

**TECHNICAL REPORT:
UNDERGROUND RESOURCES
AT OVOOT TOLGOI WEST FIELD
OMNOGOVI AIMAG, MONGOLIA**

Submitted to
SOUTHGOBI ENERGY RESOURCES LTD.
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TABLE OF CONTENTS

	TITLE PAGE	1
	TABLE OF CONTENTS	1
	List of Tables	2
	List of Figures.....	2
Section 1	SUMMARY	3
Section 2	INTRODUCTION AND TERMS OF REFERENCE	12
Section 3	RELIANCE ON OTHER EXPERTS	14
Section 4	PROPERTY DESCRIPTION AND LOCATION	15
Section 5	ACCESSIBILITY, CLIMATE, LOCAL RESOURCES, INFRASTRUCTURE, AND PHYSIOGRAPHY	18
Section 6	HISTORY	20
Section 7	GEOLOGICAL SETTING	22
Section 7.1	Coal Occurrences	22
Section 7.2	Structural Geology.....	24
Section 7.3	Geotechnical Data	25
Section 7.4	Groundwater Regime	25
Section 7.5	In Situ Gas/Methane	26
Section 8	DEPOSIT TYPES	27
Section 9	MINERALIZATION.....	28
Section 10	EXPLORATION.....	30
Section 11	DRILLING	34
Section 12	SAMPLING METHOD AND APPROACH	36
Section 13	SAMPLE PREPARATION, ANALYSES, AND SECURITY	37
Section 13.1	Core Drilling Samples.....	37
Section 14	DATA VERIFICATION	39
Section 15	ADJACENT PROPERTIES	41
Section 16	MINERAL PROCESSING AND TESTING.....	42
Section 16.1	Regional Quality Characteristics.....	43
Section 16.2	Coal Quality.....	43
Section 17	MINERAL RESOURCE ESTIMATES.....	45
Section 17.1	Approach	45
Section 17.2	Coal Resource Estimation	45
Section 18	OTHER RELEVANT DATA AND INFORMATION	50
Section 19	INTERPRETATION AND CONCLUSIONS	51
Section 20	RECOMMENDATIONS.....	53
Section 21	REFERENCES.....	56
Section 22	SIGNATURE AND DATE	57
	CERTIFICATE OF QUALIFICATIONS.....	58
Section 23	ADDITIONAL REQUIREMENTS FOR A TECHNICAL REPORT ON DEVELOPMENT PROPERTIES AND PRODUCTION PROPERTIES	60

LIST OF TABLES

List of Tables

Table 1: Surface Coal Resources Summary for Ovoot Tolgoi (for data collected up to December 31, 2006) (Norwest)	5
Table 2: Deep Coal Resources Summary for Ovoot Tolgoi West Field (for data collected up to December 31, 2006)	9
Table 3: SQG Mine License Description.....	17
Table 4: Ovoot Tolgoi West Field Coal Seam Characteristics	28
Table 5: Corehole Drilling Results in Potential Underground Mining Area	30
Table 6: 2008 Ovoot Tolgoi West Field Underground Mining Potential Exploration Program.....	32
Table 7: Drilling History at Ovoot Tolgoi.....	34
Table 8: Norwest Coal Product Categories based on Critical Coal Analyses	43
Table 9: 2007 No. 5 and 5L Seams Drilling Results	44
Table 10: Criteria Used to Define Assurance of Existence for Coals in Complex Geology Type	46
Table 11: Deep Coal Resources Summary for Ovoot Tolgoi West Field	47
Table 12: 43-101 Exploration Program Budget Estimate.....	55

LIST OF FIGURES

List of Figures

Figure 1: Ovoot Tolgoi Location Map	4
Figure 2: SGQ Mine License and Potential West Field Underground Mine Area	6
Figure 3: Ovoot West Field Location Map	15
Figure 4: SGQ Mine License and Potential West Field Underground Mine Area	16
Figure 5: Generalized Stratigraphy with Seam Nomenclature	22
Figure 6: North to South profile section of the No. 5 and 5L Seams.....	23
Figure 7: Potential Underground Mine Area (red) and Boreholes Intercepting the No. 5 Seam.....	24
Figure 8: Exploration Plan	31
Figure 9: Resource Criteria Employed for Potential Underground Mine Area	46
Figure 10: Potential Underground Mine Areas (Norwest Projected and Currently Projected)	48

SECTION 1: SUMMARY

The Americas Group, Inc. (TAG) prepared this technical report at the request of Southgobi sands, LLC, a wholly owned subsidiary of Southgobi Energy Resources Ltd. (collectively "SGQ"). It has been prepared in accordance with National Instrument 43-101, Form 43-101F1. The purpose of the report is to describe the underground coal occurrences in SGQ's Ovoot Tolgoi West Field as of March 13, 2008, and to describe the exploration program methodology that will acquire technical data to advance the evaluation of underground mining potential.

In June 2007, Norwest Corporation (Norwest) of Salt Lake City, Utah, completed a study of Ovoot Tolgoi's underground mining potential for Southgobi sands, LLC (SGQ).

Norwest identified two potential underground areas. Both areas, the West Field and the Southeast Field, are contained within SGQ's existing mine license. The potential underground mine areas are adjacent to the proposed surface mine for the No. 5 Seam in the Southeast and West fields where drilling information was prevalent.

This report addresses coal occurrences for the No. 5 Seam contained within the West Field potential underground mining area. Upon completion of all processes and procedures necessary to complete the 43-101 compliant exploration program, and subsequent filing of an updated 43-101 Technical Report for SGQ's West Field underground resources SGQ intends to focus on development of the Southeast Field potential underground mining area.

The Ovoot Tolgoi West Field underground mining potential is at the exploration stage of investigation, thus with a scoping level of accuracy, and preliminary in nature.

SGQ has commissioned The Americas Group (TAG) to develop and manage an exploration program that will be reported under National Instrument 43-101.

The exploration program objectives are to provide the information necessary to advance the engineering evaluation of underground mining potential for the No. 5 Seam in the Ovoot Tolgoi West Field.

On September 20, 2007, SGQ received a Mine License for the development of an open-pit coal mine at Ovoot Tolgoi. The West Field potential underground mine area is within SGQ's current mine license. A detailed mine license description is contained in Section 4 of this report.

Upon completion of the exploration program TAG is to provide a digital model, updated 43-101 compliant underground resource estimations geologic technical report summarizing results of the exploration program.

In order for TAG to develop the 2008 Ovoot Tolgoi West Field 43-101 exploration program, TAG has reviewed and evaluated all the geological information currently available, and has summarized this information within this technical report.

Location

The Ovoot Tolgoi property is located in the southwest corner of the Omnogovi Aimag (South Gobi province), approximately 320 kilometers southwest of the provincial capital of Dalanzadgad and 950km south of the nation’s capital, Ulaanbaatar. Ovoot Tolgoi is 45 kilometers north of the Mongolia-China border and the Ceke border crossing. Ceke, in the Peoples Republic of China, will be the main distribution center for Ovoot Tolgoi coal.

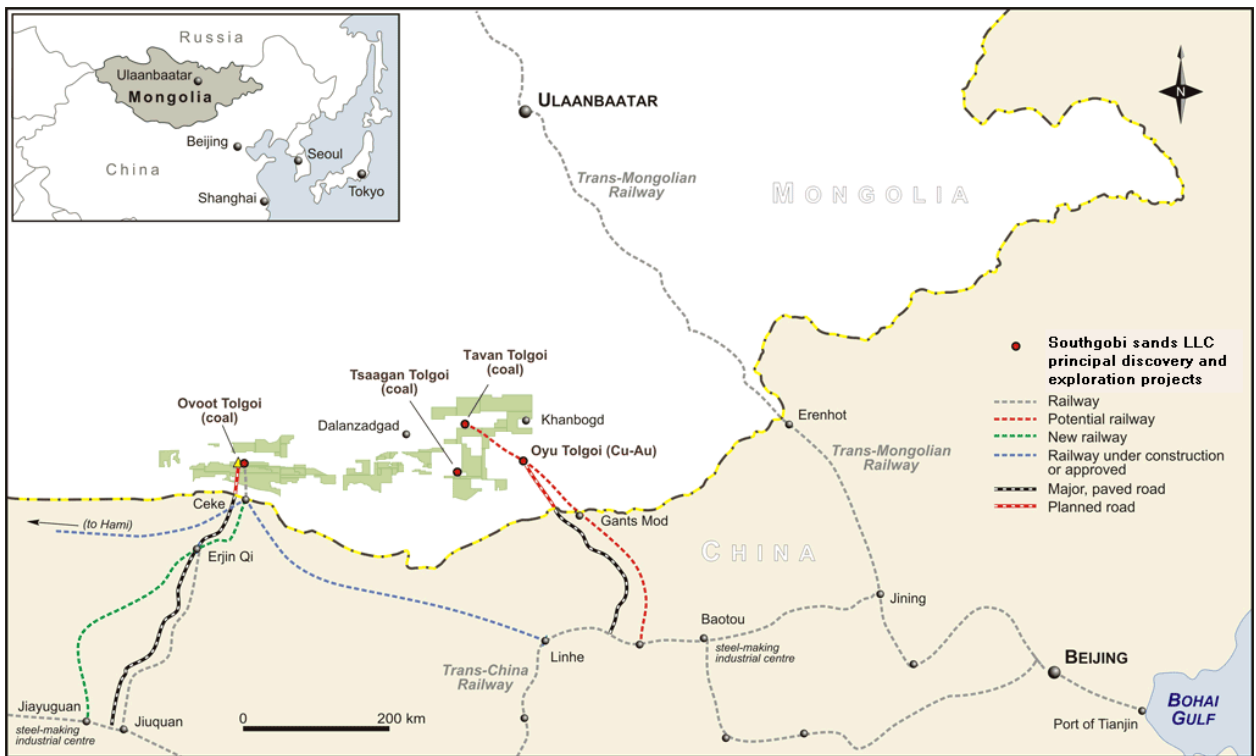


Figure 1: Ovoot Tolgoi Location Map

Exploration

Exploration began in late 2004 with the completion of five drill holes in the Ovoot Tolgoi deposit area that is now within the mine license controlled by SGQ. Exploration programs continued in 2005, 2006, and 2007 with the emphasis on delineating surface resource potential.

Surface Coal Resources

Current in-place surface coal resources at Ovoot Tolgoi, independently prepared and reported by

Norwest in *Technical Report, Coal Geology and Resources, Ovoot Tolgoi Property, Omnogovi Aimag, Mongolia, June 21, 2007* are approximately 150 million tonnes of measured and indicated resources, and an additional 29 million tonnes of inferred resources.

Below in Table 1 is the Norwest surface coal resources summary. The summary is based on data collected up to December 31, 2006.

Area	ASTM Group	In-Place Resources (Tonnes)		
		Measured	Indicated	Inferred
South-East Field	hvB to hvA	49,752,000	15,987,000	6,502,000
West Field	mhB to hvA	55,144,000	28,698,000	22,601,000
Total			149,580,000	29,103,000

Table 1: Surface Coal Resources Summary for Ovoot Tolgoi (for data collected up to December 31, 2006)

Surface Mine Planning

In May 2007, the project's Detailed Environmental Impact Assessment (DEIA) received approval by the Mongolian government's Ministry of Environment.

The Mongolian government's resource committee approved the geological resource report for Ovoot Tolgoi on August 6, 2007.

On September 20, 2007, SGQ received a Mine License for the development of an open-pit coal mine at Ovoot Tolgoi.

The West Field area of Ovoot Tolgoi is designated as the initial surface mine operation. Predevelopment of the surface mine is to commence in the first quarter of 2008, and shipping of coal to market is to start in the third quarter of 2008.

The current West Field pit design is for surface operations with projected mine depths of from between 200m and 250m.

Underground Mining Potential

Preliminary-level studies to determine the potential for underground mining of the Ovoot Tolgoi No. 5 Seam on SGQ's coal property were prepared in 2007 by both Norwest and, by George Klinowski, P. E. These studies addressed underground mining method selection, economics, and the geology, geotechnical, methane, hydrology, and coal quality data required to evaluate development of detailed mine planning of the No. 5 Seam coal occurrences at intercept depths

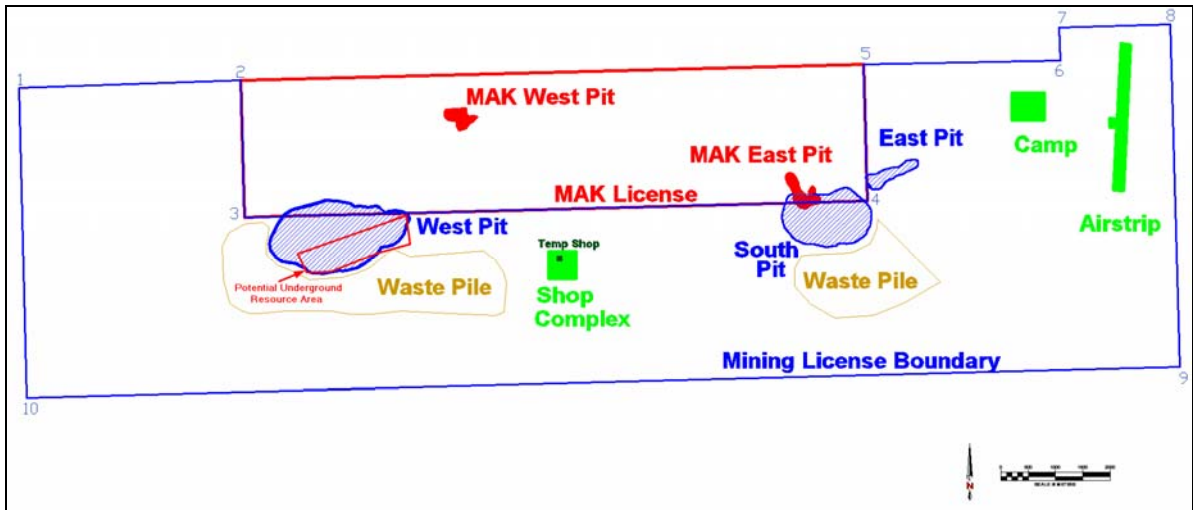
between 250m and 650m.

