

TRANSCRIPTION

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Start of Transcript

Operator: Good morning. My name is Bobby and I will be your conference operator today. Thank you for participating in the 2010 first quarter earnings conference call of the SouthGobi Resources Ltd. At this time all participants will be in a listen only mode. After the call we will conduct a question and answer session. Today's conference is being recorded.

I would like to introduce today's speakers, Mr. Alexander Molyneux, President and CEO, and Mr. Terry Krepiakevich, SouthGobi's Chief Financial Officer. Please begin.

Terry Krepiakevich: Thank you. Good morning. Welcome to SouthGobi's 2010 first quarter conference call. Again, here with me is Alexander Molyneux, our President and CEO. Before we start, please note that today's discussion may contain forward looking statements. Please refer to our May 14th press release and May 14th management discussion and analysis related to SouthGobi's first quarter results for the risks associated with the forward looking statements we'll be making on this call.

Alex will give you an overview of how the business has been performing. I will then brief you through our operating results for the quarter. Please note all amounts are in US dollars unless stated otherwise. Over to you Alex.

Alexander Molyneux: Good morning everyone. Thanks for joining us today. Just a brief recap on the significant events for SouthGobi in the first quarter. Apart from trading on the Toronto Stock Exchange, our

shares commenced trading on the Hong Kong Stock Exchange with the stock code 1878 on January 29th 2010.

Coal shipments to our primary market in China from the Ovoot Tolgoi coal mine commenced in late September of 2008.

Throughout 2009 and early 2010 we continued coordinating efforts with the Mongolian government and various agencies to improve border crossing access. Border access has continued to be efficient through early 2010, allowing for increased shipments to China. Currently, we are reaching approximately 200,000 tonnes per month as a running rate.

We continued to expand our mining capacity at Ovoot Tolgoi Mine during the first quarter of 2010. The additional equipment from the second mining fleet has been delivered in the fourth quarter of 2009 and into early 2010, and is being progressively commissioned.

For most of the first quarter the original mining fleet was complemented by the new Liebherr 996 shovel and two Terex MT4400 218 tonne haul trucks. Another two Terex MT4400s are on site now and are being constructed. Once commissioned they will complete the second mining fleets in terms of fully trucking that Liebherr shovel.

The pieces of the third fleet, which is the second 996 fleet or the second of the large fleets have already been ordered and some have started to arrive on site. So we now have five additional MT4400 trucks on site and then we expect delivery of the next 996 shovel late in 2010, so we can commission that fleet by the end of this year. We have also just confirmed in April the purchase order for an additional 996 base mining fleet for delivery in 2011.

An important feature of our mining activities at Ovoot Tolgoi quarter one has been our initiative to realign our open pit. It is very important to explain this. Waste removal was originally a long strike, i.e. running east to west across the face of the coal seam. This reduced waste movements in the first year and also

allowed customer trucks to enter into the pit and load on the seam, so effectively did not have to move coal out of the pit into a stock pile and the customer trucks were loaded right there on the coal seam.

Now that practice is not sustainable for a couple of reasons. One, it is not the right way to mine from a long term efficiency perspective when you have multiple shovels, you have a much larger truck fleet and you have larger actually pieces of equipment. You need to really open up access to the pit so that you can bring trucks in behind the shovels and be mining in many locations across the face. So that is the first thing.

The second thing is as the pit gets deeper you will not be able to bring customer trucks into the pit any more, and as at November last year we stopped that practice. So basically at the very, very end of last year we commenced this operation to realign the pit, so that the access to the pit runs on a north south access. This will allow a longer face access for the larger 996 shovels. It will also allow mining of the seam face for the 45 degree dipping seams, in particular the 8, 9 and 10 seams that are a little thinner and have more partings, they are the seams that overlay our large number five seam. We will be able to mine those on a face on basis. We will be able to mine that coal much cleaner with less ash, so we will actually have a better product quality.

The third point here is also generally more efficient truck access in and out of the pit as the pit becomes deeper in terms of haul truck access. From a practical perspective, the pit really needs to be opened up and a substantial amount of waste needs to be moved to establish the new operational layout. Quarter one results were affected because the realignment was the primary driver of the waste to coal ratio moving to 6.8 BCM per tonne of coal of produced.

The amount of capacity we applied to moving waste also constrained the amount of coal that was available for coal sales,

and the increased waste to coal ratio raised the direct cash costs for the goal that was produced and sold in that quarter. The pit realignment will continue broadly through most of the second quarter, but will be complete at the commencement of quarter three, when waste to coal ratios or strip ratios should move closer to long run life of mine expectations.

During the quarter the company approved construction of a basic handling facility for Ovoot Tolgoi coals. The initial design has been completed for this facility and engineering details of major components are well advanced. Completion of the first phase of the coal handling facilities, dependent on receiving land use approval from the Aimag (province) government in a timely manner to allow concreting works to take place during the warmer months. If we can have our land use approval very soon then we will be able to complete the construction of this basic coal handling facility in around - or have it commissioned around about quarter one 2010. We have already ordered the long lead time items for this facility, including the rotary breaker and including the apron feeder.

Exploration basically recommenced apace in quarter one and has continued aggressively. As at the end of April we have spent USD3.5 million of the \$20 million we have targeted for 2010. This spend includes 29,000 metres of drilling and we currently have between 5 and 6 drill rigs operating at any time on the field surrounding Soumber and a target 6km to the south-west of Ovoot Tolgoi, which is known as SW Target. We will continue to have about 5-6 drill rigs employed in the next few months during the warmer drilling season, moving them across various greenfield targets.

I will now turn the call to Terry for the operating results.

Terry Krepiakevich:

Thank you Alex. In the three months ended March 31st 2010 the company shipped 426,000 tonnes of coal at an average realised selling price of approximately \$36 per tonne. This compares to 130,000 tonnes of coal shipped in the three months

ended March 31st 2009 at an average realised selling price of approximately \$29 per tonne. This represents a 24% higher realised selling price over the last year.

For the month of April 2010 the company had sold in excess of 200,000 tonnes of coal at approximately \$44 per tonne, 22% higher than Q1 pricing. Revenues increased to \$13.9 million in the first quarter of 2010 from \$3.5 million in the first quarter in 2009. On a quarter over quarter basis revenue in the first quarter in absolute dollars is our highest yet in 2010.

In the three months ended March 31st 2010, 220,000 tonnes of coal was produced with a strip ratio of 6.8 compared to 150,000 tonnes produced in the three months ended March 31st 2009 with a strip ratio of 2.2. In 2010 production was impacted by the continuing realignment of the pit, which began in December 2009 and this is reflected in the higher strip ratio.

