



SouthGobi
Resources

TSX: SGQ

HKEx: 1878



Q2 2011 AND FIRST HALF YEAR RESULTS

Disclaimer



Forward-looking statements

This presentation includes certain “forward-looking statements”. All statements, other than statements of historical fact, are forward-looking statements that involve various risks and uncertainties. There can be no assurances that such statements will prove accurate, and actual results and future events could differ materially from those anticipated in such statements. Such information contained herein represents management’s best judgment as of the date hereof based on information currently available. The company does not assume the obligation to update any forward-looking statement.

Qualified Persons

The technical information in this presentation is derived from SouthGobi’s news releases, each of which has been reviewed by one or more qualified persons (QPs), as defined by NI 43-101. Copies of the releases naming the QPs are available at Sedar or **www.southgobi.com**.

Currency

Unless otherwise stated, all financial numbers are in US dollars.

Table of contents



Highlights	4
Safety	5
Markets and marketing	6
Mining	9
Financial results	11
Exploration	17
Coal handling / processing	18
Infrastructure	20
Outlook	23
Appendices	24

Highlights

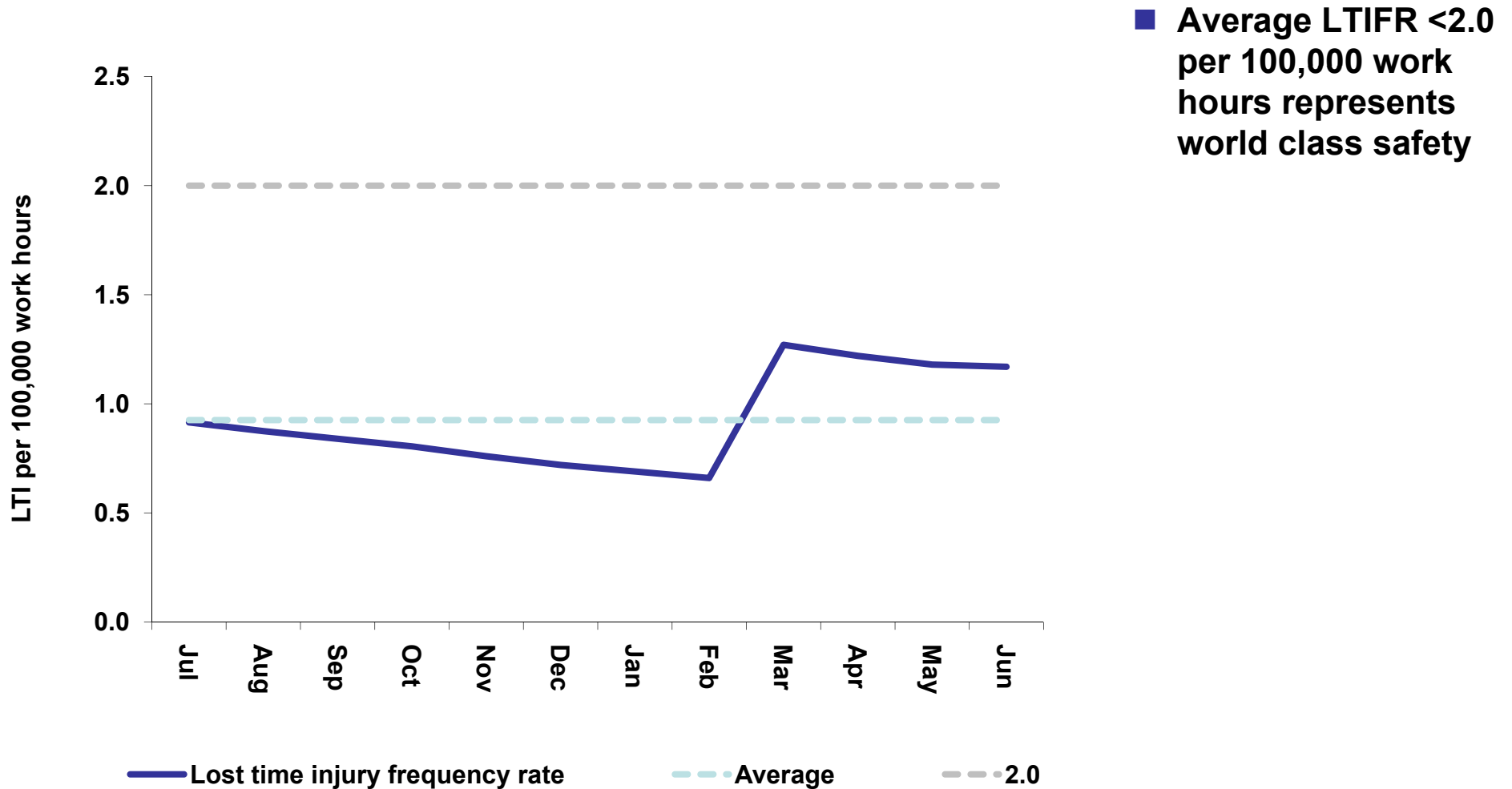


- **Coal sales of 1.5 million tonnes and revenue of \$67.5 million for the six months ended June 30, 2011, representing a 72% increase in sales volume and a 114% increase in revenue compared to the same period in 2010**
 - **1.0 million tonnes sold and record revenue of \$47.3 million for the three months ended June 30, 2011**
- **Average coal sales price increased to \$53 per tonne for the six months ended June 30, 2011, representing a 36% increase compared to the same period in 2010**
- **Entered into an agreement with Ejinaqi Jinda Coal Industry Co. Ltd (“Ejin Jinda”) to toll wash coal from the Ovoot Tolgoi Mine**
- **Q2 2011 cash costs impacted by unforeseen issue of diesel fuel shortage in Mongolia but issue largely resolved now**
- **Received a mining license pertaining to the Soumber Deposit**
- **Awarded the tender to construct a paved highway from Ovoot Tolgoi to the Mongolia-China border with consortium partner NTB LLC**

Safety



Lost time injury frequency rate (July 2010 – June 2011)