Norwest identified two potential underground areas. Both areas, the West Field and the Southeast Field, are contained within SGQ's existing mine license. The potential underground mine areas are adjacent to the proposed surface mine for the No. 5 Seam in the Southeast and West fields where drilling information was prevalent.

This report focuses on securing engineering-required geologic data to advance detailed mine planning for the No. 5 Seam in West Field within the potential underground mine area. The scheduled completion date for the 2008 Ovoot Tolgoi West Field exploration program is in August 2008. TAG will provide SGQ with 43-101 compliant resources estimations in October 2008. Additionally, TAG will provide an updated 43-101 geologic technical report of the underground resource area upon acquisition of all coal quality laboratory-testing results; projected for February 2009.

Once the West Field exploration program is completed, the focus for exploration will switch to the South East Field. These coal occurrences are immediately adjacent to the currently planned surface pit operations inside the SGQ mine license area.

Figure 2 is a plan view of the SGQ mine license. The potential West Field underground mine area occupies the southern portion of the planned West Pit surface mine operation.



**Figure 2: SGQ Mine License and Potential West Field Underground Mine Area
Underground Mining Geologic Factors**

Both previous preliminary-level studies noted gaps in geologic information that would have to be resolved before advancement of engineering analyses of detailed underground mining operations can be undertaken. Therefore, given the requirement for additional geological information, only a

preliminary conceptual mine layout has been developed now. The conceptual mine layout incorporates the concept of hydraulic mining.

George Klinowski, P.E. has stated in his conceptual report that:

“There are several geological factors of major importance for consideration when designing a mine project for this area. These are:

- *Coal seam structure – seam dip, thickness, and depth of overburden*
- *Geotechnical characterization of the No. 5 Seam rock stratum above and below the seam*
- *In situ methane content and the rate of methane desorption*
 - *Characterization*
 - *Potential*
 - *Utilization techniques*
- *Groundwater regime*
- *Coal quality*
- *Resource potential*

Each of these factors will have a critical influence on any underground mining operations.”

In February 2008, Mitsui Engineering out of Tokyo, Japan was contracted by Southgobi sands to provide engineering assistance on the underground mine plan.

TAG, employing data provided by SGQ, has summarized the status of the geologic factors noted above.

Coal Seam Structure

Coal occurrences in the West Field are found along a southwest striking trend. Current data indicates a thrust fault system controls the distribution of coal in this area. This interpretation divides the West Field into two distinct resource blocks: south and north.

Current data for the potential underground mine area does not indicate the presence of any major structural geologic features. However, only four widely spaced boreholes have been drilled for the No. 5 Seam below 250m depth within the potential underground mining area. Therefore, the potential exists for smaller or unknown tectonic features that may affect seam thickness and dip.

Geotechnical Data

No geotechnical information currently exists within the potential underground mine area.

Geologic projections indicate the depth of overburden reaches 650m in the underground No. 5 Seam resource block.

Ground Water Regime

Currently, no hydrology data is available within the potential underground mine area.

No ground water data acquisition is planned for the 2008 exploration program. If continuance of underground mine planning is favorable based on the 2008 data results, then a 2009 hydrology-drilling program is warranted.

In Situ Gas/Methane

The conceptual mine plan assumes that significant methane levels will be present in the seam, especially at greater depths. Assurance of gas capture and removal is essential for safe mining conditions.

Information on gas/methane content of No. 5 Seam is currently unavailable. George Klinowski, P.E. recommends that the exploration program provide diligent testing of gas/methane characterization, desorption rates, content, potential, and utilization techniques.

Coal Quality

Annual exploration program (2005 through 2007) drilling results continue to identify potential coking (HCC) and semi-soft (SSC) coals at depth, beneath the lower boundaries (200m – 250m depth) of the planned open pits at the West and Southeast Fields.

Currently, there is insufficient coal quality data on the No. 5 Seam in the potential underground mine area to model these potential coking (HCC, SSC) zones within the seam, but enough quality information exists to warrant the program for 2008.

Potential Resources

The underground coal occurrences for the No. 5 Seam in the West Field are currently located down-dip and adjacent to the planned surface mining operation where the majority of drilling information exists.

The underground coal occurrences identified for the purpose of this study occur from 250m depth to a depth of approximately 650m below the surface. The total extent of these occurrences is currently unknown.

TAG completed resource estimations effective March 13, 2008 for the No. 5 Seam in the potential underground mining area of the Ovoot Tolgoi West Field. The resources estimates are based on data acquired by SGQ exploration through December 31, 2006. Holes drilled in the

2007 exploration program were not included in the resource estimation. Table 2 is a summary of the No. 5 Seam underground resources based on data acquired by SGQ as of December 31, 2006.

Underground Area	ASTM Group	In-Place Resources (Tonnes)		
		Measured	Indicated	Inferred
West Field	mhB to hvA	3,867,000	12,590,000	36,735,000

Table 2: Deep Coal Resources Summary for Ovoot Tolgoi West Field, March 13, 2008

Composite quality analyses previously performed in 2005 and 2006 on SGQ’s Ovoot Tolgoi West Field license area indicate the coal rank to be high volatile B to A bituminous, based on the ASTM D388 standard. Holes drilled in the 2007 exploration program were not included in the coal ranking.

The Ovoot Tolgoi West Field underground mining potential is at the exploration stage of investigation, thus with a scoping level of accuracy, preliminary in nature, and includes inferred resources in the estimation of underground resources available.

A high percentage of measured category resource confidence is essential to obtain an underground mine license from regulatory agencies and ensure a properly planned mine.

Recommendations

In order for engineering to advance the development of detailed mine planning potential, TAG recommends SGQ execute a 2008 exploration program to obtain geological, geotechnical, gas/methane, coal quality data, and updated No.5 Seam resource estimates within the potential underground area of the Ovoot Tolgoi West Field.

TAG has designed an exploration program consisting of 36 boreholes. The 36 boreholes will obtain data for coal seam structure, geotechnical information, in-situ gas/methane content, coal quality, and coal thickness for updating resource estimates.

The 2008 potential underground mining exploration program plans to drill

- 36 of the 36 boreholes to obtain coal seam structure data to detect geologic discontinuities such as faults, seam wash-outs, or splits. The exploratory methodology will provide data to detect and map any possible structural features adversely affecting any planned mining panels.
- 12 of the 36 boreholes to obtain the necessary geotechnical data
- 13 of the 36 boreholes to obtain in situ gas/methane data
- 11 of the 36 boreholes to obtain coal quality data

- 36 of the 36 boreholes to obtain seam thickness for the No. 5 Seam. This will place approximately 64% of discovered coal occurrences within the measured resource category.

Additionally, TAG recommends SGQ execute an exploration program to obtain geological, geotechnical, gas/methane, coal quality data, and updated No.5 Seam resource estimates within the potential underground area of the Ovoot Tolgoi Southeast Field.

TAG has designed a 43-101 compliant exploration program for the Southeast Field. The program will be initiated upon completion of all processes and procedures necessary to complete the 43-101 compliant West Field exploration program, and subsequent filing of an updated 43-101 Technical Report for SGQ's West Field underground resources.

Conclusion

Preliminary pre-level engineering studies to determine the potential for underground mining recommend acquisition of additional data.

The objectives of the 2008 Ovoot Tolgoi West Field exploration program are to provide the geological, geotechnical, gas/methane, and coal quality information necessary to advance the engineering evaluation of underground mining potential.

The recommended exploration program has been approved by SGQ and commenced drilling on March 20, 2008.

There is no previous 43-101 geologic assessment reporting of the underground coal occurrences. The scheduled completion date for the 2008 Ovoot Tolgoi West Field exploration program is in August 2008. TAG plans to provide SGQ with updated 43-101 compliant resources estimations in October 2008. Additionally, TAG will provide another updated 43-101 geologic technical report of the underground resource area upon acquisition of all coal quality laboratory-testing results; projected for February 2009.

Acknowledgements

Sections of this report are from the previous preliminary-level studies compiled by Norwest Corporation, George Klinowski, P.E., and information personally gathered on recent visits to the Southgobi sands LLC office in Ulaanbaatar, Mongolia. SGQ provided both the Norwest and Klinowski reports to TAG.

To expedite underground coalmine development, SGQ retained George Klinowski, a professional mining engineer with international experience in design, construction and management of

underground coal projects. Mr. Klinowski will lead SGQ's design of an underground coal mining operation that can supplement the planned surface-mine production at the Ovoot Tolgoi coal project.

SECTION 2: INTRODUCTION AND TERMS OF REFERENCE

TAG prepared this technical report at the request of Southgobi sands, LLC (SGQ). It has been prepared in accordance with National Instrument 43-101, Form 43-101F1. The purpose of the report is to describe the underground coal occurrences in SGQ's Ovoot Tolgoi West Field as of March 13, 2008, and to describe the exploration program methodology that will acquire technical data to advance the evaluation of underground mining potential.

Preliminary-level studies to determine the potential for underground mining of the Ovoot Tolgoi No. 5 Seam on SGQ's coal property were prepared in 2007 by both Norwest and, by George Klinowski, P. E. These studies addressed underground mining method selection, economics, and the geology, geotechnical, methane, hydrology, and coal quality data required to evaluate development of detailed mine planning of the No. 5 Seam coal occurrences at intercept depths between 250m and 650m. Sections of this current report are from the afore-mentioned preliminary-level studies compiled by Norwest, and George Klinowski, P.E. The author personally gathered geologic information on a recent visit to the SGQ's office in Ulaanbaatar, Mongolia, between January 22 and January 29, 2008. SGQ provided both the Norwest and Klinowski reports to TAG.

Norwest identified two potential underground areas. Both areas, the West Field and the Southeast Field, are contained within SGQ's existing mine license. The potential underground mine areas are adjacent to the proposed surface mine for the No. 5 Seam in the Southeast and West fields where drilling information was prevalent.

This report focuses on securing engineering-required geologic data to advance detailed mine planning for the No. 5 Seam in West Field within the potential underground mine area.

On September 20, 2007, SGQ received a Mine License for the development of an open-pit coal mine at Ovoot Tolgoi. The West Field potential underground mine area is within SGQ's current mine license. A detailed mine license description is contained in Section 4 of this report.

The Ovoot Tolgoi West Field underground mining potential is at the exploration stage of investigation, thus with a scoping level of accuracy, and preliminary in nature.

SGQ has commissioned TAG to develop and manage an exploration program, which will be reported under National Instrument 43-101.

The exploration program objectives are to provide the information necessary to advance the engineering evaluation of underground mining potential for coal occurrences within the No. 5 Seam in the Ovoot Tolgoi West Field.

Upon completion of the exploration program TAG is to provide SGQ a digital model, underground resource estimations, and an updated 43-101 geologic technical report summarizing results of the exploration program.

In order for TAG to develop the 2008 Ovoot Tolgoi West Field 43-101 exploration program, TAG reviewed and evaluated all the geological and technical information currently available, and has summarized this information within this technical report prepared for SGQ.

SGQ provided TAG with all geological, geotechnical, and quality data information, including previous technical reports prepared by Norwest and George Klinowski, P. E.

The author has:

- On-site exploration management experience (2005 and 2006) for the Ovoot Tolgoi field
- Completed digital geological models and 43-101 (2005 and 2006) technical reports
- Developed a digital model and reported resource estimates in accordance with Mongolia Resource Committee requirements. The Mongolia Resource Committee review approved the digitally based resource estimations as compliant, subsequently issuing SGQ the Ovoot Tolgoi mine license.
- Visited the SGQ Ulaanbaatar office to discuss underground resource expansion goals, logistics, and acquisition of geological data for Ovoot Tolgoi in November and December 2007, and January 2008

SECTION 3: RELIANCE ON OTHER EXPERTS

TAG has prepared this report for SGQ. The findings and conclusions are based on information provided to TAG by SGQ representatives. SQG has provided data collected by Norwest through exploration programs conducted in 2005 and 2006, data collected by SGQ in the 2007 exploration program, and preliminary-level studies of the potential for underground mining prepared by Norwest and George W. Klinowski, P.E.