The company incurred a net loss for the three months ended March 31st 2010 of \$168.3 million, compared to a net loss of \$10 million for the three months ended March 31st 2009. The increase in the loss was due primarily to the loss of partial conversion of the CIC convertible debenture, the interest expense on the CIC convertible debenture and the fair value change of the embedded derivatives in the CIC convertible debenture, which together contributed \$162.3 million of which \$154.5 million is non-cash.

The company incurred an operating loss from continuing operations for the three months ended March 31st 2010 of \$6.5 million, compared to a \$6.6 million loss in the same period in 2009. The operating loss was impacted by the factors discussed below.

Cost of sales was \$12.7 million in the three months ended March 31st 2010 compared to \$3.2 million for the three months ended March 31st 2009.

The increase was due to the higher sales volumes and higher costs in 2010 relating to the continuing realignment of the open

pit. Cost of sales is comprised of three components, direct cash costs, line administration costs and non-cash items. Non-cash items include depreciation, depletion and stock based compensation. Cost of sales will vary depending on sales volume, production and unit costs which directly affects income from mine operations.

Additional mobile equipment also resulted in a higher depreciation in the quarter ended March 31st 2010.

Direct cash costs were \$22.25 per tonne in the three months ended March 31st 2010, compared to \$14.29 for the same period in 2009. The increase in direct cash cost is due to the realignment of the pit in the first quarter of 2010, which resulted in a higher ratio of waste removal per tonne of coal produced. Once the open pit realignment is complete, coal production levels are expected to be higher with improved control of product quality.

Mine administration costs per tonne decreased to \$1.07 per tonne for the three months ended March 31st 2010, compared to \$4.22 per tonne for the three months ended March 31st 2009. The decrease per tonne is due to the higher sales volume in 2010.

Exploration expenses for the three months ended March 31st 2010 were approximately \$900,000 higher than the three months ended March 31st 2009. Increased exploration expense in 2010 relates to increased drilling at the Soumber deposit. The drilling program will focus primarily on further definition of known coal occurrences, to bring them to 43-101 compliant resource definition stage, and to allow for registration with the Mongolian government as the next step towards expanding the company's mining license holdings.

Administration expenses for the three months ended March 31st 2010 were \$6 million compared to \$6.1 million for the three months ended March 31st 2009. Administration expenses for the three months ended March 31st 2010 moved approximately

\$2.5 million of stock based compensation expense, compared to approximately \$3.3 million for the three months ended March 31st 2009.

At March 31st 2010 the company has approximately \$801 million in cash, cash equivalent and long term investments. The increase in cash and money market investments compared to March 2009 relates to the global equity financing completed in the March 2010 quarter, and the CIC financing in November 2009.

The company's long term liability as at March 31st 2010 were approximately \$348 million, compared with approximately \$543 million as at December 31st 2009. The decrease in long term liability relates to the conversion of the \$250 million of the CIC convertible debenture.

Our long term debt to equity is approximately .50:1, if we consider our convertible debenture as a debt instrument rather than a structured equity product.

We continue to ramp up production, build up our mining fleet and anticipate robust future growth.

Thank you. I would like to hand it over to Alex for closing remarks.

Alexander Molyneux: Thanks Terry. We expect demand for coal from China will continue to increase. Anecdotal evidence suggests Mongolia will set a new record for coal shipments to China in 2010, and will become a significant supplier of China's coal needs. As mentioned by Terry earlier, our April sales were strong with pricing another 22% higher than quarter one pricing.

In July 2009, Chinese and Mongolian authorities agreed to create designated coal transportation corridors at the Shivee Khuren-Ceke border crossing. This is currently under construction and is expected to be operational by the end of 2010. When completed, it will permit coal to be transported across the border through three corridors that are separated

from other non-coal border traffic. We believe these improvements will allow substantially increased shipments of coal into China. On April 28 2010, the Mongolian government approved a plan that would allow border checkpoint to operate 24 hours a day, seven days a week. This is expected to begin in the second half of this year as well.

Moving forward, we continue to focus our efforts on our various coal projects in Mongolia to supply quality products to customers in China. We are making progress with our sales efforts and our market efforts continue to focus on efficiency, prudential financial management and we intend to manage production levels to meet the increased anticipated demand for our products.

That concludes our prepared comments. Let's go to the Q&A operator and then I will hand the call back to you operator.

Operator:

Thank you. Ladies and gentlemen we will now begin our question and answer session. If you have any questions for today's speakers please press zero one on your telephone keypad and you enter a queue. After you are announced please ask your question. If you find that your question has been answered before it is your turn to speak, please press zero two to cancel the question. So once again, please press zero one on your telephone keypad to ask a question.

Our first question is Mike Plaster from Salman Partners. Please go ahead.

Question:

(Mike Plaster, Salman Partners / Analyst) Thanks very much. Hi guys. I have got a few questions. I am going to start on pricing. You talked about the 200,000 tonnes sold in April at \$44 a tonne. Is that an average price across all of your shipments, or are there still some legacy contracts in there as well at lower prices.

Alexander Molyneux:

What we are doing now Mike is we are doing - we are basically doing our contracts on a quarterly basis. So at the start of every quarter the pricing changes for the coal, so we do not

have any legacy priced contracts if you like. All of the coal that we sold in April was the product that we currently call - it is all raw coal - but the product that we currently call premium coal. So had we sold any of the higher ash product, the pricing for the higher ash product would have been lower.

Question: (Mike Plaster, Salman Partners / Analyst) Okay, fair enough. On the volume, have you secured any contracts yet for the additional product that you are targeting in the second half of the year?

Alexander Molyneux: Because we do the coal - we only look at quarterly volumes and at the moment we are only selling the coal quarterly, because as you know we are still selling through intermediaries. At some stage in the future our plan is to desegregate that, but we do not want to enter into long term volume contracts until we have all the regulatory set up and also the coal is of a quality that the end users will take.

But frankly we are not really that concerned with selling higher volumes in the second quarter because our volumes in the first - well sorry, in the third quarter and fourth quarter. Our volumes in the first and second quarter are basically being set by the fact that we are doing this pit realignment. It is based on coal availability. The customers would take a lot more coal from us if we had it, frankly.

As you know our premium coal stockpile - premium coal inventory is basically just in time now. We do not keep any meaningful stockpile of premium coal. We are mining to meet customer demands on a daily basis, so if we had a lot more coal we would have sold a lot more coal.

