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**SOUTHGOBI RESOURCES LTD.**

**南戈壁資源有限公司\***

*(a company continued under the laws of British Columbia, Canada with limited liability)  
(Stock Code: 1878)*

**SOUTHGOBI RESOURCES ANNOUNCES 2010  
PRELIMINARY FINANCIAL RESULTS**

**HONG KONG** –SouthGobi Resources Ltd. (**TSX: SGQ, HK: 1878**), (“SouthGobi” or the “Company”) is pleased to announce its unaudited financial results for the fourth quarter and year ended December 31, 2010.

Please see the attached announcement for more details.

By order of the Board  
**SouthGobi Resources Ltd.**

**Mr. Peter Graham Meredith**  
*Chairman*

Hong Kong, 21 March 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.*

## **SOUTHGOBI RESOURCES ANNOUNCES 2010 PRELIMINARY FINANCIAL RESULTS**

**HONG KONG** – SouthGobi Resources Ltd. (TSX: **SGQ**, HK: **1878**), (“SouthGobi” or the “Company”) is pleased to announce its unaudited financial results for the fourth quarter and year ended December 31, 2010. All figures are in U.S. dollars unless otherwise stated.

### **HIGHLIGHTS FOR 2010 AND SIGNIFICANT ITEMS**

- **Coal sales of 2.5 million tonnes, representing a 92% increase in sales volume compared to 2009.**
- **Revenue of \$79.8 million, 121% higher than 2009.**
- **Second and third mining fleets successfully commissioned, with the second fleet fully commissioned in June 2010 and the third fleet fully commissioned in October 2010.**
- **Global equity offering on January 29, 2010 raised gross proceeds of \$437 million. Simultaneously with the global equity offering, the Company’s shares began trading on the Hong Kong Stock Exchange under the ticker HK: 1878.**
- **On March 29, 2010, \$250 million of China Investment Corporation (“CIC”) convertible debenture was converted into common shares. CIC currently holds 13.6% of the Company’s common shares outstanding.**
- **In June 2010, construction of a coal-handling facility commenced, which will include a 300-tonne-capacity dump hopper, a coal rotary breaker and dry air separation modules.**
- **On December 23, 2010, \$20.3 million was invested for a 19.9% stake in Aspire Mining Limited (“Aspire”), a mineral exploration Company with exciting coking coal resource development prospects in Mongolia. The Aspire investment was worth \$75.2 million as at March 7, 2011.**

### **REVIEW OF QUARTERLY FINANCIAL RESULTS**

The Company recorded a net loss for the three months ended December 31, 2010 of \$28.7 million compared to a net loss of \$69.2 million for the three months ended December 31, 2009. The change is due to the factors discussed below.

Revenues increased significantly to \$41.6 million in the fourth quarter of 2010 from \$10.0 million in the fourth quarter of 2009. The Company sold 1.5 million tonnes at an average realized price of \$32 per tonne in the fourth quarter of 2010 compared to sales of 0.36 million tonnes at an average realized price of \$29 per tonne in the fourth quarter of 2009.

The cost of sales was \$38.2 million in the fourth quarter of 2010 compared to \$8.4 million in the fourth quarter of 2009. Cost of sales will vary depending on sales volume, production and unit costs, which directly affects income from mine operations. Cost of sales is comprised of three main components, direct cash costs of products sold, mine administration costs and non-cash items. Non-cash items include depreciation, depletion of stripping costs, impairments and share-based compensation. The increase in cost of sales in the fourth quarter of 2010 compared to the fourth quarter of 2009 relates primarily to the increased sales volume.

Direct cash cost per tonne sold was \$18.53 per tonne for the fourth quarter of 2010 compared to \$16.97 per tonne for the fourth quarter of 2009. Direct cash cost per tonne sold increased in the fourth quarter of 2010 compared to the fourth quarter of 2009 due to the sale of higher cost inventory from previous quarters.

Administration costs in the fourth quarter of 2010 were slightly higher than the fourth quarter of 2009. The increase in the fourth quarter of 2010 compared to the fourth quarter of 2009 is due to increased office costs, salary costs and government relations costs partially offset by lower professional and legal costs.

Exploration expenses for the three months ended December 31, 2010 were \$4.1 million compared to \$0.7 million for the three months ended December 31, 2009. The increase relates to Greenfields exploration, ongoing water exploration and reverse circulation and core drilling.

Finance costs and income for the three months ended December 31, 2010, includes a loss of \$20.0 million on the fair value change of the embedded derivative and a mark to market gain of \$4.4 million mainly related to the Company's investment in Kangaroo Resources Ltd. This compares to a \$45.0 million loss on the fair value change of the embedded derivative in the fourth quarter of 2009.

Income tax recovery for the three months ended December 31, 2010, was \$0.08 million compared to \$1.5 million for the three months ended December 31, 2009.

## **REVIEW OF ANNUAL FINANCIAL RESULTS**

In 2010, 2.79 million tonnes of raw coal was produced with a strip ratio 3.47 compared to 0.67 million tonnes of raw coal produced in 2009 with a strip ratio of 3.36. Although production was lower in the first half of 2010 due to the realigning of the Sunset Pit, production increased significantly in the fourth quarter of 2010 due to the commissioning of the third fleet, which

increased the capacity of the mining operation. In the second quarter of 2010, the Company also began stripping the Sunrise pit. The costs associated with 1.18 million bank cubic meters (“BCM”) removed from the Sunrise pit were capitalized as deferred stripping.