Sections of this report are from the previous preliminary-level studies compiled by Norwest, George Klinowski, P.E. Additional geologic information was gathered by the author on a recent visit to the SGQ's office in Ulaanbaatar, Mongolia, between January 22 and January 29, 2008. SGQ provided both the Norwest and Klinowski reports to TAG.

TAG executed only geologic data validation. Mining concepts were not validated but were employed as a basis for design, implementation, and management of the planned 2008 exploration program in order for engineering services to advance the mining concepts into a more detailed underground mine plan.

The author of this report has not relied on other experts in the preparation of 43-101 exploration program and technical information summarized in this report.

SECTION 4: PROPERTY DESCRIPTION AND LOCATION

As seen in Figure 3, The Ovoot Tolgoi property is located in the southwest corner of the Omnogovi Aimag (South Gobi province), approximately 320 kilometers southwest of the provincial capital of Dalanzadgad and 950km south of the nation's capital Ulaanbaatar. Ovoot Tolgoi is 45 kilometers north of the Mongolia-China border and the Ceke border crossing. Ceke, in the Peoples Republic of China, will be the main distribution center for Ovoot Tolgoi coal.

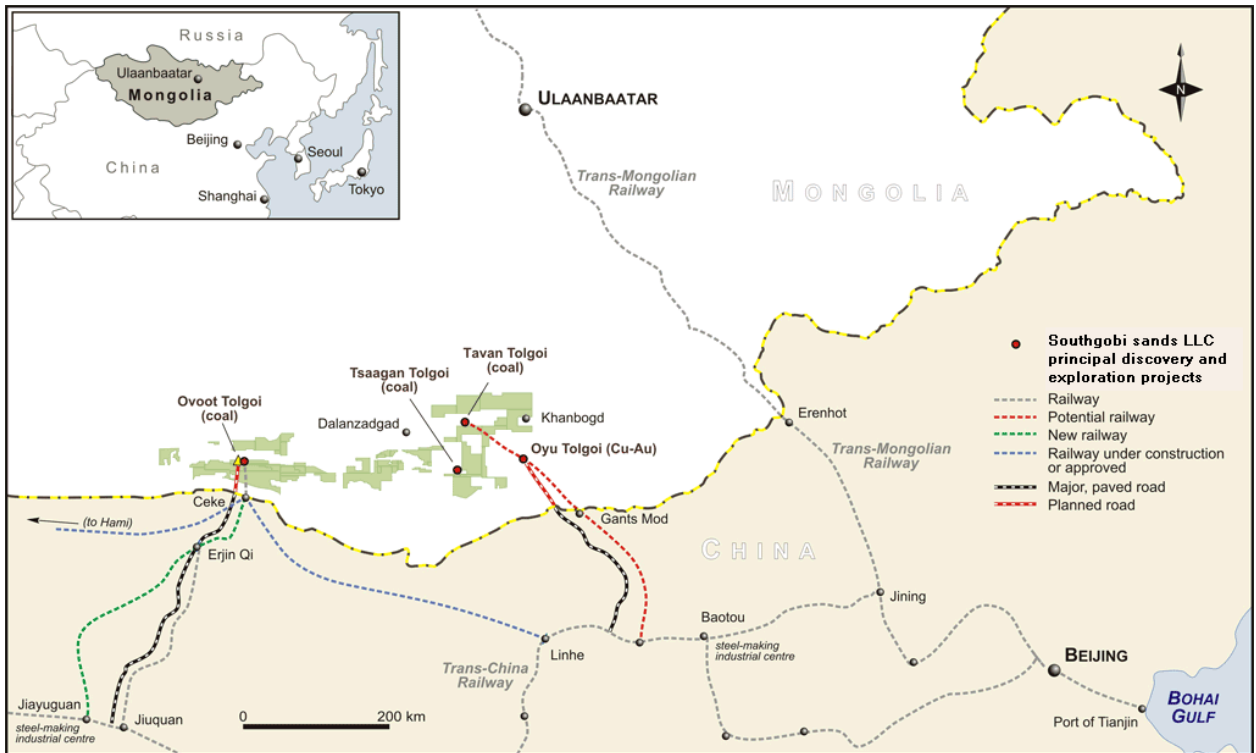


Figure 3: Ovoot Tolgoi West Field Location Map

Previous work at Ovoot Tolgoi was under the property control of Ivanhoe and its subsidiary, Ivanhoe Mines Mongolia, Inc. (IMMI). The coal division of IMMI and the exploration licenses at Ovoot Tolgoi were sold to Asia Gold Corporation (Asia Gold) in 2007. SGQ the operating company is a Mongolian-registered company. SGQ holds the licenses and permits.

The Mongolian government grants Exploration licenses for a period of three years with the right to extend the period twice for two additional years each. Exploration license holders are subject to various environmental protection obligations. Following a successful exploration program, an exploration license holder can 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 and covers both mineral and surface lease rights for that time period. SGQ's Mine License was granted September 20, 2007 for the development of an

open-pit coal mine. The SGQ mining license allows for both surface and underground mining methodology, however SGQ will have to file additional technical information on an underground mine once the data becomes available.

SGQ holds all necessary permits to conduct the 2008 exploration program. Exploration drilling commenced on March 20, 2008.

The Ovoot Tolgoi potential underground mine area is contained within one SGQ-controlled mine license that covers an area of 9,305 hectares, as shown in Figure 3.

Norwest, in their Ovoot Tolgoi No. 5 Seam Underground Mining Report stated, “*The underground mining areas at Ovoot can be developed as stand-alone operations or developed in conjunction with surface mining areas.*”

The 2008 exploration program will investigate the potential underground mine area containing approximately 998 hectares. Figure 4 is a plan view of the SGQ mine license. The West Field potential underground mine area occupies the southern portion of the planned West Pit surface mine operation.

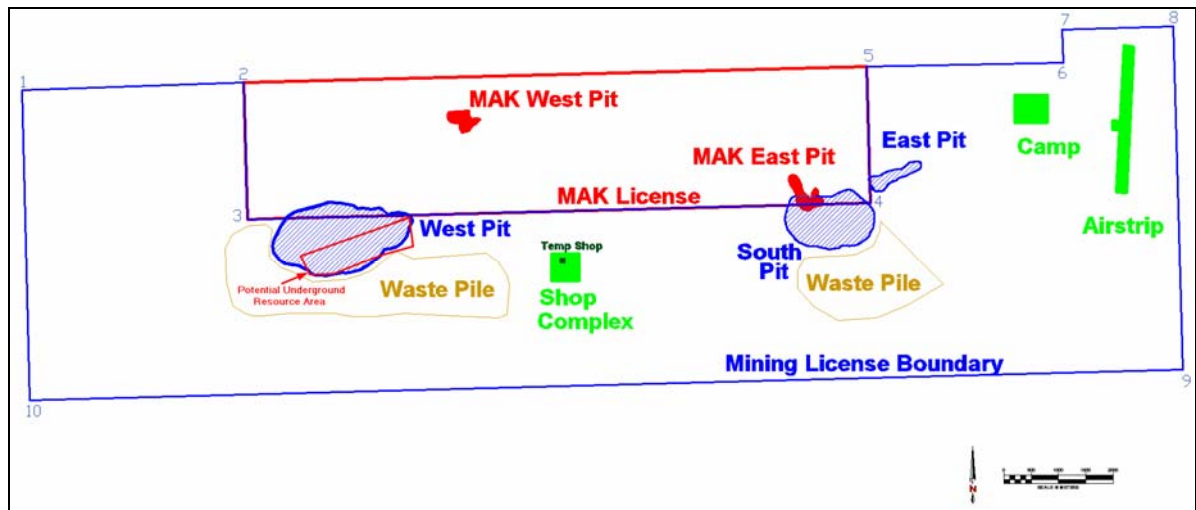


Figure 4: SGQ Mine License and Potential West Field Underground Mine Area

The Mongolian government approved the coordinates obtained from survey. Coordinates of the SGQ mine license are presented in Table 3.

License Number	Licensee	Inception Date	Expiry Date	License Coordinates			Area Hectares	Mineral Interest
				Corner	Easting	Northing		
12726A	Southgobi sands, LLC	Sept. 20, 2007	2037	1	101°05'06"	43°01'20"	9308	100% Minerals
				2	101°08'05"	43°01'20"		
				3	101°08'05"	42°59'58"		
				4	101°16'30"	42°59'58"		
				5	101°16'30"	43°01'20"		
				6	101°19'10"	43°01'20"		
				7	101°19'10"	43°01'40"		
				8	101°20'40"	42°01'40"		
				9	101°20'40"	42°58'15"		
				10	101°05'06"	42°58'15"		

Table 3: SQG Mine License Description

Currently, TAG is unaware of any known environmental, permitting, legal, title, taxation, socioeconomic, marketing, political, or other relevant issues that may materially affect the potential mining of coal occurrences within the confines of the SQG mine license area.

Any coal extracted and sold during exploration is subject to a royalty rate of 2.5% and 5% of the sales value for domestic and international sales, respectively.

SECTION 5: ACCESSIBILITY, CLIMATE, LOCAL RESOURCES, INFRASTRUCTURE AND PHYSIOGRAPHY

The Ovoot Tolgoi deposit is located in south-central Mongolia, approximately 40km north of the China border. The deposit is within the administrative unit of Gurvantes Soum, Omnogovi Aimag (South Gobi Province).

Population centers and transportation infrastructure in proximity to Ovoot Tolgoi are illustrated in Section 4: Figure 3. The Omnogovi Aimag is the most sparsely populated province in Mongolia with a density of 1.0 people/km².

Vegetation is sparse, consisting primarily of small shrubs and grasses. The area currently supports a traditional subsistence economy focused on raising sheep, goats, and camels.

The region experiences a continental desert climate. Temperatures range from 0° to -30°C in the winter and from 30° to 35°C in the summer. High winds frequently occur throughout the spring. Average rainfall is 530mm with most precipitation during the summer months. The weather is acceptable for exploration activities from mid-March through end-October. The climate is expected to allow year-round mining operations.

The Omnogovi Aimag is within the physiographic region of the Gobi Desert. The topography of the deposit varies from flat, gravel-covered desert plains to moderately hilly terrain. Surface elevation ranges from 1,515 to 1,555m above sea level. All parts of the property are accessible with four-wheel-drive vehicles.

Regular air service is available from Ulaanbaatar to Dalanzadgad. Travel from Dalanzadgad to the property takes approximately seven hours over unpaved roads. In September 2006, SGQ acquired a permit for an on-site airport. Ovoot Tolgoi is now accessible via chartered aircraft from Ulaanbaatar.

A new rail line connecting the Ovoot Tolgoi area with the interior of China was completed in 2006. The railroad terminus is approximately 40km south of the West Field underground resource area at Ovoot Tolgoi. Coal trucks can travel overland from the Ovoot Tolgoi area to the railroad terminus located on the Chinese side of the border.

Electrical power is available from a power line distributing power from China to the MAK-Qin Hua coal mine (Section 4: Figure 3). No surface water is currently available in the immediate area of the Ovoot Tolgoi deposit, although water supply wells were drilled as part of hydrological investigations.

On September 20, 2007, SGQ received a Mine License for the development of coal mining at Ovoot Tolgoi. Detailed surface mine planning including potential tailings storage and waste disposal areas, equipment acquisition, on-site housing, water usage, mining personnel, and mine management is on-going. Currently, senior mine operating personnel are in place to build and operate the surface mine at SGQ's Ovoot Tolgoi West Field.

SECTION 6: HISTORY

The first geologic investigation at Ovoot Tolgoi (formerly Nariin Sukhait) took place in 1951 and 1952 and was led by V.S. Volkhonina (1952). Results included mapping at a scale of 1:500,000.

Coal was first identified at Ovoot Tolgoi in 1971 by a Mongolian exploration survey led by D. Dashtseren (1971).

A study of the Ovoot Tolgoi coal deposit was undertaken by Exploration Unit No.15 of Ulaanbaatar Geological Research Group in 1991. This study included field mapping, trenching, drilling of 34 boreholes, analysis of coal quality, and calculation of resources for the two most promising resource areas, now controlled by MAK-Qin Hua. Based on standards from the former Soviet Union inferred resources (categories A+B+C1+C2+P1) were reported to the +1,450m level, corresponding to 75 to 90m depth. Total inferred resources were reported at 125,519,900 tonnes.

The former Soviet Union generally divided a mineral deposit into 4 primary ratings depending on phases of exploration works and survey levels. The four ratings are:

- Category A = Confirmed reserves
- Category B = Indicated/Actual reserves
- Category C = Inferred/Potential reserves
- Category P = Preliminary assessed resources

These categories differ from 43-101 resources classifications. 43-101 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 the estimation of Reserves and Resources.

The author did not verify the resource estimates reported for the MAK-Qin Hua resources area. Additionally, the resource estimates correspond to coal occurrences between 75 to 90m depth and is not necessarily indicative of the mineralization on the Ovoot Tolgoi West Field potential underground mining area with coal occurrence potential to 650m depth.

The history of the deposit is included in a publicly available summary report produced by the Mongolian State Geological Centre (Dashkhoral et al, 1992). This study defined the seam nomenclature currently employed at Ovoot Tolgoi.

