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(Stock Code: 1878)*

**SOUTHGOBI RESOURCES ANNOUNCES FIRST QUARTER
2011 FINANCIAL AND OPERATING RESULTS**

HONG KONG – SouthGobi Resources Ltd. (TSX: **SGQ**, HK: **1878**), (the “Company” or “SouthGobi”) today announced its financial results for the three months ended March 31, 2011.

Please see the attached announcement for more details.

By order of the Board
SouthGobi Resources Ltd.

Mr. Peter Graham Meredith
Chairman

Hong Kong, 12 May 2011

As of the date of this announcement, the executive Director is Mr. Alexander Alan Molyneux, the non-executive Directors are Mr. Peter Graham Meredith and Mr. John Anthony Macken and the independent non-executive Directors are Mr. Pierre Bruno Lebel, Mr. Robert William Hanson, Mr. Andre Henry Deepwell, Mr. Gordon Lancaster, Mr. Raymond Edward Flood Jr. and Mr. Robert Stuart Angus.

* *For identification purposes only*



May 12, 2011

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HONG KONG – SouthGobi Resources Ltd. (TSX: **SGQ**, HK: **1878**), (the “Company” or “SouthGobi”) today announced its financial results for the three months ended March 31, 2011. All figures are in US dollars unless otherwise stated.

HIGHLIGHTS

The Company’s highlights for the quarter ended March 31, 2011 and subsequent weeks:

- **Total sales of approximately 450,000 tonnes and revenue of \$20.2 million for the quarter ended March 31, 2011, with both figures representing a record for any given first quarter and the revenue also being the second highest quarterly revenue since the commencement of mining operations.**
- **Average realized selling price for the first quarter of 2011 was \$50 per tonne, an increase of 56% compared to the fourth quarter of 2010.**
- **Direct mining cash costs per tonne sold for the first quarter of 2011 were \$18.91 per tonne, a reduction of 15% compared to the first quarter of 2010.**
- **Income from mining operations of \$7.7 million resulting in a margin on revenue of 38%, with both figures representing a quarterly record since the commencement of mining operations.**
- **Substantially completed the process of registering the resource associated with the Soumber deposit. Mineral resource registration is the pre-requisite allowing a formal mining license application to be made.**

REVIEW OF QUARTERLY OPERATING RESULTS

The Company's operating results for the previous eight quarters are summarized in the table below:

QUARTER ENDED	2011	2010				2009		
	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun
Volumes and prices								
Raw semi-soft coking coal								
Raw coal production (millions of tonnes)	0.48	0.41	0.18	0.39	0.21	0.16	0.35	–
Coal sales (millions of tonnes)	0.34	0.35	0.11	0.42	0.40	0.36	0.46	0.38
Average realized sales price (per tonne)	\$ 56.50	\$ 47.08	\$ 46.04	\$ 44.10	\$ 36.62	\$ 29.55	\$ 27.82	\$ 29.71
Raw higher-ash coal								
Raw coal production (millions of tonnes)	0.63	0.97	0.39	0.23	0.01	–	0.01	–
Coal sales (millions of tonnes)	0.11	1.12	0.08	0.03	0.03	–	–	–
Average realized sales price (per tonne)	\$ 31.68	\$ 26.75	\$ 25.34	\$ 18.82	\$ 21.24	\$ –	\$ –	\$ –
Total								
Raw coal production (millions of tonnes)	1.11	1.38	0.57	0.62	0.22	0.16	0.36	–
Coal sales (millions of tonnes)	0.45	1.47	0.19	0.45	0.43	0.36	0.46	0.38
Average realized sales price (per tonne)	\$ 50.29	\$ 31.56	\$ 37.15	\$ 42.63	\$ 35.52	\$ 29.55	\$ 27.82	\$ 29.71
Costs								
Direct cash costs of product sold (per tonne)	\$ 18.91	\$ 18.53	\$ 18.59	\$ 21.37	\$ 22.25	\$ 16.97	\$ 11.16	\$ 16.64
Total cash costs of product sold (per tonne)	\$ 20.61	\$ 19.25	\$ 22.04	\$ 22.30	\$ 23.32	\$ 18.29	\$ 13.41	\$ 18.13
Operating statistics								
Sunset								
Total waste material moved (millions of bank cubic meters)	3.85	3.56	2.90	1.73	1.50	0.87	1.06	–
Strip ratio (bank cubic meters of waste rock per tonne of coal produced)	3.47	2.58	5.09	2.79	6.79	5.38	2.98	–
Sunrise								
Total waste material moved (millions of bankcubicmeters)	0.49	0.73	0.43	0.02	–	–	–	–

In the three months ended March 31, 2011, the Company produced 1.11 million tonnes of raw coal with a strip ratio of 3.47 compared to production of 0.22 million tonnes with a strip ratio of 6.79 in the three months ended March 31, 2010. Production has increased 405% in the first quarter of 2011 compared to the first quarter of 2010, primarily due to expansion of the Company's mining fleet throughout 2010.