The Company’s net loss for the year ended December 31, 2010 was \$116.2 million or \$0.66 per share compared with \$110.8 million or \$0.83 per share in 2009.

The Company incurred an operating loss from continuing operations for the year ended December 31, 2010 of \$47.0 million compared to \$23.3 million for the year ended December 31, 2009. The increase in the operating loss is due to the factors discussed below.

In 2010, the Company had sales of 2.54 million tonnes at an average realized price of approximately \$35 per tonne. This compares to 1.33 million tonnes sold in 2009 at an average realized selling price of \$29 per tonne. Revenue increased from \$36.0 million in 2009 to \$79.8 million in 2010 due to the higher sales volume and a higher realized average price. Individual contract pricing has increased through 2010.

Cost of sales was \$77.5 million in the year ended December 31, 2010, compared to \$29.4 million for the year ended December 31, 2009. The increase in cost of sales is due to the increased sales volume, increased cash costs as well as the impairment of the raw higher-ash coal stockpiles and the Liebherr 994 shovel and related supplies recorded in the third quarter of 2010. The total impairment recorded in cost of sales for the year ended December 31, 2010 was \$7.6 million.

Administration expenses for the year ended December 31, 2010 were \$30.5 million compared to \$24.5 million for the year ended December 31, 2009. Share-based compensation expense allocated to administration expenses was \$10.8 million for the year ended December 31, 2010 and \$10.5 million for the year ended December 31, 2009. The primary reason for the increase in administration expenses in 2010 is due to public infrastructure costs of \$6.0 million incurred in 2010, which were \$nil in previous years. The public infrastructure costs in 2010 relate to maintenance and upgrading of public transportation infrastructure used to transport coal from the Ovoot Tolgoi Mine to the Chinese border and these costs are included in administration costs.

Exploration expenses for the year ended December 31, 2010, were \$13.4 million higher than for the year ended December 31, 2009. Increased exploration expense in 2010 relates to a more active exploration program in 2010, including substantially increased drilling.

Finance costs, net of finance income, for the year ended December 31, 2010 were \$71.9 million compared to \$62.8 million for the year ended December 31, 2009. The increase in 2010 in finance costs is due to a \$151.4 million non-cash loss on partial conversion of the CIC convertible debenture, increased interest costs and offset by a gain on the fair value of the embedded derivatives and increased interest income.

## **INVESTMENT IN ASPIRE**

On December 23, 2010, the Company announced that it had completed the private placement with Aspire Mining Limited (“Aspire”) announced on October 26, 2010. Pursuant to the private placement, the Company has acquired 105,860,186 common shares of Aspire at a price of Australian (“A\$”) \$0.19 per share for an aggregate purchase price of approximately \$20.3 million (A\$20.1 million). After giving effect to the transaction, SouthGobi holds approximately 19.9% of Aspire. SouthGobi has the right to nominate one director to the Board of Aspire and the right to maintain its proportionate shareholding in Aspire for a period of two years.

Aspire is a coal resource company which owns 100% of the Ovoot Coking Coal Project in Mongolia along with the Nuramt, Jilchilibag and Shanagan Coal Projects. In addition, Aspire owns a 49% interest in the Windy Knob gold and base metals project located in Western Australia. In a press release dated October 14, 2010, Aspire announced a maiden JORC compliant coal resource with an estimated 93.3 million tonnes of measured coal resources, 182.4 million tonnes of indicated coal resources plus an additional 55.0 million tonnes of inferred coal resources for the Ovoot Coking Coal Project. In a press release dated January 14, 2011, Aspire announced that it had received early results from some raw coal quality tests. The raw coal tests results show a coal type of Raw Coking Coal Quality (in situ) with: Inherent Moisture – 0.6%, Ash – 19.5%, Volatiles – 27.1%, Sulphur – 1.1%, Crucible Swelling Index – 7.7 and Energy – 6,618 kcal/kg. Data results are on an air dried basis for raw coal samples. Based on early results, it is expected that the Ovoot Coking Coal Project washed product will be a high fluidity, mid-volatile coking coal.

For the year ended December 31, 2010, the Company recorded a gain of \$27.8 million, net of tax, on its investment in Aspire. The gain has been recorded in other comprehensive income.

## **LIQUIDITY AND FINANCIAL RESOURCES**

The Company’s total assets at the end of 2010 were \$961.9 million compared to \$560.7 million in 2009 and \$99.9 million at the end of 2008. The increase in total assets relates to the global equity offering in January 2010 and the continuing development of the Mongolia Coal Division.

At December 31, 2010, the Company had \$492.0 million in cash and cash equivalents, \$17.5 million in short term money market investments and \$45.2 million in long term money market investments (i.e. total liquidity of \$554.7 million) compared to \$357.3 million in cash and cash equivalents, \$15.0 million in short term money market investments and \$47.2 million in long term money market investments at December 31, 2009 (i.e. total liquidity of \$419.5 million).

