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SouthGobi
Energy Resources

SOUTHGOBI ENERGY RESOURCES LTD.

南戈壁能源有限公司*

(a company continued under the laws of British Columbia, Canada with limited liability)

(Stock code: 1878)

**SOUTHGOBI ENERGY RESOURCES ANNOUNCES 2009
FINANCIAL RESULTS AND REVIEW OF OPERATIONS**

HONG KONG – SouthGobi Energy Resources Ltd. (TSX: SGQ, HK: 1878), (the “Company” or “SouthGobi”) today announced its financial results for the year ended December 31, 2009. Please refer to the attached announcement for more details.

By order of the Board
SouthGobi Energy Resources Ltd.

Mr. Peter Graham Meredith
Chairman

Hong Kong, 22 March 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, Mr. John Anthony Macken and Mr. Raymond Edward Jr. Flood and the independent non-executive Directors are Mr. Pierre Bruno Lebel, Mr. Robert William Hanson, Mr. Andre Henry Deepwell and Mr. Robert Stuart Angus.

** For identification purposes only*



March 22, 2010

SOUTHGOBI ENERGY RESOURCES ANNOUNCES 2009 FINANCIAL RESULTS AND REVIEW OF OPERATIONS

HONG KONG – SouthGobi Energy Resources Ltd. (TSX: SGQ, HK: 1878), (the “Company” or “SouthGobi”) today announced its financial results for the year ended December 31, 2009. All figures are in US dollars unless otherwise stated.

Highlights during the year and significant items:

- **The Company sold approximately 1,330,000 tonnes of coal from the Ovoot Tolgoi mine in southern Mongolia in 2009.**
- **Proven and Probable mineable reserves established at Ovoot Tolgoi based on open-pit mine study independently prepared by Norwest.**
- **Initial National Instrument 43-101 compliant coal resources established for Soumber, a new deposit located approximately 20 kilometers to the east of Ovoot Tolgoi.**
- **\$500-million convertible debenture financing by China Investment Corporation (“CIC”) to support major expansion of the Company’s coal mining and exploration in southern Mongolia was completed in Nov 2009.**
- **In December 2009, SouthGobi listed on the main board of the Toronto Stock Exchange.**
- **In January 2010, SouthGobi completed a global equity offering of 27 million common shares at a price of Cdn\$17.00 per share for gross proceeds of Cdn\$459 million. The shares commenced trading on the Main Board of the Hong Kong Stock Exchange on January 29, 2010, under stock code “1878”.**
- **On March 12, 2010, the Company announced, subject to regulatory approval, a formal request for CIC to convert \$250 million of its convertible debenture into common shares of the Company.**

Ovoot Tolgoi resources updated

In October, 2009, SouthGobi completed a prefeasibility study for the Ovoot Tolgoi mine resulting in the identification of proven and probable mineral reserves. The independent estimate prepared by Norwest Corp. calculated 114.1 million tonnes of proven and probable surface coal reserves as at July 1, 2009.

SouthGobi also received an updated, independent National Instrument 43-101 resource estimate for the Ovoot Tolgoi complex, prepared by Norwest. The Ovoot Tolgoi surface and underground resources contain measured plus indicated coal resources of 249.8 million tonnes, with an additional inferred coal resource of 33.5 million tonnes as at June 1, 2009.

Initial National Instrument 43-101 resources reported for Soumber deposit

The Soumber deposit is approximately 20 kilometers east of the Ovoot Tolgoi mine and approximately 50 kilometers northeast of the Shivee Khuren-Ceke border crossing into China.

On October 12, 2009, SouthGobi received an initial, independent NI 43-101 resources estimate for the Soumber deposit. The Soumber central field resources consist of measured coal resources of 13.1 million tonnes, indicated coal resources of 8.3 million tonnes and inferred coal resources of 55.5 million tonnes. Laboratory data demonstrated that some coal seams exhibit coking coal characteristics. The Soumber deposit has potential to increase coal resources to the east and to the west, as well as at depth.

Due to its proximity to the Ovoot Tolgoi mine, the Soumber deposit likely will be able to share common infrastructure with the Ovoot Tolgoi mine. SouthGobi has initiated mine planning and will submit an application for a mining license for development of this project.

Senior Management Changes

On February 10, 2009, the Company announced the appointment of Alexander Molyneux as its new President, effective April 27, 2009. Effective October 12, 2009 Mr. Molyneux assumed the additional role of Chief Executive Officer. Based in Hong Kong, he was most recently Managing Director, Head of Metals & Mining Investment Banking, Asia Pacific, Citigroup. Mr. Molyneux succeeded Peter Meredith as CEO, who assumed the position of Chairman of the Board.

