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 FOURTH QUARTER AND 2011 FINANCIAL AND OPERATING 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, 2011.

Please see the attached announcement for more details.

By order of the Board
SouthGobi Resources Ltd.

Mr. Peter Graham Meredith
Chairman

Hong Kong, 19 March 2012

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

* *For identification purposes only*

SouthGobi Resources

March 19, 2011

SOUTHGOBI RESOURCES ANNOUNCES FOURTH QUARTER AND 2011 FINANCIAL AND OPERATING RESULTS

HONG KONG – SouthGobi Resources Ltd. **(TSX: SGQ, HK: 1878)**, (the "Company" or "SouthGobi") today announced its financial and operating results for the quarter and year ended December 31, 2011. All figures are in US dollars unless otherwise stated.

HIGHLIGHTS

The Company's highlights for the year ended December 31, 2011 and subsequent weeks are as follows:

- **Record annual coal sales of approximately 4.02 million tonnes (increase of 58% from 2010);**

- **Record annual gross profit of $51.7 million (increase of 424% from 2010);**

- **Record annual revenue of $179.0 million, (increase of 124% from 2010);**

- **Coal production of 4.57 million tonnes compared to 2.79 million tonnes in 2010, continuing to demonstrate the successful ramp-up of operations at the Company's Ovoot Tolgoi Mine;**

- **Average realized selling price of $54.03 per tonne (increase of 56% compared to 2010);**

- **On July 5, 2011, SouthGobi entered into an agreement with Ejinaqi Jinda Coal Industry Co. Ltd ("Ejin Jinda") to wet wash coal from the Ovoot Tolgoi Mine on a tolling arrangement;**

- **On July 6, 2011, SouthGobi received a mining license pertaining to the Soumber Deposit, subsequent exploration in 2011 has expanded its resource base;**

- **Awarded the tender to construct a paved highway from the Ovoot Tolgoi Mine to the Shivee Khuren-Ceke crossing at the Mongolia-China border ("Shivee Khuren Border Crossing") with consortium partner NTB LLC;**

- **On February 13, 2012, SouthGobi successfully commissioned its dry coal-handling facility ("DCHF") at the Ovoot Tolgoi Mine;**

- **On March 5, 2012, SouthGobi announced an agreement to sell the Tsagaan Tolgoi Deposit to Modun Resources Limited ("Modun") for expected consideration of $30.0 million; and**

- **On March 19, 2012, SouthGobi announced updated NI 43-101 compliant estimates of resources and reserves, which increased overall measured plus indicated resources by 35% (from 363.6 million tonnes to 492.6 million tonnes total) and inferred resources by 42% (from 171.9 million tonnes to 244.0 million tonnes total) and increased proven and probable reserves for the Ovoot Tolgoi Mine by 65% (from 106.8 million tonnes to 175.7 million tonnes total).**

REVIEW OF QUARTERLY OPERATING RESULTS

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

	2011				2010			
QUARTER ENDED	**31-Dec**	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
Volumes and prices								
Raw semi-soft coking coal								
Raw coal production *(millions of tonnes)*	**0.47**	0.55	0.52	0.48	0.41	0.18	0.39	0.21
Coal sales *(millions of tonnes)*	**0.53**	0.66	0.60	0.34	0.35	0.11	0.42	0.40
Average realized sales price *(per tonne)*	**$ 67.62**	$ 66.83	$ 65.96	$ 56.50	$ 47.08	$ 46.04	$ 44.10	$ 36.62
Raw medium-ash coal								
Raw coal production *(millions of tonnes)*	**0.37**	0.20	–	–	–	–	–	–
Coal sales *(millions of tonnes)*	**0.37**	0.20	–	–	–	–	–	–
Average realized sales price *(per tonne)*	**$ 48.59**	$ 48.17	$ –	$ –	$ –	$ –	$ –	$ –
Raw higher-ash coal								
Raw coal production *(millions of tonnes)*	**0.50**	0.50	0.35	0.63	0.97	0.39	0.23	0.01
Coal sales *(millions of tonnes)*	**0.25**	0.51	0.45	0.11	1.12	0.08	0.03	0.03
Average realized sales price *(per tonne)*	**$ 40.30**	$ 39.74	$ 38.32	$ 31.68	$ 26.75	$ 25.34	$ 18.82	$ 21.24
Total								
Raw coal production *(millions of tonnes)*	**1.34**	1.25	0.87	1.11	1.38	0.57	0.62	0.22
Coal sales *(millions of tonnes)*	**1.15**	1.37	1.05	0.45	1.47	0.19	0.45	0.43
Average realized sales price *(per tonne)*	**$ 55.51**	$ 54.01	$ 54.06	$ 50.29	$ 31.56	$ 37.15	$ 42.63	$ 35.52

