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(Stock Code: 1878)

## **SouthGobi Resources provides operational update**

### **Coal quality review**

**HONG KONG** – Alexander Molyneux, President and CEO of SouthGobi Resources Ltd. (**TSX: SGQ, HK: 1878**), today announced a broad operational update.

Please see the attached announcement for more details.

By order of the Board  
**SouthGobi Resources Ltd.**  
**Mr. Peter Graham Meredith**  
*Chairman*

Hong Kong, 10 November 2010

*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.*



November 10, 2010

## **SouthGobi Resources provides operational update Coal quality review**

**HONG KONG** – Alexander Molyneux, President and CEO of SouthGobi Resources Ltd. (TSX: SGQ, HK: 1878), (the “Company” or “SouthGobi”) today announced a broad operational update.

### **Highlights from operational update:**

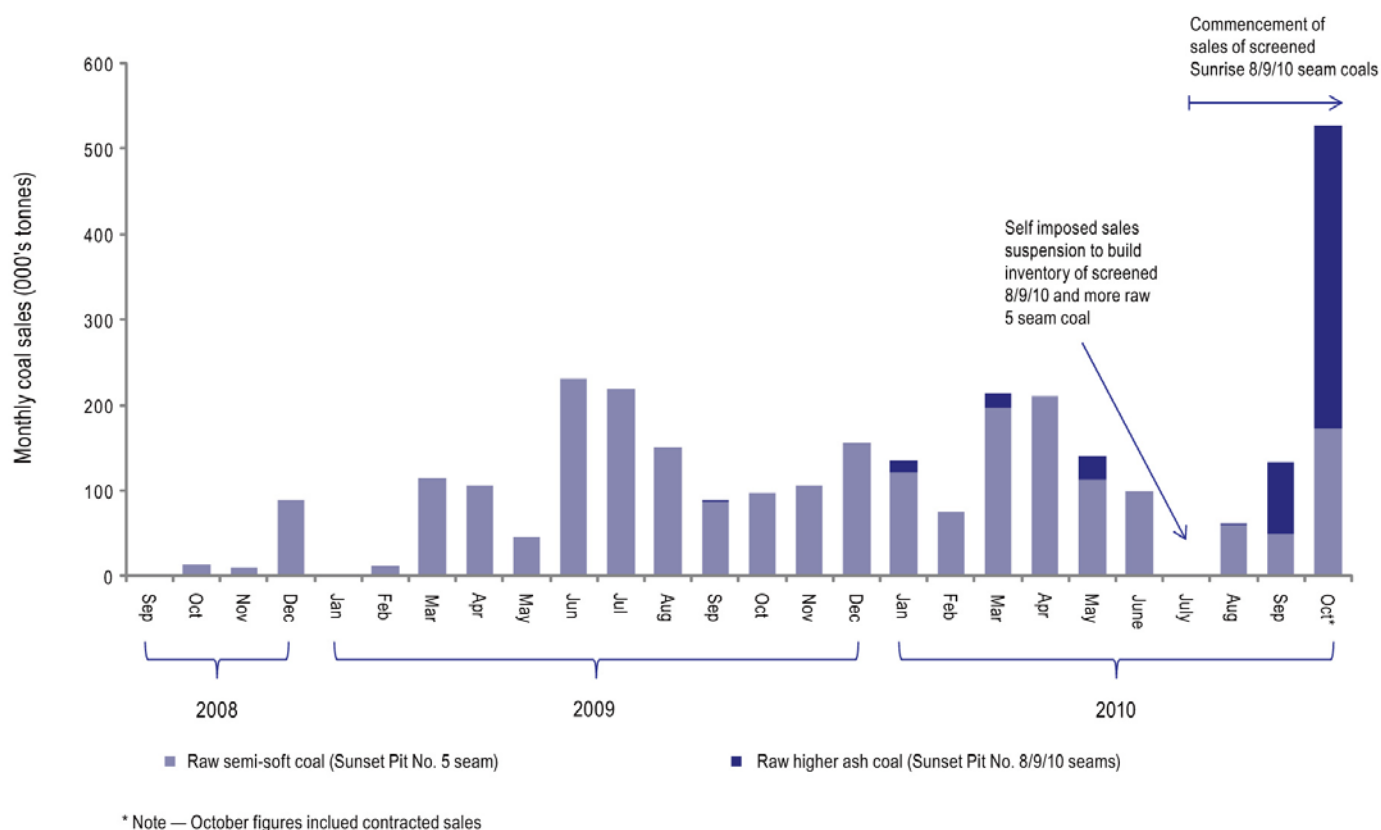
- **Higher sulphur observed to date is primarily due to near-surface factors and as the Ovoot Tolgoi open-pit deepens the sulphur levels are expected to drop.**
- **Secondary coal processing is planned, which is expected to improve the value of higher- ash, higher-sulphur coals at Ovoot Tolgoi.**
- **Wet washing of the higher-ash, higher-sulphur coals will upgrade the coal to a semi-soft coking coal product at a 65-75% overall yield.**
- **Approximately US\$55 million is budgeted for new open-pit mining equipment to expand capacity beyond original plan and improve fleet flexibility and productivity.**