On September 8, 2009, the Company announced the appointment of Gavin May as the Company's new Chief Operating Officer. Mr. May has 28 years of experience in the coal industry and is uniquely qualified to plan for the next stage of development and build out of the Company's significant projects in Mongolia. He was formerly Chief Executive Officer and Managing Director of Gloucester Coal Ltd., a company listed on the Australian Stock Exchange.

SouthGobi sells its working interest in Mamahak Coal Project, Indonesia

In December 2009, SouthGobi Energy Resources Ltd. divested its net 85-per-cent interest in the Mamahak coal project in Indonesia to Kangaroo Resources Ltd. (“KRL”), for consideration comprising \$1-million in cash and 50 million shares of KRL. As a result of this transaction, SouthGobi held approximately 6.7 per cent of the outstanding shares in KRL on the closing date of the transaction and those shares are subject to a 12-month lock-up period.

Review of Quarterly Financial Results

The Company incurred a net loss for the three months ended December 31, 2009 of \$69.2 million compared to \$17.0 million for the three months ended December 31, 2008. The change is due to the factors discussed below.

Revenue and cost of sales relate to the Mongolia Coal Division. Revenues increased to \$10.0 million in the fourth quarter of 2009 from \$3.1 million in the comparative quarter in 2008.

In the fourth quarter of 2009, the Company shipped approximately 359,000 tonnes of coal at an average realized selling price of \$29 per tonne. This compares to 113,000 tonnes at an average realized price of \$29 in the fourth quarter of 2008.

Direct cash costs per tonne increased to \$16.97 per tonne in the fourth quarter of 2009 compared to \$8.30 per tonne in the fourth quarter of 2008. The increase can be attributed to the lower coal production. Direct cash costs per tonne will fluctuate from quarter to quarter due to variations in production, sales and unit costs. The Company continuously reviews the direct cash costs and believes they are in line with the expected life of mine cash costs of \$15 per tonne as outlined in the Norwest technical report.

Cost of sales is comprised of three main components, direct cash costs, mine administration costs and non-cash items. Non-cash items include depreciation, depletion and stock-based compensation. Cost of sales will vary depending on sales volume, production and unit costs which directly affects income from mine operations.

Corporate administration expenses in the fourth quarter of 2009 were comparable to the fourth quarter of 2008. The fourth quarter of December 2009 included higher salaries and professional fees, while the fourth quarter of 2008 included a foreign exchange loss of \$3.9 million.

Coal exploration expenses in Mongolia for the three months ended December 31, 2009 were \$0.7 million compared to \$5.0 million for the three months ended December 31, 2008. Exploration expenses related to the Indonesia Coal Division have been classified as discontinued operations in 2009 and in 2008. Exploration expenses related to the Metals Division have been classified as discontinued operations in 2008. Exploration expenses were lower in the fourth quarter of 2009 as the 2009 exploration program in Mongolia was close to completion at the end of the third quarter of 2009.

Finance costs for the three months ended December 31, 2009 were \$61.9 million compared to \$23,000 for the three months ended December 31, 2008. The significant increase in the fourth quarter of 2009 is due to the CIC convertible debenture financing and the fair value change of the embedded derivative of \$45.0 million, \$3.0 million for the interest accretion on the convertible debenture, \$4.7 million for interest expense on the convertible debenture and \$9.4 million for transaction costs related to the CIC financing.

Discontinued operations for the three months ended December 31, 2009 relate to the disposal of the Indonesia Coal Division. The Company had income in the fourth quarter of 2009 as the impairment of Mamahak of \$23.0 million recorded in the third quarter was reduced to \$15.1 million upon the sale of Mamahak in December 2009.

Results of Operations for 2009

In 2009, 0.67 million tonnes of coal was produced with a strip ratio of 3.36 compared to 1.16 million tonnes produced in 2008 with a strip ratio of 2.19. Lower production in 2009 was the result of the full mine shut-down from March 2009 to July 2009 due to difficulty expediting the movement of the Company's coal shipments through the Mongolia-China border crossing and the re-configuring of the pit which began in December 2009.

In June, the border crossing check point started operating 11 hours per day, six days per week. In July 2009, Mongolian and Chinese officials met at the Mongolian-Chinese border and allocated designated gates for coal exports to create an expedited coal border crossing corridor.

With increasing sales and a reduction in its coal inventory, the Company resumed full mining operations effective July 1, 2009 on a 24 hour per day, seven day per week basis.

The Company incurred an operating loss from continuing operations for the year ended December 31, 2009 of \$23.3 million compared to \$45.9 million for the same period in 2008. The decrease in the operating loss is due to the factors discussed below.

Revenue and cost of sales relate to the Company's operations in Mongolia. In 2009, the Company shipped approximately 1.33 million tonnes of coal at an average realized selling price of approximately \$29 per tonne. This compares to 0.11 million tonnes of coal shipped in 2008 at an average realized selling price of \$29 per tonne.