The Company’s long term liabilities at the end of 2010 were \$252.5 million compared to \$543.1 million at the end of 2009 and \$0.3 million at the end of 2008. The decrease in long term liabilities in 2010 is due to the partial conversion of \$250.0 million of the CIC convertible debenture into common shares of the Company.

## **COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company has complied with provisions on the Code on Corporate Governance Practices, as set out in Appendix 14 of the rules governing the listing of the securities on the Hong Kong Stock Exchange (the "Listing Rules") throughout the year ended December 31, 2010.

## **COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED COMPANIES**

The Company has adopted policies in its Corporate Disclosure, Confidentiality and Securities policy that has terms that are no less exacting than those set out in Appendix 10 of the rules governing the listing of securities on the Hong Kong Stock Exchange.

The Board confirms that all of the Directors have complied with the required standard set out in the Model Code throughout the year ended December 31, 2010.

## **PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

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 March 21, 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 at a total cost of approximately \$19.0 million. The Company cancels all shares after they are repurchased.

## **OUTLOOK**

It is difficult to reliably forecast commodity prices and customer demand for the Company's products; however, the Company's sales and marketing efforts continue to provide positive results. Mongolia set a new record for coal shipments to China in 2010 and has become a significant supplier of China's coking coal needs.

SouthGobi's marketing efforts have been successful in terms of diversifying the number and nature of the Company's customers. Historically, the Company has only sold to customers on a 'mine gate' basis, whereby customers collect their coal at the mine and are responsible for all logistics. In the past, this posed a restriction for some potential customers that preferred not to deal with logistics and regulatory formalities on the Mongolian side of the border and SouthGobi was generally reliant on two to three major customers at any one time. However, in the first quarter of 2011, the Company opened its second sales channel, being direct delivery to customers in China. Working with a logistics provider, SouthGobi sells directly to certain customers with the point of delivery being the Chinese side of the Shivee Khuren-Ceke border.

The availability of the second channel and additional interest in the Mongolia to China coal trade generally is enabling the Company to proliferate its customer base to include end-users and international traders. SouthGobi believes this proliferation combined with transport synergies on the Chinese side of the border can result in improved value for its individual coal products in the future.

For the first quarter of 2011, SouthGobi has the potential to set a new quarterly record realized average sales price for its coal. Prices of individual coal products have been increased between 15% and 25% on average on a mine-gate equivalent basis (i.e., for direct sales in China considering revenue less outbound transport costs and fees). The Company anticipates that with the changed individual product pricing compared with a sales mix more weighted towards the semi-soft coking coal for the first quarter of 2011, total average realized selling price per tonne should increase more than 50% over the level for the fourth quarter of 2010.

Sales volumes for the first quarter of 2011 are likely to be substantially lower than for the fourth quarter of 2010 for the reasons that: (a) the fourth quarter of 2010 included a large amount of stock-piled coal, adding to volumes; and (b) the first quarter of each year generally has less shipping days due to the Chinese lunar new year holidays and the Mongolian Tsagaan Tsar festival, which closed the border for some time. However, SouthGobi anticipates coal sales for the first quarter of 2011 to exceed the 426,000 tonnes sold in the first quarter of 2010, which if achieved would represent record volumes for the Company in a first quarter of any given year.

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, continuing to focus on efficiency and prudent financial management and intends to manage production levels to meet anticipated demand for the Company's products.

## **NON-IFRS FINANCIAL MEASURES**

The Company has included, throughout this press release, certain non-IFRS financial measures, such as "cash costs", which are not standardized measures recognized under IFRS and do not have a standardized meaning prescribed by IFRS. These measures are commonly utilized in the mining industry and are considered informative for management, shareholders and analysts. These measures may differ from those made by other corporations and accordingly may not be comparable to such measures as reported by other mining companies.

Cash costs is the term used by the Company to describe the cash production costs and consists of cost of product, which includes direct and indirect costs of production. Non-cash

adjustments include share-based compensation costs, depreciation, depletion and impairments. The figures disclosed below are for cash cost of product sold and may differ from cash cost of product produced depending on stockpile inventory turnover.

## **REVIEW OF RESULTS AND RELEASE OF AUDITED RESULTS**

The Audit Committee has reviewed the annual results of the Company for the year ended December 31, 2010.

The figures in respect of the Company's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended December 31, 2010, as set out in the Announcement of Preliminary Results have been agreed by the Company's auditor, Deloitte & Touche LLP, to the amounts set out in the Company's audited consolidated financial statements for the year. The work performed by Deloitte & Touche LLP in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Deloitte & Touche LLP on the preliminary announcement.

SouthGobi's results for the year ended December 31, 2010, are contained in the audited Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations, which will be available on March 30, 2011 on the SEDAR website at [www.sedar.com](http://www.sedar.com) and SouthGobi Resources website at [www.southgobi.com](http://www.southgobi.com).

Copies of SouthGobi's 2010 Annual Report containing the audited financial statements, and Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A), and the Annual Information Form will be available at [www.southgobi.com](http://www.southgobi.com) under the corporate page. Shareholders with registered addresses in Hong Kong will be sent copies of SouthGobi's Annual Report as usual. Other Shareholders may request a hard copy of the Annual Report free of charge by contacting our investor relations department by phone at +1-604-681-6799 or by email at [info@southgobi.com](mailto:info@southgobi.com).