Question: (Mike Plaster, Salman Partners / Analyst) Okay, so certainly no easing in demand from any of your existing customers it does not sound like?

Alexander Molyneux: No.

Question: (Mike Plaster, Salman Partners / Analyst) On the costs, you talked in the release about higher fuel costs. Can you give us an idea of what proportion of your cash cost is for fuel?

Alexander Molyneux: Well, based on the Norwest - it varies on a month to month basis. But on a long run basis based on the Norwest study, fuel is 29% of the cash cost, so it was roughly just under \$5 per tonne is the fuel cost. The fuel prices from month to month are currently between about 20-25% higher than the Norwest study.

Question: (Mike Plaster, Salman Partners / Analyst) Okay, great. That's it for me. Thanks guys.

Operator: Our next question is Tom Sullivan from TMT SCLC. Please go ahead.

Question: (Tom Sullivan, TMT SCLC / Analyst) Can you explain to me the background between the partial conversion of the CIC convertible debenture that attributed to the \$162 million loss?

Alexander Molyneux: Well, I will talk about the background and then Terry can talk about how the loss, the embedded derivative type calculation works. So the background is when we originally entered into the CIC bond it was done as sort of a - we were already listed but we were venture listed. We had very low liquidity so the structure of the bond was debated as to whether it would be a pre-IPO style convertible investment, or whether it would be an ordinary share investment.

We ended up with this hybrid, which is that we did it as a pre-IPO style convertible investment but the company had the right to call conversion of half of the CIC bond once we achieved a minimum free float of at least 25%, a sustainable minimum free float of at least 25%. We completed that with the Hong Kong listing and then the company is incentivised to convert that half of the bond, because the maximum conversion price for CIC is fixed at CAD11.88 per share, so by keeping the bond unconverted we cannot mitigate dilution for other shareholders. By converting as much of the bond as possible early, we can

stop paying the coupon on that proportion of the bond so that is why as soon as we were able to call conversion of the bond, we exercised our right to convert the maximum amount that we could convert under the terms of the bond.

The company - now CIC has a conversion rate, they can convert any time - the remaining \$250 million. It is not until November 2014 when the company has the next right to convert any outstanding amount of the bond.

Question: (Tom Sullivan, TMT SCLC / Analyst) So where do we stand as far as the whole \$500 million of the bond, what's converted and what's not?

Alexander Molyneux: \$250 million is converted and CIC now has a 13.4% common share interest in SouthGobi, and then \$250 million is unconverted.

Question: (Tom Sullivan, TMT SCLC / Analyst) Okay. But the unconverted has a conversion price target of - a cap of \$10.66?

Alexander Molyneux: CAD11.88.

Question: (Tom Sullivan, TMT SCLC / Analyst) \$11.88.

Alexander Molyneux: Yes, and it has an 8% coupon, which is 6.4% payable in cash and 1.6% payable in kind.

Question: (Tom Sullivan, TMT SCLC / Analyst) Okay, and it is a floor of - the floor is the \$8.88, correct?

Alexander Molyneux: That is right, yes.

Question: (Tom Sullivan, TMT SCLC / Analyst) Okay. So fair to assume this \$162.3 million loss was a one-time charge until the second part of the \$250 can be called by the CIC, correct?

Alexander Molyneux: Well, some of it was but some of it was also the mark to market value of the - you might want to talk about that Terry.

Terry Krepiakovich: Yes, I will just step in here. Alex has done an excellent job and I think I am going to give him the CFO cap, because he did a great job there. When we converted, just back to your point, we get the fair value of the shares at that time because at

March the 29th we have to pin it. Then you have to match it against the carrying value of the debt host. That sounds a little bit technical but hence you have that loss.

So to answer your question going forward, yes, we still have \$250 million of CIC debenture on the balance sheet, and we still had to look at that embedded derivative movement. Of course it is going to increase in the future, and we have to look at the accretion on the debt host so there is three components.

There is the accretion on the debt host, there is the interest expense and there is the fair value change in the embedded derivative. That fair value change is going to be pinpointed to the volatility of the stock, the FX and those kinds of movements. So to answer your question, yes there will be but it will not be as dramatic in my opinion.

Alexander Molyneux: Yes, because the bond is now half the size but basically that conversion right we have is an option and under international accounting standards, we have to revalue that option as we mark to market the debt instrument at the end of every quarter. So if our share price goes up then the option value goes up and we would have to report that as a loss. If our share price goes down, then the reverse happens. Their option value goes down and we would report that as an additional profit, but it is basically all of that side of it is all non-cash.

Terry Krepiakevich: That is the important thing to remember. It is a non-cash item.

Question: (Tom Sullivan, TMT SCLC / Analyst) Okay, thank you. Pretty complicated. I studied the annual report, that section for a while, and it still remains pretty tough to reconcile the accounting, but thank you for the nice narrative and explanation.

Operator: Our next question is Brenda Stanley from BMO Capital Markets. Please go ahead.

Question: (Meredith Bandy, BMO Capital Markets / Analyst) I think that is me. This is Meredith Bandy. Good afternoon or evening or morning, wherever you guys are.

Alexander Molyneux: Hi Meredith.

Question: (Meredith Bandy, BMO Capital Markets / Analyst) Hi, how are you?

Alexander Molyneux: Good.

Question: (Meredith Bandy, BMO Capital Markets / Analyst) Okay. My first question is just simply can you remind me of the life of mine strip?

Alexander Molyneux: The life of mine average strip is 4.1 to one according to the Norwest study.

Question: (Meredith Bandy, BMO Capital Markets / Analyst) You were very kind to give us the current - I think you gave us the current sales run rate. What is your current production run rate?

Alexander Molyneux: It is very similar. I think in April it might have been about 178,000 tonnes, but you see - and this is the key. Whilst we would focus on - when we commenced the pit realignment for example in January, we produced no coal. We did nothing but waste. In March we did 13,000 tonnes and then in April we did - I think 189,000 tonnes or something in that range. So that is how the Q1 - now we are producing about at that level of around about 200,000 tonnes of coal a month, but while we're still completing the pit realignment.

Then once you have completed the pit realignment and you also have the two additional trucks commissioned, your sort of run rate goes up in Q3 to about - up to about 300,000 tonnes a month and beyond and beyond in Q4.

Question: (Meredith Bandy, BMO Capital Markets / Analyst) Okay. Is the run rate for Q2, is it sort of moving from your current run rate to about 300 or is it going to be sort of the solid 200,000 and under for the month?