Markets and marketing

Market dynamic



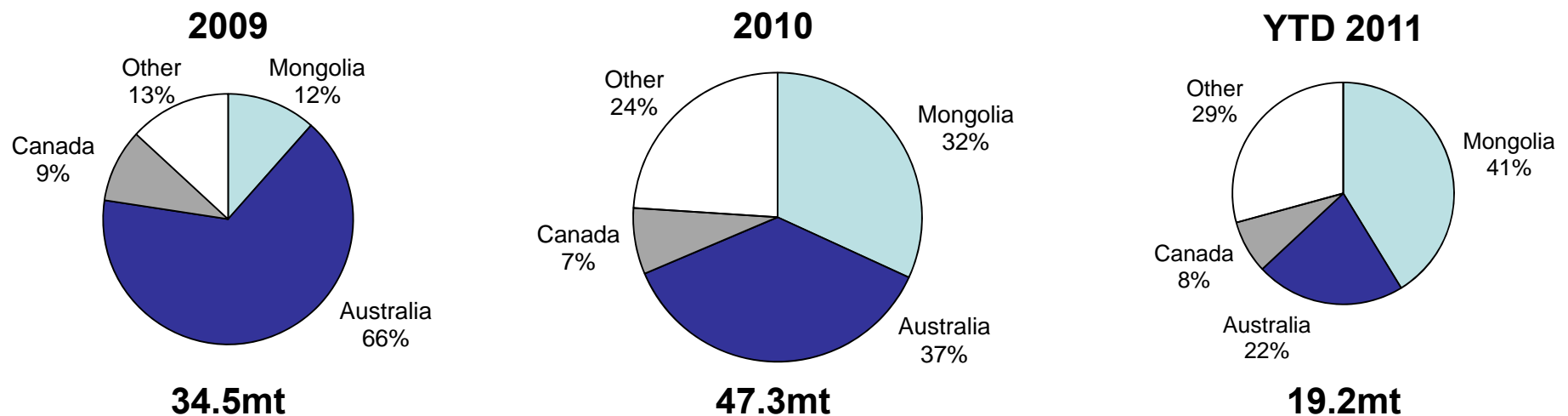
China is 'here to stay' as a coal importer

- Coal demand continues to grow 5-8% per year
- Domestic resource quality is reducing rapidly – only 25% of remaining coking coal resource shallower than 400m
- Costs increasing – coking coal cash costs now around US\$110/t (twice 2006)

Mongolia – natural and now #1 supplier

- Infrastructure being developed and scalable
- Located closer to faster growing markets – inland west consumption forecast 9-10% per year

China coking coal imports by source



Markets and marketing

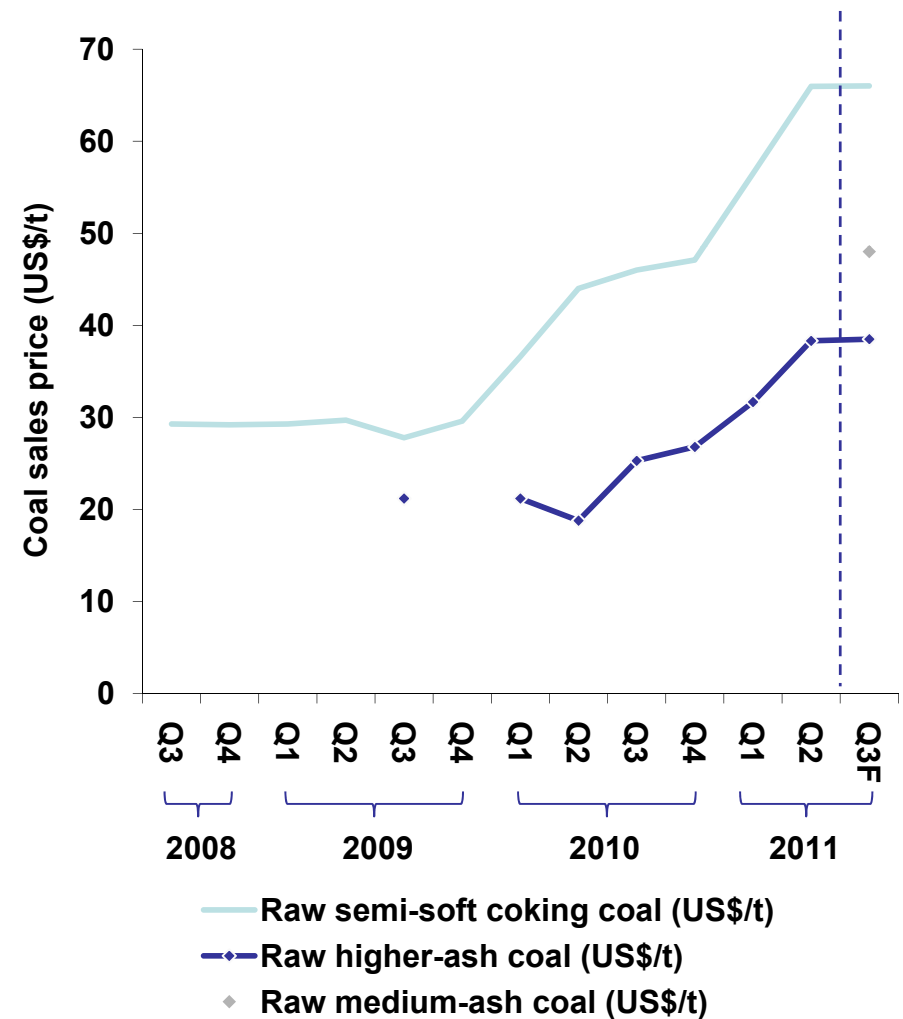
SouthGobi customers and pricing



Shifting customer base (proportion of sales)

	Chinese traders	Global traders	End users
2H 2008	100%	—	—
1H 2009	66%	—	34%
2H 2009	69%	—	31%
1H 2010	33%	—	67%
2H 2010	76%	—	24%
1H 2011	33%	1%	66%