Cost of sales was \$29.4 million in the year ended December 31, 2009 compared to \$2.2 million for the year ended December 31, 2008. The increase in cost of sales relates to the higher sales volume in 2009. In 2008 there were only sales in the fourth quarter compared to a full year of sales in 2009. Cost of sales comprises the cost of the product sold, mine administration costs, equipment depreciation, depletion of stripping costs and stock-based compensation costs.

Direct cash costs were \$14.61 per tonne in 2009 compared to \$8.30 per tonne in 2008. The increase in direct cash costs is due to the full mine shut down from March 2009 to July 2009, which resulted in operational costs being expensed. The Company continuously reviews the direct cash costs and believes they are in line with the expected life of mine cash costs of \$15 per tonne as outlined in the Norwest technical report.

Mine administration costs per tonne decreased to \$1.97 per tonne for the year ended December 31, 2009 compared to \$5.79 per tonne for the year ended December 31, 2008. The decrease per tonne is due to the higher sales volume in 2009.

Coal exploration expenses in Mongolia for the year ended December 31, 2009 were lower than the year-ended December 31, 2008. Exploration expenses were higher in 2008 as prior to the commencement of sales in late September 2008 certain operational costs were classified as exploration expense.

Administration expenses for the year ended December 31, 2009 were \$24.5 million compared to \$20.4 million for the year ended December 31, 2008. The increase predominately relates to salaries and benefits and professional fees. Administration expenses for the year ended December 31, 2009 includes approximately \$10.5 million of stock-based compensation compared to approximately \$3.8 million for 2008.

Listing fees consist of legal, accounting and professional fees incurred for a secondary listing on the Hong Kong stock exchange. Normally the Company would treat all charges as share issue costs upon a successful equity fundraising. In 2008, uncertainty in the timing of a possible equity financing led to a decision to expense \$6.7 million in listing fees. In 2009, the Company continued with the secondary listing application and in October 2009 achieved milestones that strongly indicated that the secondary listing application would lead to an equity financing. All costs subsequent to this date were capitalized. In 2009, listing costs of \$2.5 million were expensed and listing costs of \$4.6 million were capitalized.

Financial Position and Liquidity

The Company's total assets at the end of 2009 were \$560.7 million compared with \$99.9 million at the end of 2008. The Company had \$357.3 million in cash, \$15.0 million in short term investments and \$57.1 million in long term investments at December 31, 2009 compared to cash of \$10.1 million

at December 31, 2008. The short and long term investments include money market investments and the Company's investment of \$9.9 million in KRL which was obtained from the sale of the Indonesia Coal Division. The increase in cash and money market investments relate to the CIC financing. The increase in total assets relates to the CIC financing and the continuing development of the Mongolia Coal Division.

The Company's long term liabilities at the end of 2009 were \$543.1 million compared with \$0.3 million at the end of 2008. The increase in long term liabilities in 2009 relates to the convertible debenture received from CIC in November 2009.

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, 2009.

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, 2009.

Purchase, Sale and Redemption of the Company's Listed Securities

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's shares during the year.

Outlook

To further enhance its financial position, on January 29, 2010, the Company announced that it had closed a global equity offering of 27 million common shares of the Company at a price of Cdn\$17.00 per common share, for gross proceeds of Cdn\$459.0 million.

The Company's future plans for the proceeds include; expanding the existing production capacity of the open pit mine at the Ovoot Tolgoi Mine, assess, construct and develop the regional infrastructure and the coal transportation infrastructure, completion of technical and engineering assessment for construction of value added facilities, exploration activities and general corporate purposes, which may include provision of working capital and general exploration, development and acquisition activities.

The Company believes that demand for commodities is increasing. General economic conditions are showing signs of improvement. It is difficult to reliably forecast commodity prices and customer demand for the Company's products however, the Company's sales and marketing are providing positive results. The Company is continuing to pursue new customers, and maintain strong relations with its current customer base.