## **CONSOLIDATED FINANCIAL STATEMENTS AND SELECTED NOTES**

*(Unaudited)*

### **SOUTHGOBI RESOURCES LTD.**

#### **Consolidated Statement of Comprehensive Income**

*(Unaudited)*

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

	<b>Year ended December 31,</b>	
<b>Notes</b>	<b>2010</b>	<b>2009</b>

**CONTINUING OPERATIONS**

Revenue		\$ 79,777	\$ 36,038
Cost of sales	4	(77,488)	(29,425)

<b>Income from mine operations</b>		<b>2,289</b>	<b>6,613</b>
Administration expenses	5	(30,497)	(24,535)
Evaluation and exploration expenses	6	(18,769)	(5,399)

<b>Operating loss from continuing operations</b>		<b>(46,977)</b>	<b>(23,321)</b>
Finance costs	7	(175,855)	(63,754)
Finance income	7	103,948	920

<b>Loss before tax</b>		<b>(118,884)</b>	<b>(86,155)</b>
Current income tax expense	8	(1,806)	(509)
Deferred income tax recovery	8	4,495	6,947

<b>Loss from continuing operations</b>		<b>(116,195)</b>	<b>(79,717)</b>
Loss from discontinued operations		–	(31,088)

<b>Net loss for the year</b>		<b>(116,195)</b>	<b>(110,805)</b>
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**OTHER COMPREHENSIVE INCOME**

Gain on available-for-sale assets, net of tax		27,761	–
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<b>Net comprehensive loss attributable to equity holders of the Company</b>		<b>\$ (88,434)</b>	<b>\$ (110,805)</b>
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**BASIC AND DILUTED****LOSS PER SHARE FROM:**

Continuing operations	9	\$ (0.66)	\$ (0.60)
Discontinued operations	9	–	(0.23)

<b>Continuing and discontinued operations</b>		<b>\$ (0.66)</b>	<b>\$ (0.83)</b>
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**SOUTHGOBI RESOURCES LTD.**

**Consolidated Statement of Financial Position**  
*(Unaudited)*  
*(Expressed in thousands of U.S. Dollars)*

	Notes	As at December 31,	
		2010	2009
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 492,038	\$ 357,342
Trade and other receivables	10	30,246	12,328
Short term investments		17,529	14,999
Inventories		26,160	16,384
Prepaid expenses and deposits		10,026	8,119
<b>Total current assets</b>		<b>575,999</b>	409,172
<b>Non current assets</b>			
Property, plant and equipment		266,771	82,705
Deferred listing costs		–	4,565
Deferred income tax assets	8	11,442	6,947
Long term investments		107,416	57,070
Other receivables		238	225
<b>Total non current assets</b>		<b>385,867</b>	151,512
<b>Total assets</b>		<b>\$ 961,866</b>	\$ 560,684
<b>EQUITY AND LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	11	\$ 24,137	\$ 12,669
Amounts due under line of credit facility		–	3,009
Current portion of convertible debenture	12	6,312	4,712
<b>Total current liabilities</b>		<b>30,449</b>	20,390
<b>Non current liabilities</b>			

Convertible debenture	12	<b>245,498</b>	542,351
Deferred income tax liabilities	8	<b>3,966</b>	–
Decommissioning liability		<b>3,063</b>	735
<b>Total non current liabilities</b>		<b>252,527</b>	543,086
<b>Total liabilities</b>		<b>282,976</b>	563,476
<b>Shareholders' equity/(deficiency)</b>			
Common shares		<b>1,061,560</b>	296,419
Share option reserve		<b>32,360</b>	22,300
Investment revaluation reserve		<b>27,761</b>	–
Accumulated deficit		<b>(442,791)</b>	(321,511)
<b>Total shareholders' equity/ (deficiency)</b>		<b>678,890</b>	(2,792)
<b>Total shareholders' equity and liabilities</b>		<b>\$ 961,866</b>	\$ 560,684
<b>Net current assets</b>		<b>\$ 545,550</b>	\$ 388,782
<b>Total assets less current liabilities</b>		<b>\$ 931,417</b>	\$ 540,294

## **SOUTHGOBI RESOURCES LTD.**

### **Operating Statistics**

*(Unaudited)*

	<b>As at December 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Volumes, Prices and Costs</b>		
Raw coal production ( <i>millions of tonnes</i> )	<b>2.79</b>	0.67
Coal sales ( <i>millions of tonnes</i> )	<b>2.54</b>	1.33
Average realized sales price ( <i>per tonne</i> )	<b>\$ 34.61</b>	\$ 28.97
Direct cash costs of product sold ( <i>per tonne</i> )	<b>\$ 19.66</b>	\$ 14.61
Total cash costs of product sold ( <i>per tonne</i> )	<b>\$ 20.70</b>	\$ 16.58
<b>Operating Statistics</b>		
<b>Sunset</b>		
Total waste material moved ( <i>millions of bank cubic meters</i> )	<b>9.69</b>	2.27

Strip ratio ( <i>bank cubic meters of waste rock per tonne of coal produced</i> )	<b>3.47</b>	3.36
<b>Sunrise</b>		
Total waste material moved (millions of bank cubic meters)	<b>1.18</b>	–

## 1. CORPORATE INFORMATION

SouthGobi Resources Ltd. (formerly SouthGobi Energy Resources Ltd.) is a publicly listed company incorporated in Canada with limited liability under the legislation of the Province of British Columbia and its shares are listed on the Toronto Stock Exchange and Hong Kong Stock Exchange. The company together with its subsidiaries (collectively referred to as the “Company”) is an integrated coal mining, development and exploration company. The Company’s parent is Ivanhoe Mines Ltd. (the “parent” or “Ivanhoe”).