Improved product pricing

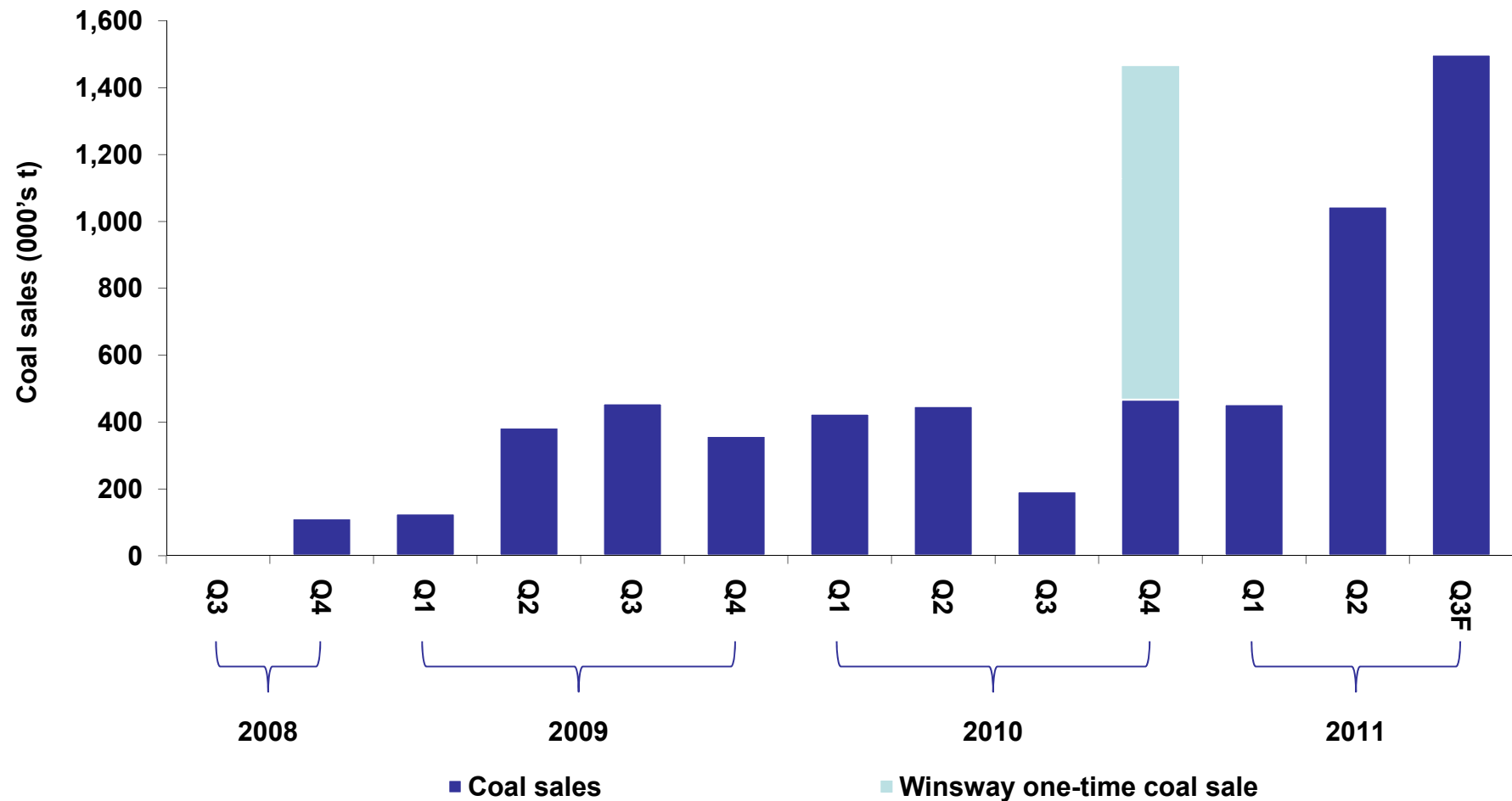


Markets and marketing

Coal sales

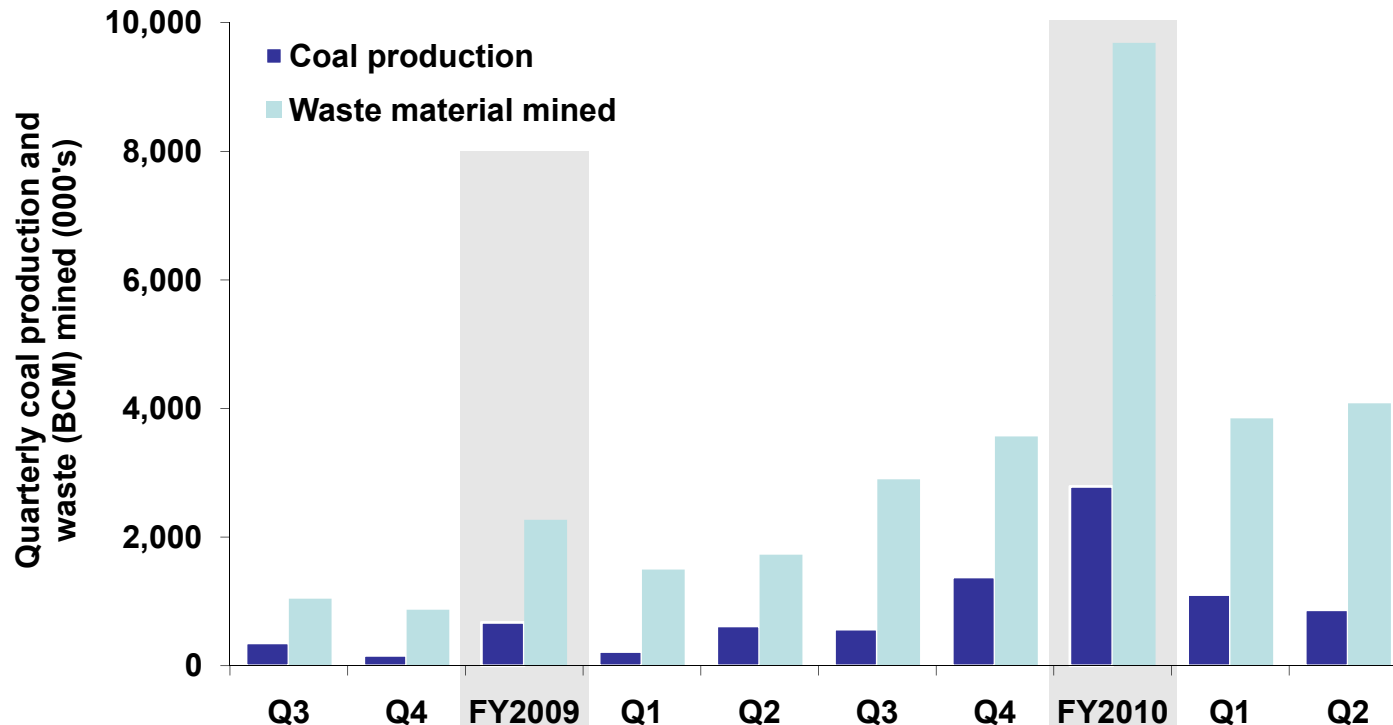


Quarterly coal sales (Q3 2008 – Q3 2011F)





Ovoot Tolgoi production and waste material mined (Q3 2009 – Q2 2011)



- Growth through commissioning of additional fleets
- Total material moved for six months ended June 30, 2011 increased by 146% compared to six months ended June 30, 2010

Shovels / excavators operating

Strip ratio (BCM:tonne)