Consolidated Financial Statements and Selected Notes

SouthGobi Energy Resources Ltd

Consolidated Statement of Comprehensive Income

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

		Three months ended December 31,		Year ended December 31,	
	Notes	2009	2008	2009	2008
Continuing operations					
Revenue		\$ 9,960	\$ 3,126	\$ 36,038	\$ 3,126
Cost of sales	4	(8,436)	(2,177)	(29,425)	(2,177)
Income from mine operations		1,524	949	6,613	949
Administration expenses	5	(7,733)	(7,507)	(24,535)	(20,358)
Evaluation and exploration expenses		(739)	(4,959)	(5,399)	(26,445)
Operating loss from continuing operations		(6,948)	(11,517)	(23,321)	(45,854)
Finance costs	6	(61,850)	(23)	(62,911)	(7,989)
Interest income		70	170	77	1,868
Loss before tax		(68,728)	(11,370)	(86,155)	(51,975)
Current income tax recovery/(expense)	7	203	—	(509)	—
Deferred income tax (expense)/recovery	7	(1,662)	—	6,947	—
Loss from continuing operations		(70,187)	(11,370)	(79,717)	(51,975)
Gain/(Loss) from discontinued operations		1,034	(5,637)	(31,088)	(17,601)
Net loss and comprehensive loss attributable to equity holders of the Company		\$ (69,153)	\$ (17,007)	\$ (110,805)	\$ (69,576)
Basic and diluted loss per share from:					
Continuing operations	8	(0.53)	(0.09)	(0.60)	(0.40)
Discontinued operations	8	0.01	(0.04)	(0.23)	(0.14)
Continuing and discontinued operations		(0.52)	(0.13)	(0.83)	(0.54)
Weighted average number of basic and diluted shares outstanding ('000s)	8	133,967	132,995	133,499	128,354

SouthGobi Energy Resources Ltd
Consolidated Statement of Financial Position
(expressed in thousands of U.S. Dollars)

	Notes	As at December 31, 2009	As at December 31,	
			2008	2007
			(restated)	(restated)
ASSETS				
Current assets				
Cash and cash equivalents		\$ 357,342	\$ 10,117	\$ 1,394
Trade and other receivables	9	12,328	7,290	760
Short term investments		14,999	—	—
Inventories		16,384	13,677	—
Prepaid expenses and deposits		8,119	2,578	1,890
		409,172	33,662	4,044
Assets classified as held for sale		—	638	—
Total current assets		409,172	34,300	4,044
Non-current assets				
Property, plant and equipment		82,705	52,440	1,123
Intangible assets		—	13,208	443
Deferred listing costs		4,565	—	—
Deferred income tax assets	7	6,947	—	—
Long term investments		57,070	—	—
Other receivables		225	—	—
Total non-current assets		151,512	65,648	1,566
Total assets		\$ 560,684	\$ 99,948	\$ 5,610
EQUITY AND LIABILITIES				
Current liabilities				
Trade and other payables	10	\$ 12,669	\$ 7,400	\$ 1,768
Amounts due under line of credit facilities		3,009	—	—
Current portion of convertible debenture	11	4,712	—	—
Deposit received for sale of Metals Division		—	3,000	—
		20,390	10,400	1,768
Current liabilities classified as held for sale		—	255	—
Total current liabilities		20,390	10,655	1,768
Non-current liabilities				
Amounts due under line of credit facilities		—	—	105,673
Convertible debenture	11	542,351	—	—
Asset retirement obligation		735	329	—
Total non-current liabilities		543,086	329	105,673
Total liabilities		563,476	10,984	107,441
Shareholders' (deficiency)/equity				
Common shares		296,419	289,512	30,230
Preferred shares		—	—	4,189
Share option reserve		22,300	12,775	7,497
Accumulated deficit		(321,511)	(213,323)	(143,747)
Total shareholders' (deficiency)/equity		(2,792)	88,964	(101,831)
Total shareholders' equity and liabilities		\$ 560,684	\$ 99,948	\$ 5,610
Net current assets		\$ 388,782	\$ 23,645	\$ 2,276
Total assets less current liabilities		\$ 540,294	\$ 89,293	\$ 3,842

Subsequent Events (Note 12)

Operating Statistics

	Year ended	
	December 31, 2009	December 31, 2008
Volumes, Prices and Costs		
Coal production (<i>millions of tonnes</i>)	0.67	1.16
Coal sales (<i>millions of tonnes</i>)	1.33	0.11
Average sales price (<i>per tonne</i>)	\$ 28.97	\$ 29.20
Total cash costs of product sold (<i>per tonne</i>)	\$ 16.58	\$ 14.09
Direct cash costs of product sold (<i>per tonne</i>)	\$ 14.61	\$ 8.30
Operating Statistics		
Total waste material moved (<i>millions of bank cubic metres</i>)	2.27	2.54
Strip ratio (<i>bank cubic metres of waste rock per tonne of clean coal produced</i>)	3.36	2.19

1. Corporate Information

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 principally engaged in the acquisition, exploration, development and production of coal properties in Mongolia. 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 (“Consolidated Financial Statements”) are presented in U.S. dollars and all values are rounded to the nearest thousand dollars except where otherwise indicated. Information related to shares is presented in thousands except for loss per share information.

The Company is a coal producer and a coal exploration and development company. 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.

In February 2009, the Company completed the sale of its Metals Division to Ivanhoe Mines Ltd. for \$3 million. The Metals Division consisted of certain base and precious metals properties in Mongolia and Indonesia. The Company will now be focused solely on coal production, development and exploration.

2. Basis of Preparation

2.1 Statement of compliance

The Company's Consolidated Financial Statements have been prepared in accordance with and using accounting policies in full compliance with the International Financial Reporting Standards ("IFRS") 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, 2009.