Alexander Molyneux: I think it is better to look at it as being about 200,000 under for the whole quarter. June may be a month where we release a lot more coal but I think that the safer thing is to assume that we run at about 180,000, 200,000 tonnes a month for the remainder of Q2. I think that is probably safer.

Question: (Meredith Bandy, BMO Capital Markets / Analyst) Okay. In the past you had talked about a variety of discussions that you are pursuing, either with MAC or on your own, about the rail to the border. Is there any change there or what is going on with that now?

Alexander Molyneux: Well, the rail has become more politicised. The Government has said that they would like to pursue a national railway strategy, or at least investigate a national railway strategy. The Government has asked people to suspend works on private railway projects. So there are two private railway projects in Mongolia; the one in our region and the one for Tavan Tolgoi to the east of us.

There is no formal - there is suspension of works on both projects, but basically the Government will then determine what the national strategy is. The national strategy will really be focused on a couple of things. One is will there be a single gauge or will multiple gauges be allowed in Mongolia, and two, will the railway development be allowed to be led by private enterprise or will it be taken over the Mongolian National Railway?

So they are sort of the two points that are being debated. No one said to us do not invest, but I think if we were to invest there would be some risk around that investment. So right now - and for us too, the railway is not an absolute necessity and certainly not for many years. What we are focused on right now is upgrading the road and looking at ways to upgrade the roads in our area. We are doing some studies in that regard. We are also looking at whether a conveyer to the border may make sense or not.

We are only 42 kilometres away from the Chinese coal loading facility, which is a distance that is much shorter than most Indonesian coal producers are to barge terminals and things like that so it is a typical haul distance frankly.

Question: (Meredith Bandy, BMO Capital Markets / Analyst) Does that then change the engineering on the handling facilities? I know you had talked about engineering that, so that it would also be able to have a real load out there.

Alexander Molyneux: We are building - the handling facility will have a coal stockpile and basically blending facility off the back of it. It is going to be set up so that if we have a rail loading facility on our mining licence, it will be located there if you like. So we are designing the facility so that it can load trucks, but we can replace the truck loading end of it with a rail loading facility if we can build the spur.

Question: (Meredith Bandy, BMO Capital Markets / Analyst) Okay, thank you very much.

Operator: Our next question is [Terrence Orson] from TSMO. Please go ahead.

Question: (Terry Orson, TSMO / Analyst) I think that is me, Terry Orson, good afternoon, good even, good morning. Just on the last question itself, I guess the alternative of a conveyer system, what tonnage do you think of scale that it makes sense to consider a conveyor? Because it gives you a lot of flexibility, just back to the blending and handling and hoppers and all this, versus a railway and probably maintenance wise it is a bit more intense, but nevertheless it gives you lots of flexibility. What is the scale whereby you may see a conveyor as far more reasonable than the other alternative?

Alexander Molyneux: We do not actually know that yet. We have just had the conveyor people come and do a site visit and the whole rest of it, and now they are working on what you might - I guess a preliminary - a desktop feasibility study to sort of give us an indication of that. Anecdotally people are sort of saying if you

have got an operating that is looking at 10 million tonnes or beyond, then a conveyor could actually be more efficient.

But in our area, the area is flat. It has a 500 metre drop in 30 kilometres, and so it is downhill all the way. So people are pointing those out as positives for a conveyor but the typical method of moving coal over these distances in China is by truck. The Chinese trucks are very cheap and so the capital cost of that is relatively low. We just have to wait until we see this preliminary feasibility study and then see how the conveyer compares with both the truck and the rail option.

Question: (Terry Orson, TSMO / Analyst) When is the decision cut off time on that or at least to know where you stand on the proceeds basis?

Alexander Molyneux: Well, we should have some information on a preliminary study basis internally. I shouldn't say it would take more than a few weeks, but what we do next, I mean, the study will not be of a standard that we will want to be necessarily saying too much publicly about it. That will just determine whether we go forward and pay for a full feasibility study, which would be a \$400,000 study.

But at the time we were in a position to say something to the market about what we are doing on say a conveyor versus rail, I would say it would be some stage in early 2011. In the meantime we are already committed to short term improvements in the roads in our area, and we are moving forward with that as a stop gap.

Question: (Terry Orson, TSMO / Analyst) Understood. Now Alex, on the original transportation infrastructure, the investment plans that you have, 2010-2012, I think \$150 million. That assumes an alternative to the road I assume, including rail or conveyor. Am I correct?

Alexander Molyneux: Yes, that is correct. Actually, if you - that also assumed basically paying the entire cost of a rail without sharing it. It assumed - it is a relatively conservative number, so I would say

if we commit to upgrading a road, even a heavy surface road be much, much cheaper than that. The conveyer, we do not have a good idea of the capital cost yet but I think the \$150 is a fairly generous estimate. It would enable us to do - contribute to the road and rail or - and if we do not contribute to the rail in that number, then that number would be substantially lower.

Question: (Terry Orson, TSMO / Analyst) Now, in the context of the investment plans, could you remind me again distribution of the \$600 million for the next three years that you have?

Alexander Molyneux: The distribution over the next three years, it is roughly - it was \$590 million of capital. It is roughly - let me work this out - 2011 is the biggest year and 2011 would be about \$240 million, and then you would have - let me see, about \$100 million capex in 2010 and then the remainder in 2012. These capex numbers include sustaining capex and they also include exploration expenditure, which is not actually capex but it is I guess a non-operating expense.

Question: (Terry Orson, TSMO / Analyst) You have got \$70 million over the next two years for exploration?

Alexander Molyneux: Yes, \$20 this year and then \$25 and \$25 in the following two years.

Question: (Terry Orson, TSMO / Analyst) One more question on the fuel. Fuel availability has not been a problem I assume all throughout the period, am I correct?

Alexander Molyneux: No. There is a number of alternative fuel sources. Our fuel supplier recently also just - our fuel supplier has a storage facility just off site, which they own and maintain themselves and they have recently increased at just double the capacity of it to meet our expansion requirements. There is alternatives too to that current supply.

Question: (Terry Orson, TSMO / Analyst) I guess the numbers that you have published with respect to your [unclear] for 2012 and '13.

I guess the parties across the border in the south, they know about these numbers?

Alexander Molyneux: Yes.

Question: (Terry Orson, TSMO / Analyst) It is not a secret. So what point in time do you foresee whereby it would be more like a relationship in a sense of contractual in a longer term, rather than annual whatever, a bit more laissez-faire or ad-hoc let's say? When do you actually start getting into to secure the cashflow with the volumes that you more like feel comfortable with, your 2011-12 period or 2012 you start talking about those?