The head office, principal address and registered and records office of the Company are located at 999 Canada Place, Suite 654, Vancouver, British Columbia, V6C 3E1.

The Company’s financial statements and those of all of its controlled subsidiaries are presented in U.S. dollars and all values are rounded to the nearest thousand dollars except where otherwise indicated. Information related to shares and stock options is presented in thousands except for per share information, which is presented in U.S. cents.

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business.

## 2. BASIS OF PREPARATION

### 2.1 Statement of compliance

The Company’s Consolidated Financial Statements, including comparatives, have been prepared in accordance with and using accounting policies in full compliance with the International Financial Reporting Standards (“IFRS”) and International Accounting Standards (“IAS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”), effective for the Company’s reporting for the year ended December 31, 2010.

### 2.2 Basis of presentation

The Company’s Consolidated Financial Statements have been prepared on the historical cost basis except for certain non-current assets and financial instruments,

which are measured at fair value, as explained in the accounting policies set out in Note 3 of the Consolidated Financial Statements.

### 2.3 Adoption of new and revised standards and interpretations

The IASB issued a number of new and revised IASs, IFRSs, amendments and related IFRICs (hereinafter collectively referred to as the “new IFRS”) which are effective for the Company’s financial year beginning on January 1, 2010. For the purpose of preparing and presenting the Consolidated Financial Statements, the Company has consistently adopted all these new standards for the years ended December 31, 2010 and 2009.

At the date of authorization of these Financial Statements, the IASB and IFRIC has issued the following new and revised standards, amendments and interpretations which are not yet effective during the year ended December 31, 2010.

- IFRS 7 (Amendment) Clarification of required level of disclosure (i)
- IFRS 9 New financial instruments standard that replaces IAS 39 for classification and measurement of financial assets (ii)
- IAS 1 (Amendment) Clarification of statement of changes in equity (i)
- IAS 24 (Revised) Related party disclosures (i)
- IAS 32 (Amendment) Classification of rights issues (iii)
- IAS 34 (Amendment) Disclosure requirements for significant events and transactions (i)
- IFRIC 14 (Amendment) Prepayment of a minimum funding requirement (i)
- IFRIC 19 Extinguishing financial liabilities with equity instruments (iv)

- (i) Effective for annual periods beginning on or after January 1, 2011
- (ii) Effective for annual periods beginning on or after January 1, 2013
- (iii) Effective for annual periods beginning on or after February 1, 2010
- (iv) Effective for annual periods beginning on or after July 1, 2010

The Company anticipates that the application of these standards, amendments and interpretations will not have a material impact on the results and financial position of the Company.

### 3. SEGMENTED INFORMATION

At December 31, 2010, the Company has one reportable operating segment, being the Mongolian Coal Division. In prior periods, the Company’s Indonesia Coal Division was a segment of the Company.

An operating segment is defined as a component of the Company:

- that engages in business activities from which it may earn revenues and incur expenses;
- whose operating results are reviewed regularly by the entity's chief operating decision maker; and
- for which discrete financial information is available.

For the Mongolian Coal Division, the Company receives discrete financial information that is used by the chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance. The division is principally engaged in coal mining, development and exploration in Mongolia. As at December 31, 2010, the Mongolian Coal Division has achieved commercial production and is earning revenue through the sale of coal to external customers.

The Company's Corporate Division only earns revenues that are considered incidental to the activities of the Company and therefore does not meet the definition of an operating segment as defined in IFRS 8 '*Operating Segments*'.

At December 31, 2010, the Mongolian Coal Division had four active customers with the largest customer accounting for 73% of trade receivables and the other customers accounting for the remaining 27% of trade receivables.

For the year ended December 31, 2010, the largest customer accounted for 57% of revenues, the second largest customer accounted for 40% of revenue and the other customers accounted for the remaining 3% of revenues.