Previously, the Company prepared its Consolidated Annual and Consolidated Interim Financial Statements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP").

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. The comparative figures presented in these Consolidated Financial Statements are in accordance with IFRS.

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, 2009. 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, 2009 and 2008.

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, 2009.

- | | |
|----------------------|---|
| • IFRS (Amendments) | Amendment to IFRS 5 as part of Improvements to IFRS issued in 2008 ⁽ⁱ⁾ |
| • IFRS (Amendments) | Improvements to IFRS issued in 2009 ⁽ⁱⁱ⁾ |
| • IAS 24 (Revised) | Related party disclosures ^(vi) |
| • IAS 27 (Revised) | Consolidated and separate financial statements ⁽ⁱ⁾ |
| • IAS 32 (Amendment) | Classification of rights issues ^(iv) |
| • IAS 39 (Amendment) | Eligible hedged items ⁽ⁱ⁾ |
| • IFRS 1 (Amendment) | Additional exemptions for first-time adopters ⁽ⁱⁱⁱ⁾ |
| • IFRS 1 (Amendment) | Limited exemption from comparative IFRS 7 disclosure for first-time adopters ^(v) |

- IFRS 2 (Amendment) Company cash-settled share-based payment transactions⁽ⁱⁱⁱ⁾
- IFRS 3 (Revised) Business combinations⁽ⁱ⁾
- IFRS 9 Financial instruments^(vii)
- IFRIC 14 (Amendment) Prepayment of a minimum funding requirement^(vi)
- IFRIC 17 Distributions of non-cash Assets to owners⁽ⁱ⁾
- IFRIC 19 Extinguishing financial liabilities with equity instruments^(v)

(i) Effective for annual periods beginning on or after July 1, 2009

(ii) Amendments are effective for annual periods beginning on or after July 1, 2009 or January 1, 2010, as appropriate

(iii) Effective for annual periods beginning on or after January 1, 2010

(iv) Effective for annual periods beginning on or after February 1, 2010

(v) Effective for annual periods beginning on or after July 1, 2010

(vi) Effective for annual periods beginning on or after January 1, 2011

(vii) Effective for annual periods beginning on or after January 1, 2013

The Company anticipates that the application of these standards, amendments and interpretations will have no material impact on the results and financial positions of the Company.

3. Segmented Information

At December 31, 2009, the Company has one reportable operating segment, being the Mongolian Coal Division. In prior periods, the Company's Metals Division and Indonesia Coal Division were segments 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 the acquisition, exploration and development of coal properties in Mongolia. As at December 31, 2009, 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, 2009, the Mongolian Coal Division had three active customers with the largest customer accounting for 65% of trade receivables and the other customers accounting for the remaining 35% of trade receivables. For the year ended December 31, 2009, the largest customer accounted for 64% of revenues and the other customers accounted for the remaining 36% 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		Unallocated ⁽ⁱⁱⁱ⁾	Consolidated Total
		Indonesian Coal Division ⁽ⁱ⁾	Metals Division ⁽ⁱⁱ⁾		
Segment assets					
As at December 31, 2009	\$ 129,454	\$ –	\$ –	\$ 431,230	\$ 560,684
As at December 31, 2008	76,611	14,836	638	7,863	99,948
As at December 31, 2007	2,509	–	1,132	1,969	5,610
Segment liabilities					
As at December 31, 2009	7,300	–	–	556,176	563,476
As at December 31, 2008	3,101	811	255	6,817	10,984
As at December 31, 2007	836	–	270	106,335	107,441
Segment (profits)/losses					
For year ended December 31, 2009	(6,203)	31,088	–	85,920	110,805
For year ended December 31, 2008	25,434	9,690	7,911	26,541	69,576
Segment revenues					
For year ended December 31, 2009	36,038	–	–	–	36,038
For year ended December 31, 2008	3,126	–	–	–	3,126
Capital expenditures					
For year ended December 31, 2009	35,706	6,511	–	64	42,281
For year ended December 31, 2008	53,960	481	53	15	54,509
Depreciation and depletion expense					
For year ended December 31, 2009	5,837	–	–	19	5,856
For year ended December 31, 2008	395	–	54	99	548
Impairment charge on assets					
For year ended December 31, 2009 ^(iv)	–	15,135	–	–	15,135
For year ended December 31, 2008	–	–	493	–	493

- (i) The Indonesian Coal Division was treated as discontinued operations for the years ended December 31, 2008 and 2009
- (ii) The Metals Division was treated as discontinued operations for the years ended December 31, 2008 and 2009 and the assets and liabilities of the Metals Division were reclassified as held for sale as at December 31, 2008
- (iii) The unallocated amount contains all amounts associated with the Corporate Division
- (iv) The impairment charge is related to the Indonesia Coal Division

