5 and Figure 9.6 respectively.

10 DEPOSIT TYPES

The definition of "Deposit Type" for coal properties is different from that applied to other types of geologic deposits. Criteria applied to coal deposits for the purposes of determination of coal resources and reserves include both "Geology Type" as well as "Deposit Type." For coal deposits this is an important concept because the classification of a coal deposit as a particular type determines the range limiting criteria that may be applied during estimation of reserves and resources.

"Geology Type" for coal deposits is a parameter that is specified in Geological Survey of Canada (GSC) Paper 88-21, which is a guideline reference for coal deposits as specified in NI 43-101. Geology Type is a definition of the amount of geological complexity, usually imposed by the structural complexity of the area, and the classification of a coal deposit by Geology Type determines the approach to be used for the resource/reserve estimation procedures and the limits to be applied to certain key estimation criteria. The identification of a particular Geology Type for a coal property defines the confidence that can be placed in the extrapolation of data values away from a particular point of reference such as a drill hole.

The classification scheme of GSC Paper 88-21 is similar to many other international coal reserve classification systems but it has one significant difference. This system is designed to accommodate differences in the degree of tectonic deformation of different coal deposits in Canada. The four classes of geologic complexity, from lowest to highest are:

- Low
- Moderate
- Complex
- Severe

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

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

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

11 MINERALIZATION

The coals of the Soumber Property are thought to be upper Permian in age and are found in a similar geologic setting as the Upper Permian coals found at the Ovoot Tolgoi and Nariin Sukhait mines and other coal occurrences in the South Gobi. The coal rank ranges from Medium to High Volatile Bituminous by ASTM standard D388. Depth of cover ranges from approximately 5m at subcrop to a maximum of 10m. The maximum depth of the base of the coal sequence within the resource area is approximately 250m.

Seven distinct seams of the Central Soumber seam are recognized and have been evaluated to include in the geologic model used for coal resource estimation. Table 11.1 shows thickness statistics for the full seam sequence, and the average apparent thicknesses of coal seams, including in-bench rock partings, that is the actual mineral resource reported based on GSC Paper 88-21 criteria.

Table 11.1
Coal Seam Apparent Thickness in Central Soumber Area

Seam	Minimum Thickness (meters)	Maximum Thickness (meters)	Mean Thickness (meters)
S6	0.7	26.0	8.8
S5	0.4	40.6	8.2
S4	0.4	49.9	11.1
S3	0.2	44.3	8.7
S2	0.5	19.4	5.3
S1	0.3	61.0	4.0
S0	1.2	2.0	1.6

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

12 EXPLORATION

Initial surface mapping of the area took place in the early 1950s under the supervision of Russian geologists V.S. Volkhonina (1952) resulting in mapping at a scale of 1:200,000. Additional mapping at a scale of 1:50,000 was performed in 2004 under the supervision of Burenkhuu et al, who identified a coal bearing layer of Upper Permian Deliin Shand suite (P_2^{ds}).

The first exploration of the deposit occurred in 2005 under supervision of Norwest. Excavations, including trenches and exploratory drilling in 2005 indicated the potential for thick coal deposits in the area of the MEL 9443X. Exploration campaigns continued in 2006 that carried over to 2007 through 2009, eventually drilling a total of 189 exploration drill holes. The locations of drill holes are shown in Figure 12.1.

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

Ivanhoe Mines, prior owner of MEL 9443X, conducted the first exploratory work in the area in 2005 continuing into 2006. This included approximately thirty exploration trenches and fifty-six drill holes. Thirty of these drill holes showed coal intercepts. The holes were abandoned, mostly due to caving issues. Geophysical log interpretation indicated substantial thickness of the coal-bearing sequence. Coal samples from several of these holes were collected however, the analytical results have not been located.

After the mineral exploration license was transferred to SGS, SGS conducted exploration in 2007 that carried over to 2008. SGQ contracted with The Americas Group (TAG) based in Denver, Colorado as a consultant regarding their exploration activities. A total of one hundred twenty one drill holes were completed during this period to delineate the extension, coal quality and infill drilling of the entire Soumber Field.

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

12.1 Potential Coal Deposit

According to the criteria “CIM Definition Standards on Mineral Resources and Reserves” and referenced GSC Paper 88-21, complex deposit types require tighter drill hole and cross section spacing and more data points per drill lines as defined in Table 19.1. In this regard, only the center of the Soumber propery is classified into compliant resource that satisfies the requirements of NI43-101.

The level of work completed at East and West Soumber field to date is not sufficient to delineate a coal resource. Therefore, neither mineral reserves nor resources as defined by GSC Paper 88-21 have been identified in these fields. As noted in Section 22 of this report, Norwest recommends additional drilling in the East and Western areas of Soumber field with the goal of identifying resources in accordance with NI43-101.

Based on the available data, Norwest constructed computer generated grid files that utilizing combined coal thickness for the East and West Soumber fields and area outside the inferred resource boundary in Central Soumber field. Figure 12.2 shows the combined coal thickness posted in the drill holes with the areas defined in 200m radius with the same criteria for the inferred resource area boundary in the Central Soumber field. Using this approach,

potential tonnage is estimated and shown in Table 12.1. Total estimate would be in the range of 32 to 56 million tonnes. Minimum seam thickness and maximum removable parting thickness are considered; coal intervals not meeting these criteria are not included in the estimates.

Table 12.1
Potential Coal Tonnage Estimate

Areas	Tonnage Estimate Range (million tonnes) From	To
East Soumber	20	34
West Soumber	8	14
Central Soumber	4	8
Total	**32**	**56**

Norwest cautions that the potential tonnages are conceptual in nature, that there has been insufficient exploration to define the Potential Coal Deposit as a Coal Resource, and that it is uncertain if further exploration will result in the target being delineated as a Coal Resource. The Potential Coal Deposit lies outside the Inferred Mineral Resource and adjacent to the Central Soumber field.

Coal quality for the East Soumber field is defined by three core holes that were drilled in the 2008 exploration campaign. Summary of laboratory result is shown in Table 12.2.

Table 12.2
In-Place Coal Quality in East Soumber Area
(Air Dry Basis)

Parameters	Average	Minimum	Maximum
Total Moisture (%)	5.8	1.6	14.4
Air Dry Moisture (%)	0.3	0.1	0.4
Ash (%)	15.5	9.4	27.8
Volatile Matter (%)	14.5	11.9	15.8
Sulfur (%)	0.5	0.1	0.8
Calorific Value (kCal/kg)	7,087	5,998	7,706
Free Swelling Index	1	1	4
Specific Gravity	1.48	1.39	1.61

Coal quality data of the East Soumber field indicate that low sulfur, medium ash and high caloric values. There are no FSI values reported higher than 4. However, additional data is required for defining the coal quality characteristics of the East Soumber field.

To date, no quality data has been acquired for the West Soumber field.

13 DRILLING

Drilling to date on Soumber includes a total of 189 exploration holes completed and 33,976m drilled. Limited drilling took place in the eastern and western part of the deposit. All holes were drilled from surface to total depth and oriented vertically. Drilling contractors provided truck-mounted drill rigs equipped for wireline coring and reverse circulation drilling. Core rigs were equipped with HQ size coring tools (approximately 63.5mm) and reverse circulation with larger (approximately 110mm) diameter. Drill depths were measured from ground surface and recorded based on the length of the drill string and coring tools at the start and end of each core run.

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

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

Total drilling to date includes 189 boreholes for a total of 33,976m, as summarized in Table 13.1. A drilling summary by area is presented in Table 13.2.

Table 13.1
Soumber Coal Exploration Drilling Activity By Year

Year	No. Drill Holes	Meters Drilled
2005	35	4,535
2006	27	3,596
2007	23	3,905
2008	98	20,607
2009	6	1,333
Total	**189**	**33,976**

Table 13.2
Soumber Coal Exploration Drilling Activity By Area

Area	No. Drill Holes	Drill holes (%)	Meters Drilled (m)	Meters Drilled (%)
Central	112	59%	18,960	56%
East	62	33%	12,593	37%
West	15	8%	2,423	7%
Total	**189**	**100%**	**33,976**	**100%**

14 SAMPLING METHOD AND APPROACH

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

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

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

1. The core is pumped out of the core barrel
2. Excess mud is washed off and the core fitted back together
3. Recovered length is measured and depths are marked
4. Core photos are taken on 0.5 m intervals
5. Lithologic logging is completed
6. Other parameters for sample identification and processing as described in Section 15

Core recovery in the coal quality holes was 75.3% overall, and is considered to be reasonable. The measured length of recovered coal core was compared to the geophysical logs, and sample depths adjusted if necessary. All samples used in the geologic model were reconciled to the geophysical log intercept depths.

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

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

15 SAMPLE PREPARATION, ANALYSES AND SECURITY

The following procedures apply to holes used by Norwest in the preparation of the Soumber coal quality model:

1. Recovered core was measured to determine an overall recovery (reported in percent) by comparing the recovered core length with the core run length recorded by the driller. Recovered core was also compared to the coal interval thickness determined from the geophysical log suite for validation.
2. Recovered coal intervals were sampled using the following criteria:
    a. Coal samples were broken out based on lithologic changes. In zones of uniform coal appearance, HQ samples were bagged approximately every 0.60m as per the capacity of the core boxes.
    b. In-seam partings, to a maximum cumulative thickness of 0.3m, were included in a coal sample, where the thickness of the adjacent coal beds above and below the parting were both a minimum of twice the parting thickness.
    c. A parting was sampled separately if it was between 0.3m thick and 0.5m thick.
3. Collected samples were cleaned of mud contamination and placed in individual 6 mil plastic core sleeves and sealed air-tight to prevent loss of moisture and volatiles. The bags were labeled on the outside with the core hole, sample number, and depth interval. Samples were placed in sequence into waxed-cardboard core boxes. Boxes were sealed with tape and shipped to the SGS Group analytical prep laboratory in Ulaanbaatar. At the prep lab, the samples were weighed, dried, crushed, split and repackaged for shipment to the SGS Group analytical laboratory in Tianjin, China.
4. Laboratory instructions and the shipment manifests were forwarded to the SGS Group laboratories. All records were compared with contents upon arrival at the analytical laboratory. All samples shipped to the laboratories were accounted for and underwent the specified analysis regimen.

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

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

16 DATA VERIFICATION

Sapphire staff geologists were instructed by Norwest on data collection procedures during the early exploration stage, 2005 and 2006. Sapphire continued to collect and record the data according to the western standard. The core logging, data recording and geophysical logging techniques were found to be suitable and to industry standards.

All geologic, geophysical and sampling data were reviewed and entered into an electronic database. All mapping was entered and maintained in electronic format with a CAD-based system. The geologic data was entered into an electronic system on-site. The field data was forwarded to Norwest where the results of the coal quality testing were compiled.

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

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

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

A qualified person reoccupied as many completed drill hole locations as possible during the June 2009 site visit. These sites were included in the professional land survey that was conducted after the drilling program.

17 ADJACENT PROPERTIES

Soumber Property is located approximately 20km to the east from SGS's East Field of the Ovoot Tolgoi resource and MAK's east pit of the Nariin Sukhait resource.