Norwest has completed and updated comprehensive studies of the deposit area based upon their management of exploration programs executed from 2005 through 2006. Previous Norwest Technical Reports for resource estimates on this property in accordance with National Instrument

43-101 are dated February 6, 2006, July 7, 2006, March 30, 2007 and June 21, 2007.

The most recent public disclosure study is entitled *Technical Report, Coal Geology and Resources, Ovoot Tolgoi Property, Omnogovi Aimag, Mongolia, June 21, 2007*. This referenced technical report for Southgobi Energy Resources Ltd. is on file with the Canadian Securities Administration in the SEDAR filing system, July 20, 2007 (www.sedar.com). To date, the technical reports have focused on the development of surface mining operations.

Preliminary-level studies to determine the potential for underground mining of the Ovoot Tolgoi No. 5 Seam on SGQ's coal property were prepared in 2007 by both Norwest and, by George Klinowski, P. E. These studies addressed underground mining method selection, economics, and the geology, geotechnical, methane, hydrology, and coal quality data required to evaluate development of detailed mine planning of the No. 5 Seam coal occurrences at intercept depths between 250m and 650m.

Norwest identified two potential underground areas. Both areas, the West Field and the Southeast Field, are contained within SGQ's existing mine license. The potential underground mine areas are adjacent to the proposed surface mine for the No. 5 Seam in the Southeast and West fields where drilling information was prevalent.

This report focuses on the securing of engineering-required geologic data to advance mine development for the No. 5 Seam in the West Field within the projected underground coal mining area.

No production has yet occurred on Southgobi sands holdings at Ovoot Tolgoi.

Prior ownership of the property is summarized in Section 4.

SECTION 7: GEOLOGICAL SETTING

The coal-bearing rocks in the West Field are late Permian in age. Coal was deposited along the margins of tectonically active continental basins and has subsequently undergone extensional tectonics followed by a period of compressional folding and faulting.

The most prominent feature relating to the Ovoot Tolgoi coal deposit is the arcuate, east-west trending Nariin Sukhait fault. The coal-bearing section, interpreted to be late Permian in age, is exposed primarily in a window adjacent to this fault. The West Field is approximately 2km south of the Nariin Sukhait fault.

SECTION 7.1: COAL OCCURRENCES

Studies of the Ovoot Tolgoi deposit undertaken by Exploration Unit No.15 of Ulaanbaatar Geological Research Group in 1991 and a publicly available summary report produced by the Mongolian State Geological Centre (Dashkhoral et al, 1992) resulted in adoption of seam nomenclature with the very thick coal called the No.5 Seam and the naming the upper seams in ascending order. The generalized stratigraphy with seam nomenclature is illustrated in Figure 5.

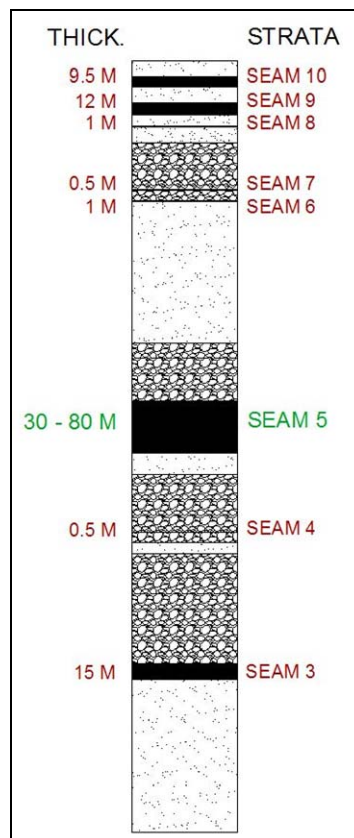


Figure 5: Generalized Stratigraphy with Seam Nomenclature

In the West Field surface mine area the No. 5 Seam dips at 30 to 60 degrees and is 20 to 50 meters (m) in true thickness, averaging 47m apparent thickness. The immediate roof strata over the No. 5 Seam consist of sandstones and/or conglomerates. The projected depth of overburden reaches 650m in the underground No. 5 Seam resource block.

Additional resource potential exists in a coal seam located below the No. 5 Seam. This seam is the 5L Seam. The 5L Seam is present within the planned surface pit area. Current data indicates the 5L Seam can occur from 0.0m (coalescing) to 157m below the No. 5 Seam, with 79m as the average interburden between the seams. The average apparent seam thickness for the 5L Seam is approximately 53m.

Figure 6 is a north-to-south profile section located in the central area of the West Field.

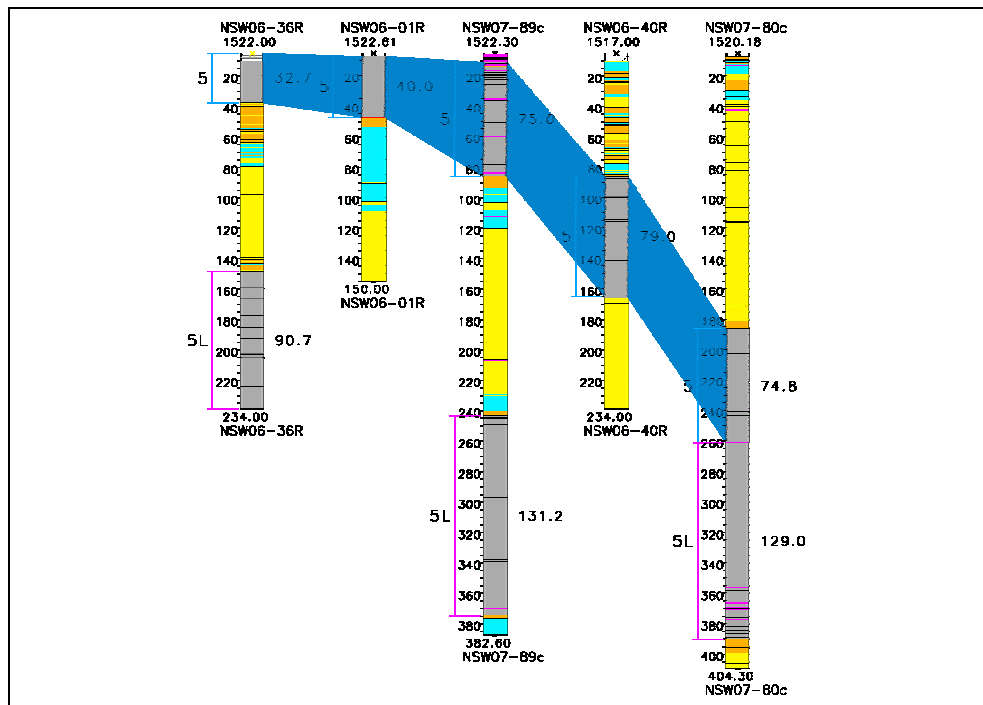


Figure 6: North to South profile section of the No. 5 and 5L Seams

This report addresses coal occurrences for the No. 5 Seam contained within the potential underground mining area.

The No. 5 Seam in the underground mining area ranges from 51 to 115m apparent thickness.

At present, no data exists for the 5L seam within the underground mine area.

SECTION 7.2: STRUCTURAL GEOLOGY

Coal occurrences in the West Field are found along a southwest striking trend. Current data indicates a thrust fault system controls the distribution of coal in this area. This interpretation divides the West Field into two distinct resource blocks: south and north. The more steeply dipping rocks of the south resource block have been moved over the north resource block. The thrust fault interpretation indicates the north resource block contains a repeat of the upper series (10-8) coal seams. The coal seams in the north block flatten out (30 – 40 degree dip) and indicate a number of small folds and faults.

Current data for the south resource block within the potential underground mine area does not indicate the presence of any major structural geologic features. However, only four widely spaced boreholes have been drilled for the No. 5 Seam below 250m depth within the potential underground mining area. Therefore, there is the possible presence of smaller or unknown tectonic features affecting changes in seam thickness and dip.

Figure 7 is a map of the potential underground mine area and depicts borehole locations that have intercepted the No. 5 Seam. The 50m contours (cyan) represent the depth of overburden to the top of the No. 5 Seam. The northern boundary of the underground resource area is the 250m coal depth to the top of the No. 5 Seam.

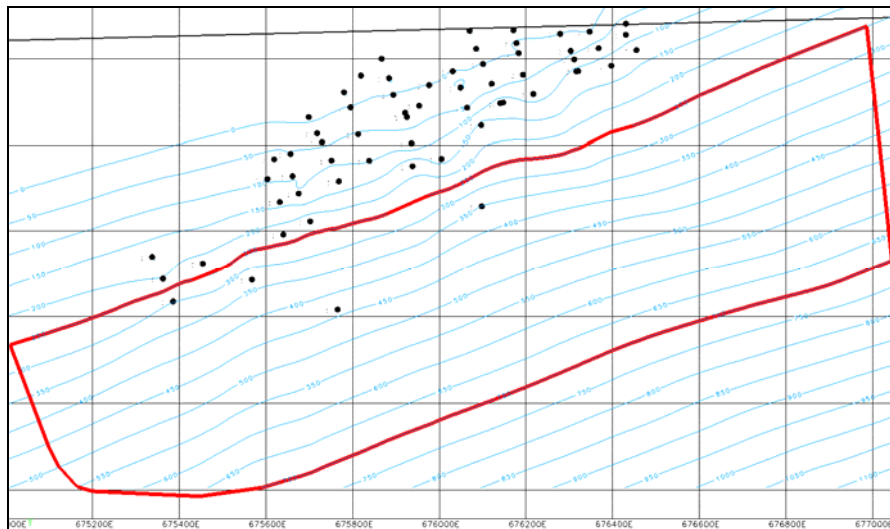


Figure 7: Potential Underground Mine Area (red) and Boreholes Intercepting the No. 5 Seam

The 2008 exploration program plans to drill 36 boreholes in the potential underground mine area of the south block to detect geologic discontinuities such as faults, seam wash-outs, or splits. This exploration plan has been approved by SGQ, and drilling commenced on March 20, 2008. The

exploratory methodology will provide data to detect and map any potential structural features adversely affecting planned mining panels.

SECTION 7.3: GEOTECHNICAL DATA

No geotechnical information currently exists within the potential underground mine area. Norwest reviewed one geotechnical hole (NSW06-18C). This hole is located approximately 150m north of the potential underground mine area and comprises 80m of rock overburden to the No. 5 Seam. The rock quality determination (RQD) results from this geotechnical hole are as follows:

- Sandstones and conglomerates above the No. 5 Seam are in the fair (50-75%) to excellent (90-100%) RQD ranges.
- No. 5 Seam RQD percentages vary throughout the seam thickness from very poor (<25%) to excellent (90-100%) ranges.
- Mudstones below the No. 5 Seam are in the very poor (<25%) to poor (25-50%) ranges. Footwall rock material (usually mudstones) below the No. 5 Seam consists of mainly very poor (<25%) to poor RQD ranges while sandstones and conglomerates are in the fair (50-75%) to good (75-90%) RQD ranges.

Geologic projections indicate the depth of overburden reaches 650m in the underground No. 5 Seam resource block. Thus, geotechnical data acquisition within the potential mine area at depth is essential.

The 2008 exploration program has designated 12 boreholes be drilled to obtain the necessary geotechnical data required by engineering.

SECTION 7.4: GROUND WATER REGIME

Currently, no hydrology data is available within the potential underground mine area.

A large presence of ground water can cause mining difficulties. Proper water capture and management methods, however, go far to ensure the availability of sufficient water quantities for hydraulic mining.

No ground water data acquisition is planned for the 2008 exploration program. If continuance of underground mine planning is favorable based on the 2008 data results, then a 2009 hydrology-drilling program is warranted.

SECTION 7.5: IN SITU GAS/METHANE

The conceptual mine planning stage assumes that significant methane levels will be present in the seam, especially at greater depths. Assurance of gas capture and removal is essential for safe mining conditions.

Information on gas/methane content of No. 5 Seam is currently unavailable. George Klinowski, P.E. recommends that the exploration program provide diligent testing of gas/methane characterization, desorption rates, content, potential, and utilization techniques.

The mine design proposed by George Klinowski, P.E. in his conceptual mine report allows for a general ventilation system that, he states, “should adequately deal with the gas released underground, although a final detailed mine ventilation system design must wait for the actual methane testing results”.

The 2008 exploration program has designated that 13 boreholes be drilled to obtain the necessary in situ gas/methane data required by engineering.

SGQ has requested bid proposal submissions from two international companies to provide methane drainage and production testing, modeling, and evaluation.

SECTION 8: DEPOSIT TYPES

Geological Survey of Canada (GSC) Paper 88-21 is a reference for coal deposits as specified in NI 43-101. Coal “*Geology Type*” is a definition of the amount of geological complexity. The classification of a coal deposit by *Geology Type* determines the approach to be used for the resource/reserve estimation procedures and defines the confidence that can be placed in the extrapolation of data values away from a particular point of reference such as a drillhole.