Alexander Molyneux: No, I think we would like to have these contracts in place in 2011 or even some of them in place before the end of this year. But what the contracts are dependent on is two things. One is our ability from a regulatory perspective to sell the coal in China, so we actually have to facilitate the export of coal from Mongolia, the import of coal into China.

So the larger end user customers do not want to get their own coal export - do the regulatory point of exploiting the coal from Mongolia. They do not want coal importation, distribution licenses in that part of China, the whole rest of it. So we are working on that side of it in terms of getting a licence regime set up through a joint venture partner.

The second thing is the coal needs to be of a quality that the customer will receive it at their coke plant. So where we are at today, our premium coal is basically - most of our customers, they are trading companies but they are also blending all they are washing the coal. So if we go to people like [Shalgan], they see you need to wash the coal before you can sell it direct to me, and that is why we are building this coal handling facility.

Question: (Terry Orson, TSMO / Analyst) What would the capacity of that be Alex?

Alexander Molyneux: The initial facility we are designing it for around about 12 million tonnes.

Question: (Terry Orson, TSMO / Analyst) Is it a module format whereby you can expand it easily?

Alexander Molyneux: It is modular, yes.

Question: (Terry Orson, TSMO / Analyst) Okay. So the next incremental capacity beyond that would be adding two to three million tonnes at a time?

Alexander Molyneux: Well, what we are looking at is - I think if we - we are looking at 12 in the first set up and then we would look at basically paralleling the equipment and going to 24. It is not - there is no real - because it is not flotation washing it, for Ovoot Tolgoi coal it is a dry process and it is just basic coal handling. It is really based around a rotary breaker and some screens and it is not - and it is a dry process. It is not - it is really quite - there is no real economy in doing anything smaller.

The 12 million tonnes will give us capacity to potentially wash our neighbour's coal in case they are interested in using it, or it will facilitate for expansion at Ovoot Tolgoi for a long time. Soumber will have a totally different process and Soumber coals will not come through this Ovoot Tolgoi handling facility. Soumber will have flotation washing and that will be different, and probably the expansion increments at Soumber will be more expensive and will be - you will have smaller modules if you like so you will go up in smaller increments.

Whereas this Ovoot Tolgoi facility, there is almost no saving to make it five million tonnes or six million tonnes. You may as well just make it 12 and if you expand it, you may as well just expand it in a big way.

Question: (Terry Orson, TSMO / Analyst) Understood. Thank you very much for your time.

Alexander Molyneux: Thanks Terry. Any more questions?

- Operator: Once again ladies and gentlemen, if you have any further questions please press zero one on your telephone keypad now. Once again ladies and gentlemen, if you have any further questions please press zero one on your telephone keypad now. Our next question is Yeeman Chin from Macquarie. Please go ahead.
- Question: Yeeman Chin (Macquarie / Analyst) Hi Alex and Terry. I just have very quick questions. The first one is really regarding on the strip ratio in April, what was the actual number coming through and what are we expecting for the second half this year? If you have any kind of cost guidance for the second half this year, because I mean obviously it does not look relative to the [unclear] about \$15. Maybe we can start there first.
- Alexander Molyneux: The strip in April was - I do not think - we do not want to be that - it was higher than quarter one and it was less than 6.8 to one. It would have been maybe about five to one or something like that.
- Question: Yeeman Chin (Macquarie / Analyst) Okay, thanks. What are we expecting for the second half roughly?
- Alexander Molyneux: Well, the second half I think will be broadly in the four to one type zone or even slightly less.
- Question: Yeeman Chin (Macquarie / Analyst) Okay. So it should be back to normal life of mine standards?
- Alexander Molyneux: Yes, the cash - other than if the oil price remains high and the diesel is expensive, then...
- Question: Yeeman Chin (Macquarie / Analyst) So at the current rate, as you said it was like \$5 in the Norwest study...
- Alexander Molyneux: Yes.
- Question: Yeeman Chin (Macquarie / Analyst) ...and right now it is about 20 to 25% higher, so roughly another \$1 to \$2...
- Alexander Molyneux: Yes.
- Question: Yeeman Chin (Macquarie / Analyst) ...costs, is that right?

Alexander Molyneux: Yes.

Question: Yeeman Chin (Macquarie / Analyst) So assuming the current fuel price continues then you are looking at about \$15-17?

Alexander Molyneux: Yes.

Question: Yeeman Chin (Macquarie / Analyst) That is very clear, thanks. I just had another question on the exploration front, because I mean obviously that is something that a lot of investors are very concerned about. I think you were saying firstly I guess when are we going to - are there any plans in the next 12 months to publish any updated resource and resource statements? Or if not, is there any way we can track this progress?

Alexander Molyneux: Well, the only way to track the progress is to see the amount of money and drilling that we are doing and what are the targets that we are working on that. I mean, you have to assume that we will not spend money and do thousands of metres on targets that we have already popped one or two holes in, and have determined there is nothing there.

In terms of reporting, the drilling season in Mongolia basically runs from March through to October and we should be most focused on drilling right through to October. Following the drilling season then our primary focus is to calculate resource numbers according to former Soviet Union standards, which we are not able to publish.

The reason for that is because they are the resources and modelling plans that we can discuss with the Mongolian government from a point of view of resource registration, mining licences and things like that so that is our primary objective. I would say the next time we do a publishable 43-101 standard resource update would be in 2011, and maybe towards the end of the first quarter or so.

Operator: Our next question is Tom Sullivan from TMT SCLC. Please go ahead.

- Question: Tom Sullivan (TMT SCLC / Analyst) Thanks gentleman. Could you please talk about your sales as it relates to any contractual backlog you have or any long term contracts on the spot market?
- Alexander Molyneux: What we do in our contracts right now is we have really moved all our customers over to a quarterly contract arrangement, so basically about six weeks before the end of any given quarter we start negotiating tonnages and pricing for the upcoming quarter. So we go to our customers with our mine plans in terms of the quality of coal we will have available in the next question, and then we fix contracts and we sign new contracts every quarter basically.
- Question: Tom Sullivan (TMT SCLC / Analyst) Okay, so you in theory never would have a long term contractual backlog where you are going to longer periods...quarterly contracts?
- Alexander Molyneux: No. Once we are able to really engage more fully with a different type of customer, being the end user steel plants, we may think about alternative ways of pricing if that is required to be attractive to those customers. Our preference is we like the quarterly arrangement. We think it gives you - effectively it keeps you spot market exposed. We want to be spot market exposed because the regional pricing dynamic is for the north-western region of China and the northern region of China, to have prices that probably do better than on the coastal areas as the economy is - the coal demand supply situation is expected to get better and better in our area. That is one thing.
- The second thing is there are transportation improvements always being made and this increases the value of our coal, so we want to keep it short term price on that basis as well. I guess the other point is, is we feel very robust about the outlook for broader coal prices and so we want to be spot exposed from that extent as well. So the quarter gives you a good way of - it is a good time to be able to plan how much coal you are going

to produce, what qualities and that sort of thing, while still being effectively spot exposed.