SGQ's Ovoot Tolgoi Property surrounds and is adjacent to the Nariin Sukhait Mine, owned and operated by MAK, a Mongolian company, and MAK-Qinghua, Mongolian/Chinese Joint Venture. Operations began at the Nariin Sukhait Mine in 2003. The operation currently mines coal from the No. 5 Seam from two open-pit mines, referred to as the West Pit and the East Pit. Within the past couple of years a third open pit has been established, located approximately mid way between the West and East Pits. Annual production is estimated to be approximately 2 million tonnes per year (Mtpy) transported to customers in China.

The MAK-Qinghua East Pit operations have trespassed and recovered a minor amount of coal from adjacent SGQ holdings. SGQ management has discussed this issue with MAK- Qinghua. No legal action is pending regarding this issue, and SGQ management anticipates cooperation with MAK in the development of SGQ mining at Ovoot Tolgoi.

Information regarding the MAK operation has been provided by IMMI and SGQ to Norwest. Norwest has been unable to verify this information and the information is not necessarily indicative of the coal resource potential on the SGS controlled licenses.

Norwest has not used any data from the MAK property in the development of the mineral resource models used in this report. The resource quantities presented, however, are solely restricted to SGQ holdings.

The Ovoot Tolgoi Resource owned by SGS began pre-development of the West Field open pit surface mine commenced in the first quarter of 2008 and first production began in April 2008. Coal sales at the mine gate were initiated in September 2008. The current West Field pit design is for surface operations with projected mine depths to 250m. Coal shipments commenced September 22, 2008 and coal loaded on customer coal trucks at the Ovoot Tolgoi mine gate. Products are expected to be sold into western Inner Mongolia and Gansu Province in China.

Exploration work by SGS at Ovoot Tolgoi has identified five different coal series, or packages, consisting of one or more coal seams within a distinct stratigraphic horizon. Most of the work has focused on identifying resources within the number 5 Seam, with additional resources in the 8, 9, and 10 Seams above this. Structural geology at Ovoot Tolgoi shows evidence of folding and faulting. Individual coal seams however, are still relatively intact. The deposit is classified as "Complex" based on criteria set forth in the Geological Survey of Canada Paper 88-21.

18 MINERAL PROCESSING AND METALLURGICAL TESTING

The equivalent terminology used in this report, is "Coal Quality and Processing."

18.1 Raw Coal Quality

Collected core samples were shipped to the SGS preparation lab in Ulaanbaatar. Samples were then weighed, dried, crushed, split and repackaged for shipment to the SGS Group analytical laboratory in Tianjin, China.

Individual samples within each core hole were combined to form "incremental" units as the base level of the laboratory analyses. The incremental intervals were selected by Sapphire geologists to represent the finer plies within each seam and were selected by reviewing both the geophysical and core logs. The laboratory was instructed to test these increments for proximate parameters (moisture, ash, sulphur, fixed carbon, volatile matter, calorific values), free swelling index and apparent specific gravity on an ISO air-dry basis.

Coal quality of the Central Soumber is characterized by a total of 16 core holes that are suitable for quality analysis. Table 18.1 shows available coal quality data for each seam by drill holes within the resource areas.

Table 18.1
Available Coal Quality Data in the Resource Areas by Seam

		Seam					
Resource Category	**Drill Hole**	**S1**	**S2**	**S3**	**S4**	**S5**	**S6**
Measured & Indicated	NSN07-77C		X	X	X	X	X
	NSN08-148C		X	X			
	NSN08-149C			X	X		
	NSN08-152C					X	X
	NSN08-153C					X	X
	NSN08-163C					X	X
	NSN08-166C				X		
Inferred	NSN07-78C		X	X	X		
	NSN08-150C		X	X	X		
	NSN08-160C		X	X			
	NSN08-162C	X	X	X	X		
	NSN08-164C		X	X			
	NSN08-171C	X	X	X			
	NSN08-172C	X	X	X	X		
	NSN08-174C				X	X	
	NSN08-165C		X				
Total Quality Data		**3**	**10**	**10**	**8**	**5**	**4**

Raw coal quality data for the increment samples is summarized in Table 18.2, showing composited weighted averages for all seams. Additional coal quality data from six core holes of the recent Geotechnical drilling program was received after the completion of the coal quality model. The review of these data appears to be consistent with the current estimates of coal quality characteristics in Central Soumber area.

Table 18.2*
In-Place Coal Quality in Central Soumber Area (Air Dry Basis)

Seam	Total Moisture (%)	Air Dry Moisture (%)	Ash (%)	Volatile Matter (%)	Sulfur (%)	Calorific Value (kCal/kg)	Free Swelling Index	Specific Gravity
S6	6.4	1.3	33.6	16.7	0.4	5,172	0.9	1.7
S5	7.0	0.4	31.8	17.0	0.3	5,440	1.2	1.7
S4	10.0	0.5	19.5	20.1	1.0	6,728	5.0	1.5
S3	8.1	0.4	23.1	18.9	0.6	6,369	4.7	1.5
S2	5.2	0.4	23.4	18.7	0.5	6,314	4.4	1.5
S1	5.6	0.5	33.3	18.4	2.7	5,415	5.7	1.7

* Quality characteristics presented here are composited weighted averages of actual laboratory data.

In addition to proximate analysis, the free swelling index (FSI) test was conducted on the incremental samples. The laboratory data demonstrated that some of coal benches possess a potential of metallurgical coking characteristics. Figure 18.1 illustrates the downhole coal quality data for two drill holes where the highest and the most consistent free swelling index data reported.

In order to evaluate the distribution of coking characteristics, FSI data for S4 Seam was modeled in Central Soumber area as shown in Figure 18.2.

Based on these analytical results and available composite coal quality data, the coal rank for the Central Soumber field ranges between high to medium volatile bituminous coal, defined by ASTM Standard D388. The average calorific values range between 5,100 to 6,700 kCal/kg.

Further analysis needs to be conducted on physical composites of bench samples in order to characterize the entire resource area for additional properties related to thermal, metallurgical and washability testing and handling processes.

19 MINERAL RESOURCE AND MINERAL RESERVE ESTIMATES

19.1 Approach

In accordance with National Instrument 43-101, Norwest has used the Canadian Institute of Mining, Metallurgy and Petroleum's "CIM Definition Standards on Mineral Resources and Reserves," and referenced GSC Paper 88-21 during the classification, estimation and reporting of coal resources for the Soumber Property.

The level of work completed at Soumber to date is not sufficient to support a Preliminary Feasibility Study. Therefore, mineral reserves as defined by GSC Paper 88-21 have not been calculated.

19.2 Coal Resource Estimation

The term "resource" is utilized to quantify coal contained in seams occurring within specified limits of thickness and depth from surface. The resource estimations contained within are on a raw, in-place basis, i.e. as an in-situ tonnage and not adjusted for mining losses or recovery.

However, minimum mineable seam thickness and maximum removable parting thickness are considered; coal intervals not meeting these criteria are not included in the resources.

The category to which a resource is assigned depends on the level of confidence in the geological information available. GSC Paper 88-21 provides guidance for categorizing various types of coal deposits by levels of assurance. These were considered by the Qualified Person during the classification of the resources.

Coal resources at Soumber are considered to be in the "Complex" category of Geology Type. Delineation of resources into assurance of existence categories is based solely on the radii of confidence surrounding the coal intercepts as defined in Table 19.1.

The Central Soumber field has sufficient geologic data to support a valid estimate of coal resources using criteria outlined in the "CIM Definition Standards on Mineral Resources and Reserves" and referenced GSC Paper 88-21. The other adjacent areas (West and East Soumber fields) do not have sufficient geologic data to identify coal resources using the same criteria.

The resource boundaries have been defined based on the review of each individual seam. The distribution of resources categories for the Central Soumber is illustrated in Figure 19.1.

Table 19.1
Criteria Used to Define Assurance of Existence

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

The resource boundaries have been defined based on the review of each individual seam. The distribution of resources categories for the Central Soumber is illustrated in Figure 19.1.

Coal resources at the Central Soumber are defined for the categories of Measured, Indicated and Inferred, as summarized in Table 19.2. Despite the fact that average coal quality data shows coal rank of medium volatile bituminous coal, some intervals indicate the rank of high volatile bituminous coal. The resource estimation is current as of August 11, 2009. Geologic model incorporates the data from a total of 112 drill holes including all 6 Geotechnical drill holes, 4 hydrology observation holes that completed in 2009 drilling program. Due to inadequacy of data, the seam S0 was not included in the geologic model.

Table 19.2*
In-Place Coal Resources in Central Soumber Area

Seam	ASTM Coal Rank	Measured (million tonnes)	Indicated (million tonnes)	Inferred (million tonnes)
S6	Medium volatile bituminous	1.6	1.8	12
S5		2.1	1.7	9.2
S4		4.4	2.7	11.5
S3		2.3	1	10.1
S2		1.3	0.5	7.4
S1		1.5	0.5	5.3
Total		**13.1**	**8.3**	**55.5**

* Coal Rank is calculated based on the average laboratory data

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

Seam thicknesses of less than 0.6 m and partings of greater than 0.6 m were excluded from the resource calculations.

The resources for the “Surface” deposit type are limited to 250m depth from surface, a depth viewed as the maximum depth from which coal can be extracted using surface mining methods.

Based on the 16 core holes, coal quality model was developed using Mintec Inc. MineSight™ software. A digital grid was made for each quality parameter for the seams reported in Table 19.2. Due to inadequacy of data, the seam S0 was not included in the coal quality model.

Typical coal quality characteristics for each resource category are shown in Table 19.3 and 19.4 respectively.

Table 19.3*
In-Place Coal Quality in the Measured Plus Indicated Resource Area
(Air Dry Basis)

Seam	Air Dry Moisture (%)	Ash (%)	Volatile Matter (%)	Sulfur (%)	Calorific Value (kCal/kg)	Free Swelling Index	Specific Gravity
S6	1.65	35.2	16.5	0.3	4,971	1	1.7
S5	0.41	34.2	16.5	0.2	5,215	1	1.7
S4	0.51	19.6	19.0	0.6	6,638	3	1.5
S3	0.48	27.4	17.6	0.5	5,907	3	1.6
S2	0.40	29.5	17.4	0.4	5,718	2	1.6
S1	0.48	33.0	18.4	2.7	5,437	6	1.7
Average	**0.66**	**28.0**	**17.8**	**0.6**	**5,819**	**3**	**1.6**

* Quality characteristics presented here are composited weighted averages for all seams and direct output from coal quality model.

Table 19.4*
In-Place Coal Quality in the Inferred Resource Area
(Air Dry Basis)

Seam	Air Dry Moisture (%)	Ash (%)	Volatile Matter (%)	Sulfur (%)	Calorific Value (kCal/kg)	Free Swelling Index	Specific Gravity
S6	1.67	34.9	16.4	0.4	5,013	1	1.7
S5	0.40	31.5	17.2	0.3	5,469	1	1.7
S4	0.38	17.0	20.6	0.9	7,008	6	1.5
S3	0.37	20.7	19.6	0.8	6,625	6	1.5
S2	0.36	22.5	19.5	0.8	6,437	6	1.5
S1	0.50	36.2	17.9	2.9	5,168	5	1.8
Average	**0.67**	**26.5**	**18.5**	**0.9**	**6,000**	**4**	**1.6**

* Quality characteristics presented here are composited weighted averages for all seams and direct output from coal quality model.