TAG has applied the classification scheme of GSC Paper 88-21 to the Ovoot Tolgoi coal deposits in Mongolia. The Ovoot Tolgoi deposit has been subjected to a relatively high degree of tectonic deformation including an east-west trending, regional thrust fault that has hanging wall strata further modified by secondary folding, as well as normal and reverse faulting. Coal seams are typically inclined in excess of 35°. Fold segments and fault-bounded blocks, however, generally retain normal stratigraphic thicknesses and continuity. The *Geology Type* for the Ovoot Tolgoi West Field potential underground mine area has been determined to be “Complex”.

“*Deposit Type*,” as defined in GSC Paper 88-21, refers to the extraction method most suited to the coal deposit. The Ovoot Tolgoi West Field deposit is considered to be a potential “Deep” mineable deposit, at depths greater than 250m.

SECTION 9: MINERALIZATION

Mineralized zones on the SGQ Ovoot Tolgoi West Field mining license area are found primarily within a zone of upper-Permian sediments exposed in the hanging wall of the Nariin Sukhait Fault, as described in Section 7.

Early work adopted the seam nomenclature presented by Dashkhoral et al (1992), thereby calling the very thick coal in the middle of the sequence the No. 5 Seam, and naming the upper seams in ascending order (Section 7.1, Figure 6).

As Norwest exploration work progressed, numerous additional seams and splits were discovered. Norwest summarized the Ovoot Tolgoi West Field coal seam characteristics in *Technical Report, Coal Geology and Resources, Ovoot Tolgoi Property, Omnogovi Aimag, Mongolia, June 21, 2007*. Table 4 summarizes the Norwest findings as of December 31, 2006 inclusive of all drillholes in the surface as well as underground areas. Thicknesses reported are based on drill intercepts and represent apparent thickness.

Series	Seam	Count	Thickness Range (m)*	Mean Thickness (m)*
10-Series	1050	23	0.34 – 16.00	2.7
	1040	33	0.36 – 14.00	3.4
	1030	39	0.50 – 4.70	2.2
	1020	49	0.78 – 10.28	3.4
	1010	45	0.60 – 6.08	2.9
	10	57	1.90 – 19.76	9.4
9-Series	998	19	0.48 – 4.16	1.8
	996	15	0.44 – 5.50	3.0
	990	56	0.46 – 5.10	1.6
	980	77	1.00 – 27.90	8.5
	970	68	0.60 – 9.18	3.2
	960	65	0.60 – 6.80	2.2
	950	67	0.46 – 11.70	1.7
	942	43	0.28 – 5.16	1.5
	940	88	2.10 – 31.00	13.0
	9	75	0.70 – 7.00	2.3
8-Series	811	25	0.50 – 4.40	1.9
	810	84	0.16 – 17.60	4.6
	8	44	0.34 – 12.00	2.2
5-Series	5	47	1.38 – 134.24	51.5
	5B	12	1.26 – 14.70	6.4
	5L	15	3.56 – 141.24	43.1

*Based on apparent thickness from drill intercepts

Table 4: Ovoot Tolgoi West Field Coal Seam Characteristics

Coal seam characteristics from the surface resources exploration programs have been used to characterize, interpret, and project the stratigraphy and structure of the Ovoot Tolgoi West Field potential underground mine area.

This report focuses on the mineralization of the No. 5 Seam in West Field within the potential underground coal mining area.

The potential underground mine areas are down-dip and adjacent to the proposed surface mine for the No. 5 Seam in the Southeast and West fields where drilling information was prevalent.

The No. 5 Seam in the underground mining area ranges from 51 to 115m apparent thickness.

At present, no data exists for the 5L seam within the underground mine area.

SECTION 10: EXPLORATION

Exploration began in late 2004 with the completion of five boreholes in the Ovoot Tolgoi deposit area that is now within the mine license controlled by SGQ. Exploration continued in 2005 and in 2006 with the emphasis on delineating surface resource potential. Exploration activities included:

- Field reconnaissance mapping
- Satellite Imagery
- Surface-resistivity geophysical surveying
- Trenching
- Drilling

Exploration geology fieldwork, including reconnaissance mapping, trenching, geologist descriptions of drilling returns, geotechnical data field logs, and database development, was contracted primarily to Sapphire Geo Ltd. (Sapphire) and supervised by SGQ. Norwest provided assistance in the review of activities and interpretation of results in 2005 and 2006, while SGQ directly supervised and provided assistance to Sapphire in the review of activities and interpretation of results in 2007.

Four cored holes are currently located within the potential underground mining area. Table 5 is a summary of the core hole drilling results.

Corehole	Depth Drilled (m)	No. 5 Seam		
		From Depth (m)	To Depth (m)	Apparent Thickness (m)
NSW06-24C	378.5	297.52	366.98	69.46
NSW06-60C	550.0	350.24	464.84	114.60
NSW07-82R/c	550.0	438.60	534.10	95.50
NSW07-92R/c	397.4	332.80	383.70	50.90

Table 5: Corehole Drilling Results in Potential Underground Mining Area

Due to the sparse amount of data, the previously cited preliminary-level studies noted gaps in geologic information.

Therefore, SGQ has approved a 36-borehole exploration program for 2008 that will secure the necessary geology data to address, review, and evaluate each of the following preliminary-level engineering studies topics citing insufficient geologic information:

- Coal Seam Structure
- Geotechnical Data

- Ground Water Regime
- In Situ Gas/Methane
- Coal Quality
- Potential Resources

The exploration program will obtain the data required to advance engineering analyses of detailed underground mining operations. Figure 8 illustrates the SGQ-approved 43-101 exploration program.

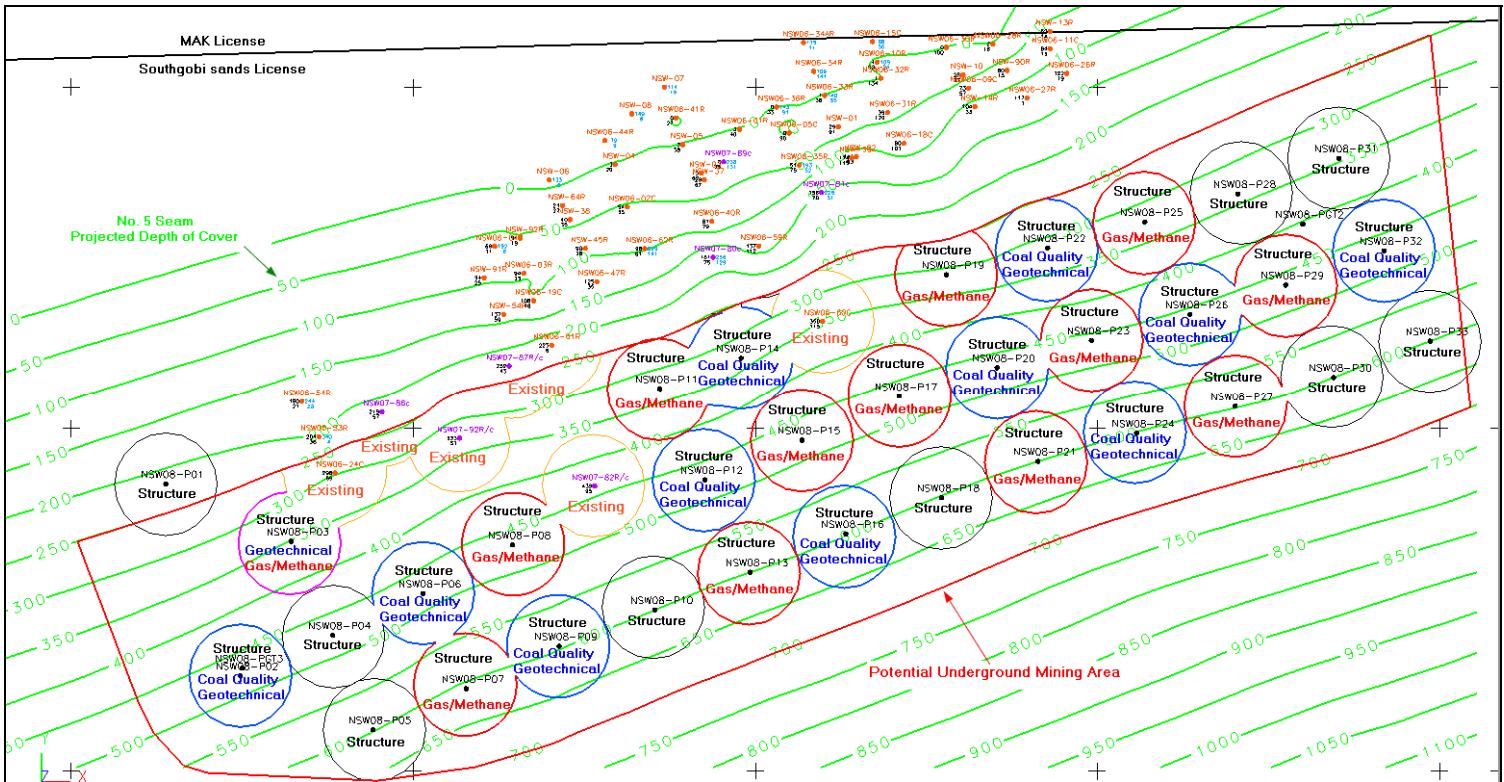


Figure 8: Exploration Plan

SGQ approved an exploration plan comprising 36 boreholes within the No. 5 Seam potential underground mine area. These boreholes are located on 150m cross-section spacing with three data points per section. The mean data spacing is 150m. This drill pattern will place approximately 64% of any discovered underground coal occurrences within the measured resource category.

The Ovoot Tolgoi West Field underground exploration program has an estimated 21,525m scheduled for drilling.

Table 6 is a summary of the 2008 Ovoot Tolgoi West Field No. 5 Seam exploration program for

the potential underground mining area.

Proposed Borehole	Data Objective	Projected			Projected Depth	Projected No. 5			
		Easting	Northing	Elevation		Azimuth	Dip	Target	Depth Intercept
NSW08-P01	ST	675138	4762419	1519.00	625	0	-90	5 & 5L	468.15 - 507.85
NSW08-P02	ST - GT -CQ	675247	4762139	1514.95	625	0	-90	5 & 5L	438.75 - 500.66
NSW08-P03	ST -GT - M	675321	4762335	1518.86	500	0	-90	5 & 5L	324.51 - 383.60
NSW08-P04	ST	675382	4762198	1515.97	625	0	-90	5 & 5L	446.75 - 505.06
NSW08-P05	ST	675441	4762060	1514.48	600	0	-90	5	524.36 - 588.57
NSW08-P06	ST - GT -CQ	675514	4762259	1515.52	625	0	-90	5 & 5L	444.80 - 501.14
NSW08-P07	ST - M	675577	4762120	1513.49	725	0	-90	5 & 5L	532.81 - 594.89
NSW08-P08	ST - M	675645	4762330	1515.98	600	0	-90	5 & 5L	414.72 - 464.21
NSW08-P09	ST - GT -CQ	675713	4762182	1513.99	600	0	-90	5	524.40 - 581.24
NSW08-P10	ST	675853	4762235	1513.93	750	0	-90	5 & 5L	517.79 - 574.09
NSW08-P11	ST - M	675860	4762559	1518.61	600	0	-90	5 & 5L	329.81 - 380.29
NSW08-P12	ST - GT -CQ	675926	4762425	1516.31	700	0	-90	5 & 5L	443.22 - 500.23
NSW08-P13	ST - M	675992	4762290	1514.56	625	0	-90	5	530.63 - 600.01
NSW08-P14	ST - GT -CQ	675979	4762604	1519.16	625	0	-90	5 & 5L	335.59 - 420.70
NSW08-P15	ST - M	676068	4762483	1516.08	725	0	-90	5 & 5L	447.65 - 537.50
NSW08-P16	ST - GT -CQ	676132	4762346	1516.68	800	0	-90	5 & 5L	542.54 - 624.09
NSW08-P17	ST - M	676210	4762548	1518.91	700	0	-90	5 & 5L	442.45 - 528.59
NSW08-P18	ST	676272	4762399	1518.97	650	0	-90	5	556.07 - 625.86
NSW08-P19	ST - M	676279	4762726	1521.52	575	0	-90	5 & 5L	332.39 - 408.18
NSW08-P20	ST - GT -CQ	676353	4762590	1519.27	675	0	-90	5 & 5L	460.33 - 517.89
NSW08-P21	ST - M	676413	4762452	1515.98	750	0	-90	5 & 5L	551.79 - 610.23
NSW08-P22	ST - GT -CQ	676427	4762765	1521.26	525	0	-90	5 & 5L	341.23 - 378.73
NSW08-P23	ST - M	676491	4762630	1519.79	675	0	-90	5 & 5L	459.55 - 508.47
NSW08-P24	ST - GT -CQ	676557	4762493	1516.26	650	0	-90	5	556.94 - 614.64
NSW08-P25	ST - M	676569	4762803	1520.04	525	0	-90	5 & 5L	353.26 - 378.78
NSW08-P26	ST - GT -CQ	676635	4762668	1517.79	625	0	-90	5 & 5L	443.62 - 482.01
NSW08-P27	ST - M	676701	4762533	1516.17	750	0	-90	5 & 5L	554.82 - 608.83
NSW08-P28	ST	676705	4762844	1520.38	500	0	-90	5 & 5L	326.34 - 349.58
NSW08-P29	ST - M	676775	4762711	1519.08	600	0	-90	5 & 5L	420.35 - 453.17
NSW08-P30	ST	676845	4762576	1516.98	625	0	-90	5	532.65 - 580.08
NSW08-P31	ST	676853	4762896	1528.12	500	0	-90	5 & 5L	305.15 - 325.93
NSW08-P32	ST - GT -CQ	676919	4762761	1520.04	600	0	-90	5 & 5L	398.61 - 426.79
NSW08-P33	ST	676986	4762629	1518.82	700	0	-90	5 & 5L	497.71 - 533.82
NSW08-PGT1	GT	675300	4763150	1530.00	90	0	-90	5 & 5L	?
NSW08-PGT2	GT	676800	4762800	1510.00	185	0	-90	5 & 5L	?
NSW08-PGT3	GT	675250	4762150	1510.00	275	0	-90	5 & 5L	324.51 - 383.60
Total Meters					21,525				

Table 6: 2008 Oovot Tolgoi West Field Underground Mining Potential Exploration Program

Data Objective:

- ST – Coal seam structure and thickness
- GT – Geotechnical
- CQ – Coal quality

- M – Gas/Methane

Sapphire currently has a contract with SGQ to provide personnel for the 2008 exploration program. TAG will provide assistance in the review of activities and interpretation of results.