Question:

Tom Sullivan: (TMT SCLC / Analyst) As far as your sales, what are the challenges for you bringing more product to market, besides obviously the fleet? It sounds like you have more than enough capital. Is it more shovels or more Terex loaders? What do you view the biggest challenges to keeping your growth on track?

Alexander Molyneux:

Well, we really want to focus on this fleet expansion. Mongolia frankly really is in the middle of nowhere and we have challenges in - whilst on the one hand you could say our growth is low risk, because we have a big open pit mine and we do not have to - it is not underground mining, we know what the coal quality is there, and all we have to do is add more trucks and shovels to it.

But we have other unique challenges. A good example is we have the second 996 fleet - sorry, we have the first 996 fleet, our second overall fleet. The 996 arrived, the Terex trucks arrived. The 210 trucks, you cannot drive them on roads so you assemble them on site, and then Terex sent the assembly team from [Balta], which is their China headquarters, up to Mongolia by car. They had a car accident so we lost the Terex assembly team and we have been waiting for weeks. Now they have found a replacement team and we will have the second two trucks assembled by the end of this month, and then we will have 996 fully trucked.

You have these issues in terms of delivery of equipment on site. That is one thing, but that is very, very short term timing, otherwise I think really there are not masses of risk to our growth. Our Soumber mine is still yet to be permitted so that is dependent on actually receiving the mining licence to be able to bring that segment of our future growth on.

Question:

Tom Sullivan: (TMT SCLC / Analyst) Could you speak more about the silver mine. That is in Soumber correct?

Alexander Molyneux: Yes, Soumber is 16 kilometres to the east of our Ovoot Tolgoi mine. It is premium hard coking coal so it is a very, very good quality. The coal has got higher ash in-situ so it all needs to be washed to yield that quality coal, but it is a very, very high quality coal. We revealed in October last year the [maiden resource] for September, which is a total of 77 million tonnes of coal and measured indicated and inferred categories.

We are negotiating a mine plan with the Mongolian government at the moment, and once we complete the broader negotiations of what information they want and this sort of thing, then we will formally make a license application. The law in Mongolia preserves this for us in terms of we have the exploration permit, so the coal that we found there, we have the exclusive right to develop and convert to a mining licence. It is just a process of we need to register economically mineable resources. We need to go through some - provide some information on our plans to develop the mine and the whole rest of it, so we are just going through that regulatory process at the moment.

Question: Tom Sullivan: (TMT SCLC / Analyst) How long is that regulatory process for getting a mining licence once you find a targeted and viable...?

Alexander Molyneux: It typically takes about two years but we are well into that process already, so we are sort of 12 months into that process. Because before we revealed the 43101 resource, we already had - because with the Mongolian government you do not use Canadian resources. You use mining standards that are similar to the former Soviet Union standards, in terms of negotiating items with the regulatory authorities.

Question: Tom Sullivan: (TMT SCLC / Analyst) Did I read that you have 18 current exploration licences?

Alexander Molyneux: Yes.

Question: Tom Sullivan: (TMT SCLC / Analyst) Of those 18, how many are going to be active this year?

Alexander Molyneux: I cannot give you the exact number, but I would say - I think we are currently drilling on three licences, and I would say by the end of this year - in terms of prioritising our exploration, we will probably end up touching four or five licences in a big way by the end of the year. Having said that, we have to do some work on every single licence. The law in Mongolia is that in order to keep a licence valid, you must do minimum exploration every year on each licence.

Question: Tom Sullivan: (TMT SCLC / Analyst) How many of the ones you were working on do you expect to try to convert to full mining licences?

Alexander Molyneux: Well, the whole exploration permit does not convert to a mining licence and this is part of how you negotiate with the Government. You could have a very large mining licence - exploration licence that a small portion of that exploration licence will be an area that actually has a resource on it. Then the Government will allocate you a mining licence over that resource and the area around those resources that would practically be required to set up a mining operation at that location.

Then you would convert a piece of that exploration permit to a mining licence. So I think we have - Ovoot Tolgoi is our first mining licence. We have another called Tsagaan Tolgoi, which is around about 400 kilometres to the east of Ovoot Tolgoi. We have - Soumber I think will be the third mining licence we get, and we probably have at least another two deposits in the near term that we are very focused on.

Question: Tom Sullivan: (TMT SCLC / Analyst) Is that the Tsagaan Tolgoi deposit, is that the other one?

Alexander Molyneux: No, Tsagaan Tolgoi - well Tsagaan Tolgoi we have a mining license for but the coal quality is not as good as the quality that we have further to the east - further to the west in the Ovoot Khural basin. The Tsagaan Tolgoi coal quality is not coking coal, so the IRR of developing that mine is lower than say developing

- so we have got a mining licence, but we are more focused on the development of Soumber as the next mine, which has a much higher return.

There will be additional deposits in that Ovoot Khural area, which is broadly the area around Ovoot Tolgoi and Soumber, that will probably be mines that would be prioritised to be developed ahead of Tsagaan Tolgoi as well.

Question: Tom Sullivan: (TMT SCLC / Analyst) Right. So it sounds like you have more than enough financial resources for your exploration with the \$25 million a year, since you already have - it sounds like a lot of targets and a pretty clear strategy as far as moving ahead as far as the mining licenses it seems.

Alexander Molyneux: Yes.

Operator: Our next question is Catherine Wang from Citigroup. Please go ahead.

Question: Catherine Wang (Citigroup Global Markets / Analyst) Hi Alex and Terry. I have a few questions. First, in terms of the net loss related to CB, could you please give a breakdown between the loss and partial conversion [unclear]?

Terry Krepiakevich: Let me just get the question correct. You want to know what the makeup is of the loss?

Question: Catherine Wang (Citigroup Global Markets / Analyst) Yes, of the \$162.