Norwest cautions that coal quality summary data presented in Table 19.3 and 19.4 are based on the digital coal quality model derived from by a total 16 core holes within the resource areas. As previously mentioned in Table 18.1, some individual seams contain more quality data than others.

20 OTHER RELEVANT DATA AND INFORMATION

There are no other relevant data and information applicable to this report.

21 INTERPRETATION AND CONCLUSIONS

Exploration to date on MEL 9443X at the Soumber Property resource area has delineated 21.4 million tonnes of coal that classified as measured plus indicated resource. Resource calculations and classification have been performed in accordance with National Instrument 43-101.

The coal occurrence on the Soumber Property can be divided into seven distinct seams. The thicknesses of these seams are highly variable but average range is from 2m to 11m. Numerous rock partings are observed both between and within the seams. Structural deformation of the deposit has been considerable.

The coal quality of Soumber resource area has not been fully defined. This is due to excessive core losses in several core holes and limited data for each seam. Based on the available data the coal rank appears to range between High-Medium Volatile Bituminous coal. The coal is suitable as a high quality thermal coal, and intervals have been indicated that may be suitable for a metallurgical blend or semi-soft coking coal.

The Geology Type for the resource area has been determined to be “Complex” based on criteria set forth in the GSC Paper 88-21 and the interpretation of the Qualified Person. The postulated faults run through the resource area in consideration of the geologic uncertainty.

Future exploration focused on infill drilling is recommended to confirm seam correlations and the continuity and geometry of “in-seam” partings for mine planning purposes. Further analysis of bench composites for thermal and processing properties is also recommended. Acquisition of hydrologic and geotechnical data will be necessary in order to conduct prefeasibility level mining studies and scoping study.

22 RECOMMENDATIONS

The Central Soumber field exhibits a sufficient resource base to warrant further investigation. It is recommended for the parties involved to now consider the pursuit of engineering and economic studies as the next step in development of this property. A study should be undertaken in order to define the coal quality for washability testing and metallurgical parameters for the entire Soumber field. Preliminary mine planning may be commenced in the Central Soumber, however, pre-feasibility level planning and economics cannot be conducted without hydrologic and additional geotechnical data. Hydrologic characterization would be accomplished by the completion of pumping tests. Geotechnical characterization requires sampling and mechanical testing of rocks that would form pit walls.

Recommended future efforts for the Soumber property are multiple and can be summarized as follows.

- Additional drilling that may enhance the resource base and confidence in the Central Soumber area
- Continued characterization of the coal quality for each seam and testing of thermal and metallurgical properties along with washability analysis for the entire Soumber area
- Conduct geotechnical and hydrologic program in the Central Soumber area
- Additional exploration drilling for the East and Western areas of Soumber field with the goal of identifying resources in accordance with NI43-101

Norwest recommends a drilling program that would consist of approximately 50 drillholes with 20% of coal quality core holes, geotechnical and hydrologic pump test drill holes. Estimated costs of a suitable program are given in Table 22.1.

Table 22.1
Development Drilling Budget Estimate

Development Component	Estimated Cost (USD)
Drilling (Core/Rotary/Geotechnical/Hydrology)	950,000
Geophysical Logging	120,000
Coal Quality Analyses	90,000
Surveying	5,000
Geotechnical Testing and Modeling	80,000
Hydrologic Characterization (Pump Test Wells)	100,000
Geologic Modeling and Reporting	90,000
Total Budget Estimate	**1,435,000**

23 REFERENCES

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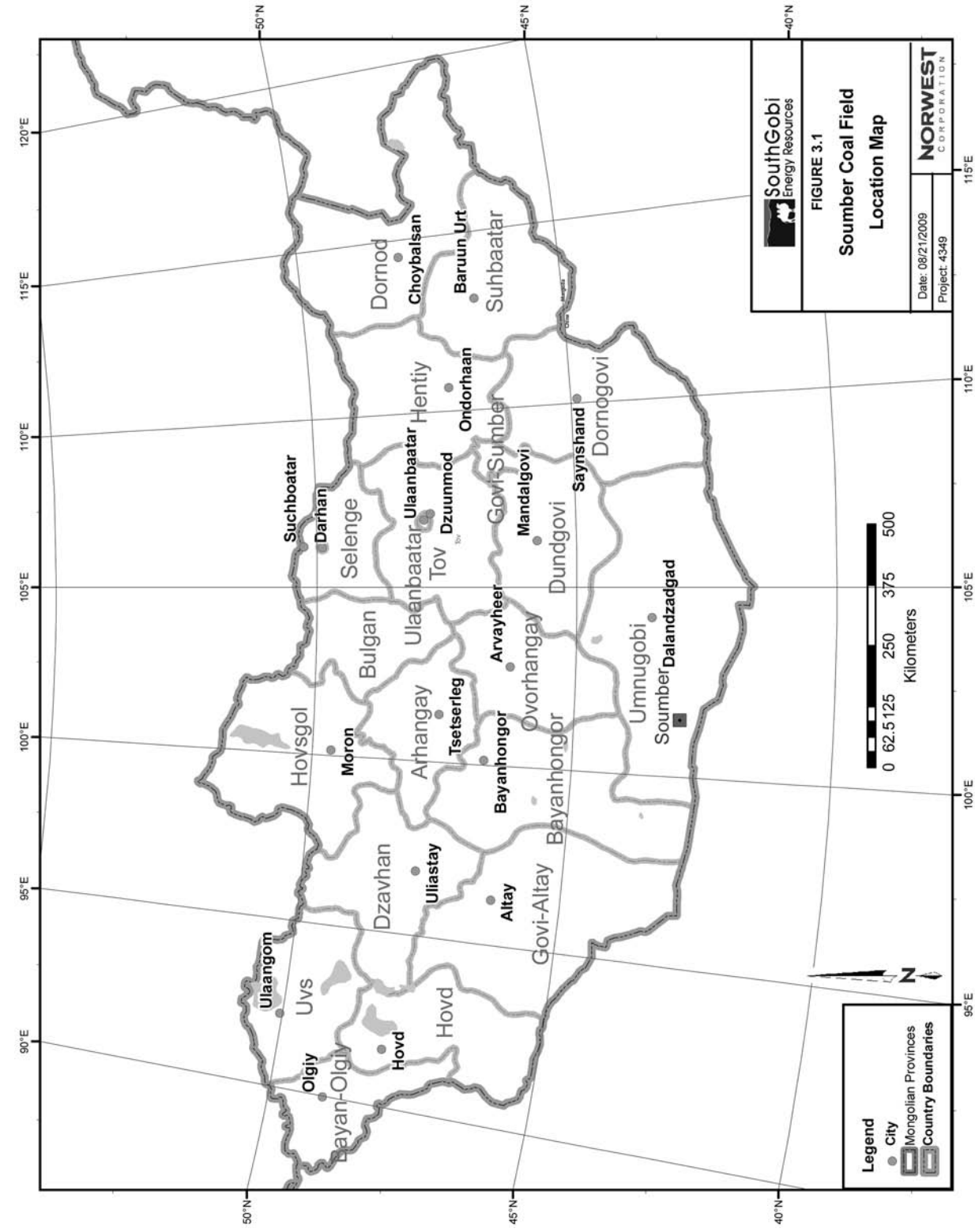
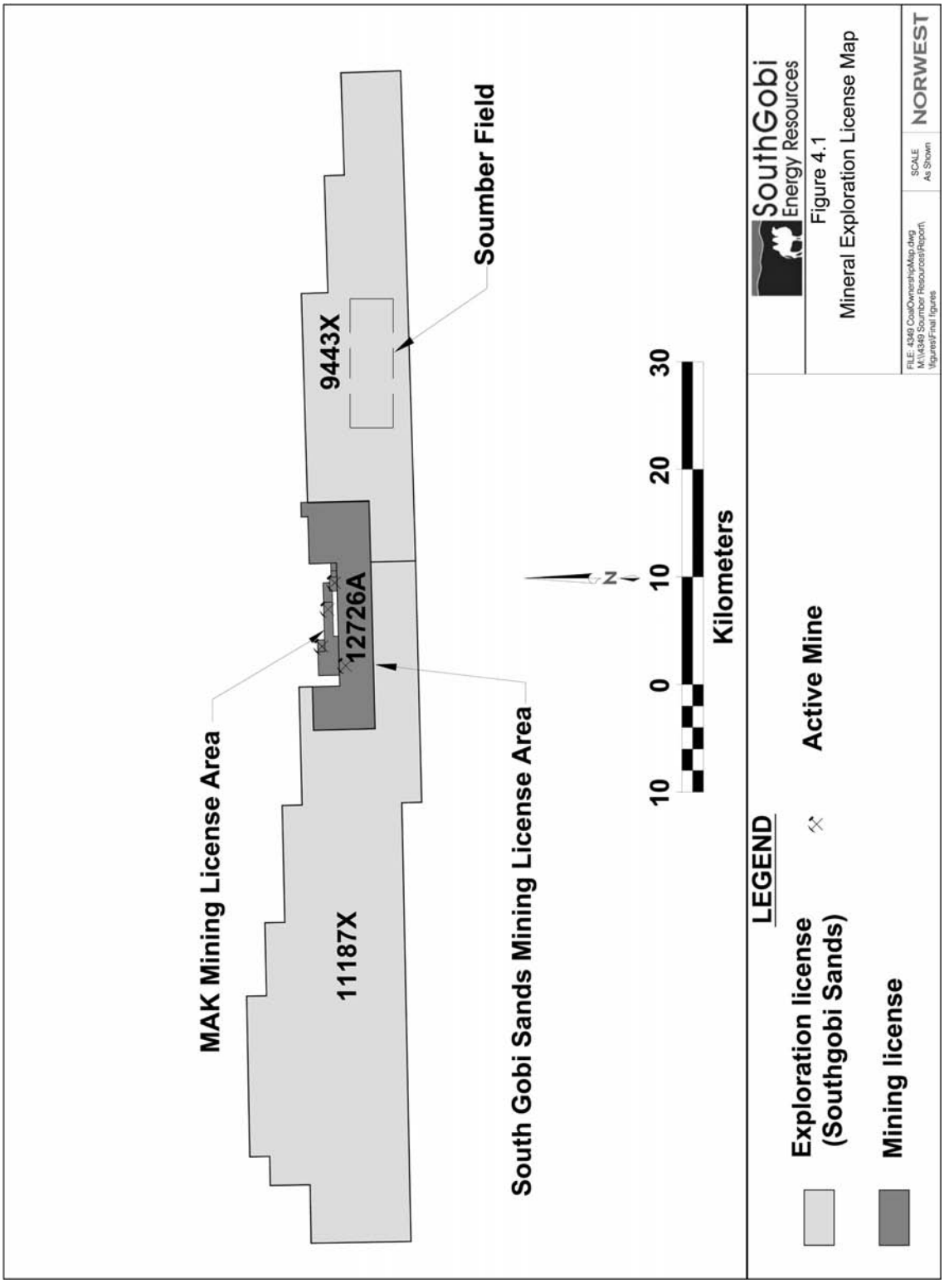
Stephen D Torr and Gene Wusaty., March 29, 2009 Technical Report on Coal Geology and Resources Ovoot Tolgoi Project, Umnugovi Aimag, Mongolia

24 ADDITIONAL REQUIREMENTS FOR TECHNICAL REPORTS ON DEVELOPMENT PROPERTIES AND PRODUCTION PROPERTIES

The Soumber field is currently an undeveloped property with no production. No economic feasibility study has been completed.