Period	Q3	Q4	FY2009	Q1	Q2	Q3	Q4	FY2010	Q1	Q2
Shovels / excavators operating	1	1		2	2	2	3		3	4*
Strip ratio (BCM:tonne)	2.9	5.4	3.4	6.8	2.8	5.1	2.6	3.5	3.5	4.7

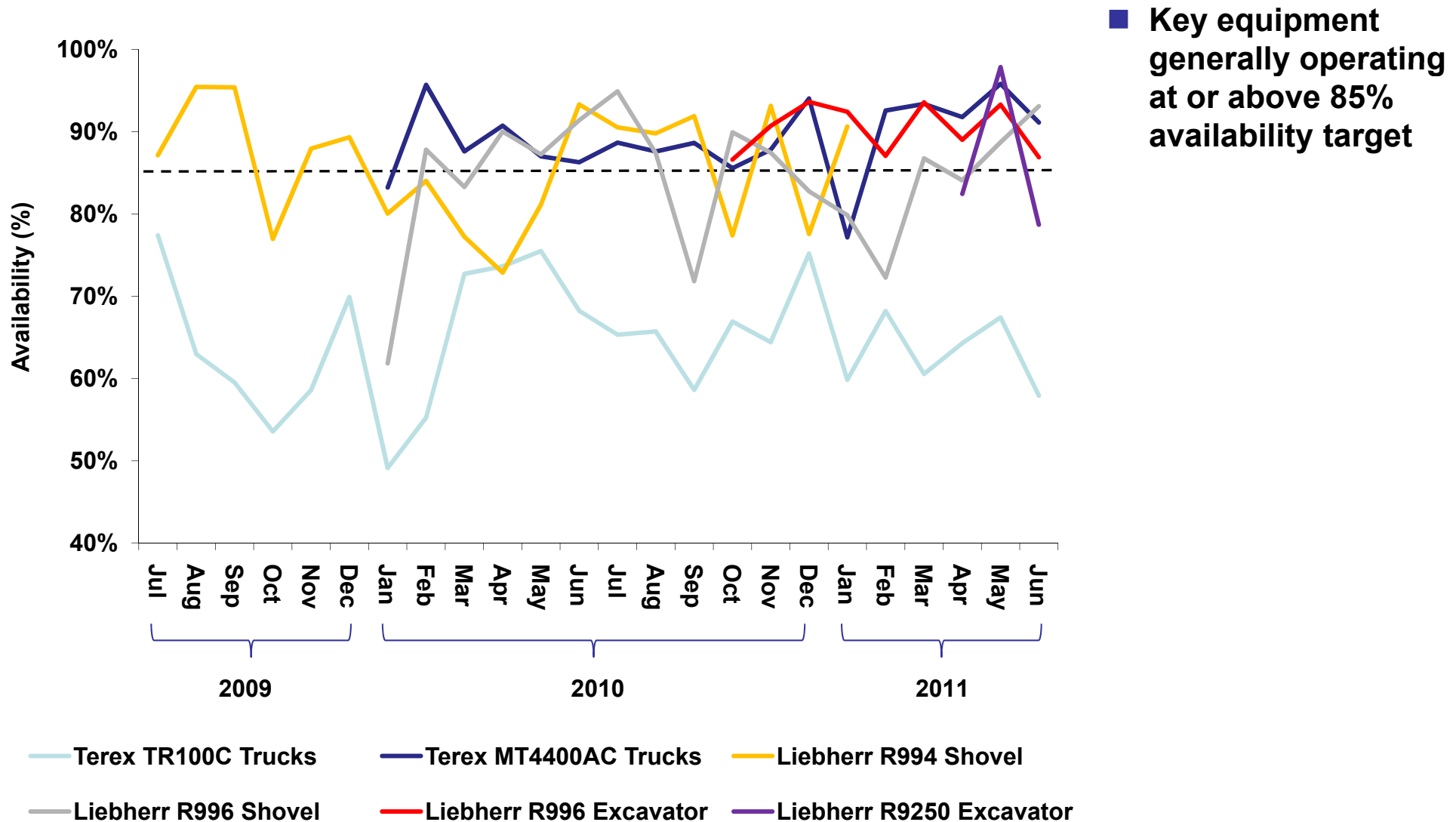
* 4th excavator currently only used as back-up until increase in haul truck capacity

Mining

Key equipment availability



Availability by mining fleet equipment type (Q3 2009 – Q2 2011)