At December 31, 2009, 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:

	Mongolia	Indonesia	Hong Kong	Canada	Consolidated Total
Revenues					
For year ended December 31, 2009	\$ 36,038	\$ –	\$ –	\$ –	\$ 36,038
For year ended December 31, 2008	3,126	–	–	–	3,126
Non-current assets					
As at December 31, 2009	89,587	–	49	61,876	151,512
As at December 31, 2008	51,939	13,689	–	20	65,648
As at December 31, 2007	1,398	62	–	106	1,566

4. Cost of Sales

The cost of sales of the Company is broken down into its cash and non-cash components as follows:

	Year ended December 31, 2009	Year ended December 31, 2008
Operating expenses ⁽ⁱ⁾	\$ 23,611	\$ 1,863
Depreciation and depletion	5,814	314
Cost of sales	\$ 29,425	\$ 2,177

(i) Share-based compensation (a non-cash item) of \$1,590 (2008: \$540) has been included in Operating expenses

5. Administration Expenses

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

	Year ended December 31, 2009	Year ended December 31, 2008
Corporate administration	\$ 2,839	\$ 2,123
Legal	912	305
Professional fees	3,159	804
Listing fees ⁽ⁱⁱ⁾	2,470	6,715
Salaries and benefits ⁽ⁱ⁾	14,024	5,618
Depreciation	19	98
Foreign exchange loss	1,112	4,695
Administration expenses	\$ 24,535	\$ 20,358

- (i) Share-based compensation (a non-cash item) of \$10,471 (2008: \$3,770) has been included in Salaries and benefits
- (ii) Listing fees of \$4,565 were deferred in the year ended December 31, 2009

6. Finance Costs

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

	Year ended December 31, 2009	Year ended December 31, 2008
Fair value change of embedded derivatives in convertible debenture	\$ 44,980	\$ —
Fair value change of embedded derivative in line of credit facility	—	7,223
Interest accretion on convertible debenture	2,972	—
Interest accretion on line of credit facility	—	598
Interest expense on convertible debenture	4,712	—
Interest expense on line of credit facilities	1,651	149
Transaction costs on issuance of convertible debenture	9,399	—
Mark to market gain on investments	(843)	—
Accretion of asset retirement obligation	40	19
Finance costs	\$ 62,911	\$ 7,989

7. 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, 2009 and 2008 at a rate of 30% and 31%, respectively. The Company had no assessable profit in Canada for the years ended December 31, 2009 and 2008.

The Company's subsidiaries in Hong Kong are subject to Hong Kong profits tax for the years ended December 31, 2009 and 2008 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, 2009 and 2008.

The Company's subsidiaries in Mongolia are subject to Mongolian income tax for the years ended December 31, 2009 and 2008 at a rate of 25%. In the year ended December 31, 2009 the Company recorded a current income tax charge of \$509 (2008: \$nil) related to assessable profit derived from Mongolia.

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

The tax expense for the Company can be reconciled to the loss for the period per the consolidated statement of comprehensive income as follows:

	Year ended December 31, 2009	Year ended December 31, 2008
Loss from continuing operations before tax	\$ 86,155	\$ 51,975
Loss from discontinued operations before tax	31,088	17,601
Loss from operations before tax	117,243	69,576
Statutory tax rate	30.00%	31.00%
Recovery of income taxes based on combined Canadian federal and provincial statutory rates	35,173	21,568
Deduct:		
Lower effective tax rate in foreign jurisdictions	(992)	(2,118)
Tax effect of tax losses and temporary differences not recognized	(1,938)	(15,712)
Non-deductible expenses	(22,956)	(2,902)
Effect of change in future tax rates	(2,849)	(836)
Tax recovery for the year	\$ 6,438	\$ —

The Company's recognized deferred income tax assets are as follows:

	As at December 31, 2009	As at December 31,	
		2008	2007
Tax loss carry-forwards	\$ 5,793	\$ —	\$ —
Property, plant and equipment	1,135	—	—
Other assets	19	—	—
Total deferred income tax assets	\$ 6,947	—	—

The Company's unrecognized deferred income tax assets are as follows:

	As at December 31, 2009	As at December 31,	
		2008 ⁽ⁱ⁾	2007
Tax loss carry-forwards	\$ 12,884	\$ 13,732	\$ 14,977
Property, plant and equipment	56	504	1,075
Share issue costs	4,902	687	16
Unrealized foreign exchange losses	5,582	2,319	1
Convertible debenture	—	—	—
Fair value of embedded derivatives	—	—	20,930
Other assets	1,275	1,146	1,477
Total unrecognized deferred income tax assets	\$ 24,699	\$ 18,388	\$ 38,476

(i) 2008 figures exclude deferred income tax assets associated with assets and liabilities classified as held for sale