25 ILLUSTRATIONS


SouthGobi Energy Resources
FIGURE 3.1
Soumber Coal Field
Location Map
Date: 08/21/2009
Project: 4349
NORWEST CORPORATION
Legend
City
Mongolian Provinces
Country Boundaries
0 62.5 125 250 375 500
Kilometers
N
Suchboatar
Darhan
Selenge
Ulaanbaatar
Hentiy
Choybalsan
Dornod
Baruun Urt
Suhbaatar
Ondorhaan
Govi-Sumber
Dzuunmod
Tov
Mandalgovi
Dundgovi
Saynshand
Dornogovi
Bulgan
Arvayheer
Ovorhangay
Tsetserleg
Moron
Hovsgol
Arhangay
Bayanhongor
Umnugobi
Soumber
Dalandzadgad
Uliastay
Dzavhan
Altay
Govi-Altay
Ulaangom
Uvs
Hovd
Olgiy
Bayan-Olgiy
120°E
115°E
110°E
105°E
100°E
95°E
90°E
50°N
45°N
40°N


MAK Mining License Area
11187X
12726A
9443X
Soumber Field
South Gobi Sands Mining License Area
N
10 0 10 20 30
Kilometers
LEGEND
Exploration license (Southgobi Sands)
Mining license
Active Mine
SouthGobi Energy Resources
Figure 4.1
Mineral Exploration License Map
FILE: 4349 CoalOwnershipMap.dwg
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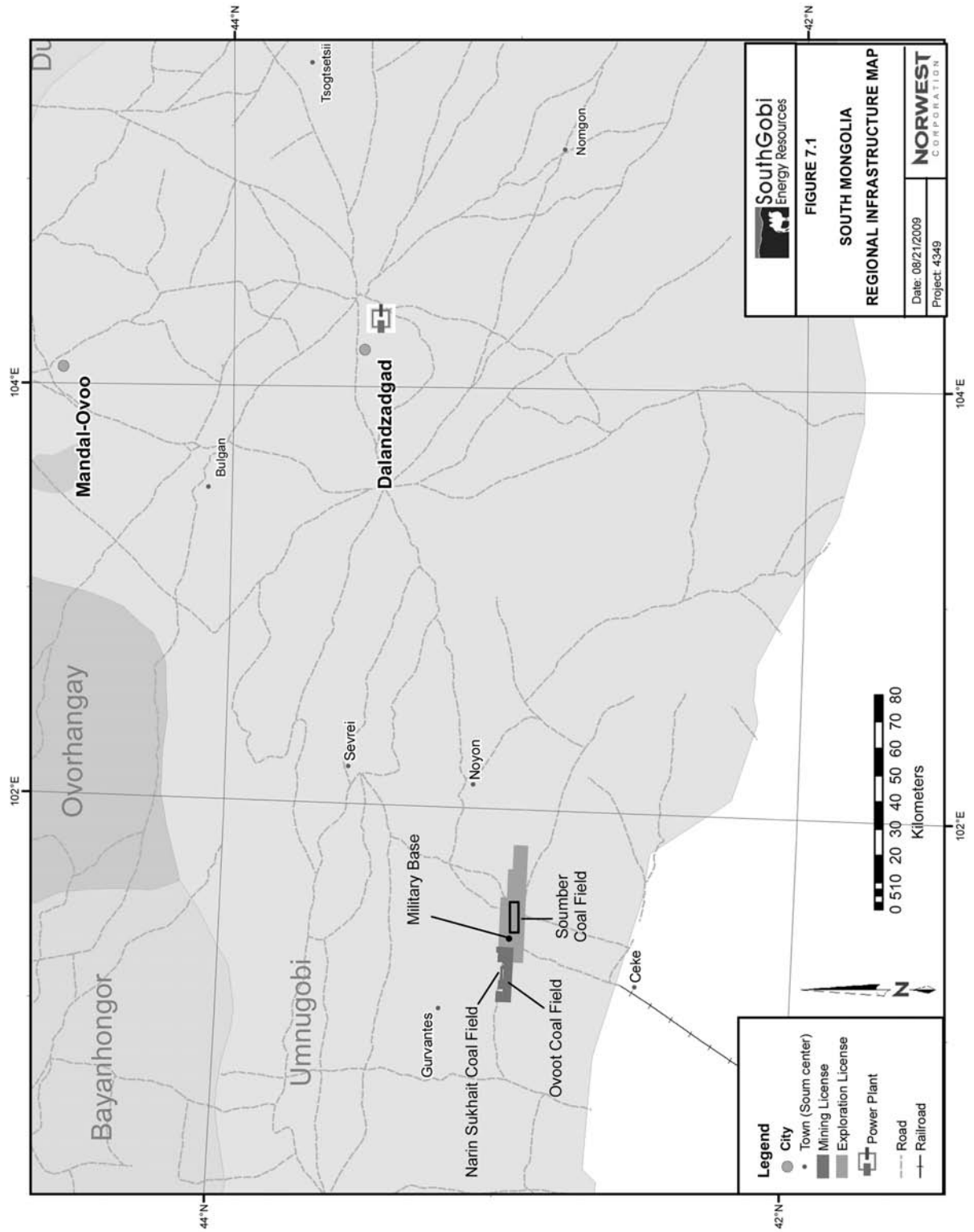
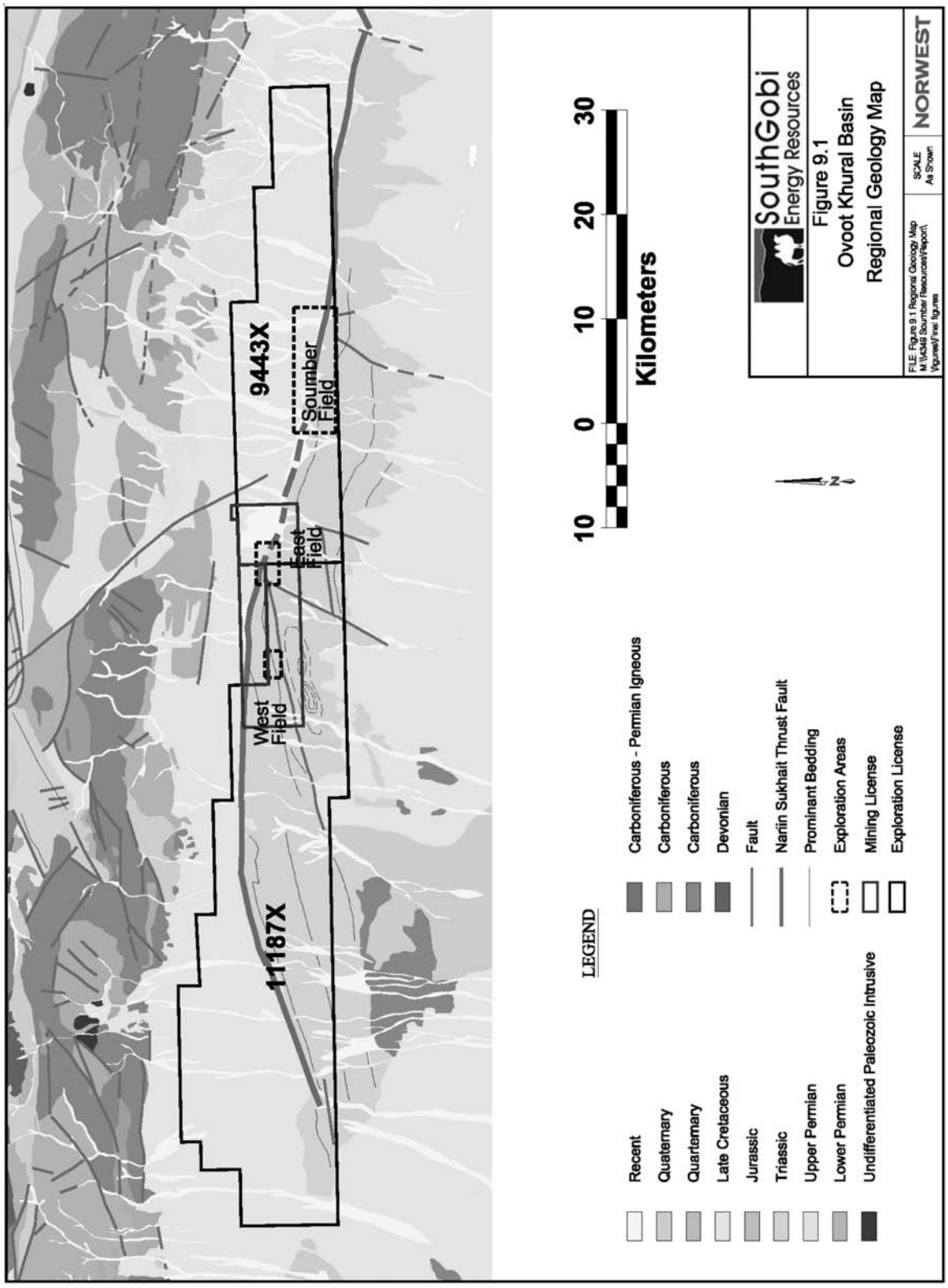
SCALE As Shown
NORWEST


Mandal-Ovoo
Dalandzadgad
Bulgan
Tsogtsetsii
Nomgon
Sevrei
Noyon
Ceke
Gurvantes
Ovorhangay
Bayanhongor
Umnugobi
Military Base
Soumber Coal Field
Narin Sukhait Coal Field
Ovoot Coal Field
104°E
102°E
44°N
42°N
0 5 10 20 30 40 50 60 70 80
Kilometers
N
Legend
City
Town (Soum center)
Mining License
Exploration License
Power Plant
Road
Railroad
SouthGobi Energy Resources
FIGURE 7.1
SOUTH MONGOLIA
REGIONAL INFRASTRUCTURE MAP
Date: 08/21/2009
Project: 4349
NORWEST CORPORATION