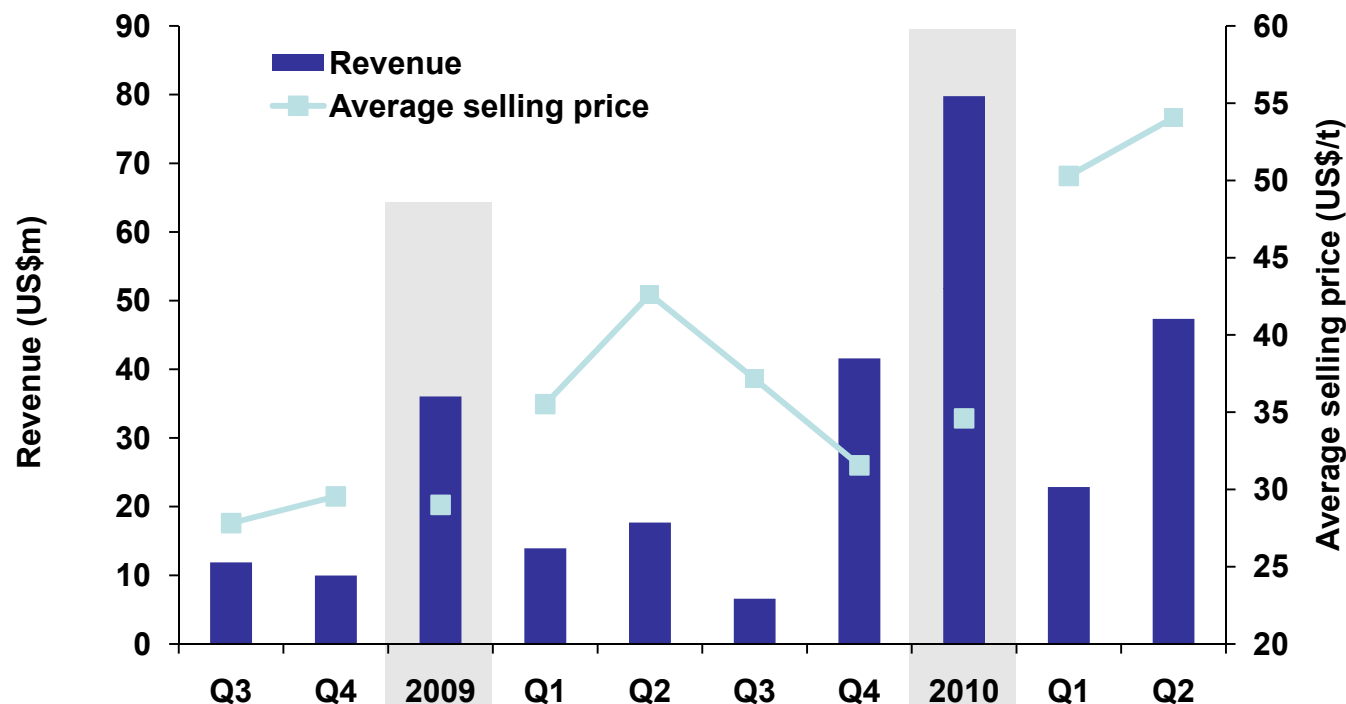


Financial results

Sales and revenue



Sales and revenue (Q3 2009 – Q2 2011)



- Overall average selling price for six months ended June 30, 2011 higher at \$53/tonne
- Revenue of \$67.5m for six months ended June 30, 2011 114% higher than six months ended June 30, 2010

Sales volume (mt)

Semi-soft

Raw higher-ash

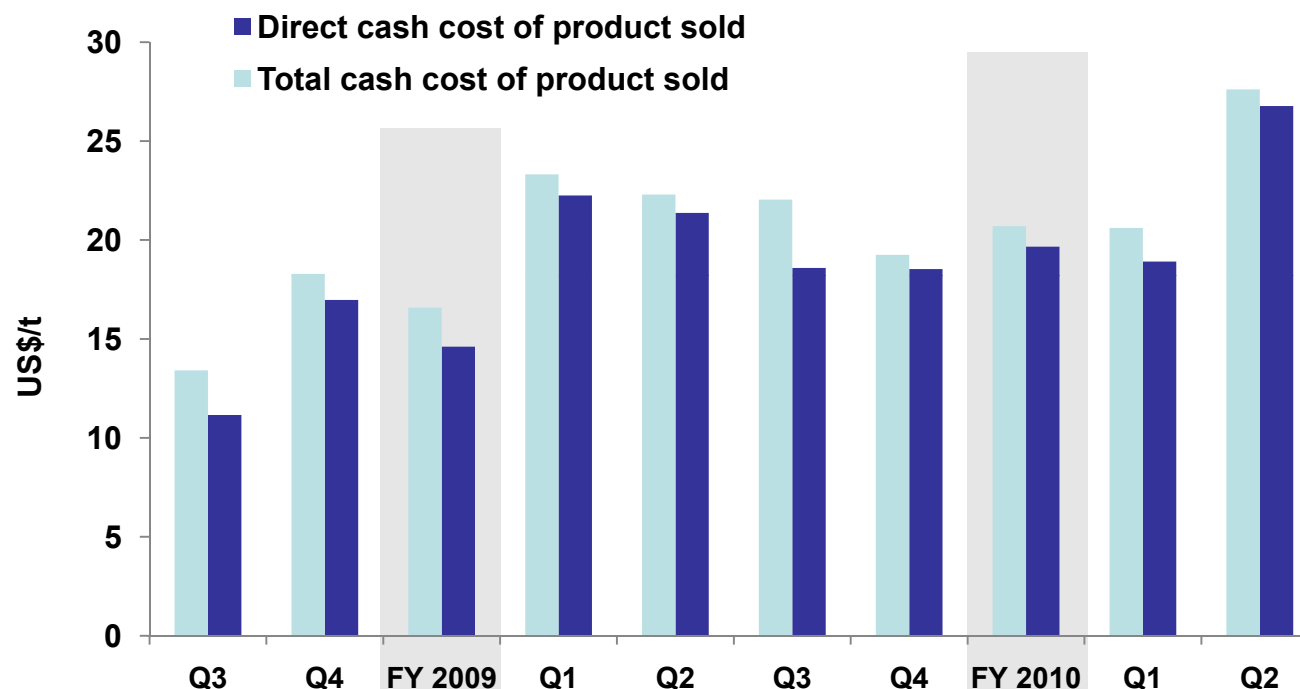
0.5	0.4	1.3	0.4	0.4	0.1	0.4	1.3	0.3	0.6
-	-	-	0.0	0.0	0.1	1.1	1.3	0.1	0.4

Financial results

Cash costs



Direct and total cash cost of product sold (Q3 2009 – Q2 2011)



■ Q2 2011 cash costs impacted by unforeseen issue of diesel fuel shortage in Mongolia but issue largely resolved now

Shovels / excavators operating

1 1 2 2 2 3 3 4*

Strip ratio (BCM:tonne)

2.9 5.4 3.4 6.8 2.8 5.1 2.6 3.5 3.5 4.7

* 4th excavator currently only used as back-up until increase in haul truck capacity

Financial results

Summary financials



Summary of key financial measures (unaudited)

<i>Expressed in millions of US dollars</i>	3 months June 30, 2011	3 months June 30, 2010	6 months June 30, 2011	6 months June 30, 2010
Revenue	\$ 47.3	\$ 17.7	\$ 67.5	\$ 31.6
Cost of sales	(37.6)	(13.3)	(50.1)	(26.0)
Mining operations income	9.7	4.4	17.4	5.6
Operating loss from continuing operations	(4.4)	(10.6)	(5.5)	(17.1)
Net income / (loss)*	67.3	53.3	20.7	(115.0)
Net comprehensive income / (loss)*	27.8	53.3	31.9	(115.0)
Earnings per share **	0.37	0.29	0.11	(0.68)
Cash and cash like investments			357.8	744.4
Property, plant and equipment			390.9	139.2
Convertible debenture			216.2	279.5
Net assets			707.3	653.6

*Amounts include a \$70.4 million and a \$33.6 million non-cash gain on the convertible debenture for the three and six months ended June 30, 2011, respectively and a \$72.3 million non-cash gain and a \$80.5 million non-cash loss on the convertible debenture for the three and six months ended June 30, 2010, respectively