The Company's unrecognized deferred income tax assets associated with assets held for sale as at December 31, 2008 are as follows:

	As at December 31, 2008
Tax loss carry-forwards	\$ 3,892
Property, plant and equipment	482
Total deferred income tax assets	\$ 4,374

At December 31, 2009 the Company and its subsidiaries have unrecognized capital losses and non-capital losses for income tax purposes of approximately \$97,869 (2008: \$64,418; 2007: \$56,313) that may be used to offset future taxable income as follows:

As at December 31, 2009

			Local currency	U.S. Dollar Equivalent	Expiry dates
Non-capital losses					
Canadian Dollar	Cdn\$	35,922		\$ 34,108	2010-2029
Mongolian Tugrik	MNT	33,496,611		29,243	2010-2020
Singapore Dollar	SGD	48		34	indefinite
Hong Kong Dollar	HKD	7,898		1,018	indefinite
				\$ 64,403	
Capital losses					
Canadian Dollar	Cdn\$	35,246		\$ 33,466	indefinite

8. Loss Per Share

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

	Year ended December 31, 2009	Year ended December 31, 2008
Net loss from continuing operations for the purpose of basic and diluted loss per share	\$ 79,717	\$ 51,975
Net loss from discontinued operations for the purpose of basic and diluted loss per share	\$ 31,088	\$ 17,601
Weighted average number of shares for the purpose of basic and diluted loss per share	133,499	128,354

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 preference shares, 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, 2009 and 2008.

9. 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:

	As at December 31, 2009	As at December 31,	
		2008	2007
Trade receivables	\$ 5,200	\$ 1,743	\$ –
VAT/GST receivable	7,029	5,357	720
Other receivables	99	190	40
Total trade and other receivables	\$ 12,328	\$ 7,290	\$ 760

10. 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:

	As at December 31, 2009	As at December 31,	
		2008	2007
Less than 1 month	\$ 9,630	\$ 4,723	\$ 76
1 to 3 months	892	1,960	198
3 to 6 months	705	701	210
Over 6 months	1,442	16	1,284
Total trade and other payables	\$ 12,669	\$ 7,400	\$ 1,768

11. 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 million, which is secured and bears interest at 8.0% with a maximum term of 30 years. The financing is required primarily to support the accelerated investment program in Mongolia and up to \$120 million of the financing may also be used for working capital, repayment of debt due on funding, general and administrative expense and other general corporate purposes.

The key commercial terms of the financing include:

- Interest - 8% per annum (6.4% payable semi-annually in cash and 1.6% payable annually in the Company's shares, where the number of shares to be issued is calculated based on the 50-day volume-weighted average price ("VWAP").
- Term - Maximum of 30 years.
- Security - First charge over the Company's assets, including shares of its material subsidiaries.
- Conversion price - The conversion price is set as the lower of Cdn\$11.88 or the 50-day VWAP at the date of conversion, with a floor price of Cdn\$8.88 per share.
- Conversion timing - The Company and CIC each have various rights to call conversion of the debenture into common shares. CIC has the right to convert the debenture, in whole or in part, into common shares twelve months after the date of issue. The Company has the right to call for the conversion of up to \$250 million of the debenture on the earlier of twenty four months after the issue date, if the conversion price is greater than Cdn\$10.66, or upon the Company achieving a public float of 25% of its common shares under certain agreed circumstances, if the conversion price is greater than Cdn\$10.66.
- Company's normal conversion right - After sixty months from the issuance date, at any time that the conversion price is greater than Cdn\$10.66, the Company will be entitled to require conversion of the outstanding convertible debenture, in whole or in part, into common shares at the conversion price.
- Representation on the Company's Board - While the debenture loan is outstanding, or while CIC has a minimum 15% direct or indirect stake in the Company, CIC has the right to nominate one director to the Company's Board. The Company currently has eight Board members.
- Voting restriction - CIC has agreed that it will not have any voting rights in the Company beyond 29.9% if CIC ever acquires ownership of such a shareholder stake through exercising the debenture.
- Pre-emption rights - While the debenture loan is outstanding, or while CIC has a 15% direct or indirect stake in the Company, CIC has certain pre-emption rights on a pro-rata basis to subscribe for any new shares to be allotted and issued by the Company for the period which the debenture is outstanding. The pre-emption rights will not apply to new shares issued pursuant to pro-rata public equity offerings made to all shareholders, exercise of stock options and shares issued to achieve a 25% public float.

- Right of first offer - While a portion of the debenture is outstanding, or while CIC has a 15% direct or indirect stake in the Company, CIC has the right of first offer for any direct and indirect sale of Ivanhoe's ownership stake in the Company. At December 31, 2009 Ivanhoe owned directly and indirectly approximately 79% of the Company's issued and outstanding shares.
- Registration Rights - CIC has registration rights under applicable Canadian provincial securities laws in connection with the common shares issuable upon conversion of the debenture.