Terry Krepiakevich: Well, it has got the interest expense and the convertible debenture. It has the fair value change on the embedded derivative and the loss and the partial conversion of the - the loss and the conversion of the convertible debenture.

Alexander Molyneux: What is the breakdown? It is \$151 million loss on partial conversion. Note 14 in the...

Terry Krepiakevich: The \$163 million is made up of the \$1.3 million, \$1.4 million on the fair value change with the embedded derivative and the convertible debenture. The loss on the partial conversion of the convertible debenture is \$151 million. It is in note seven to the

financial statements. Sorry, did not get the question. Note seven will give you the breakdown of all the numbers.

Question:

Catherine Wang (Citigroup Global Markets / Analyst) Okay, thanks. The second question I want to ask is after the realignment of your mine, can you give us the updated production plan for this year and the next two years? Also, will the alignment affect your original planned mix between premium coal and thermal coal for the production?

Alexander Molyneux:

Basically the mine plan is still broadly for a four to one strip ratio and the remainder of this year I would say for quarter three and quarter four, we should have something around 300,000 tonnes a month of coal available. Then in 2011 we still plan production in the region of say 5.5 to six million tonnes, in 2010 the same in terms of - of it - we are looking at something like eight million tonnes of raw coal production. Then in 2012 we would like to have Soumber in production for its first production as well.

So in 2011 in terms of product coal after yield loss, because we will be processing coal, maybe it is 5.5 million tonnes and then it grows to about 10.5 million tonnes in 2013 of product coal. The plan - the pit realignment will actually improve the quality of most of the coal that is in the Norwest study determined as thermal coal.

All the coal at Ovoot Tolgoi has semi-soft coking properties. The coal that is in the Norwest study that is put down as thermal coal, is usually just blocks that are higher ash in the resource model. Those eight, nine and 10 seams are thinner seams and there is more partings in them, and so if you mine them side on if you like, it is almost impossible - if you mine them side on, you will take all this ash with the coal. If you mine those seams face on, you can actually sort of pull more of the ash away and then mine more coal and then mine more ash away in terms of as you hit [partings] or as you move through the thinner seam.

So the pit realignment will actually improve the quality of the eight, nine and 10 seam coal as it comes out of the pit. It will be lower ash and that is one of the primary purposes of doing it. So more of our coal on a raw coal basis will be premium coal, once we have completed the pit realignment. We still intend to process this Ovoot Tolgoi coal, which will then further improve the thermal coal and we will be looking to blend coals to create a benchmark style semi-soft coking coal product.

The five seam coal itself, most of the five seam coal is actually lower than 10% ash. Then if we can blend it back up to a 9-9.5% ash or something like that, we create a very good quality market acceptable semi-soft coking coal. That is the purpose of our coal - we are changing the mine so we mine the coal cleaner. Then we are putting the coal handling facility in place so that we can have a more consistent product, more of it is semi-soft coking coal and it is all the right size to meet customer requirements.

Question: Catherine Wang (Citigroup Global Markets / Analyst) Is it possible to quantify that? As I remember, initially your plan is probably 55% of the raw coal would be the premium quality semi-soft.

Alexander Molyneux: Yes.

Question: Catherine Wang (Citigroup Global Markets / Analyst) After this, what kind of percentage do you think you will reach?

Alexander Molyneux: I think at some stage we should have something like 75% of the coal that we sell from Ovoot Tolgoi or 80% of that coal should be semi-soft coking coal. We will no longer really have this product that is premium coal or thermal coal. They are the products that are associated with the raw coal. I think we will have - something like 80% will be semi-soft coking coal and the remainder will be a by product coal, which will be a bit higher ash. Then that will probably still be some kind of thermal coal product.

Question: Catherine Wang (Citigroup Global Markets / Analyst) Okay, understand, thanks. Another question is your selling prices in first quarter, the average price is USD36 per tonne. Can you give the ASP for different product?

Alexander Molyneux: Most of that coal was premium coal. I am not sure if we split the ASP between products. It was almost entirely premium coal what we sold, so yeah, the ASP for the premium coal would maybe be \$36 or \$36.50 or something. It is pretty much all we sold in the first quarter.

Question: Catherine Wang (Citigroup Global Markets / Analyst) Okay, understand. Just one last quick question. Have you got an update for the east [unclear] railway in China, how is that going?

Alexander Molyneux: It is still scheduled to open this year basically. It is all done. There is more loading facilities are being constructed on that railway. Customers are already talking to us about the cost savings that they will have and their plans, everybody's different plans to use the railway. So we think in June or July that railway is going to be functional on a commercial sense. It is already moving test cargoes of coal.

Question: Catherine Wang (Citigroup Global Markets / Analyst) That is all from me. Thanks a lot for your explanation.

Alexander Molyneux: Thanks Catherine. We will just take - we are going to have to finish at 9:15, so maybe we will just take the next two questions I think, if that is Yeeman and...

Operator: Certainly. Our next question is Yeeman Chin from Macquarie. Please go ahead.

Question: Yeeman Chin (Macquarie / Analyst) Hi. I just have a very quick follow up question. The first question is you mentioned we do have a mining licence at Tsagaan Tolgoi. Is there any risk of losing this if we do not move on it in the next few years? I guess secondly if you could just give a very brief update on the regulatory situation in Mongolia, that would be great. Thanks.

Alexander Molyneux: It is hard to know. It is probably not - in terms of Tsagaan Tolgoi, if you get mining licences and permits there is pressure to move forward with the development of those assets. So if that pressure becomes too high, then one consideration may be to sell that asset to someone who would develop it. It is an asset with a relatively robust positive IRR. It just does not compare from our perspective to the IRRs of our other projects that we have in the western part of the South Gobi. It could be something for someone else to develop.

At the moment there is some potential - at the moment we are really monitoring the situation because it is still unclear what the arrangement will be to generate power in Mongolia in the western side of the South Gobi. The Ovoot Tolgoi project will require lots of power and Mongolia - under the investment agreement for Ovoot Tolgoi, they are only allowed to import power from China for a limited amount of time.

Mongolia intends to develop a power station somewhere in the western part of the South Gobi, and depending on where that is will depend whether there is a domestic sort of - there is some synergy in terms of developing Tsagaan Tolgoi for that purpose - or whether an alternative coal source is selected. So that is the first thing. That is why we continue to hold that asset and work on it.

Question: Yeeman Chin (Macquarie / Analyst) I guess if I just can ask very quickly, because we are not exactly cash or capital constrained, at least compared to other potential operators in Mongolia. I was thinking if we do not want to develop it, aside from the cash is there any other issues? Like just management time, people...