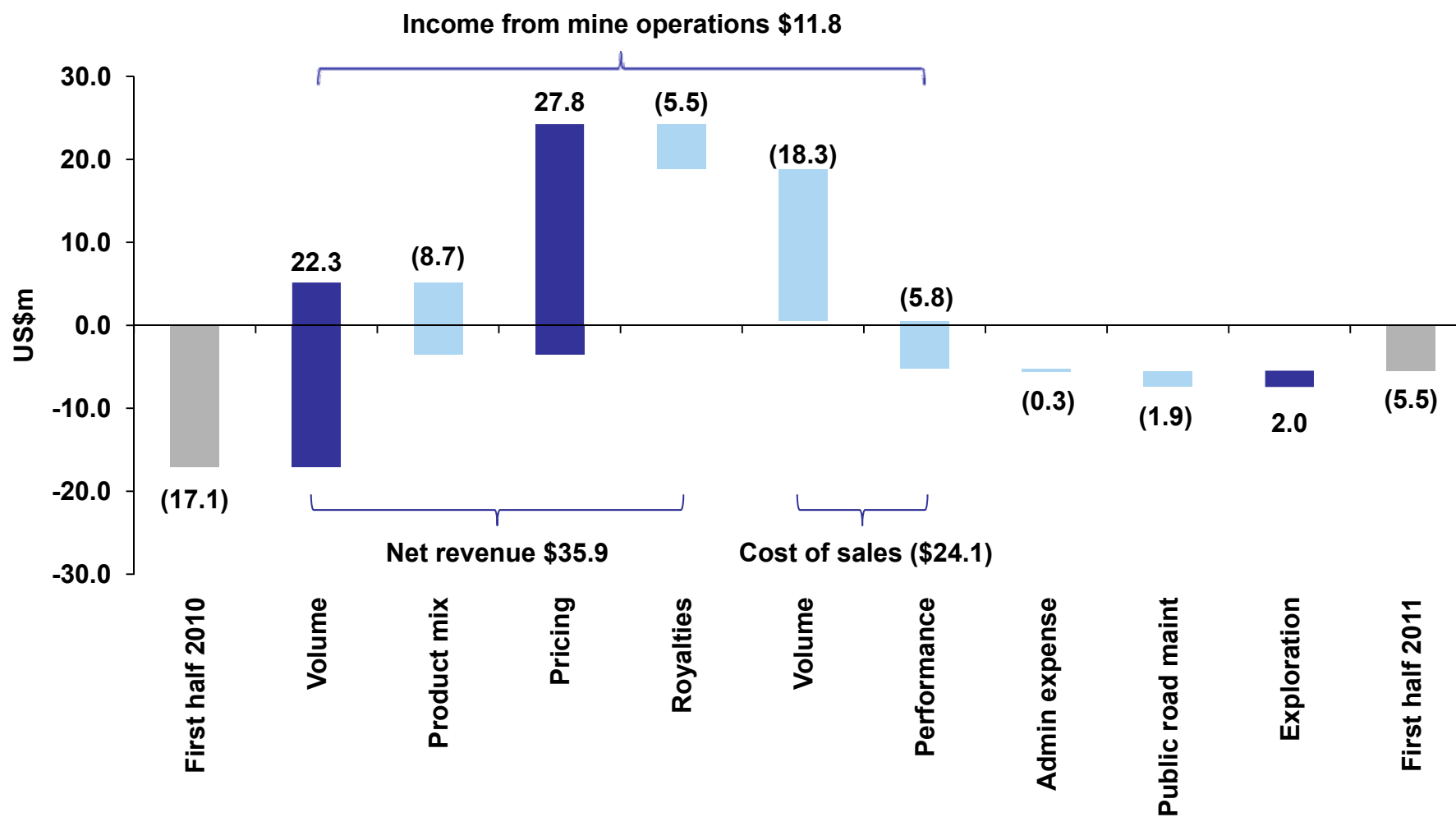
** Expressed as US dollars per share

Financial results

Operating loss



Operating loss – 1H 2011 versus 1H 2010

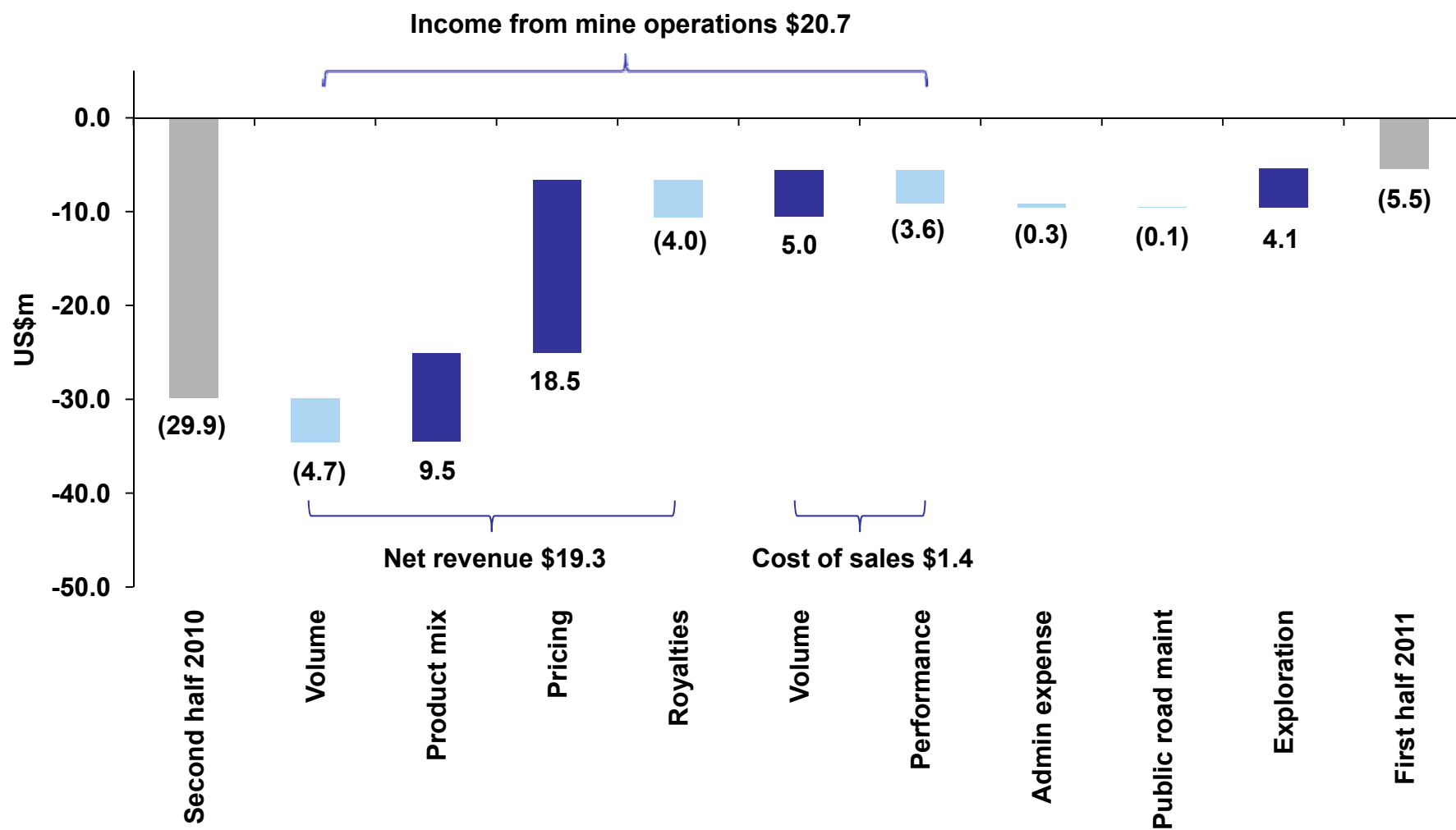


Financial results

Operating loss



Operating loss – 1H 2011 versus 2H 2010

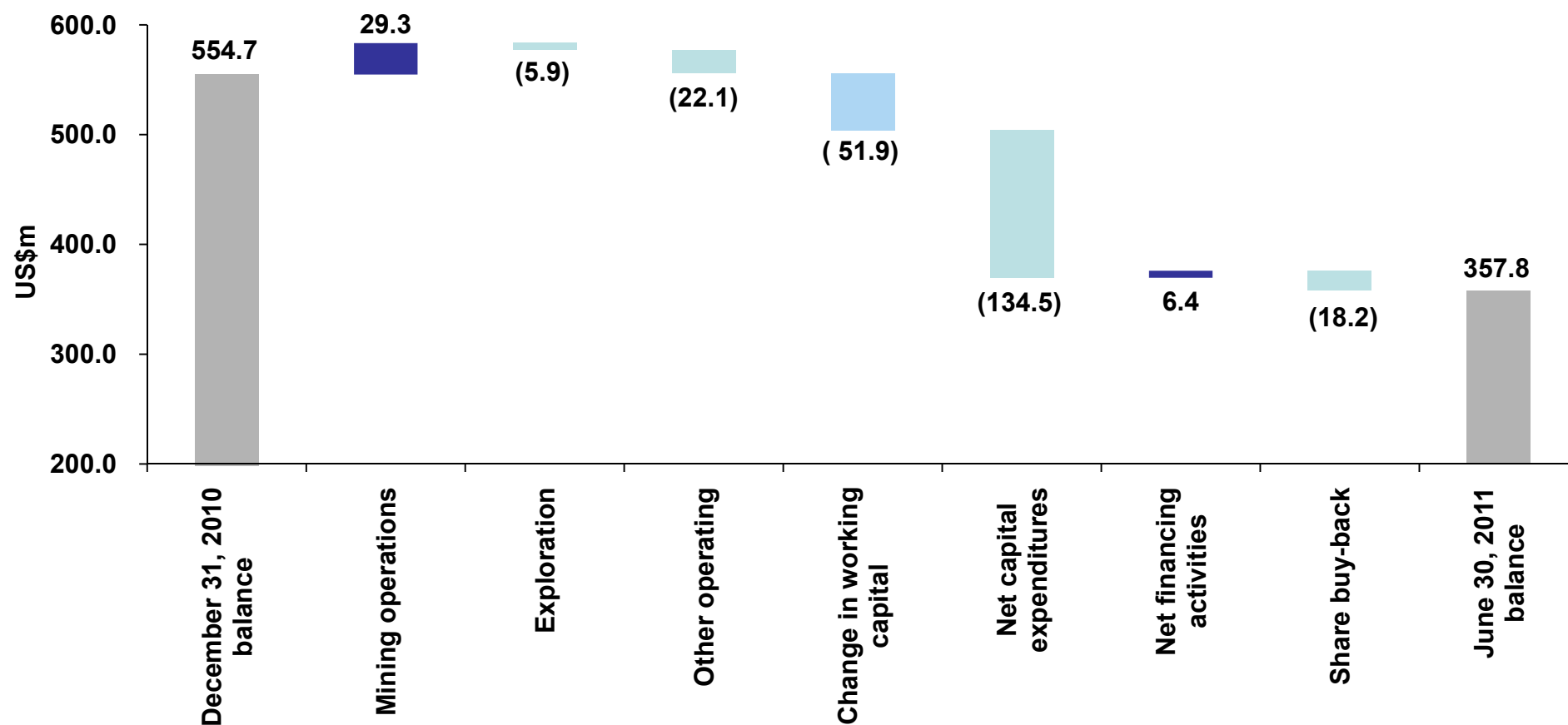


Financial results

Cash flow – sources and uses



1H 2011 change in cash and cash like investments

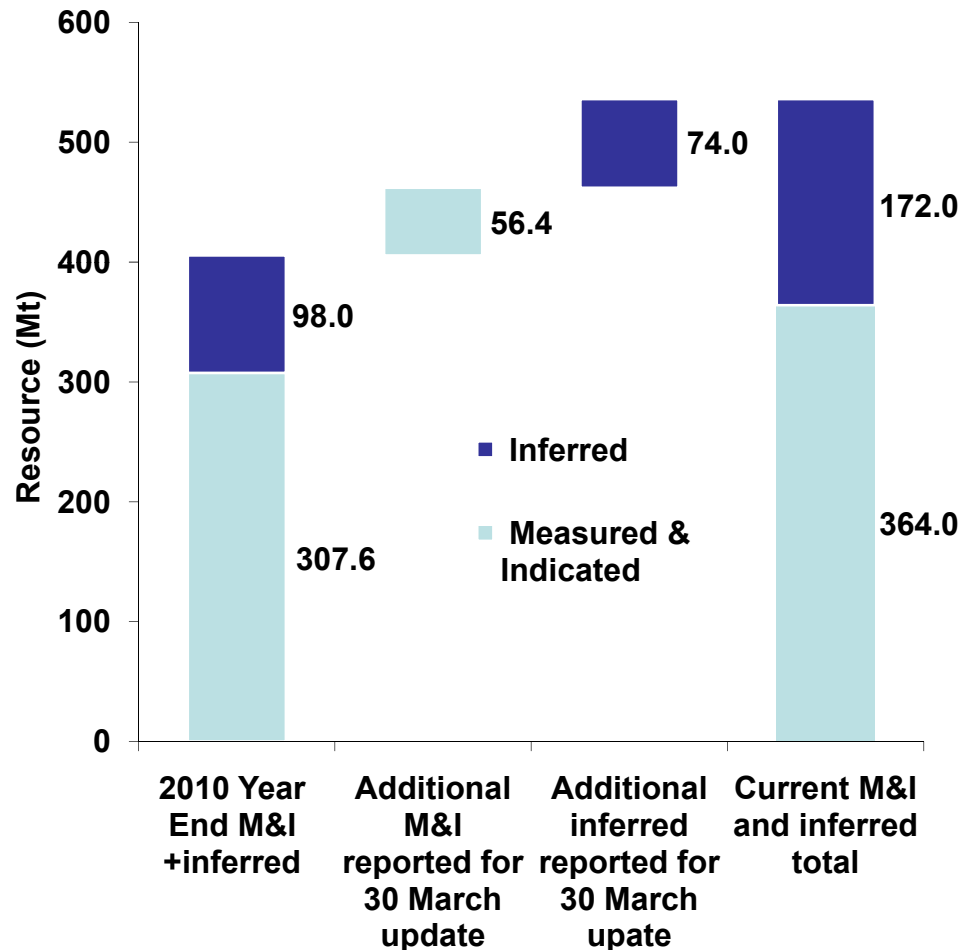


* Opening and closing balances include cash and cash equivalents, plus short and long term money market investments

Exploration



2010 exploration substantially increased resources



- 2010 \$18.8 million was spent on exploration for an 18% increase in measured and indicated, and a 76% increase in inferred resources
- For 2011 we anticipate spending in the range of \$15 million to \$20 million, with \$6.3 million spent in 1H 2011 already
- In excess of 500 holes are likely to be drilled
- Key priority is Soumber and its immediate vicinity
- Also, first major drilling program back on Ovoot Tolgoi mining license for some time

Coal handling / processing

Update on CHF construction program



Commentary

- SouthGobi continues construction at its Ovoot Tolgoi dry coal handling facility
- Major components for first phase on-site
- Foundations complete and physical construction progressing
- Commissioning of first phase (including rotary breaker) expected before the end of 2011, with the dry air separation modules inserted in early 2012



Coal handling / processing

Toll washing agreement with Ejin Jinda



Commentary

- Agreement with Ejin Jinda to toll wet wash coal
- 5 year term with commencement expected in early 2012
- Initial capacity approximately 3.5 million tonnes input raw coal
- Facility is located approximately 10km inside China (ie, approximately 50km from Ovoot Tolgoi)