In the three months ended March 31, 2011, the Company shipped approximately 0.45 million tonnes of coal at an average realized selling price of approximately \$50 per tonne. This compares to 0.43 million tonnes of coal shipped in the three months ended March 31, 2010 at an average realized selling price of approximately \$36 per tonne.

The average realized selling price for both of the Company's individual coal types increased in the first quarter of 2011. The average realized selling price for the raw semi-soft coking coal increased by 20% compared to the fourth quarter of 2010 and by 54% compared to the first quarter of 2010. The average realized selling price for the raw higher-ash coal increased by 18% compared to the fourth quarter of 2010 and by 49% compared to the first quarter of 2010.

Direct cash costs of product sold were \$18.91 per tonne in the three months ended March 31, 2011 compared to \$22.25 per tonne in the three months ended March 31, 2010. Direct cash costs have decreased primarily due to the higher productivity as a result of the expanded fleet. In the first quarter of 2010 direct cash costs were negatively impacted by the Sunset open pit realignment.

REVIEW OF QUARTERLY FINANCIAL RESULTS

The Company's financial results for the previous eight quarters are summarized in the table below:

(\$ in thousands, except for per share information, unless otherwise indicated)

QUARTER ENDED	2011		2010		2009			
	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun
Revenue	\$ 20,158	\$ 41,595	\$ 6,597	\$ 17,668	\$ 13,917	\$ 9,960	\$ 11,871	\$ 10,666
Income/(loss) from mine operations	7,690	3,376	(6,674)	4,400	1,187	1,524	3,234	1,527
Margin on revenue	38%	8%	-101%	25%	9%	15%	27%	14%
Evaluation and exploration expenses	(1,991)	(4,144)	(6,314)	(6,659)	(1,651)	(739)	(2,150)	(1,742)
Operating loss from continuing operations	(1,020)	(8,914)	(20,969)	(10,595)	(6,498)	(6,948)	(5,031)	(4,783)
Net interest (expense)/income	(4,251)	(4,191)	(4,385)	(4,384)	(9,024)	(8,243)	(642)	(356)
Other finance income/(costs)	(40,896)	(15,697)	51,507	67,677	(153,410)	(53,536)	-	-
Total finance income/(costs)	(45,147)	(19,887)	47,122	63,293	(162,434)	(61,779)	(642)	(356)
Net (loss)/income from continuing operations before other finance income/(costs)	(5,706)	(13,027)	(24,012)	(14,376)	(14,861)	(16,651)	2,224	(5,139)
Income/(loss) from continuing operations	(46,602)	(28,720)	27,495	53,301	(168,271)	(70,187)	2,224	(5,139)
Income/(loss) from discontinued operations	-	-	-	-	-	1,034	(26,006)	(2,772)
Net income/(loss)	(46,602)	(28,720)	27,495	53,301	(168,271)	(69,153)	(23,782)	(7,911)
Net income/(loss) per share	(0.25)	(0.16)	0.15	0.29	(1.09)	(0.52)	(0.17)	(0.06)

The Company recorded a net loss for the three months ended March 31, 2011 of \$46.6 million compared to a net loss of \$168.3 million for the three months ended March 31, 2010. The net loss in the first quarter of 2011 is due primarily to the \$36.8 million loss on the fair value change of the embedded derivatives in the CIC convertible debenture. The first quarter of 2010 includes a loss on partial conversion of the CIC convertible debenture of \$151.4 million.

The Company incurred an operating loss from continuing operations for the three months ended March 31, 2011 of \$1.0 million compared to a loss of \$6.5 million for the three months ended March 31, 2010. The decrease in the operating loss can be attributed to several factors, some of the key factors are discussed below.

Income from Mine Operations

The Company's income from mine operations is composed of revenue and cost of sales and relates solely to the Mongolian Coal Division. In the first quarter of 2011, the Company had income from mine operations of \$7.7 million. This compares to income from mine operations of \$1.2 million in the first quarter of 2010.