The following is an analysis of the carrying amounts of segment assets, segment liabilities and reported segment profit or loss, revenues, depreciation and depletion expense and impairment charge on assets analyzed by operating segment and reconciled to the Company's Consolidated Financial Statements:

	Mongolian Coal Division	Discontinued Operations <sup>(i)</sup>	Unallocated <sup>(ii)</sup>	Consolidated Total
<b>Segment assets</b>				
As at December 31, 2010	\$ 342,591	\$ -	\$ 619,275	\$ 961,866
As at December 31, 2009	129,454	-	431,230	560,684
<b>Segment liabilities</b>				
As at December 31, 2010	\$ 25,408	\$ -	\$ 257,568	\$ 282,976
As at December 31, 2009	7,300	-	556,176	563,476
<b>Segment income/(losses)</b>				
For the year ended December 31, 2010	\$ (20,022)	\$ -	\$ (96,173)	\$ (116,195)

For the year ended December 31, 2009	6,203	(31,088)	(85,920)	(110,805)
<b>Segment revenues</b>				
For the year ended December 31, 2010	\$ 79,777	\$ -	\$ -	\$ 79,777
For the year ended December 31, 2009	36,038	-	-	36,038
<b>Capital expenditures</b>				
For the year ended December 31, 2010	\$ 199,354	\$ -	\$ 416	\$ 199,770
For the year ended December 31, 2009	35,706	6,511	64	42,281
<b>Depreciation and depletion expense</b>				
For the year ended December 31, 2010	\$ 13,148	\$ -	\$ 71	\$ 13,219
For the year ended December 31, 2009	5,837	-	19	5,856
<b>Impairment charge on assets<sup>(iii)(iv)</sup></b>				
For the year ended December 31, 2010	\$ 7,584	\$ -	\$ -	\$ 7,584
For the year ended December 31, 2009	-	15,135	-	15,135

- (i) The Indonesian Coal Division was treated as discontinued operations for the year ended December 31, 2009
- (ii) The unallocated amount contains all amounts associated with the Corporate Division
- (iii) The impairment charge in the year ended December 31, 2010 relates to inventory and property, plant and equipment
- (iv) The impairment charge in the year ended December 31, 2009 relates to the Indonesian Coal Division

At December 31, 2010, the Company operates in three geographical areas, being Canada, Hong Kong and Mongolia. Prior to December 23, 2009, the Company had operations in Indonesia. The following is an analysis of the revenues and non-current assets by geographical area and reconciled to the Company's Consolidated Financial Statements:

	Mongolian	Hong Kong	Canada	Consolidated Total
<b>Revenues</b>				
For the year ended December 31, 2010	\$ 79,777	\$ -	\$ -	\$ 79,777
For the year ended December 31, 2009	36,038	-	-	36,038
<b>Non-current assets</b>				
As at December 31, 2010	\$ 277,201	\$ 401	\$ 108,265	\$ 385,867
As at December 31, 2009	89,587	49	61,876	151,512

#### 4. COST OF SALES

The cost of sales for the Company is broken down as follows:

	<b>As at December 31,</b>	
	<b>2010</b>	<b>2009</b>
Operating expenses	<b>\$ 56,850</b>	\$ 23,611
Depreciation and depletion	<b>13,054</b>	5,814
Impairment of inventories	<b>5,751</b>	–
Impairment of property, plant and equipment	<b>1,833</b>	–
<b>Cost of sales</b>	<b>\$ 77,488</b>	<b>\$ 29,425</b>

## 5. ADMINISTRATION EXPENSES

The administration expenses for the Company are broken down as follows:

	<b>As at December 31,</b>	
	<b>2010</b>	<b>2009</b>
Corporate administration	<b>\$ 6,020</b>	\$ 2,839
Legal	<b>957</b>	912
Professional fees	<b>2,795</b>	3,159
Listing fees	<b>–</b>	2,470
Salaries and benefits	<b>15,548</b>	14,024
Sustainability and community relations	<b>718</b>	–
Public infrastructure	<b>5,952</b>	–
Depreciation	<b>118</b>	19
Foreign exchange (gain)/loss	<b>(1,611)</b>	1,112
<b>Administration expenses</b>	<b>\$ 30,497</b>	<b>\$ 24,535</b>

## 6. EVALUATION AND EXPLORATION EXPENSES

The evaluation and exploration expenses for the Company are broken down as follows:

	<b>As at December 31,</b>	
	<b>2010</b>	<b>2009</b>
Assaying	<b>\$ 341</b>	\$ 273
Drilling and trenching	<b>11,705</b>	2,283

Geological	876	351
Geophysics	1,697	193
Surveying	108	14
License fees	1,223	1,543
Depreciation	47	23
Salaries	1,051	64
Overhead	1,721	655
<b>Evaluation and exploration expenses</b>	<b>\$ 8,769</b>	<b>\$ 5,399</b>

## 7. FINANCE COSTS AND INCOME

The finance costs for the Company are broken down as follows:

	<b>As at December 31,</b>	
	<b>2010</b>	<b>2009</b>
Loss on partial conversion of convertible debenture	<b>\$ 151,353</b>	\$ –
Fair value loss on embedded derivatives in convertible debenture	–	44,980
Interest expense on convertible debenture	<b>24,294</b>	7,684
Transaction costs on issuance of convertible debenture	–	9,399
Interest expense on line of credit facility	<b>131</b>	1,651
Accretion of asset retirement obligation	<b>77</b>	40
<b>Finance costs</b>	<b>\$ 175,855</b>	<b>\$ 63,754</b>

The finance income for the Company is broken down as follows:

	<b>As at December 31,</b>	
	<b>2010</b>	<b>2009</b>
Fair value gain on embedded derivatives in convertible debenture	<b>\$ 100,637</b>	\$ –
Mark to market gain on investments	<b>870</b>	843
Interest income	<b>2,441</b>	77
<b>Finance income</b>	<b>\$ 103,948</b>	<b>\$ 920</b>

## 8. TAXES

The Company and its subsidiaries in Canada are subject to Canadian federal and provincial tax for the estimated assessable profit for the years ended December 31, 2010 and 2009 at a rate of 28.5% and 30%, respectively. The Company had no assessable profit in Canada for the years ended December 31, 2010 and 2009.