### **Review and Sales Update**

In the results for the quarter ended June 30, 2010 the Company highlighted two issues which had the potential to impact the second half of 2010. Firstly, the near-term mine plan included proportionately less of the better quality raw semi-soft coking coal coming from the Sunset Pit No. 5 seam. Secondly, the Company is currently experiencing areas of higher sulphur than originally anticipated. The Company went further to indicate that some of the higher-sulphur coal would potentially not be attractive to customers in its current form and may need to be stockpiled until appropriate processing is in place or blending opportunities arise.

The third quarter was impacted by those issues while the Company worked on various projects to mitigate them. Substantial progress has been made and on October 19, 2010, the Company announced increased sales volume guidance for the second half of 2010 of approximately 1.5 million tonnes. The Company expects to achieve or exceed this guidance. Physical coal shipments are running at record levels in terms of average daily customer truck movements. October contracted sales of 527,000 tonnes exceeded the previous monthly record of 232,000 tonnes set in June 2009. The Company now anticipates finishing 2010 with a substantial reduction in unsold coal in its inventory.

### Coal sales by product (September 2008 – October 2010)



Pricing of individual products for the fourth quarter of 2010 remains broadly the same as for the third quarter of 2010. Overall average selling price will likely be substantially reduced to reflect the fact that a large proportion of sales are of the higher-ash coal that remained in the stockpile at the end of the third quarter 2010. The current selling price of the screened Sunset Pit No. 8/9/10 seams higher-ash, higher-sulphur coal is approximately US\$26 per tonne.

### Coal quality review

Since becoming aware of the presence of higher sulphur levels in certain coals being mined during 2010, SouthGobi undertook an internal review of the Ovoot Tolgoi coal quality.

The raw semi-soft coking coal mined to date from the Sunset Pit No. 5 seam has run at an average level of 0.9% sulphur versus the overall resource estimate of 0.6%. Coal from the Sunset Pit No. 8/9/10 seams has averaged 1.5% sulphur versus the average resource estimate of 1.2%.

The key issue concerning the Company at the time of releasing the second quarter results was with respect to the coal from the Sunset Pit No. 8/9/10 seams. Production from those seams during the quarter was unexpectedly above 1.3% and there is some evidence that this is the level above which some value penalty is imposed from a market perspective.

SouthGobi's subsequent preliminary review of coal quality suggests the higher sulphur mined to date results both from local coal variability and near-surface factors. The review indicates there is a clear trend to lower sulphur levels with depth. In the near-term, sulphur values in the Sunset Pit No. 8/9/10 seams may continue to be at or close to the level that may attract a penalty but it is likely that the overall remaining in-pit resources for both the Sunset Pit No. 5 seam and the upper Sunset Pit No. 8/9/10 seams will approach the average resource sulphur values previously disclosed.

### **Coal Screening**

During the third quarter of 2010 the Company considered options to address the short-term issue of the stock-piled raw Sunset Pit No. 8/9/10 seams higher-ash, higher-sulphur coals that were unexpectedly above 1.3% sulphur. The company commenced screening those coals: the screening process passed stock-piled coal over a mobile screen that rejects size fractions above 50 millimeters. Screening itself does not reduce sulphur levels in a material way, but the ash level is reduced and the coal becomes more consistently sized. As a result, some value is created that has enabled the Company to sell the higher-ash, higher-sulphur coals to its customers. Subsequently, the Company decided to adopt screening as the most immediate solution to assist sales of those coals in higher volumes and during October 2010 additional screens were commissioned bringing total screening capacity beyond existing mining capacity.

### **Secondary Coal Processing and Coal Washing**

Despite becoming more comfortable that the issue of higher sulphur is a shorter-term issue, the Company continued to progress work on testing and designing processes to add value to its Ovoot Tolgoi coals. The Sunset Pit No. 5 seam coal is already very low-ash, low-sulphur and has coking properties, only basic coal processing is planned for that seam at this time. Therefore, SouthGobi's analysis has centered on processing options for the higher ash Sunset Pit No. 8/9/10 seams.