Revenue increased from \$13.9 million in the three months ended March 31, 2010 to \$20.2 million in the three months ended March 31, 2011 due to selling prices for individual coal types increasing by between 49% and 54%.

Cost of sales were \$12.5 million in the three months ended March 31, 2011, compared to \$12.7 million for the three months ended March 31, 2010. Cost of sales comprise the direct cash cost of products sold, mine administration costs, equipment depreciation, depletion of stripping costs, and share-based compensation.

Administration Expenses

Administration expenses for the three months ended March 31, 2011 were \$6.7 million compared to \$6.0 million for the three months ended March 31, 2010. The increase in Administration expenses is impacted by the items discussed below.

Corporate administration fees are higher in the three months ended March 31, 2011, compared to the three months ended March 31, 2010. Corporate administration fees include office costs, regulatory and filing fees, travel costs and investor relations costs.

Salaries and benefits, excluding share-based compensation costs, for the three months ended March 31, 2011 were \$0.9 million compared to \$0.8 million for the three months ended March 31, 2010. Share-based compensation expense allocated to administration expenses was \$2.1 million for the three months ended March 31, 2011 and \$2.5 million for the three months ended March 31, 2010.

Sustainability and community relations costs are incurred in Mongolia. Sustainability and community relations expenses were \$0.3 million for the three months ended March 31, 2011 compared to \$0.2 million for the three months ended March 31, 2010. Public infrastructure costs, which relate to the maintenance and upgrading of public transportation infrastructure used to transport coal from the Ovoot Tolgoi Mine to the Chinese border, were \$0.7 million for the three months ended March 31, 2011 compared to \$0.5 million for the three months ended March 31, 2010.

Exploration Expenses

The exploration expenditures for the three months ended March 31, 2011 were \$2.0 million compared to \$1.7 million for the three months ended March 31, 2010. Key exploration targets for 2011 will include additional drilling at the Soumber Deposit and the fields surrounding the Soumber Deposit and additional areas within the Ovoot Tolgoi mining licenses that have not been fully explored. Exploration activities include drilling, trenching, water exploration and geological reconnaissance.

Finance Income & Finance Costs

The Company incurred finance costs for the three months ended March 31, 2011 of \$45.6 million compared to \$163.0 million in the three months ended March 31, 2010. The finance costs in the first quarter of 2011, relate primarily to a \$36.8 million loss on the fair value change of embedded derivatives in the China Investment Corporation (“CIC”) convertible debenture, \$4.5 million interest expense on the CIC convertible debenture and \$3.8 million mark to market loss on the Company’s investment in Kangaroo Resources Ltd. In the three months ended March 31, 2010, included in finance costs was a \$151.4 million non-cash loss on the partial conversion of the CIC convertible debenture.

The Company finance income is composed entirely of interest income and for the three months ended March 31, 2011, the Company earned \$0.4 million of interest compared to \$0.6 million for the three months ended March 31, 2010. The lower interest income in the three months ended March 31, 2011 reflects lower cash balances. The current economic climate has resulted in very low interest rates especially for US\$ denominated investments.

The Company’s investment in Aspire Mining Ltd. (“Aspire”) continues to be classified as an available-for-sale financial instrument and in the three months ended March 31, 2011, the Company recorded an after-tax mark to market gain of \$50.7 million related to Aspire that has been recorded in other comprehensive income.

FINANCIAL POSITION AND LIQUIDITY

The Company's total assets at March 31, 2011 were \$1,025.2 million compared with \$961.9 million at December 31, 2010. At March 31, 2011, the Company had \$420.7 million in cash and cash equivalents and \$77.3 million in money market investments for a total liquidity of \$498.0 million compared with \$492.0 million in cash and cash equivalents and \$62.7 million in money market investments for a total liquidity of \$554.7 million at December 31, 2010.

The Company's long term liabilities at March 31, 2011 were \$297.0 million compared with \$252.5 million at December 31, 2010. The increase in long term liabilities relates to the increase in the fair value of the CIC convertible debenture and the increase in deferred tax liabilities associated with the Company's investment in Aspire.

COMMON SHARE REPURCHASE PROGRAM

On June 8, 2010, the Company announced that its Board of Directors authorized a share repurchase program to purchase up to 2.5 million common shares of the Company on each or either of the Toronto Stock Exchange and the Hong Kong Stock Exchange, in aggregate representing up to 5 million common shares of the Company. As of May 12, 2011, the Company had repurchased 250,750 shares on the Hong Kong Stock Exchange and 1,255,550 shares on the Toronto Stock Exchange for a total of 1,506,300 common shares. The Company cancels all shares after they are repurchased.