Sapphire has a three-year service record of providing competent exploration personnel for mapping, drilled lithology description records, rock quality determination (RQD), fracture frequency, and field point load testing records, field free swelling index (FSI) tests, sampling, sample preparation, and sample security in accordance with quality assurance procedures implemented in 2005. Standardized log forms to record all geologic data and, laboratory instruction forms employed since 2005 are in English.

SECTION 11: DRILLING

Drilling to date on SGQ's Ovoot Tolgoi Southeast and West Fields includes a total of 394 exploration holes completed and 76,803m drilled. Limited drilling took place under the Soviet/Mongolian government-sponsored exploration programs. Exploration has expanded considerably in 2004, 2005, and 2006, with limited drilling in 2007, as summarized in Table 7.

Field	Year	Reverse Circulation		Rotary		Core		Combination	
		No. Holes	Meters Drilled	No. Holes	Meters Drilled	No. Holes	Meters Cored	No. Holes	Meters Drilled/ Cored
West	2005	70	12,861	17	2,223	13	2,034	-	-
	2006	48	10,203	-	-	25	5,737	-	-
	2007	27	4,536	-	-	4	1,467	4	1,731
Southeast	2004	-	-	-	-	5	750	-	-
	2005	76	14,425	18	2,807	34	5,524	-	-
	2006	11	1,778	12	3,156	5	1,085	7	2,694
	2007	17	3,542	-	-	1	250	-	-

Table 7: Drilling History at Ovoot Tolgoi

Combination holes were drilled with reverse circulation (RC) and/or PDC rotary and/or core method. Combination meters drilled/cored are recorded in total meters drilled per borehole. RC versus core drilling per borehole for Combination drilling type has not been recorded separately as it has no adverse affect on representative sample gathering. Cored portions were targeted for coal quality acquisition.

A section line spacing of approximately 150m to 200m is generally employed. Borehole spacing on the section lines approximates 50m.

Four cored holes are currently located within the potential underground mining area. Two core holes were drilled in 2006, and two in 2007.

Major Drilling Mongolia provided drilling for SGQ that included both RC and core methodologies (combination type). Drilling depths in the potential underground mining area ranged from approximately 378 to 550m, and totaled 1875.9m drilled.

Sapphire provided geologic data acquisition services.

Core recovery and geologic services were adequate and reliable.

36 boreholes are scheduled for the 2008 exploration program within the potential underground mining area. Section line spacing is 150m with borehole spacing at 150m. Estimated total meters to drill are 21,525.

Coal occurrences in the West Field are found along a southwest striking trend. Most of existing drilling followed this trend in order to delineate surface operations resources. The Ovoot Tolgoi West Field potential underground mine area is adjacent and down-dip from the planned West Field open pit.

Drillhole 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 Ovoot Tolgoi West Field potential underground mine area.

Intercept depths and seam thickness are reported on apparent thickness. The No. 5 Seam in the underground mining area dips at 30 to 60 degrees and ranges from approximately 51 to 115m in apparent thickness.

Major Drilling, Ulaanbaatar, Mongolia division, will provide the drilling equipment necessary to execute the 2008 exploration program. Major Drilling has approximately four years experience with Ovoot Tolgoi deposit drilling characteristics. Major Drilling will employ a combination of drilling methods. The test holes will start with reverse circulation (RC) air drilling methods (134mm) and continue to an approximate depth of 200 to 250 meters. The hole will then be geophysically logged and cased. From this point, the drilling methodology will be HQ3 continuous core (96mm hole/61mm core). If adverse drilling conditions occur at greater depths, drilling will continue core methodology with a reduction to NQ (75.7mm hole/45mm core).

Any test hole requiring continuous core from the surface will begin with PQ3 (122.6mm hole/83mm core).

Sapphire will provide competent personnel to supply log forms used for detailed geological logging of core or cuttings, and geotechnical conditions. Core recoveries will be noted on the log forms and photographic records of all core will be maintained by Sapphire.

TAG will provide Sapphire with assistance in all areas of field exploration data gathering. TAG will employ Gemcom Minex[®] geology software to develop on a weekly basis cross-sections depicting hole data and correlations.

All 2008 exploration test holes will have digital downhole-wireline geophysical logs recorded except where the hole has caved. TAG will examine visually, or interpret geophysical logs using the PlotLog software developed by GeoInstruments Inc., Nacogdoches, Texas, USA.

SECTION 12: SAMPLING METHOD AND APPROACH

Core drilling was used to collect complete representative samples of the coal seams, observe structural details, and to more accurately measure the depths of lithologic contacts. All quality analyses used for modeling were restricted to core samples. 46 core holes have been drilled at Ovoot Tolgoi West Field. This represents approximately 22% of the total number of boreholes drilled.

Core drilling at Ovoot Tolgoi West Field has primarily been done with wireline drilling systems and modern, triple-tube core barrels. All of the triple-tube coring completed during the 2005 and 2006 drill programs was performed under Norwest supervision. Core logging and sample handling was performed by Sapphire under Norwest supervision.

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

Reverse circulation drilling provided cuttings samples of good integrity. Samples were collected at 1m intervals, and the cuttings were laid out in rows on the ground for examination and logging by the Sapphire site geologist. A number of additional holes were drilled with a conventional air-rotary system. Cuttings were generally logged in a similar fashion as for reverse circulation drilling.

A section line spacing of approximately 150m to 200m was generally employed for the 2005 through 2007 drilling. Borehole spacing on the section lines approximates 50m.

A detailed summation of the drilling methodology is in Section 11, Table 7.

Sapphire will continue the sampling method and approach according to the procedures and conventions established in 2005 in order to ensure continuity of quality control.

TAG is unaware of any drilling, sampling or recovery factors that could materially impact the accuracy and reliability of the results.

SECTION 13: SAMPLE PREPARATION, ANALYSES AND SECURITY

Core logging and sample handling was performed by Sapphire under Norwest supervision during the 2005 and 2006 drilling programs and under SGQ supervision for the 2007 drilling program. Laboratory instructions were provided by Norwest. Laboratories employed were SGS Mineral Labs in Denver, Colorado in 2005 (ISO-9000 certified, accredited by NQA in the United States of America), and SGS Laboratories in Tianjin, China in 2006-(currently holds ISO-17025 certification, accredited by the CNAS, China National Accreditation Service for Conformity Assessment).

Geologists employed by Sapphire, and under the direction of TAG, will collect and record drilled core and reverse circulation cuttings as per protocol established by Norwest in 2005. The collected samples will then be submitted for analysis using methods that are standard for the coal industry.

SECTION 13.1: CORE DRILLING SAMPLES

Core recovery (reported in percent) is recorded after comparing the recovered core length with the core run length recorded by the driller. Additionally, the geophysical log suite thickness is compared to the recovered core measurement.

Recovered coal intervals are sampled using the following criteria and quality control measures:

- Coal samples are broken out based on lithologic changes
- In zones of uniform coal appearance, samples are bagged about every 0.60m as per the capacity of the core boxes
- In-seam partings, to a maximum thickness of 0.60m, are included in a coal sample, where the thickness of the adjacent coal beds above and below the parting are both a minimum of twice the parting thickness
- A parting is sampled separately if it is determined by the geologist to be a non-coal lithology type >0.60m thickness
- Samples are cleaned of any contaminants
- Core is placed in individual, core-sleeve style, plastic bags
- The bags are labeled on the outside with both the core hole and sample number and sealed with plastic tape to prevent excessive moisture loss
- Samples are then placed in sequence into waxed-cardboard core boxes
- Core boxes are sealed with tape
- Core boxes are transported to SGQ in Ulaanbaatar
- Core is shipped for coal quality or rock strength analyses to a certified and accredited laboratory
- At the time of shipment, scanned geologic and geophysical logs, laboratory instructions

and shipment manifest are forwarded to TAG's Lakewood, Colorado office

- Laboratory instructions and the shipment manifest are forwarded to SGQ in Ulaanbaatar
- All records are compared with contents upon arrival at the accredited laboratory

TAG believes the sample preparation, security, and analytical procedures implemented in 2005 are adequate

SECTION 14: DATA VERIFICATION

All data collection is done under a defined set of protocols established in 2005 by the qualified persons from Norwest. TAG intends to maintain these pre-defined protocols, enabling continuity of quality assurance. TAG is responsible for the training and administration of data collection procedures and is responsible for reviewing all data. TAG will maintain oversight of all data collection for the exploration program, and the qualified persons will visit these operations and review these procedures.

Information collected prior to TAG's involvement in the Ovoot Tolgoi project area has been supplied to TAG by SGQ and has not been directly verified.

Project management and verification protocol includes:

- All field geology data is electronically forwarded to TAG's Lakewood FTP site on a daily basis
- The geologic and geophysical logs are reviewed by a TAG geologist
- TAG exploration management comments and procedural instructions are electronically forwarded on a daily basis
- Data entry of all geologic data is managed by Sapphire at the project site.
- All geologic, geophysical, and sampling data forwarded by Sapphire is reviewed and verified by a TAG geologist
- Verified data is entered and maintained in an electronic database and a geology modeling software
- Periodic cross-section and digital modeling development will be employed for in-progress analyses.
- Results from the coal quality testing are added into the database in the TAG offices
- All mapping is entered and maintained in CAD system formats

TAG does not believe its full-time on-site supervision is required because Sapphire has several years experience providing compliant exploration services. However, TAG will schedule periodic on-site inspections to ensure exploration protocols and quality assurance programs are being fulfilled.

On-site inspection visits will review and evaluate:

- Sapphire exploration methodology
 - Mapping
 - Trenching
 - Geologist and geotechnical logs
 - Accuracy
 - Thoroughness

- Consistency
 - Clarity
 - Interpretations
 - Sampling methods
 - Electronic processing
- Drilling
 - Operational performance
 - Equipment
 - Personnel
 - Safety procedures
- Geophysical
 - Operational performance
 - Equipment
 - Personnel
 - Safety procedures

TAG recommendations for improvement will be recorded, and TAG anticipates immediate action implementation.

SECTION 15: ADJACENT PROPERTIES

The following adjacent properties discussion is quoted from Norwest's *Technical Report, Coal Geology and Resources, Ovoot Tolgoi Property, Omnogovi Aimag, Mongolia, June 21, 2007*.

“The Southgobi sands property is adjacent to and surrounds the MAK Nariin Sukhait Mine, owned and operated by the MAK-Qin Hua Mongolian/Chinese Joint Venture. Operations began at the Nariin Sukhait Mine in 2003 at the resource areas identified by Dashkhoral et al (1992). The operation currently mines coal from the No. 5 Seam from two open-pit mines. Annual production is estimated to be approximately 2M tpy of both thermal and coking blend coal.

Mine operations are rudimentary, with a workforce of approximately 100 miners, including both Chinese and Mongolian nationals. Coal and overburden are removed with excavators and front-end loaders. Night shift activities focus on the removal of overburden. Daytime activities typically involve the arrival of up to 100 or more road-hauling trucks from China, which are driven directly into the mines and loaded. The trucks then return across the border each night, where most of the coal is offloaded at the railroad terminus.”

The author has visited the MAK Nariin Sukhait Mine with Norwest personnel. MAK provided the information quoted above. The author was unable to verify the information provided on the MAK mine and it is not necessarily indicative of the mineralization on the Ovoot Tolgoi Property.

SECTION 16: MINERAL PROCESSING AND METALLURGICAL TESTING

Composite quality analyses previously performed in 2005 and 2006 on SGQ's Ovoot Tolgoi mining license area indicate the coal rank to be high volatile B to A bituminous, based on the ASTM D388 standard. High volatile B and A bituminous coals are hard black coals. High volatile B produces between 7212 to 7785 kcal/kg and high volatile A produces greater than 7785 kcal/kg heat output.