- Medium-ash and higher-ash coals with only basic processing through Ovoot Tolgoi's on-site dry coal handling facility will be transported from the Ovoot Tolgoi Mine to the facility under a separate transport agreement
- Medium-ash and higher-ash washed coal expected to produce coals with ash in the range of 8% to 11% at a yield of 85% to 90%



Infrastructure

Border development and road



Border development

- **Four designated coal truck entry points have now been constructed on the Chinese side of the border together with an additional four separate points for empty trucks to exit China for Mongolia**
- **Re-development works underway on the Mongolian side with the aim of having the parallel coal dedicated border crossing points open during 2011**



Infrastructure

Border development and road



Chinese border dedicated coal gates

Four inbound and four outbound lanes



Infrastructure

Border development and road



Coal-haul highway

- **SouthGobi and consortium partner NTB LLC awarded the tender to construct a paved highway from Ovoot Tolgoi to the Mongolia-China border**
- **15-year build, operate and transfer contract**
- **Construction to commence in 2011 on the paved highway with an intended carrying capacity upon completion of in excess of 20 million tonnes of coal per year**

Outlook



- **SouthGobi substantially proliferated its customer base during the first half of 2011 and raised prices for individual products**
- **A new medium-ash product will be introduced in Q3 2011 with expected pricing of \$47 per tonne. Pricing for SouthGobi's coal products should be similar to that of Q2 2011 with an average sales price of \$50 to \$55 per tonne for Q3 2011**
- **Assuming various contracts are performed and the Mongolia-China border remains efficient, anticipated sales volumes for Q3 2011 to be in the range of 1.2 million tonnes to 1.6 million tonnes**
- **Assuming no further fuel issues or a strip ratio above 4 bank cubic meters of waste per tonne, direct cash costs are anticipated to return to recent trend levels over the balance of 2011**