OUTLOOK

Through its marketing efforts SouthGobi's continues to develop a more proliferated customer base. For the second quarter of 2011, the Company will continue to sell coal through two sales channels, including 'mine gate' and also direct delivery inside China. Another three new customers have been added including a major regional steel producer.

Contracted prices for individual coal products for the second quarter of 2011 are generally between 15% and 20% higher than for the first quarter of 2011. Sales price for the raw semi-soft coking coal product is now generally at or above \$65 per tonne, whilst the raw higher-ash coal is achieving approximately \$40 per tonne. However, SouthGobi anticipates the overall average realized sales price in the second quarter of 2011 to be similar to the \$50 per tonne achieved in the first quarter due to a higher proportion of the lower value raw higher ash coal in the sales mix.

Sales volumes for the second quarter of 2011 will be difficult to predict due to: (a) volumes in April were relatively low as it took some time for key larger customers to accept SouthGobi's prices; and (b) the Mongolia-China border at Shivee Khuren-Ceke has been shut for a number of days in May due to the Chinese holiday at the start of May but also to allow for construction activity on the road on the Chinese side of the border. SouthGobi anticipates overall sales volumes for the second quarter of 2011 to be in the range of 600,000 tonnes to 1.3 million tonnes.

Based on the Company's current expectation for volumes, pricing and costs, SouthGobi anticipates a further expansion of its normalized income from mine operations in the second quarter of 2011 when compared to the first quarter of 2011.

The success to date and potential for future growth can be attributed to a combination of the Company's competitive strengths, including the following:

- Projects are strategically located close to China;
- Substantial resources and reserves;
- Produce premium quality coals;
- Low cost structure due to favorable geographic and geological conditions;
- Strong financial profile after the financings in late 2009 and early 2010;
- Established production with strong growth potential through future expansion of existing mine capacity and development of the Company's priority assets; and
- Experienced management team with strong skills in mining, exploration and marketing.

Overview and Objectives

The Company continues to focus its efforts on mining, development and exploration of coking and raw coal products in Mongolia for supply of quality products to customers in China. As the Company looks forward through 2011, the Company is encouraged by the overall long term demand for our products. There are many positive developments in Mongolia, which provide further support that the mining sector will develop its resource base for long term growth. The Company is making progress with its sales and marketing efforts, while continuing to focus on efficiency and prudent financial management and intends to manage production levels to meet anticipated demand for the Company's products.

The Company's objectives for 2011 remain unchanged from the year ended December 31, 2010 and are as follows:

- **Grow Ovoot Tolgoi Mine** – The additional capacity of the new mining fleets should support growth in coal availability and sales for 2011 over 2010, and the future.
- **Continue to develop regional infrastructure** – The Company's immediate priority centers on improving roads in the area around Ovoot Tolgoi Mine. SouthGobi has entered into a contract to design and construct a coal-haul highway with capacity well in excess of 20 million tonnes per year for completion by the end of 2012.
- **Advancing the Soumber deposit** – SouthGobi intends to further define the deposit with continued exploration work while also substantially advancing the feasibility, planning and licensing for a mine at Soumber.
- **Value-adding/upgrading coal** – The Company has commenced construction of a coal-handling facility at Ovoot Tolgoi Mine including the secondary processing stage of dry air separation.
- **Exploration** – Further greenfields exploration will take place, with the Company planning an exploration budget in the order of \$10-20 million.
- **Operations** – Continuing to focus on production safety, environmental protection, operational excellence and community relations.

CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidated Interim Statement of Comprehensive Income

(Unaudited)

(Expressed in thousands of U.S. Dollars, except for share and per share amounts)

	Three months ended	
	March 31,	
	2011	2010
Revenue	\$ 20,158	\$ 13,917
Cost of sales	<u>(12,468)</u>	<u>(12,730)</u>
Income from mine operations	7,690	1,187
Administration expenses	(6,719)	(6,034)
Evaluation and exploration expenses	<u>(1,991)</u>	<u>(1,651)</u>
Operating loss from continuing operations	(1,020)	(6,498)
Finance costs	(45,574)	(163,009)
Finance income	<u>427</u>	<u>575</u>
Loss before tax	(46,167)	(168,932)
Current income tax expense	(1,753)	(10)
Deferred income tax recovery	<u>1,318</u>	<u>671</u>
Net loss for the period	<u>(46,602)</u>	<u>(168,271)</u>
OTHER COMPREHENSIVE INCOME		
Gain on available-for-sale assets, net of tax	<u>50,748</u>	<u>—</u>
Net comprehensive income/(loss) attributable to equity holders of the Company	<u>\$ 4,146</u>	<u>\$ (168,271)</u>
BASIC AND DILUTED LOSS PER SHARE	<u>\$ (0.25)</u>	<u>\$ (1.09)</u>