Detailed sample analyses have identified the coal at Ovoot Tolgoi to be mixture of thermal and metallurgical grade coal. Regionally, the coal is generally low ash at less than 20 percent (dry basis) and sulphur at or around one percent. Inherent (or residual moisture) in the coal is less than 2 percent of the coal. Free Swelling Index ranges in values from non-coking (less than 2) to coking (greater than 4).

Core samples were selectively subject to the analyses described below.

Proximate Analysis:

- Moisture
- Ash
- Volatile matter
- Fixed carbon
- Sulphur
- Thermal Value

Metallurgical Testing:

- Gieseler plastometer
- Audibert – Arnu dilatometer
- Reactive maceral analysis (petrographics)
- Phosphorous content (P%)
- Free swelling index (FSI) or Crucible swelling number (CSN)
- Trace element analyses (ppm)
- Hardgrove grindability index (HGI)
- Vitrinite content
- Vitrinite reflectance

SECTION 16.1: REGIONAL QUALITY CHARACTERISTICS

Annual exploration program (2005 through 2007) drilling results continue to identify potential coking (HCC) and semi-soft (SSC) coals at depth, beneath the lower boundaries (200m – 250m depth) of the planned open pits at the West and Southeast Fields.

SECTION 16.2: COAL QUALITY

Norwest employed dry ash percentage, sulfur percentage, and Free Swelling Index (FSI) as indicators for coal product type.

Table 8 shows the three coal product categories that Norwest identified, using incremental core samples of the No. 5 Seam. These product categories are detailed below:

Coal Product	%Ash	%Sulfur	FSI
Hard coking coal (HCC)	Ash <10%	Sulfur <1%	FSI > 4
Semi-soft coking coal (SSC)	Ash <12%	Sulfur <1.2%	FSI = 1 to 4
Thermal coal (THC)	Ash < 45%		FSI < 1

Table 8: Norwest Coal Product Categories based on Critical Coal Analyses

High ash (>45%) coal is designated as WASTE.

Geologic reviews conducted by Norwest indicate the distribution of the three product types is not uniform throughout the coal seam.

Currently, the No. 5 Seam in the potential underground mine area lacks sufficient coal quality data to model these potential coking (HCC, SSC, FSI) zones within the seam.

Currently, there are four core holes within the potential underground mining area. Quality results from these core holes results in the following quality attribute averages (dry basis).

- Ash – 10.8%
- Sulfur – 0.43%
- Specific energy – 7318 kcals
- FSI – 3.9

The four core holes within the underground mining area record 5 to 15m thick zones of FSI > 4 present within the No.5 Seam.

In 2007, SGQ drilled eight holes for the No. 5 Seam. All eight holes intercepted the No. 5 Seam

and three of the holes intercepted the 5L Seam. Table 9 is a summary of 2007 No. 5 and 5L drilling results.

Bore Hole	~ Distance from Potential UG Area	Seam	Coal Roof Depth (m)	Apparent Thickness (m)	Average Quality (dry basis)			
					Ash	Sulfur	Kcal/kg	FSI
NSW07-80c	100m	5	181	74.8	5.7	0.46	7617	5.5
		5L	256	129.0	7.6	0.43	7519	5.9
NSW07-81c	100m	5	156	70.0	6.5	0.49	7508	5.1
		5L	226	51.1	7.9	0.38	7487	6.5
NSW07-82R/c	Within UG area	5	439	95.5	7.9	0.38	7592	4.6
NSW07-86c	30m	5	219	56.6	7.0	0.46	7567	4.2
NSW07-87R/c	30m	5	232	43.0	5.7	0.44	7709	5.9
NSW07-88R/c	15m	5	212	55.4	10.9	0.84	7245	4.7
NSW07-89c	200m	5	6	75.0	7.9	0.94	7346	4.1
		5L	238	131.2	8.0	0.38	7487	5.6
NSW07-92R/c	Within UG area	5	333	50.90	11.2	0.45	7276	4.2

Table 9: 2007 No. 5 and 5L Seams Drilling Results

The 2008 exploration program has designated 11 boreholes be drilled to obtain the necessary coal quality data required by engineering to determine theoretical products.

Development of a master digital coal quality database will commence to prioritize the generation of quality attributes pertinent to regional coking product evaluation and determinations.

During the exploration program, TAG will continue to subject selective core samples to the analyses described above. The samples taken will be representative of the No. 5 Seam.

SECTION 17: MINERAL RESOURCE ESTIMATES

SECTION 17.1: APPROACH

The classification, estimation and reporting of coal resources for the Ovoot Tolgoi West Field potential underground area is accordance with National Instrument 43-101. TAG has used the referenced documents, the Canadian Institute of Mining, Metallurgy and Petroleum's CIM "Definition Standards on Mineral Resources and Reserves" adopted by CIM Council on November 14, 2004, and the Geological Survey of Canada Paper 88-21 "A Standardized Coal Resource/Reserve Reporting System for Canada" (GSC Paper 88-21) for the resource estimates summarized in this technical report.

Composite quality analyses previously performed on SGQ's Ovoot Tolgoi mining license area indicate the coal rank to be high volatile B to A bituminous, based on the ASTM D388 standard.

There is no previous 43-101 geologic assessment reporting of the underground coal occurrences. The scheduled completion date for the 2008 Ovoot Tolgoi West Field exploration program is in August 2008. TAG will provide SGQ with updated 43-101 compliant resources estimations in October 2008. Additionally, TAG will provide another updated 43-101 geologic technical report of the underground resource area upon acquisition of all coal quality laboratory-testing results; projected for February 2009.

SECTION 17.2: COAL RESOURCE ESTIMATION

The potential underground mine area for the West Field No. 5 Seam is currently located down-dip and adjacent to the planned surface mining operation where the prevalent amount of drilling information exists.

The term "resource" is utilized to quantify coal contained in seams occurring within specified limits of thickness and depth from surface. The underground coal resources identified for the purpose of this study are from 250m depth to a depth of approximately 650m below the surface.

The resource estimations contained within are on a clean basis. i.e. as an in-situ tonnage and not adjusted for mining losses or recovery. However, minimum mineable seam thickness and maximum removable parting thickness were considered; coal intervals not meeting these criteria are not included in the resources.

Resources are classified as to the assurance of their existence into one of three categories, Measured, Indicated or Inferred. The category to which a resource is assigned depends on the level of confidence in the geological information available. GSC Paper 88-21 provides guidance

for categorizing various types of coal deposits by levels of assurance. These were considered by the author during the classification of the resources.

Additionally, resources are classified in GSC Paper 88-21 as to the assurance of their existence into one of four categories, using the criteria for coals found in Geology Type “Complex” conditions, as shown in Table 10.

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

Table 10: Criteria Used to Define Assurance of Existence for Coals in Complex Geology Type

TAG completed resource estimations effective March 13, 2008 for the No. 5 Seam in the potential underground mining area in the Ovoot Tolgoi West Field. Holes drilled in the 2007 exploration program were not included in the resource estimation. Figure 9 illustrates the criteria employed for No. 5 Seam resource estimates.

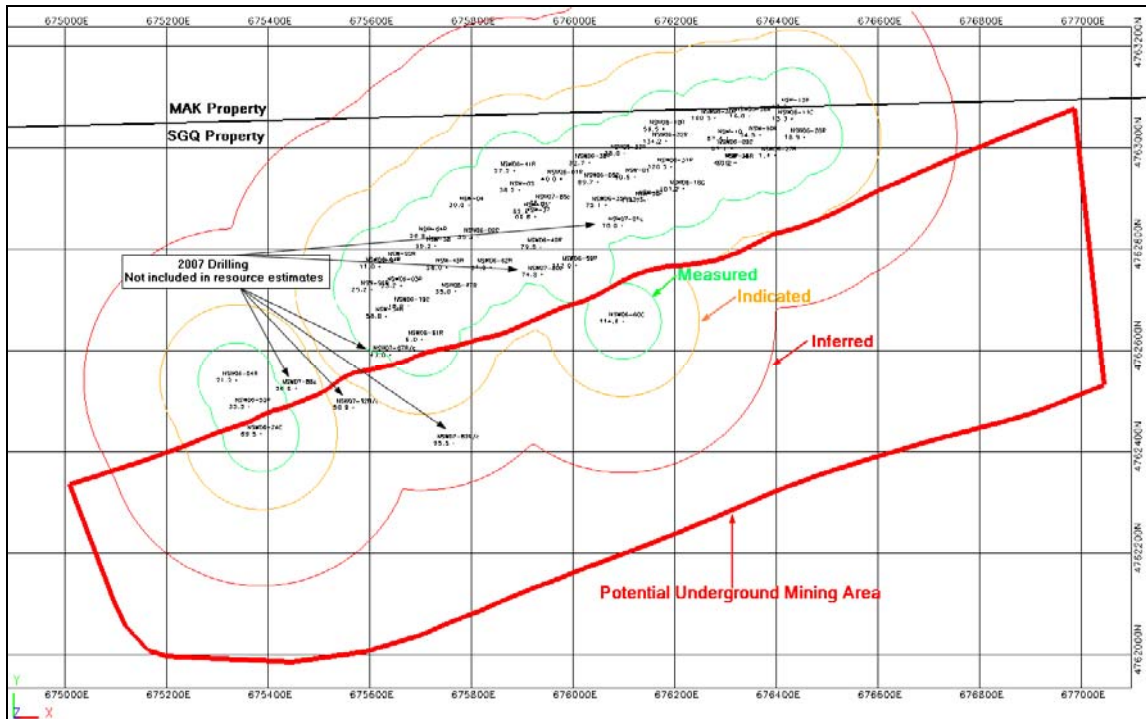


Figure 9: Criteria Employed for Potential Underground Mine Area

Coal resources for the No. 5 Seam in the potential underground area are defined for the Measured, Indicated and Inferred categories in Table 11.

Underground Area	ASTM Group	In-Place Resources (Tonnes)		
		Measured	Indicated	Inferred
West Field	mhB to hvA	3,867,000	12,590,000	36,735,000

Table 11: Deep Coal Resources Summary for Ovoot Tolgoi West Field, March 13, 2008

Composite quality analyses previously performed in 2005 and 2006 on SGQ's Ovoot Tolgoi West Field license area indicate the coal rank to be high volatile B to A bituminous, based on the ASTM D388 standard. Holes drilled in the 2007 exploration program were not included in the coal ranking.

The resources estimates above are based on data acquired by SGQ exploration through end-December 2006.

The Ovoot Tolgoi West Field underground mining potential is at the exploration stage of investigation, thus with a scoping level of accuracy, preliminary in nature, and includes inferred resources in the estimation of underground resources available.

A high percentage of measured category resource confidence is essential to obtain a mine license from regulatory agencies and ensure a properly planned mine.

The 2006 Norwest potential underground mine area is different in shape and size from the currently projected underground mine area. Figure 9 illustrates the difference in potential underground mine areas. The newly projected underground mine area is based on 2007 drilling data that laterally extends No. 5 Seam resource potential westward. This data was unavailable to Norwest at the time of their writing.

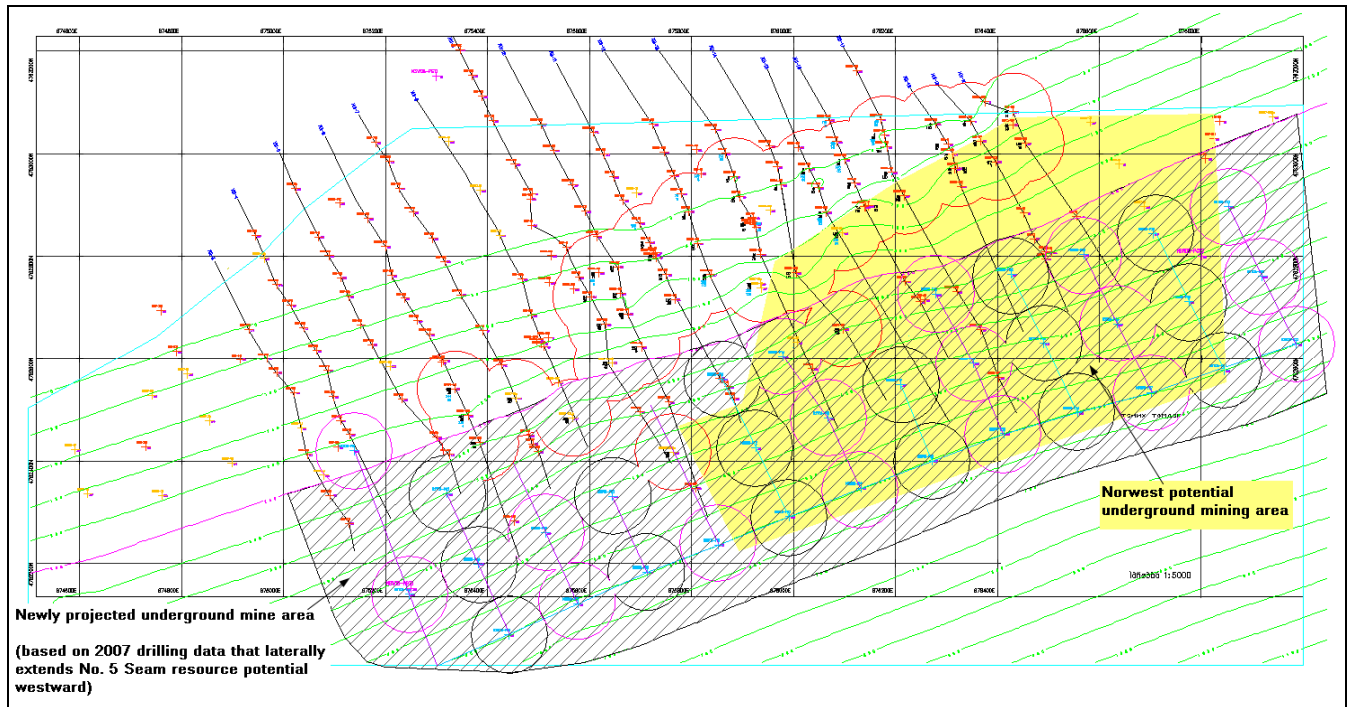


Figure 10: Potential Underground Mine Areas (Norwest Projected and Currently Projected)

One aspect of the 2008 exploration program is to confirm the potential westward extension of the No. 5 Seam coal occurrence.