During the third quarter of 2010 bulk samples of Ovoot Tolgoi coals were tested at three different Chinese facilities under the supervision of HMC Processing Pty Ltd. One facility tested dry air separation whilst the other two facilities conducted wet washability testing.

A summary of the key outcomes from testing and design work to date are in the table below.

	<b>Dry Air Separation</b>	<b>Wet Washing</b>
<b>Description of the process</b>	Separates coal and waste using vibrating table with air lift	Uses dense media in water to separate lower density coals from higher density waste
<b>Impact on #8/9/10 seams coal quality</b>	Value enhancement – lowers ash level to 14-18% and sulphur by 0.1%	Substantial upgrade in value of product – recovery of an 8% ash semi-soft coking coal and sulphur reduced by around 0.3%
<b>Overall cash costs (per tonne of raw coal)</b>	\$2-2.50	\$3-3.50
<b>Overall average yield (%)</b>	Approximately 80%	65-75%
<b>Capital expenditure</b>	\$45 million (including previously announced basic coal handling facility capital expenditure)	\$100-130 million (additional to dry air separation)
<b>Timing to implement</b>	End 2011	2013

Both processes are value enhancing and could also work together in a multi-stage coal handling facility.

In June 2010, SouthGobi announced construction of a basic coal handling facility. The board has now approved a plan to amend the project to include dry air separation. Initially two dry air separation modules will be included in the facility with combined capacity to process six million tonnes a year. Capital expenditure for the coal handling facility has been increased by US\$20 million to a revised total of US\$45 million and completion is now scheduled for the end of 2011. Given the potential to turn the higher-ash Sunset Pit No. 8/9/10 seams coals into semi-soft coking coals at a relatively high yield, it is likely a wet washing facility will be built at Ovoot Tolgoi in addition to the dry air separation plant.

The timing to implement a wet washing facility is primarily driven by availability and licensing of water. A wet wash plant at Ovoot Tolgoi would likely require one million cubic meters of water annually. There are currently three targeted water resources the Company is investigating around Ovoot Tolgoi. Aquaterra, an international water and environment consultancy firm, has been retained to conduct hydrogeology testing and modeling.