The Company's subsidiaries in Hong Kong are subject to Hong Kong profits tax for the years ended December 31, 2010 and 2009 at a rate of 16.5%. No Hong Kong profits tax was provided for as the Company had no assessable profit arising in or derived from Hong Kong in the years ended December 31, 2010 and 2009.

The Company's subsidiaries in Mongolia are subject to Mongolian income tax for the years ended December 31, 2010 and 2009 at a rate of 25%. In the year ended December 31, 2010 the Company recorded a current income tax charge of \$1,806 (2009: \$509) related to assessable profit derived from Mongolia.

Taxation from other relevant jurisdictions is calculated at the rates prevailing in each of those jurisdictions respectively.

### 8.1 Income tax recognized in profit or loss

	<b>As at December 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Current Tax</b>		
Current tax expense in respect of the current year	\$ 1,806	\$ 509
<b>Deferred Tax</b>		
Deferred tax recovery recognized in the current year	(4,495)	(6,947)
<b>Total income tax recovery recognized in the current year related to continuing operations</b>	<b>\$ (2,689)</b>	<b>\$ (6,438)</b>

The tax recovery for the Company can be reconciled to the loss for the year per the Consolidated Statement of Comprehensive Income as follows:

	<b>As at December 31,</b>	
	<b>2010</b>	<b>2009</b>
Loss from continuing operations before tax	\$ 118,884	\$ 86,155

Statutory tax rate	<b>28.50%</b>	30.00%
Recovery of income taxes based on combined Canadian federal and provincial statutory rates	<b>(33,882)</b>	(25,847)
Deduct:		
Lower effective tax rate in foreign jurisdictions	<b>1,905</b>	463
Tax effect of tax losses and temporary differences not recognized	<b>2,789</b>	1,937
Non-deductible expenses	<b>24,708</b>	14,160
Effect of change in future tax rates	<b>1,791</b>	2,849
<b>Tax recovery for the year</b>	<b>\$ (2,689)</b>	<b>\$ (6,438)</b>

## 8.2 Income tax recognized in other comprehensive income

	<b>As at December 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Deferred Tax</b>		
Fair value remeasurement of available-for-sale assets	<b>\$ (3,966)</b>	\$ —
<b>Total income tax recovery recognized in the current year in other comprehensive income</b>	<b>\$ (3,966)</b>	<b>\$ —</b>

## 8.3 Deferred tax balances

The Company's deferred tax assets/(liabilities) are broken down as follows:

	<b>As at December 31,</b>	
	<b>2010</b>	<b>2009</b>
Deferred tax assets	<b>\$ 11,442</b>	\$ 6,947
Deferred tax liabilities	<b>(3,966)</b>	—
<b>Deferred tax balances</b>	<b>\$ 7,476</b>	<b>\$ 6,947</b>

The Company's deferred tax assets/(liabilities) are attributable to the following items:

	<b>As at December 31,</b>	
	<b>2010</b>	<b>2009</b>
Tax loss carry-forwards	\$ 8,515	\$ 5,793
Property, plant and equipment	2,880	1,135
Other assets	47	19
Available-for-sale financial assets	(3,966)	–
Deferred tax balances	\$ 7,476	\$ 6,947

#### 8.4 Unrecognized deferred tax assets

The Company's unrecognized deductible temporary differences and unused tax losses are attributable to the following items:

	<b>As at December 31,</b>	
	<b>2010</b>	<b>2009</b>
Non-capital losses	\$ 18,952	\$ 8,701
Capital losses	3,168	4,183
Deductible temporary differences	5,369	11,815
Deferred tax balances	\$ 27,489	\$ 24,699

#### 8.5 Expiry dates

The Company's recognized and unrecognized deferred tax assets related to unused tax losses have the following expiry dates:

		<b>As at December 31, 2010</b>		
		<b>Local currency</b>	<b>U.S. Dollar Equivalent</b>	<b>Expiry dates</b>
<b>Non capital losses</b>				
Canadian Dollar	Cdn\$	71,451	\$ 71,065	2011-2030
Mongolian Tugrik	MNT	42,793,003	34,058	2011-2011
Hong Kong Dollar	HK\$	46,127	5,953	indefinite
Singapore Dollar	SG\$	75	58	indefinite

**\$ 111,134**

**Capital losses**

Canadian Dollar	Cdn\$	25,211	<b>\$ 25,075</b>	indefinite
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**9. LOSS PER SHARE**

The calculation of basic and diluted loss per share is based on the following data:

	<b>As at December 31,</b>	
	<b>2010</b>	<b>2009</b>
Net loss from continuing operations for the purpose of basic and diluted loss per share	<b>\$ 116,195</b>	\$ 79,717
Net loss from discontinued operations for the purpose of basic and diluted loss per share	<b>\$ –</b>	\$ 31,088
Weighted average number of shares for the purpose of basic and diluted loss per share	<b>176,529</b>	133,499

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the year. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options, share purchase warrants and convertible debentures, in the weighted average number of common shares outstanding during the year, if dilutive. All of the stock options and the convertible debenture were anti-dilutive for the years ended December 31, 2010 and 2009.