Alexander Molyneux: It is probably that in terms of just the focus on - the way I look at it is, each of Ovoot Tolgoi and Soumber are assets in their own right, that are worth well north of a billion dollars each. Tsagaan Tolgoi is a \$50 million asset, maybe it is worth \$100 or \$150 once you develop it, but it is totally different in terms of the management distraction and the whole rest of it. You create

a lot more value by getting the exploration right in the Ovoot Khural area. To the extent we have extra capital, there are additional deposits that we hope to identify in the Ovoot Khural area, that I would imagine have a much higher return on that capital than putting it into Tsagaan Tolgoi.

So that is Tsagaan Tolgoi. Generally the regulatory situation in Mongolia I think is fairly positive. All this recent announcement by the president and the whole rest of it I think is very positive. It is maybe misinterpreted by the market, I am not sure, but what the president is basically saying is that there is a lot of permit squatting going on in Mongolia. Where people just race around and they get any exploration permit they can, and these are companies that have no capital and they sit on the permits and they trade them or they try and get other people to invest in them and the whole rest of it.

What happens is in the meantime these owners of these exploration permits do not have the financial resources to undertake the exploration, so more than 40% of Mongolia's issued exploration permits are not having the minimum exploration done under the law every year. The reports are not being even - they are not even being filed.

So what the Government is saying - and the problem with the legal regime in Mongolia is the permit is only valid if you do the minimum exploration, the whole rest of it. But the legal regime for sort of taking the permit away and everything is a little bit unclear, so the Government wants to make that much clearer, such that they can stop this. They can make sure the exploration permits are in the hands of people who will actually invest in the exploration, and create assets that may have the potential for being developed in the future.

So that is quite a positive outcome for SouthGobi. It is actually tightening the legal regime. We undertake the minimum legal exploration on all of our permits. We diligently file our reports every year covering exploration that we have done. So the

exploration permits we have are not in legal question, but the fact that other permits may come available is a good thing too. I think it is quite positive.

The president has a Harvard Law background and he is always very focused on what is the right legal way, and he is focused on reducing corruption. So his ideas are generally very positive and I think this is actually a positive step, but people just see a headline that says Mongolian government suspending permit transfers or new permits and they do not really understand the angle.

Question: Yeeman Chin (Macquarie / Analyst) How about the royalty bill?

Alexander Molyneux: The royalty - the prime minister - the finance minister has made a statement that he would like to consider researching an increased royalty arrangement. That is the only thing that has happened today, otherwise there is no new royalty law consideration. There is nothing else. It is the finance minister has made a statement that it is something that should be researched.

Question: Yeeman Chin (Macquarie / Analyst) Is it just as an idea?

Alexander Molyneux: Yes. I think it will be researched and I think this is probably the nature of what is going on in the mining industry globally. China is planning to introduce an [unclear] royalty this year that will effectively triple the royalty rate for Chinese coal miners. That will drive coal prices up. Australian royalties have pretty much doubled over the course of the last five or six years in places like Queensland for coal.

We operate in a very attractive tax and royalty regime and a very stable tax and royalty regime, but this is kind of the start. You see governments making these points right around the world.

Question: Yeeman Chin (Macquarie / Analyst) Okay, thanks.

Alexander Molyneux: One more.

- Operator: Our next question is Terrence [Orson] from [TSMO]. Please go ahead.
- Question: (Terry Orson, TSMO / Analyst) Thanks. I will be really short. The reference you made Alex in respect of the 40% of the mining exploration licences not being actively explored, that is for coal or mining in general exploration?
- Alexander Molyneux: That is mining in general and it is anecdotal. It is the president's office themselves made that comment in exploration - to explain the president's statement. He was basically saying that this is the problem, is that most - there is all these permits that no one is doing the minimum exploration on. They are not even filing the reports so they want to tighten the law, so that the holders of exploration permits are actually people who will be in good standing to be able to finance exploration but also have the expertise and will commit to the exploration otherwise that permits will be removed.
- Question: (Terry Orson, TSMO / Analyst) Just coming back to the valuation of the market. I mean, we have seen a drop in the market cap about 50% or 40%, whatever, but that is a short term issue. In your view the way the market is moving in the Asia - in Asia specifically on asset basis and in the meantime you are building your resource and reserves and your capacity as well.
- Looking a few years down the road and you start reaching some reasonable scale, where do you think the - with the depletion issues as well as the quality issues in China - where do you think the asset value is going to hang around with respect to dollars per tonne in [unclear] type of thing in Asia versus today? You know the market better than we do.
- Alexander Molyneux: Look, I think this, that right now people are making acquisitions of coking coal resources in China at around about - up to about USD8 per tonne of resource, and they are usually resources that are done using the Chinese resource code. You could say that is like \$15 per 43101 type tonne. I think that really we have hit peak coal production in provinces like Shandong, Anhui and

Hunan are really struggling with coking coal production, so any incremental coal you get out of Shanxi is being zapped up by these markets.

It is almost impossible to see a future where China becomes self-sufficient for coal again, in particular coking coal. The kind of volume that China will have to import for coking coal to meet 10 or 15% of its needs will effectively increase the market for internationally traded coking coal in Asia by about 50%, in terms of the market size. It is a dynamic that you just - that we have seen in iron ore in the past eight years or so and now it is really a dynamic we are going to experience in coking coal.

The cost of living a marginal tonne of coking coal in China is now around about USD100 a tonne. It is just - and that affects the value of those resources as well, so our resources with our cost structure should be worth more than a typical Chinese coking coal resource. Because the cost structure, the margins that we will get out of our coal is much higher, because you just do not find low strip open pit coking coal resources in China or you do not find them in a us either.

I think, we feel pretty displeased by the way the market has traded our stock. We think people have been talking about issues of liquidity and things like that in terms of our stock and that is really missing the big game in terms of the value that is being created here.

Question: (Terry Orson, TSMO / Analyst) Thanks for the insight guys.

Alexander Molyneux: Thanks. Alright, good, so that is it. Thank you.

Operator: Thank you ladies and gentlemen. There are currently no further questions. Alex, and Terry, do you have any further comments.

Alexander Molyneux: No thanks. Just like to thank everyone for joining the call today and we look forward to - Q2 we will do an actual sort of public presentation. So what we are planning to do is at the half year and the full year, we will do in person presentations and then we will do conference calls at every other quarter.

Operator: Thank you ladies and gentlemen. This concludes our conference call. Thank you all for attending.

End of Transcript