

**SOUTHGOBI ENERGY RESOURCES LTD:
IT HAS LOST MONEY FOR THE PAST 45 MONTHS; AND,
IT IS LIKELY TO LOSE MONEY FOR THE NEXT 45 MONTHS**

There used to be an idiom that was very well received; it used to be passed down from father to son. It went along the lines:

‘Son, avoid companies which engage in extracting commodities from the earth; and, for that matter, avoid companies that rely on making a profit from things, growing in the earth.’

This idiom may be considered somewhat of an exaggeration in today’s world, of course, but it is fact that companies, engaged in extracting commodities from the earth and/or relying on things, growing in the earth, are faced, daily, with risks to which other types of companies are not faced.

Having said that, the biggest companies in the world, today, are oil-producing companies or energy related companies.

But the bones of oil-producing companies that did not make the grade may be found in just about every corner of the world.

In the case of SouthGobi Energy Resources Ltd () (Code: 1878, Main Board, The Stock Exchange of Hongkong Ltd), which pitched its International Offering Prospectus on January 15, 2010, the above idiom appears to ring true, in the opinion of **TARGET** ().

As the first **Initial Public Offering (IPO)** in the Hongkong Special Administrative Region (HKSAR) of the People’s Republic of China (PRC) of this year, SouthGobi Energy Resources Ltd Offered 22.95 million Shares, Nil Par Value, at a maximum price of \$HK133.50 per Share.

A total of 2.70 million shares were set aside for HKSAR investors, with 20.25 million shares, earmarked from International Investors.

This Company is a coal miner and makes the claim of being *‘one of the largest coal producers in Mongolia ...’*.

SouthGobi Energy Resources Ltd was founded in 2002 and, from its outset, it has never earned a cracker.

There is no reason to believe that things will change, appreciably, too.

The Company, also, has never paid a dividend.

There appears to be no reason for this situation to change, also.

At Page 95 of the International Offering Prospectus, an Overview of the Company is given as follows:

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

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

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

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

SouthGobi Energy Resources Ltd ... [CLICK TO ORDER FULL ARTICLE](#)

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