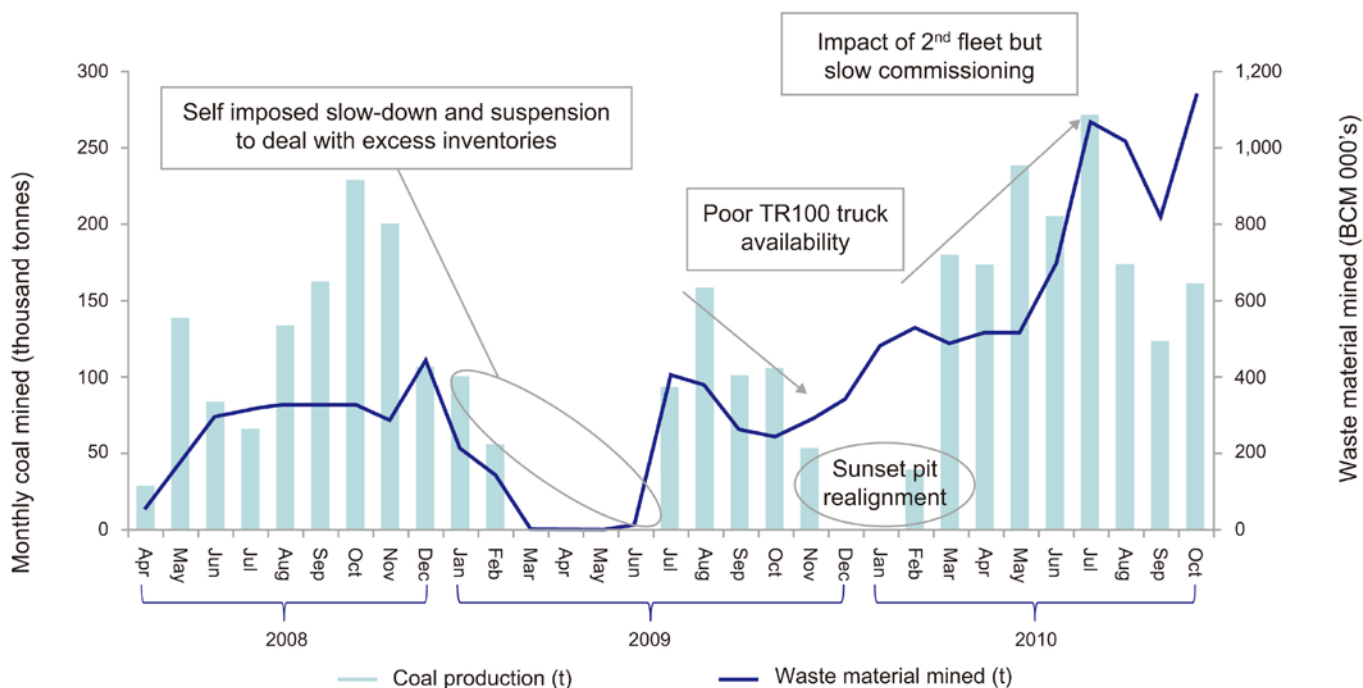
### Mining Production Update

As previously disclosed, in the first half of 2010, the Company’s mining operation was impacted by the realignment of the Sunset open-pit, delayed commissioning of the second mining fleet and poor equipment availability ratios being experienced on the Terex TR100 (91-tonne capacity) haul trucks from the first mining fleet.

Since the first half, substantial improvements have been observed. The second mining fleet was fully commissioned in June and an additional third mining fleet, which includes an additional Liebherr 996 hydraulic excavator (34m<sup>3</sup>), five Terex MT4400 (218-tonne capacity) trucks and various auxiliary equipment, has now also been commissioned. The new third fleet was originally expected to be mining from January 2011, but was fully commissioned in October 2010. Since July 2010, the Company’s mining operation has been averaging approximately one million bank cubic meters of material movement per month. The full impact of the new third fleet should be seen from November onwards and is expected to grow capacity by approximately 50% over the performance of the Company’s existing fleets.

The chart below illustrates how production has ramped up since commencement of the mining operation at Ovoot Tolgoi.

### Coal production and waste material movement (April 2008 – October 2010)



## **Fleet Development**

In the results for the quarter ended June 30, 2010 the SouthGobi noted it continued to assess fleet requirements at Ovoot Tolgoi including consideration of adding additional equipment to expand capacity. As a result of that assessment, the Company approved the purchase of additional equipment.

Firstly, one Liebherr R9250 hydraulic excavator will be purchased to replace the current Liebherr 994 shovel. This new machine will have around 40-50% more productive capacity than the existing Liebherr 994 and so an additional Terex MT4400 truck will also be purchased to ensure haul truck capacity remains matched to loading capacity. The new Liebherr R9250 hydraulic excavator will be in back-hoe configuration so it will mine from on top of the mining bench enabling it to be flexible to load both the larger MT4400 trucks and the smaller TR100 trucks. It will also be able to mine the thinner seams more cleanly. In addition, eliminating the Liebherr 994 will allow for mining bench heights to be increased at Ovoot Tolgoi because the current restriction to 12 meters is due to the maximum reach of the face shovel configured Liebherr 994. Replacement of the Liebherr 994 with the first Liebherr R9250 is expected to take place in 2011. SouthGobi's Mongolian Liebherr supplier has agreed to repurchase the Liebherr 994 and its directly associated maintenance inventory at the time the equipment change-over takes place.

Secondly, the purchase of an additional fifth mining fleet has been approved. It includes one Liebherr R9250 hydraulic excavator and two MT4400 (218-tonne) trucks. This equipment is expected to provide additional capacity of over 300,000 bank cubic meters. Two additional MT4400 (218-tonne) trucks have also been approved to maintain capacity as cycle times increase when the coal handling facility is operating in 2011.

The previously announced fourth mining fleet (third Liebherr 996 fleet) continues to be on-track for commissioning in early 2012. The new fleet development initiatives have a capital cost of approximately \$55 million.

Dave Bartel, P.Eng, SouthGobi Resources' Vice President of Mongolian Operations, a qualified person as defined by National Instrument 43-101, supervised the preparation of the technical information in this release.

## **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.

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Forward-Looking Statements: This document includes forward-looking statements. Forward-looking statements include, but are not limited to, Experiencing a drop in sulphur levels at depth, increasing the value to higher-ash and higher-sulphur coals resulting from coal processing, achieving or exceeding the sale volume guidance of 1.5 million tonnes for the second half of 2010, finishing 2010 with a substantial reduction in unsold coal inventory, the overall remaining in-pit resources for the #5 seam and the upper seam approaching the average resource sulphur values previously disclosed, the anticipated impact on coal quality, overall cash costs, overall average yield, capital expenditures and time requirements resulting from the dry air separation and/or wet washing of coal and the expected impact of the mining fleet on overall production, 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 Dec. 31, 2009, and quarter ended September 30, 2010 which are available at [www.sedar.com](http://www.sedar.com).