Condensed Consolidated Interim Statement of Financial Position

(Unaudited)

(Expressed in thousands of U.S. Dollars)

	As at	
	March 31, 2011	December 31, 2010
ASSETS		
Current assets		
Cash and cash equivalents	\$ 420,664	\$ 492,038
Trade and other receivables	28,383	30,246
Short term investments	17,488	17,529
Inventories	51,227	26,160
Prepaid expenses and deposits	11,927	10,026
	<u>529,689</u>	<u>575,999</u>
Total current assets		
Non-current assets		
Property, plant and equipment	305,763	266,771
Deferred income tax assets	12,760	11,442
Long term investments	176,799	107,416
Other receivables	238	238
Total non-current assets	<u>495,560</u>	<u>385,867</u>
Total assets	<u><u>\$1,025,249</u></u>	<u><u>\$ 961,866</u></u>
EQUITY AND LIABILITIES		
Current liabilities		
Trade and other payables	\$ 31,232	\$ 24,137
Amounts due under line of credit facility	4,840	–
Current portion of convertible debenture	7,233	6,312
Total current liabilities	<u>43,305</u>	<u>30,449</u>

Non-current liabilities		
Convertible debenture	282,296	245,498
Deferred income tax liabilities	11,216	3,966
Decommissioning liability	3,476	3,063
Total non-current liabilities	296,988	252,527
Total liabilities	340,293	282,976
Shareholders' equity		
Common shares	1,068,113	1,061,560
Share option reserve	33,052	32,360
Investment revaluation reserve	78,509	27,761
Accumulated deficit	(494,718)	(442,791)
Total shareholders' equity	684,956	678,890
Total shareholders' equity and liabilities	\$ 1,025,249	\$ 961,866
Net current assets	\$ 486,384	\$ 545,550
Total assets less current liabilities	\$ 981,944	\$ 931,417

REVIEW OF INTERIM RESULTS

The condensed consolidated financial statements for the Company for the three months ended March 31, 2011, were reviewed by the Audit Committee of the Company.

SouthGobi's results for the quarter ended March 31, 2011, are contained in the unaudited Condensed Consolidated Interim Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations, available on the SEDAR website at www.sedar.com and SouthGobi Resources website at www.southgobi.com.

ABOUT SOUTHGObI RESOURCES

SouthGobi Resources is focused on exploration and development of its Permian-age metallurgical and thermal coal deposits in Mongolia's South Gobi Region. The Company's flagship coal mine, Ovoot Tolgoi, is producing and selling coal to customers in China. The company plans to supply a wide range of coal products to markets in Asia.

Disclosure of a scientific or technical nature in this release and the Company's MD&A with respect to the Company's Coal Division was prepared by, or under the supervision of Dave Bartel, P.Eng., the Company's Vice President, External Affairs and Investor Relations. Mr. Bartel is a "qualified person" for the purposes of National Instrument 43-101 of the Canadian Administrators ("NI 43-101").

Information contacts, SouthGobi Resources

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Forward-Looking Statements: This document includes forward-looking statements. Forward-looking statements include, but are not limited to: proliferation of SouthGobi's customer; pricing for individual coal products are between 15% and 20% higher than for the first quarter of 2011; average realized sales prices similar to \$50 per tonne achieved in the first quarter of 2011; sales volumes for the second quarter of 2011 will be between 600,000 to 1.3 million tonnes; normalized income from mine operations in the second quarter of 2011 will exceed the first quarter of 2011; long-term demand for SouthGobi's products; positive developments in Mongolia will support the mining sector and will develop Mongolia's resource base; management of production levels to meet anticipated demand for SouthGobi's products; plans to supply a wide range of coal products to markets in Asia; and other statements that are not historical facts. When used in this document, the words such as "plan," "estimate," "expect," "intend," "may," and similar expressions are forward-looking statements. Although SouthGobi believes that the expectations reflected in these forward-looking statements are reasonable, such statements involve risks and uncertainties and no assurance can be given that actual results will be consistent with these forward-looking statements. Important factors that could cause actual results to differ from these forward-looking statements are disclosed under the heading "Risk Factors" in SouthGobi's Management Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2010 and quarter ended March 31, 2011, which are available at www.sedar.com.