11187X
9443X
Soumber Field
West Field
East Field
10 0 10 20 30
Kilometers
LEGEND
Recent
Quaternary
Quartemary
Late Cretaceous
Jurassic
Triassic
Upper Permian
Lower Permian
Undifferentiated Paleozoic Intrusive
Carboniferous - Permian Igneous
Carboniferous
Carboniferous
Devonian
Fault
Narlin Sukhait Thrust Fault
Prominant Bedding
Exploration Areas
Mining License
Exploration License
SouthGobi Energy Resources
Figure 9.1
Ovoot Khural Basin
Regional Geology Map
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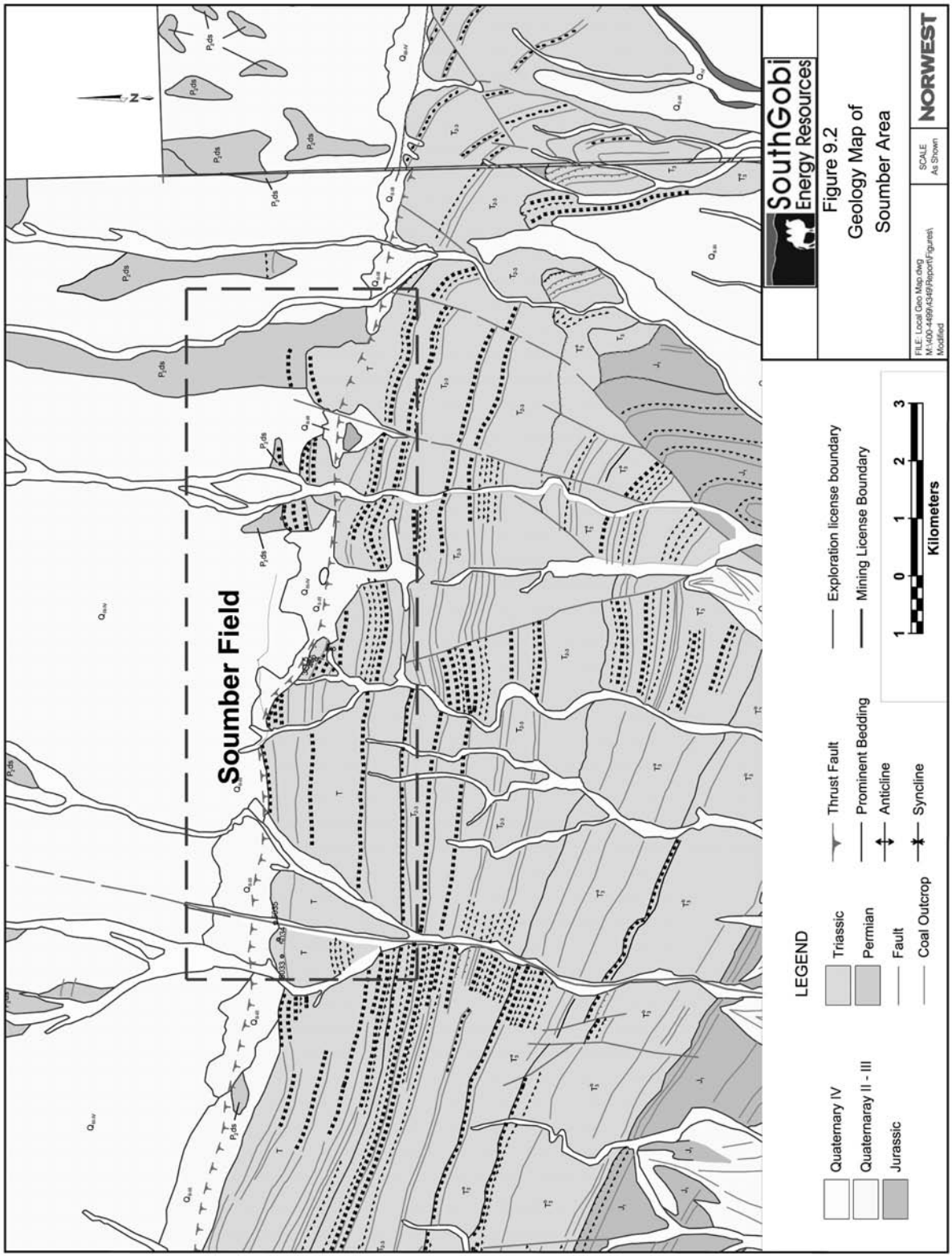
NORWEST


Soumber Field
N
LEGEND
Quaternary IV
Quaternaray II - III
Jurassic
Triassic
Permian
Fault
Coal Outcrop
Thrust Fault
Prominent Bedding
Anticline
Syncline
Exploration license boundary
Mining License Boundary
1 0 1 2 3
Kilometers
SouthGobi
Energy Resources
Figure 9.2
Geology Map of
Soumber Area
FILE: Local Geo Map.dwg
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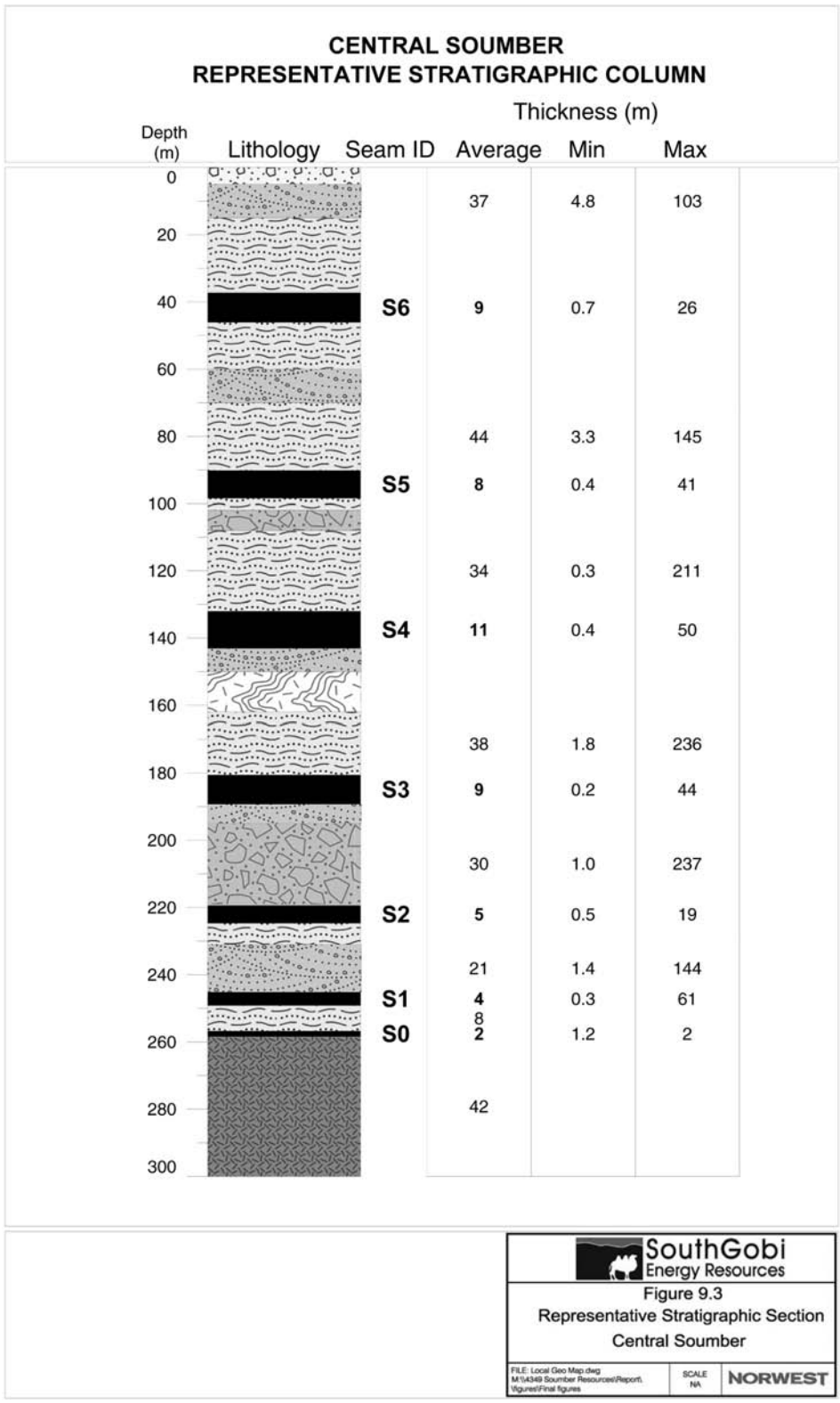
Modified
SCALE
As Shown
NORWEST