QUARTER ENDED	**2011** **31-Dec**	30-Sep	30-Jun	31-Mar	2010 31-Dec	30-Sep	30-Jun	31-Mar
Costs								
Direct cash costs of product sold *(per tonne)* [(i)]	**$ 22.14**	$ 22.64	$ 26.77	$ 18.91	$ 18.53	$ 18.59	$ 21.37	$ 22.25
Total cash costs of product sold *(per tonne)* [(i)]	**$ 23.09**	$ 23.17	$ 27.61	$ 20.61	$ 19.25	$ 22.04	$ 22.30	$ 23.32
Waste movement and stripping ratio								
Production waste material moved *(millions of bank cubic meters)*	**4.58**	4.10	4.08	3.85	3.56	2.90	1.73	1.50
Strip ratio *(bank cubic meters of waste rock per tonne of coal produced)*	**3.42**	3.28	4.74	3.47	2.58	5.09	2.79	6.79
Pre-production waste material moved *(millions of bank cubic meters)*	**–**	0.39	0.80	0.49	0.73	0.43	0.02	–
Other operating capacity statistics								
Capacity								
Number of mining shovels/excavators available at period end	**3**	3	4	3	3	2	2	2
Total combined stated mining shovel/excavator capacity at period end *(cubic meters)*	**64**	64	98	83	82	48	48	48
Number of haul trucks available at period end	**25**	16	16	16	15	12	11	9
Total combined stated haul truck capacity at period end *(tonnes)*	**4,561**	2,599	2,599	2,599	2,254	1,727	1,509	1,073
Employees and safety								
Employees at period end	**720**	695	658	600	544	472	421	388
Lost time injury frequency rate [(ii)]	**1.2**	0.9	0.6	0.7	0.8	0.9	1.0	0.6

(i) A non-IFRS financial measure, see Non-IFRS Financial Measures section

(ii) Per 1,000,000 man hours

For the year ended December 31, 2011

For the year ended December 31, 2011, the Company produced 4.57 million tonnes of raw coal with a strip ratio of 3.63 compared to production of 2.79 million tonnes of raw coal with a strip ratio of 3.47 for the year ended December 31, 2010. Mining capacity increased in 2011 compared to 2010 due to the commissioning of additional mining equipment. Mining activities also commenced in the Sunrise Pit during the third quarter of 2011. In 2010, production was negatively impacted by the Sunset Pit realignment in the first half of 2010. Realigning the Sunset Pit impacted operations because the process required substantial above-trend waste removal, which resulted in lower production volumes.

For the year ended December 31, 2011, the Company sold 4.02 million tonnes of coal at an average realized selling price of $54.03 per tonne. This compares to 2.54 million tonnes of coal sold for the year ended December 31, 2010 at an average realized selling price of $34.61 per tonne. The average realized selling price has increased due to increased prices of individual customer contracts in 2011. The Company continues to focus its marketing efforts on the expansion of its customer base.

Direct cash costs of product sold (a non-IFRS financial measure, see Non-IFRS Financial Measures section) were $23.15 per tonne for the year ended December 31, 2011 compared to $19.66 per tonne for the year ended December 31, 2010. Direct cash costs have increased as a result of increased screening activities of the Company's raw higher-ash coal, higher fuel prices and general economic factors including the strengthening of the Mongolian Tugrik and the rate of inflation in Mongolia.

Prices of diesel fuel (approximately 25% of the Company's direct cash costs) were 55% higher per tonne of coal sold for the year ended December 31, 2011 compared to the year ended December 31, 2010. Significant fuel shortages in Mongolia during the second quarter of 2011 forced the Company to pay a higher price to secure diesel fuel supplies. Government of Mongolia sources have advised SouthGobi that there is now an agreement to guarantee minimum monthly fuel supplies from each of Russia and China. Furthermore, during 2011 the Company completed construction of a new fuel storage facility at the Ovoot Tolgoi Mine to increase onsite fuel storage capacity to 1.3 million liters.

On September 27, 2011, a fire occurred on the Company's Liebherr 996 hydraulic shovel that was commissioned at the Ovoot Tolgoi Mine in December 2009 (previously included in the mining fleet). Safety protocols were followed and there were no injuries. Following subsequent inspection and third-party reports, the Company decommissioned the machine and currently believes it is unlikely it will be repairable. Site inspections have been completed by the insurance underwriter and the Company has been advised that the damage will be covered by its insurance policy. As a result, the Company has derecognized the full carrying amount of the machine and recognized a receivable in the amount equal to the amount of the estimated net insurance proceeds.