- **Commencement of construction on the coal haul highway to the Mongolia-China border**
- **Commissioning of the Coal Handling Facility by the end of 2011**



Appendices

Financial results

Statement of income



Summarized consolidated statement of comprehensive income (unaudited)

Expressed in thousands of US dollars

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Revenue	\$ 47,336	\$ 17,668	\$ 67,494	\$ 31,585
Cost of sales	(37,592)	(13,268)	(50,060)	(25,998)
Income from mine operations	9,744	4,400	17,434	5,587
Administration expenses	(9,832)	(8,336)	(16,551)	(14,370)
Evaluation and exploration expenses	(4,356)	(6,659)	(6,347)	(8,310)
Operating loss from continuing operations	(4,444)	(10,595)	(5,464)	(17,093)
Finance income / (costs)	72,028	63,293	26,881	(99,139)
Income / (loss) before tax	67,584	52,698	21,417	(116,232)
Income tax recovery / (expense)	(261)	603	(696)	1,264
Net income / (loss)	67,323	53,301	20,721	(114,968)
OTHER COMPREHENSIVE INCOME				
Gain / (loss) on available-for-sale assets, net of tax	(39,573)	-	11,175	-
Net comprehensive income / (loss)	\$ 27,750	\$ 53,301	\$ 31,896	\$ (114,968)

Financial results

Statement of financial position



Summarized consolidated statement of financial position (unaudited)

Expressed in thousands of US dollars

	As at	
	Jun 30, 2011	Dec 31, 2010
ASSETS		
Cash and cash equivalents	\$ 282,733	\$ 492,038
Trade and other receivables	67,705	30,246
Inventories	45,211	26,160
Property, plant and equipment	390,865	266,771
Investments	150,200	124,946
Other assets	30,139	21,706
Total assets	\$ 966,851	\$ 961,866
EQUITY AND LIABILITIES		
Current liabilities		
Trade and other payables	\$ 32,369	\$ 24,137
Convertible debenture	216,177	251,810
Other liabilities	10,990	7,029
Total liabilities	259,536	282,977
Shareholders' equity	707,315	678,889
Total shareholders' equity and liabilities	\$ 966,851	\$ 961,866