CENTRAL SOUMBER
REPRESENTATIVE STRATIGRAPHIC COLUMN
Thickness (m)
Depth (m)
Lithology
Seam ID
Average
Min
Max
0
20
40
60
80
100
120
140
160
180
200
220
240
260
280
300
S6
S5
S4
S3
S2
S1
S0
37
4.8
103
9
0.7
26
44
3.3
145
8
0.4
41
34
0.3
211
11
0.4
50
38
1.8
236
9
0.2
44
30
1.0
237
5
0.5
19
21
1.4
144
4
0.3
61
8
2
1.2
2
42
SouthGobi
Energy Resources
Figure 9.3
Representative Stratigraphic Section
Central Soumber
FILE: Local Geo Map.dwg
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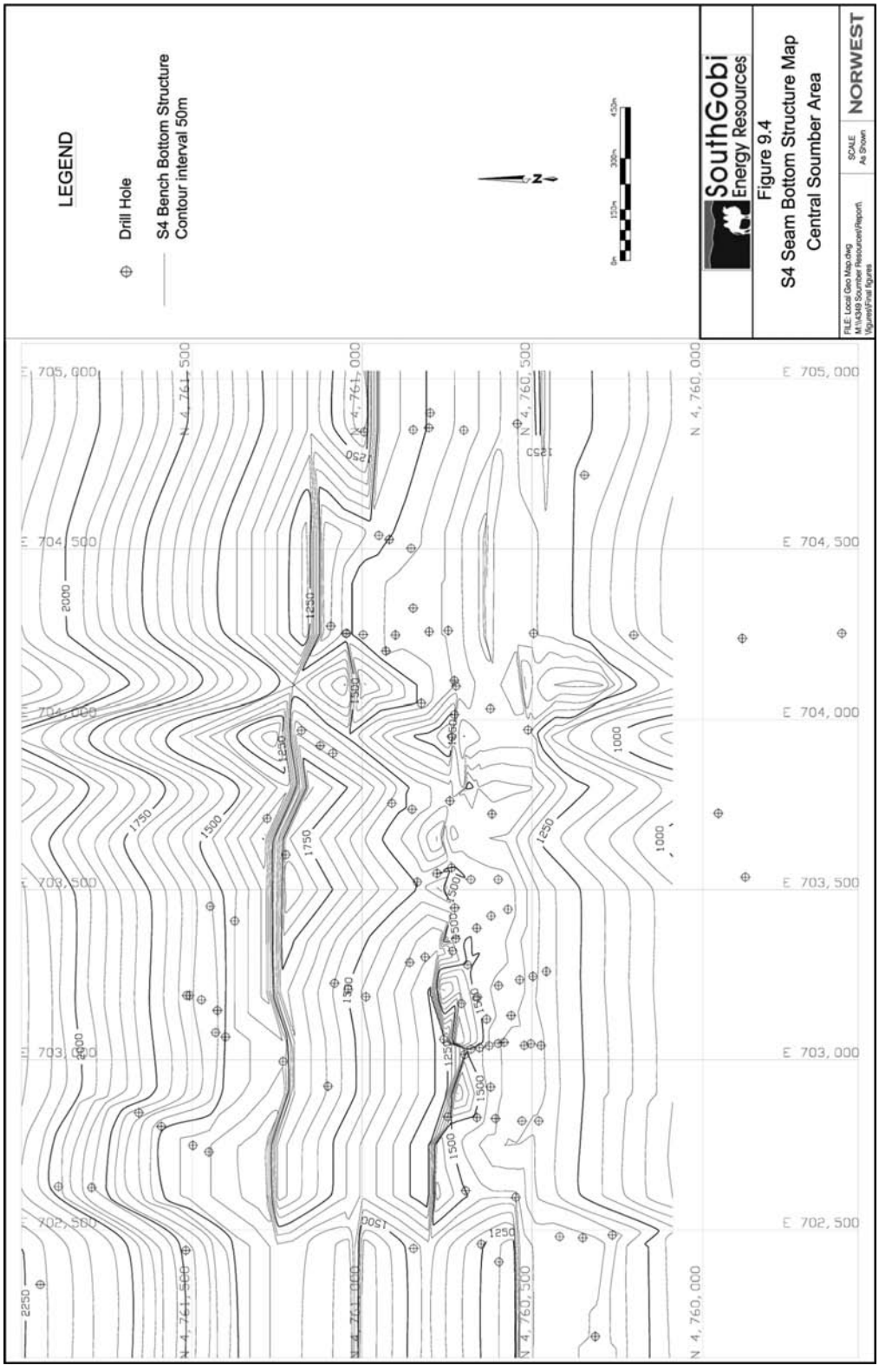
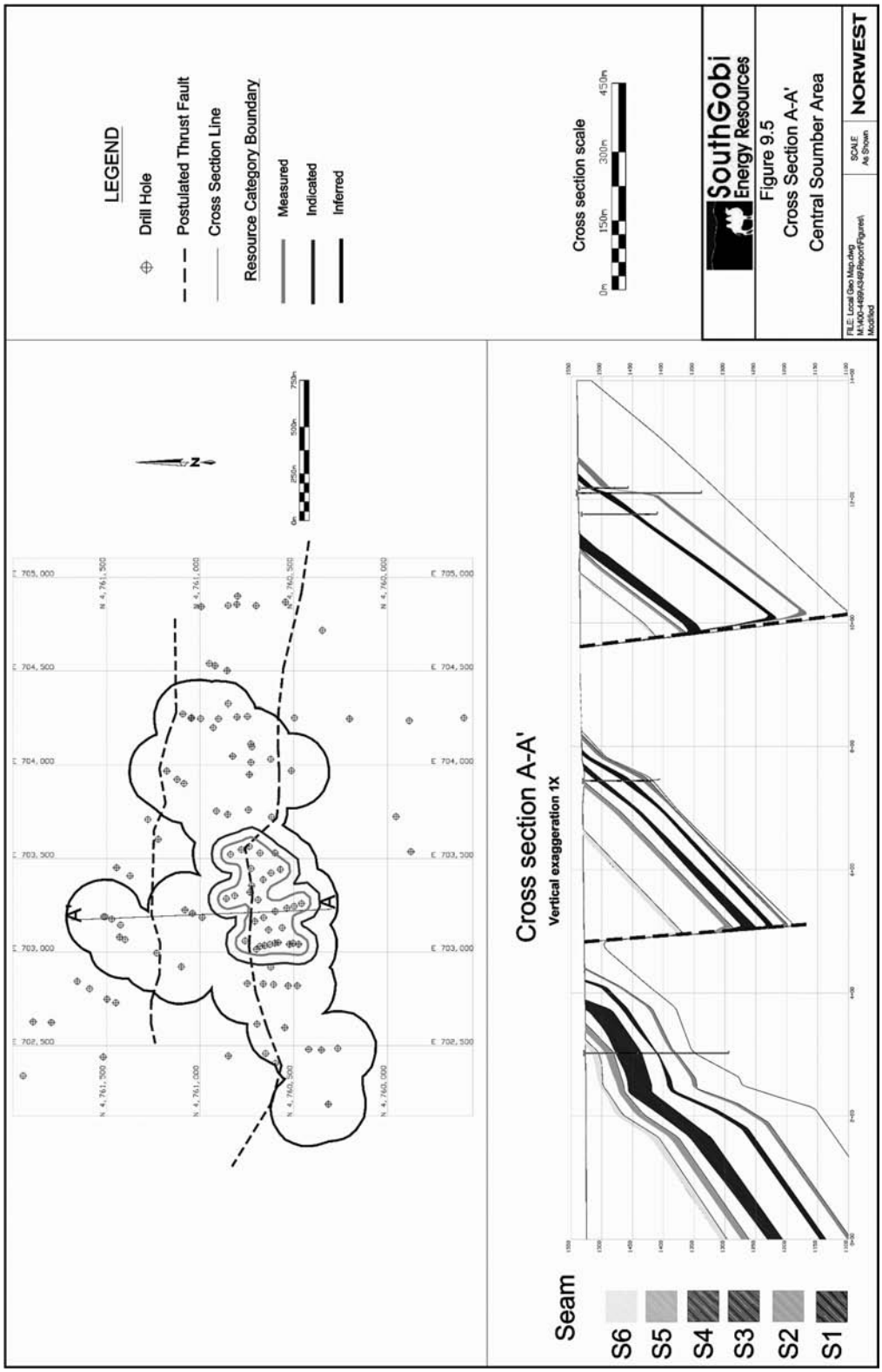
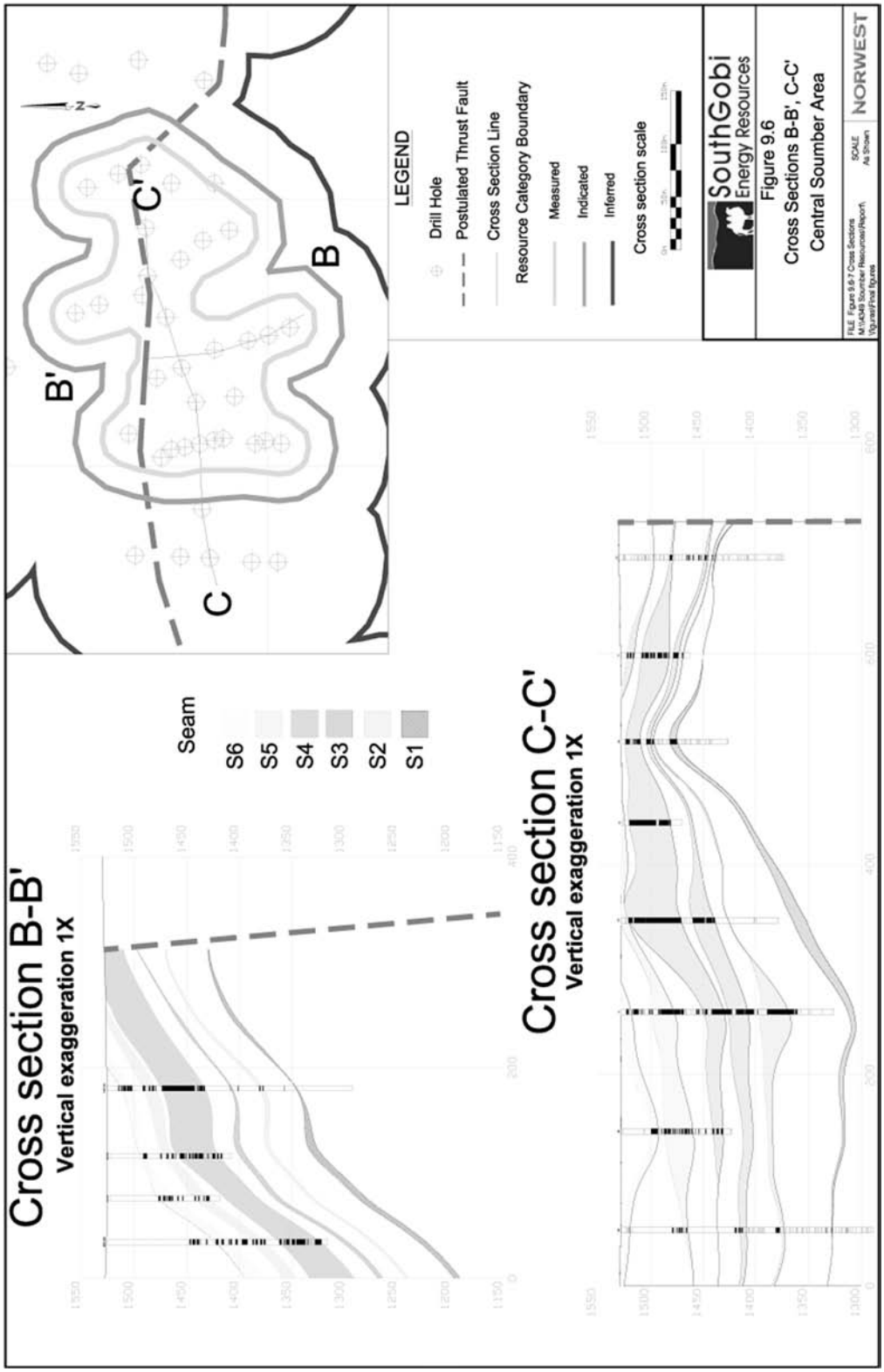
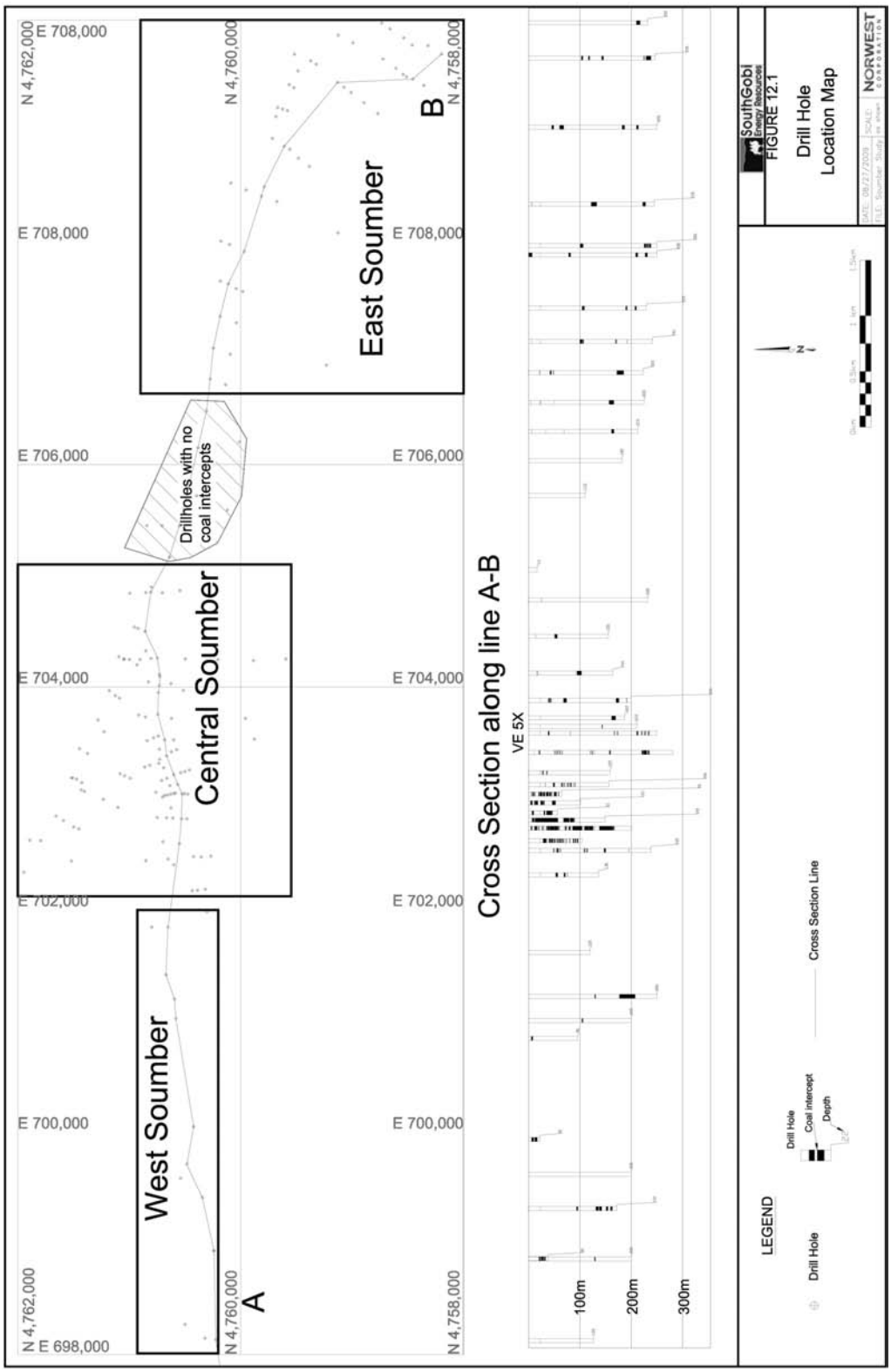
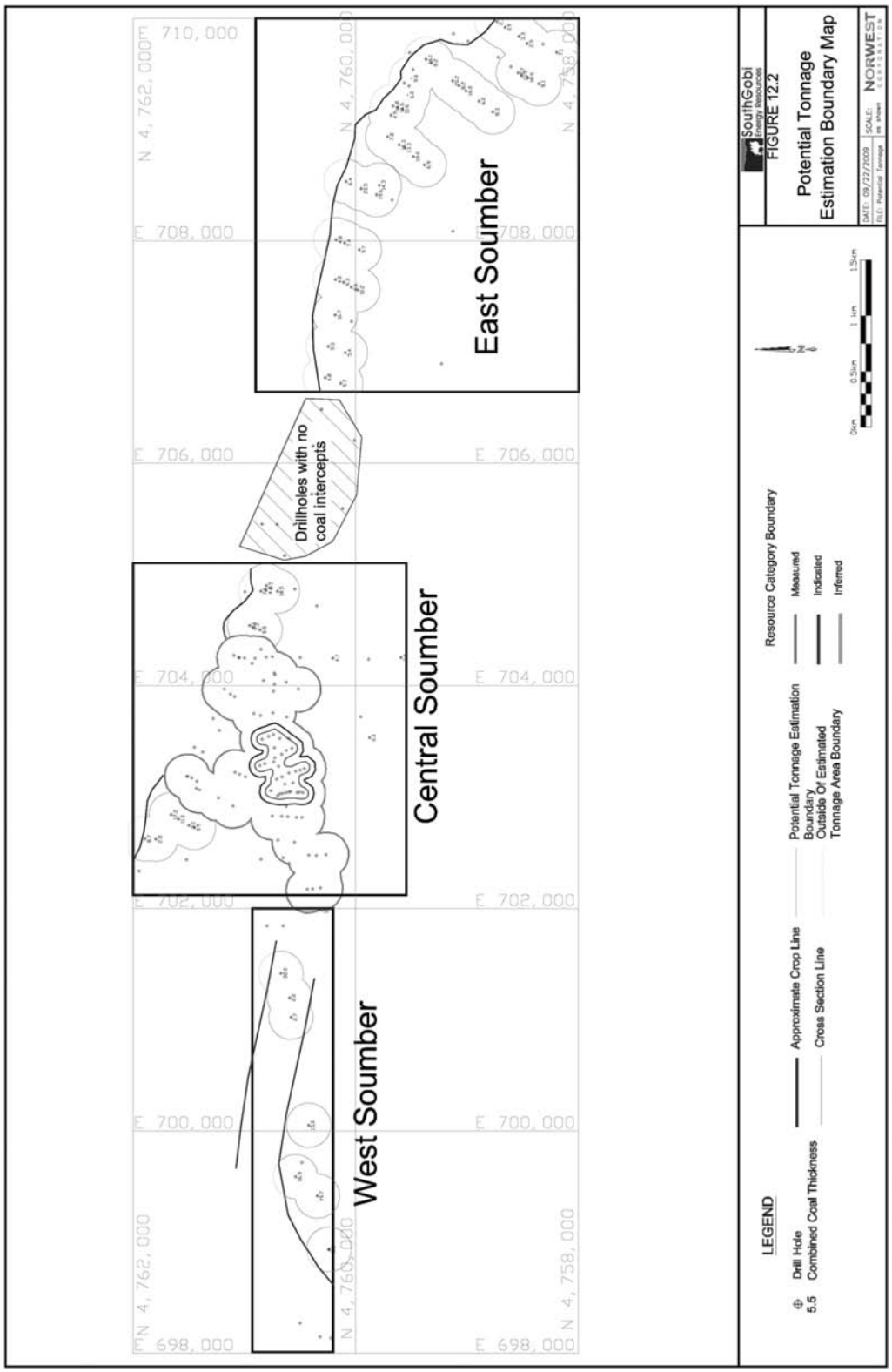
\figures\Final figures
SCALE
NA
NORWEST