The Company identified that the convertible debenture is a debt host contract to be presented as a liability and contains no equity components. The Company also concluded that the convertible debenture is a hybrid instrument, containing a debt host component and three embedded derivatives - the investor's conversion option, the issuer's conversion option and the equity based interest payment provision (the 1.6% share interest payment) (the "embedded derivatives"). The debt host component is classified as other financial liabilities and will be measured at amortized cost using the effective interest rate method and the embedded derivatives are classified as FVTPL and all changes in fair value will be recorded in income. The difference between the host debt component and the principal amount of the loan outstanding will be accreted to income over the expected life of the convertible debenture.

The embedded derivative was valued upon initial measurement and at December 31, 2009 using a Monte Carlo simulation valuation model. A Monte Carlo simulation model is a valuation model that relies on random sampling and is often used when modeling systems with a large number of inputs and where there is significant uncertainty in the future value of inputs and where the movement of the inputs can be independent of each other. Some of the key inputs used by the Company in its Monte Carlo simulation included: the floor and ceiling conversion prices, the risk-free rate of return, expected volatility of the stock price, forward foreign exchange rate curves (between the Cdn\$ and U.S.\$) and spot foreign exchange rates.

Based on the Company's valuation as at November 19, 2009, the closing date of the convertible debenture, the value of the embedded derivatives was \$313,292 and the value of the debt component was \$186,708. The transaction costs of \$15,000 were applied on a pro-rata basis to the debt host and embedded derivatives and transaction costs of \$9,399 associated with the embedded derivatives were expensed as financing costs and transaction costs of \$5,601 associated with the debt host were netted against the debt host component.

Based on the Company's valuation model as at December 31, 2009, the fair value of the embedded derivatives had increased by \$44,980 which was expensed as financing costs for the year ended December 31, 2009. In the year ended December 31, 2009, the Company also recorded an accretion expense of \$2,972 related to the debt host component of the convertible debenture and an interest expense of \$4,712 related to the convertible debenture. To calculate the accretion the Company used an expected life of 30 years.

The assumptions used in Monte Carlo valuation models as at December 31, 2009 and November 19, 2009 are as follows:

	As at December 31, 2009	As at November 19, 2009
Floor conversion price	Cdn\$8.88	Cdn\$8.88
Ceiling conversion price	Cdn\$11.88	Cdn\$11.88
Expected volatility ⁽ⁱ⁾	75%	80%
Risk-free rate of return	4.09%	3.92%
Foreign exchange spot rate (U.S.\$ to Cdn\$)	0.96	0.94
Forward foreign exchange rate curve (U.S.\$ to Cdn\$)	0.90 - 0.95	0.90 - 0.94

(i) Expected volatility has been based on historical volatility of the Company's publicly traded shares

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

Balance, as at December 31, 2007 and December 31 2008	\$	—
Amounts advanced		500,000
Transaction costs		(5,601)
Accrued interest payable		4,712
Interest accretion		2,972
Fair value change on embedded derivatives		44,980
Balance, as at December 31, 2009	\$	547,063

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

	As at December 31, 2009
Debt host	\$ 184,079
Fair value of embedded derivatives	358,272
Interest payable	4,712
Convertible debenture	\$ 547,063
Financial Statement Presentation	
CURRENT LIABILITIES	
Current portion of convertible debenture	\$ 4,712
NON-CURRENT LIABILITIES	
Convertible debenture	542,351
Convertible debenture	\$ 547,063

12. Subsequent Events

12.1 International offering

On January 29, 2010, the Company successfully completed an international offering of 27,000 shares for gross proceeds of \$437,446. The Company incurred underwriter fees of \$17,415 and other share issue costs in association with the international offering. Simultaneously with the international offering the Company's shares began trading on the HKEX under the ticker HKEX: 1878.

12.2 CIC conversion

On March 12, 2010, the Company announced, subject to regulatory approval, a formal request for CIC to convert \$250,000 of its convertible debenture into common shares of the Company.

13. Review of Results

The Audit Committee has reviewed the annual results of the Company for the year ended December 31, 2009.

Qualified Person

Disclosures of a scientific or technical nature in this release and the Company's MD&A in respect of each of SouthGobi's mineral resource properties were prepared by, or under the supervision of, Stephen Torr, P. Geo, a qualified person as defined in NI 43-101.

SouthGobi's results for the year ended December 31, 2009, are contained in the audited Consolidated 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 Energy Resources website at www.southgobi.com. Copies of SouthGobi's 2009 Annual Report containing the audited financial statements, and Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A), and the AIF are available at www.southgobi.com under the corporate page. Shareholders also 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.

About SouthGobi Energy Resources

SouthGobi Energy 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, 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, which are available at www.sedar.com.