**10. TRADE AND OTHER RECEIVABLES**

The Company's trade and other receivables arise from two main sources: trade receivables due from customers for coal sales and value added tax ("VAT") and goods and services tax ("GST") receivable due from various government taxation authorities. These are broken down as follows:

	<b>As at December 31,</b>	
	<b>2010</b>	<b>2009</b>
Trade receivables	<b>\$ 15,297</b>	\$ 5,200
VAT/GST receivable	<b>14,541</b>	7,029

Other receivables	<b>408</b>	99
<b>Total trade and other receivables</b>	<b>\$ 30,246</b>	\$ 12,328

## 11. TRADE AND OTHER PAYABLES

Trade and other payables of the Company are principally comprised of amounts outstanding for trade purchases relating to coal mining and exploration activities and amounts payable for financing activities. The usual credit period taken for trade purchases is between 30 to 90 days.

The following is an aged analysis of the trade and other payables:

	<b>As at December 31,</b>	
	<b>2010</b>	<b>2009</b>
Less than 1 month	<b>\$ 24,006</b>	\$ 9,630
1 to 3 months	<b>33</b>	892
3 to 6 months	<b>72</b>	705
Over 6 months	<b>26</b>	1,442
<b>Total trade and other payables</b>	<b>\$ 24,137</b>	\$ 12,669

## 12. CONVERTIBLE DEBENTURE

On November 19, 2009, the Company issued a convertible debenture to a wholly owned subsidiary of the China Investment Corporation ("CIC") for \$500,000, which is secured and bears interest at 8.0% with a maximum term of 30 years.

Pursuant to the debenture conversion terms, the Company had the right to call for the conversion of up to \$250,000 of the debenture upon achieving a public float of 25% of its common shares based on a conversion price of the lower of Cdn\$11.88 and the 50-day volume-weighted average price ("VWAP"). On March 29, 2010, the Company exercised this right and completed the conversion of \$250,000 of the convertible debenture into 21,471 shares at a conversion price of \$11.64 (Cdn\$11.88). On March 29, 2010, the Company also settled the accrued interest payable in shares on the converted \$250,000 by issuing 90 shares for the \$1,436 in accrued interest converted at the 50-day VWAP conversion price of \$15.97 (Cdn\$16.29). On April 1, 2010, the Company also settled the outstanding accrued interest payable in cash on the converted debt of \$250,000 with a cash payment of \$5,742.

The fair value of the shares issued upon the partial conversion, based on their market value, was \$347,643 compared to the carrying value of the debt host and embedded derivatives associated with the debt that was converted of \$196,290. The difference of \$151,353 was recognized in finance costs as a loss upon partial conversion during the year ended December 31, 2010.

Based on the Company's valuations as at December 31, 2010, the fair value of the embedded derivatives decreased by \$100,637 compared to December 31, 2009. This decrease was recorded as a gain in finance income for the year ended December 31, 2010.

In the year ended December 31, 2010, the Company also recorded an interest expense of \$24,294 (2009: \$7,684) related to the convertible debenture. The interest expense is composed of the interest at the contract rate and the accretion of the debt host component of the convertible debenture. To calculate the interest expense, the Company has used the contract life of 30 years and an effective interest rate of 22.2%.

The movement of the amounts due under the convertible debenture are as follows:

	<b>As at December 31,</b>	
	<b>2010</b>	<b>2009</b>
Balance, beginning of year	<b>\$ 547,063</b>	\$ –
Amounts advanced	–	500,000
Transaction costs	–	(5,601)
Interest expense on convertible debenture	<b>24,896</b>	7,684
Fair value (gain)/loss on embedded derivatives	<b>(100,637)</b>	44,980
Loss on conversion of convertible debenture	<b>151,353</b>	–
Conversion of convertible debenture	<b>(347,643)</b>	–
Interest paid	<b>(23,222)</b>	–
<b>Balance, end of the year</b>	<b>\$ 251,810</b>	<b>\$ 547,063</b>

The amounts due under the convertible debenture are further broken down as follows:

	<b>As at December 31,</b>	
	<b>2010</b>	<b>2009</b>
Debt host	<b>\$ 90,621</b>	\$ 184,079
Fair value of embedded derivativesd	<b>154,877</b>	358,272
Interest payable	<b>6,312</b>	4,712

**Convertible debenture**

**\$ 251,810      \$ 547,063**

## **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: proliferation of SouthGobi's customer base combined with transport synergies on the Chinese side of the border can result in improved value for SouthGobi's individual coal products; SouthGobi's potential to set a new quarterly record for coal sales and average sale price per tonne in the first quarter of 2011; coal sales are anticipated to exceed 426,000 tonnes in 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 Dec. 31, 2010, which are available at [www.sedar.com](http://www.sedar.com).