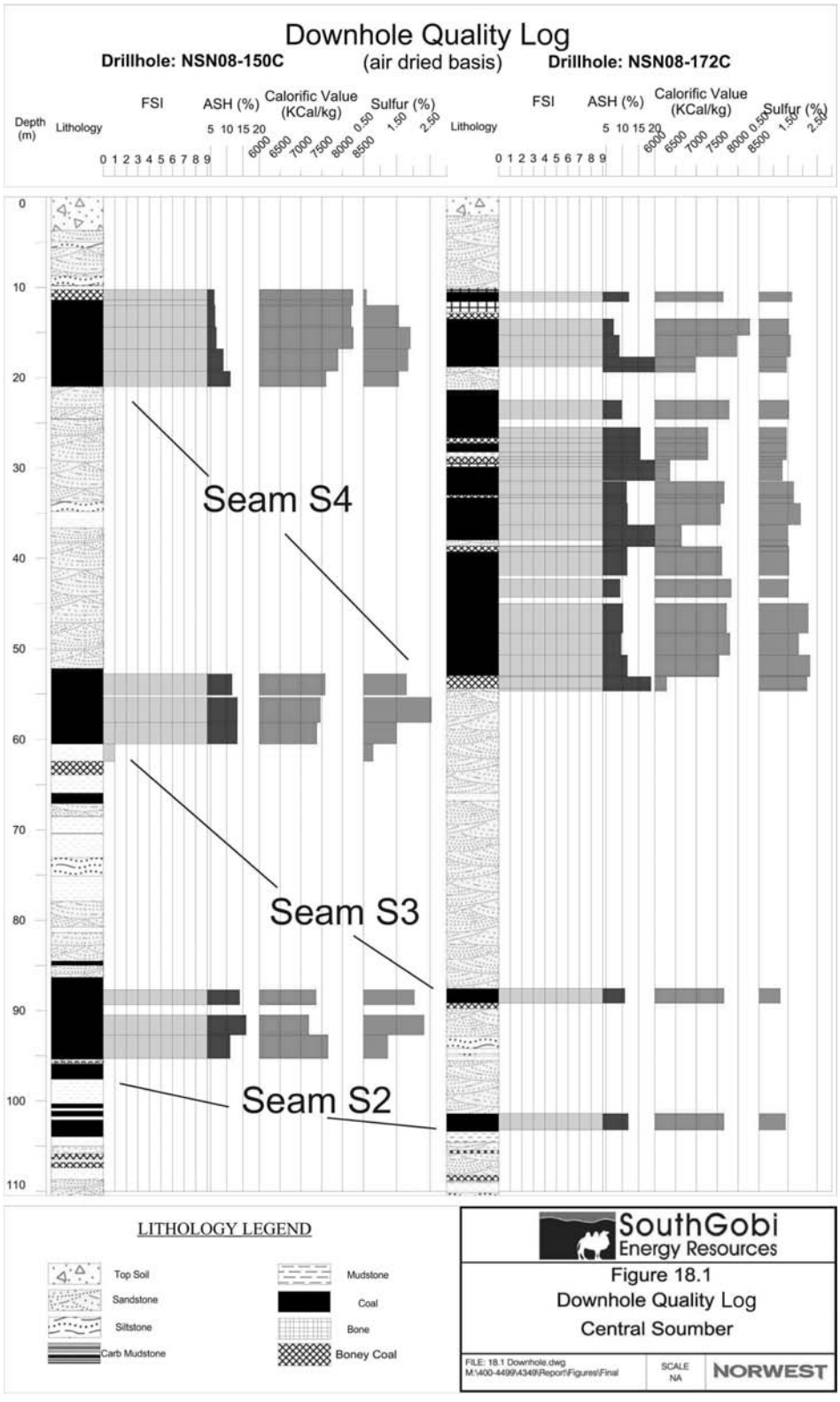

LEGEND
Drill Hole
S4 Bench Bottom Structure
Contour interval 50m
SouthGobi
Energy Resources
Figure 9.4
S4 Seam Bottom Structure Map
Central Soumber Area
NORWEST
SCALE
As Shown
E 705, 000
E 704, 500
E 704, 000
E 703, 500
E 703, 000
E 702, 500
N 4, 761, 500
N 4, 761, 000
N 4, 760, 500
N 4, 760, 000


LEGEND
Drill Hole
Postulated Thrust Fault
Cross Section Line
Resource Category Boundary
Measured
Indicated
Inferred
Cross section scale
0m
150m
300m
450m
SouthGobi Energy Resources
Figure 9.5
Cross Section A-A'
Central Soumber Area
SCALE As Shown
NORWEST
Cross section A-A'
Vertical exaggeration 1X
Seam
S6
S5
S4
S3
S2
S1


Cross section B-B'
Vertical exaggeration 1X
Cross section C-C'
Vertical exaggeration 1X
Seam
S6
S5
S4
S3
S2
S1
B'
C'
C
B
LEGEND
Drill Hole
Postulated Thrust Fault
Cross Section Line
Resource Category Boundary
Measured
Indicated
Inferred
Cross section scale
SouthGobi
Energy Resources
Figure 9.6
Cross Sections B-B', C-C'
Central Soumber Area
NORWEST


E 708,000
N 4,762,000
N 4,760,000
N 4,758,000
E 708,000
E 706,000
E 704,000
E 702,000
E 700,000
N E 698,000
East Soumber
Central Soumber
West Soumber
Drillholes with no coal intercepts
A
B
Cross Section along line A-B
VE 5X
100m
200m
300m
LEGEND
Drill Hole
Coal intercept
Depth
Cross Section Line
SouthGobi Energy Resources
FIGURE 12.1
Drill Hole Location Map
NORWEST


West Soumber
Central Soumber
East Soumber
Drillholes with no coal intercepts
E 698, 000
E 700, 000
E 702, 000
E 704, 000
E 706, 000
E 708, 000
E 710, 000
N 4, 762, 000
N 4, 760, 000
N 4, 758, 000
LEGEND
Drill Hole
5.5 Combined Coal Thickness
Approximate Crop Line
Cross Section Line
Potential Tonnage Estimation Boundary
Outside Of Estimated Tonnage Area Boundary
Resource Category Boundary
Measured
Indicated
Inferred
SouthGobi Energy Resources
FIGURE 12.2
Potential Tonnage Estimation Boundary Map
DATE: 09/22/2009
FILE: Potential Tonnage
SCALE:
NORWEST