The approved exploration plan of 36 boreholes within the No. 5 Seam potential underground area will potentially place approximately 64% of any discovered coal occurrences within the measured resource category.

There is no previous 43-101 geologic assessment reporting of the underground coal occurrences. The scheduled completion date for the 2008 Ovoot Tolgoi West Field exploration program is in August 2008. TAG will provide SGQ with updated 43-101 compliant resources estimations in October 2008. Additionally, TAG will provide another updated 43-101 geologic technical report of the underground resource area upon acquisition of all coal quality laboratory-testing results; projected for February 2009.

Currently no known environmental, permitting, legal, title, taxation, socioeconomic, marketing, political, or other relevant issues that may materially affect the potential mining of coal occurrences within the confines of the SGQ mine license area.

Sections of this report are from the previous preliminary-level studies compiled by Norwest Corporation, George Klinowski, P.E., and information personally gathered on recent visits to the

Southgobi sands LLC office in Ulaanbaatar, Mongolia. SGQ provided both the Norwest and Klinowski reports to TAG.

SECTION 18: OTHER RELEVANT DATA AND INFORMATION

No other relevant data and information are applicable to this report.

SECTION 19: INTERPRETATION AND CONCLUSIONS

Exploration at SGQ's Ovoot Tolgoi resource areas has been successful in delineating 150 million tonnes of coal classified as measured and indicated surface resources for the West and Southeast Fields.

Thus far, coal tonnes have been delineated as "*Complex*" *Geology Type* and "*Surface*" *Deposit Type* based on criteria set forth in the Geological Survey of Canada Paper 88-21. The surface resources reported have been constrained to a 250m base depth limit for surface mine development.

In June 2007, Norwest completed a study of Ovoot Tolgoi's underground mining potential for SGQ.

Norwest identified two potential underground areas. Both areas, the West Field and the Southeast Field, are contained within SGQ's existing mine license. The potential underground mine areas are adjacent to the proposed surface mine for the No. 5 Seam in the Southeast and West fields where drilling information was prevalent.

This report focuses on securing engineering-required geologic data to advance detailed mine planning for the No. 5 Seam within the potential underground mine area of the West Field.

The underground coal occurrences identified for the purpose of this study occur from 250m depth to a depth of approximately 650m below the surface. The total extent of these occurrences is currently unknown.

TAG completed resource estimations effective March 13, 2008 for the No. 5 Seam in the potential underground mining area of the Ovoot Tolgoi West Field. The resources estimates are based on data acquired by SGQ exploration through end-December 2006. Holes drilled in the 2007 exploration program were not included in the resource estimation.

The West Field study area is "*Complex*" *Geology Type* and "*Deep*" *Deposit Type* based on criteria set forth in the Geological Survey of Canada Paper 88-21. Current in-place deep coal resources at Ovoot Tolgoi West Field, independently prepared by TAG, in accordance with National Instrument 43-101, are approximately 16.5 million tonnes of measured and indicated resources, and an additional 36.7 million tonnes of inferred resources.

The estimates reported above are based on the criteria illustrated in Figure 9, Section 17.2. TAG employed the potential underground mining area as a polygonal constraint with resource estimates reported on the assurance of their existence (Measured, Indicated, and Inferred) within

the polygon. The coal seam data used for the estimates are considered adequate and reliable.

The Ovoot Tolgoi West Field underground mining potential is at the exploration stage of investigation, thus with a scoping level of accuracy, preliminary in nature, and includes inferred resources in the estimation of underground resources available.

Currently there is an insufficient amount of geology data to evaluate the underground mining potential at Ovoot Tolgoi West Field for the No. 5 Seam.

The 2008 exploration program will meet the SGQ objectives to provide the geologic data necessary to evaluate the underground mining potential of the No. 5 Seam coal occurrences at depths ranging from 250m to 650m.

SECTION 20: RECOMMENDATIONS

In order for engineering to advance the development of detailed mine planning potential, TAG recommends SGQ execute a 2008 exploration program to obtain geological, geotechnical, gas/methane, coal quality data, and updated No.5 Seam resource estimates within the potential underground area of the Ovoot Tolgoi West Field.

TAG has designed an exploration program consisting of 36 boreholes. The 36 boreholes will obtain data for coal seam structure, geotechnical information, in-situ gas/methane content, coal quality, and coal thickness for updating resource estimates.

The 2008 potential underground mining exploration program plans to drill:

- 36 of the 36 boreholes to obtain coal seam structure data to detect geologic discontinuities such as faults, seam wash-outs, or splits. The exploratory methodology will provide data to detect and map any possible structural features adversely affecting any planned mining panels.
- 12 of the 36 boreholes to obtain the necessary geotechnical data
- 13 of the 36 boreholes to obtain in situ gas/methane data
- 11 of the 36 boreholes to obtain coal quality data
- 36 of the 36 boreholes to obtain seam thickness for the No. 5 Seam. This will place approximately 64% of discovered coal occurrences within the measured resource category.

In addition to geologic data acquisition that typically is Sapphire's responsibility, under direct or indirect supervision of Qualified Persons, it is necessary for other competent personnel to provide services that will lead to qualified evaluations of the gas/methane and geotechnical data that will be collected during the exploration program.

Gas/Methane

TAG recommends an independent company with international experience and expertise in this specialized technical field direct all gas/methane exploration activities. TAG will make on-site visits to ensure gas/methane testing completion according to predefined scope of work.

SGQ is soliciting bid proposals from reputable and accredited international companies to provide methane exploration activities.

Geotechnical

Sapphire will be responsible for geotechnical data collection and sample preparation. TAG recommends an independent company with international experience and expertise in this

specialized technical field review and evaluate the rock strength tests completed by an accredited laboratory. TAG also recommends initiating fracture frequency modeling and mapping.

Geophysical

TAG, in reviewing and evaluating the technical data summarized in this report, believes the deliverables from down-hole geophysical (GP) logging services require improvement in the following areas.

- Log ASCII Standard (LAS) files should comply with the Canadian Well Logging Society's LAS 2.0 standard
- Development of constant calibration ranges
- Development of consistent GP interpretations methodologies

TAG also recommends employing additional down-hole GP tools in the 2008 exploration program. At a minimum, to assist with gas/methane and geotechnical consideration, the following two logs should be added.

1. Temperature
2. Verticality (borehole deviation)

Lastly, TAG recommends consideration of the following GP tools for specialized down-hole data acquisition which further assists geologic interpretations of coal seam structure, and rock strength attributes.

1. Dipmeter
2. Acoustic
3. UCS Televiewer

Coal quality

At present, coal quality laboratory results are contained in multiple Excel spreadsheet files. TAG recommends consolidation of all coal quality per test type (proximate analyses, trace elements, ultimate analyses, etc.) into one master file. TAG also recommends that all coal quality data from the master spreadsheet be imported into a software system capable of storing, sorting, reporting, modeling, and mapping be developed.

Lastly, TAG recommends SGQ execute an exploration program to obtain geological, geotechnical, gas/methane, coal quality data, and updated No.5 Seam resource estimates within the potential underground area of the Ovoot Tolgoi Southeast Field.

TAG has designed a 43-101 compliant exploration program for the Southeast Field. The program will be initiated upon completion of all processes and procedures necessary to complete the

43-101 compliant West Field exploration program, and subsequent filing of an updated 43-101 Technical Report for SGQ's West Field underground resources.

Estimated costs for the completion of the Ovoot Tolgoi West Field 43-101 exploration program are illustrated in Table 12.

Table 12
43-101 Exploration Program Budget Estimate

Item	Estimated Cost (US\$)
West Field Deep Drilling	5,000,000
Methane, Geotechnical, and Coal Quality Testing	500,000
Management and Technical Personnel	300,000
Total Budget Estimate	5,800,000

SECTION 21: REFERENCES

- Canadian Securities Administrators (2001). National Instrument 43-101, *Standards of Disclosure for Mineral Projects, Form 43-101F1, Technical Report, and Companion Policy 43-101CP*, 19 pp, from <http://www.ccpq.ca/guidelines/index.html> .
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- Norwest Corporation (2007, June 21). *Technical Report, Coal Geology and Resources, Ovoot Tolgoi Property, Omnogovi Aimag, Mongolia*
- Norwest Corporation (2007, June 14). *Ovoot Tolgoi Underground Mining Potential*
- Klinowski, G. W., P. E (2007, November). *November Ovoot Tolgoi Project, Underground Mine Plan, Hydraulic Mining Concept*

SECTION 22: SIGNATURE AND DATE

The effective date of publication of this technical report is March 28, 2008.

“ORIGINAL SIGNED BY AUTHOR”

Patrick P. Riley, CPG
Vice-President
The Americas Group

CERTIFICATE OF QUALIFICATIONS

I, Patrick P. Riley of Lakewood, Colorado, do hereby certify that:

1. I am a Senior Geologist and Vice President with *The Americas Group, Inc.* 12081 W. Alameda Parkway, #410, Lakewood, Colorado 80228 USA
2. This Certificate applies to the “Technical report: Underground Resources at Ovoot Tolgoi West Field, Omnogovi Aimag, Mongolia”, dated March 28, 2008 (the “Technical Report”).
3. I am a Registered Member of the Society of Mining, Metallurgy, and Exploration, Inc. – Member Number 2713400RM
4. I am a Member of the Australasian Institute of Mining & Metallurgy – Member Number 209096
5. I am a Certified Professional Geologist and a member of the American Institute of Professional Geologists – Registration Number CPG-7031.
6. I am a licensed Professional Geologist in the states of Kentucky – License Number KY-0854, Pennsylvania - Licence Number PG-003078-G, and Wyoming – License Number CPG-7031.
7. I am a graduate of Marshall University (Bachelor of Science, Geology, 1977).
8. I have practiced my profession as a geologist for 30 years. I have worked on coal properties in the United States of America, Australia, Canada, Colombia, Chile, China (PRC), Mexico, Venezuela, Philippines, Poland, 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 future National Instrument 43-101 or JORC Code public disclosure requirements.
9. I personally have reviewed the data collected and provided by Southgobi sands, LLC for the Ovoot Tolgoi deposit contained within the SGQ mine license area. I participated in the preparation of this technical report concerning the implementation and management of a 43-101 compliant exploration program to obtain the coal geology data required to advance detailed mine planning for the No. 5 Seam coal occurrences within SGQ’s mine license. My most recent visit to the Ovoot Tolgoi project site was August 30, 2006; to the SGQ Ulaanbaatar office for data collection contained in this report on January 22nd through January 29, 2008; and I am scheduled to be on the project site in April 2008.

10. I am responsible for all sections in the Technical Report.
11. I have no direct or indirect interest in SGQ or any affiliates of it, nor do I expect to acquire any such interest. I am independent of the Company in accordance with section 1.4 of National Instrument 43-101.
12. I have read NI 43-101 and the Technical Report has been prepared in compliance with such instrument.
13. I have not been restricted in any way in my access to information, data or documents that I consider relevant to this report.
14. As at the date of this certificate, to the best of my knowledge, information and belief, the Technical Report contains all scientific and technical information that is required to be disclosed to make the Technical Report not misleading.

Dated in Lakewood, Colorado, this 28th day of March, 2008

“ORIGINAL SIGNED BY AUTHOR”

Patrick P. Riley, CPG
Vice-President
The Americas Group

**SECTION 23: ADDITIONAL REQUIREMENTS FOR A TECHNICAL
REPORT ON DEVELOPMENT PROPERTIES AND
PRODUCTION PROPERTIES**

The most recent technical report on the Ovoot Tolgoi property coal geology and surface resources was previously prepared and submitted to SQG (*Technical Report, Coal Geology and Resources, Ovoot Tolgoi Property, Omnogovi Aimag, Mongolia* (2007, June)) by Norwest.

This report summarizes the planned 43-101 exploration plan necessary to obtain the geologic data required for engineering services to prepare a more detailed underground mine plan, and does not report coal reserves.

An updated technical report will be forthcoming upon completion of the compliant exploration program.