Downhole Quality Log
Drillhole: NSN08-150C
(air dried basis)
Drillhole: NSN08-172C
Depth (m)
Lithology
FSI
ASH (%)
Calorific Value (KCal/kg)
Sulfur (%)
Seam S4
Seam S3
Seam S2
LITHOLOGY LEGEND
Top Soil
Sandstone
Siltstone
Carb Mudstone
Mudstone
Coal
Bone
Boney Coal
SouthGobi Energy Resources
Figure 18.1
Downhole Quality Log
Central Soumber
FILE: 18.1 Downhole.dwg
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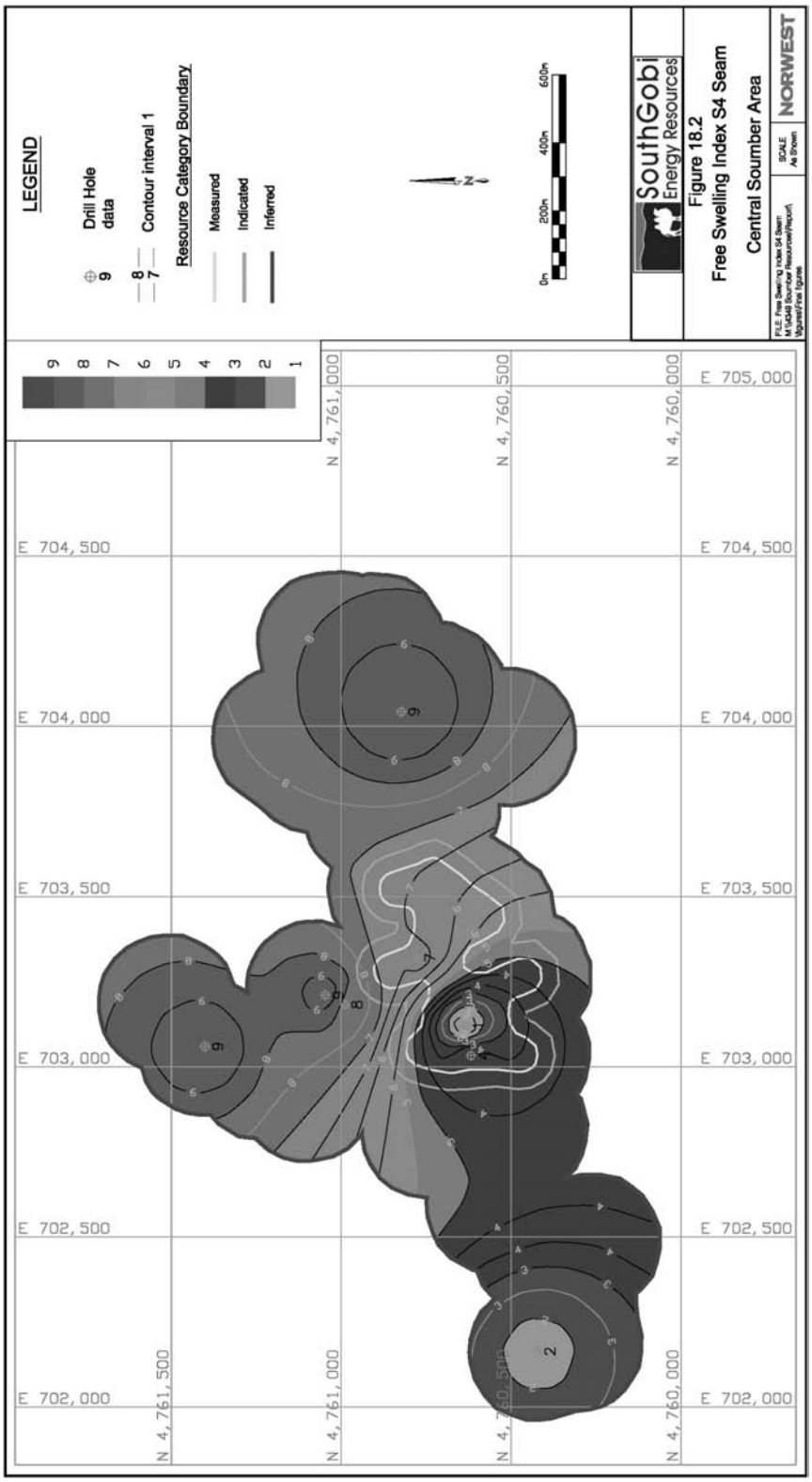
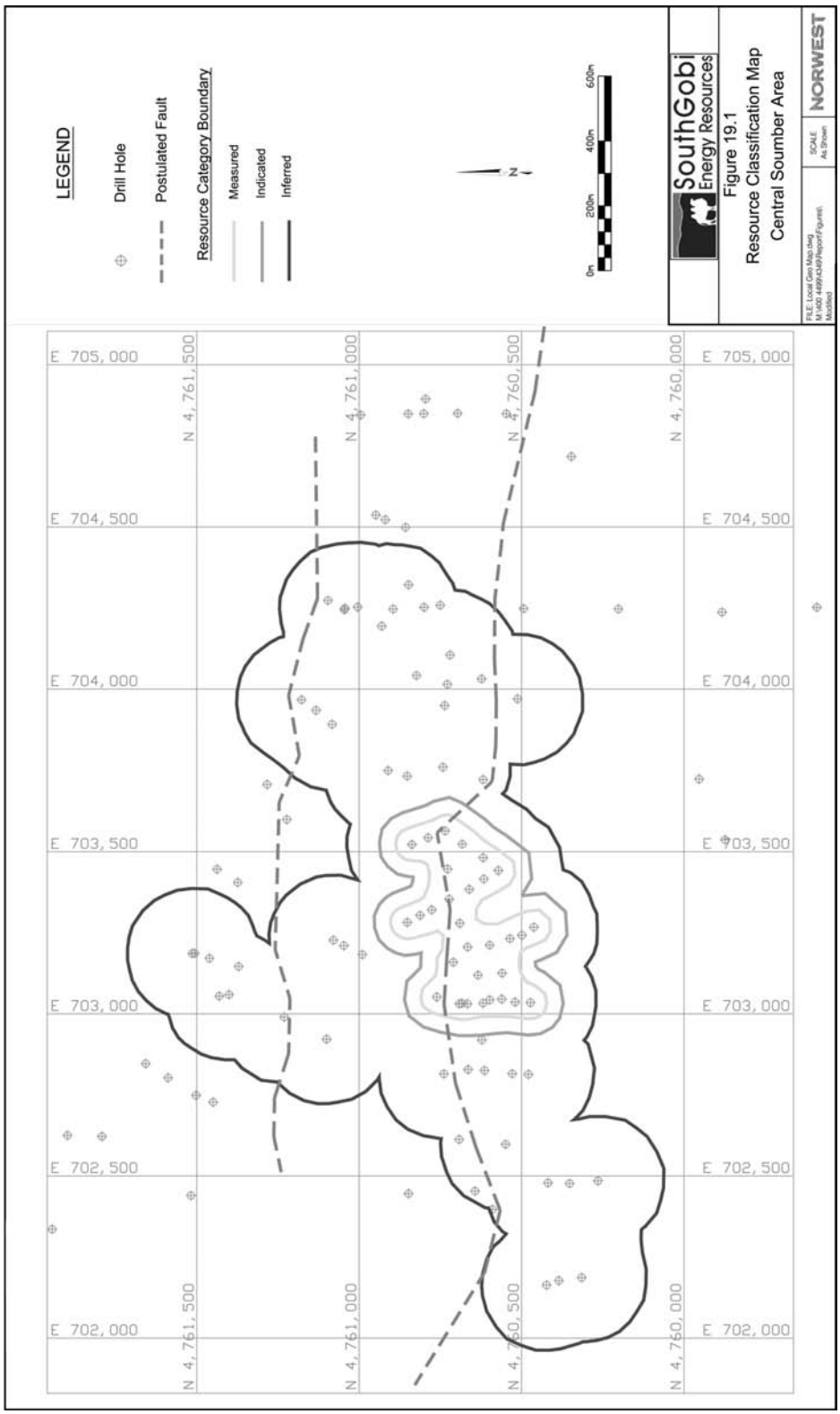
SCALE NA
NORWEST


LEGEND
Drill Hole data
9
Contour interval 1
8
7
Resource Category Boundary
Measured
Indicated
Inferred
0m
200m
400m
600m
SouthGobi Energy Resources
Figure 18.2
Free Swelling Index S4 Seam
Central Soumber Area
SCALE As Shown
NORWEST
E 704, 500
E 704, 000
E 703, 500
E 703, 000
E 702, 500
E 702, 000
N 4, 761, 500
N 4, 761, 000
N 4, 760, 500
N 4, 760, 000
E 705, 000


LEGEND
Drill Hole
Postulated Fault
Resource Category Boundary
Measured
Indicated
Inferred
N
0m
200m
400m
600m
SouthGobi Energy Resources
Figure 19.1
Resource Classification Map
Central Soumber Area
NORWEST
E 705, 000
E 704, 500
E 704, 000
E 703, 500
E 703, 000
E 702, 500
E 702, 000
N 4, 761, 500
N 4, 761, 000
N 4, 760, 500
N 4, 760, 000

26 DATE AND SIGNATURE PAGES

The following comprises signed and dated Certificate of Qualifications of the person(s) who prepared this report.

CERTIFICATE OF QUALIFICATIONS

I, Richard D. Tifft, III, of Grand Junction., Colorado do hereby certify that:

1. I am Vice President; Geologic Services with Norwest Corporation, 743 Horizon Court, Suite 372, Grand Junction, CO 81506.

2. I am a licensed Professional Geologist in the state of Utah — License Number 5190241-2250.

3. I am a graduate of Utah State University (Bachelor of Science, 1978, Geology).

4. I have practiced my profession as a geologist for 30 years. I have worked on coal properties in the United States of America, Canada, India, China (PRC), and Mongolia. I have completed investigations on coal properties on behalf of private and public companies. I am a "qualified person" for the purposes of National Instrument 43-101.

5. I personally have reviewed or supervised the review of the data collected and provided by Norwest Corporation and SouthGobi Energy Resources Ltd. for the Soumber property. I participated in the preparation of a technical report concerning the coal geology and coal resource tonnage for the area. My most recent visits to the Southgobi sands LLC, Ulaanbaatar geology offices and the Soumber site were between June 11, 2009 and June 15, 2009.

6. I am personally responsible for the preparation and contents of this entire report.

7. I have no direct or indirect interest in SouthGobi Energy Resources Ltd. or any affiliates of it, nor do I expect to acquire any such interest. I am independent of the Company in accordance with the requirements of NI 43-101, Section 1.5.

8. I have not been restricted in any way in my access to information, data or documents that I consider relevant to this report.

9. As of the date of this certificate, I am not aware of any material fact or material change, the omission to disclose which would make this report misleading with respect to coal resource estimates and coal ownership.

10. I have read NI43-101 and Form 43-101F1. This Technical Report is in compliance with NI43-101 and Form 43-101F1.

    Dated this 21st day of October, 2009

"Original Signed and Sealed by Author"

Richard D. Tifft III, PG
Vice President Geologic Services