For the three months ended December 31, 2011

For the three months ended December 31, 2011, the Company produced 1.34 million tonnes of raw coal with a strip ratio of 3.42 compared to production of 1.25 million tonnes of raw coal with a strip ratio of 3.28 for the three months ended September 30, 2011 and production of 1.38 million tonnes of raw coal with a strip ratio of 2.58 for the three months ended December 31, 2010. Coal production for the three months ended December 31, 2011 increased slightly compared to the three months ended September 30, 2011, despite the loss of the Liebherr 996 hydraulic shovel in September 2011. The Company's second Liebherr R9250 hydraulic excavator, which was commissioned ahead of schedule in the second quarter of 2011 and previously used to supplement mining capacity of the Company's existing fleet, enabled the

Company to meet its production targets for the three months ended December 31, 2011. Coal production for the three months ended December 31, 2011 decreased slightly compared to the three months ended December 31, 2010. The slight decrease in production for the three months ended December 31, 2011 was due to a higher strip ratio; however, this was offset by an expanded mining fleet.

For the three months ended December 31, 2011, the Company sold 1.15 million tonnes of coal at an average realized selling price of $55.51 per tonne. This compares to 1.37 million tonnes of coal sold for the three months ended September 30, 2011 at an average realized selling price of $54.01 per tonne and 1.47 million tonnes of coal sold for the three months ended December 31, 2010 at an average realized selling price of $31.56 per tonne. Sales volume declined for the three months ended December 31, 2011 due to some customers' preference to purchase coal on a washed basis in 2012 in lieu of taking unwashed coal during the fourth quarter of 2011 and management's decision to stockpile a manageable amount of coal for processing in 2012.

Direct cash costs of product sold were $22.14 per tonne for the three months ended December 31, 2011 compared to $22.64 per tonne for the three months ended September 30, 2011 and $18.53 per tonne for the three months ended December 31, 2010. Direct cash costs per tonne sold increased in the fourth quarter of 2011 compared to the fourth quarter of 2010 primarily due to an increase in the strip ratio partially offset by mining efficiencies.

REVIEW OF QUARTERLY FINANCIAL RESULTS

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

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

	2011				2010			
QUARTER ENDED	**31-Dec**	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
Revenue	**$ 51,064**	$ 60,491	$ 47,336	$ 20,158	$ 41,595	$ 6,597	$ 17,668	$ 13,917
Gross profit	**16,637**	17,635	9,744	7,690	3,950	336	4,400	1,187
Profit margin	**33%**	29%	21%	38%	9%	5%	25%	9%
Other operating expenses	**(24,644)**	(138)	(3,024)	(1,383)	(2,121)	(7,586)	(1,894)	(1,042)
Administration expenses	**(8,612)**	(7,993)	(6,808)	(5,336)	(6,599)	(7,405)	(6,442)	(4,992)
Evaluation and exploration expenses	**(14,513)**	(10,908)	(4,356)	(1,991)	(4,144)	(6,314)	(6,659)	(1,651)
Loss from operations	**(31,132)**	(1,404)	(4,444)	(1,020)	(8,914)	(20,969)	(10,595)	(6,498)
Net income/(loss)	**(18,897)**	55,921	67,323	(46,602)	(28,720)	27,495	53,301	(168,271)
Basic income/(loss) per share	**(0.10)**	0.31	0.37	(0.25)	(0.16)	0.15	0.29	(1.09)
Diluted loss per share	**(0.14)**	(0.02)	–	(0.25)	(0.16)	(0.08)	(0.07)	(1.09)

QUARTER ENDED	**2011** **31-Dec**	2011 30-Sep	2011 30-Jun	2011 31-Mar	2010 31-Dec	2010 30-Sep	2010 30-Jun	2010 31-Mar
Net income/(loss)	**$ (18,897)**	$ 55,921	$ 67,323	$ (46,602)	$ (28,720)	$ 27,495	$ 53,301	$(168,271)
Income/(loss) adjustments, net of tax								
Share-based compensation	**4,050**	4,296	3,349	2,715	3,840	3,695	2,754	2,971
Net impairment loss/(recovery) on assets	**23,818**	(2,925)	–	–	574	7,010	–	–
Unrealized foreign exchange losses/(gains)	**34**	103	263	(993)	(1,837)	(1,116)	(1,120)	370
Loss/(gain) on value change of embedded derivatives in CIC debenture	**(10,790)**	(62,058)	(70,422)	36,780	19,995	(49,772)	(72,232)	1,372
Loss on partial conversion of CIC debenture	**–**	–	–	–	–	–	–	151,353
Loss/(gain) on FVTPL investments	**155**	2,449	(3,629)	4,116	(4,375)	(1,735)	4,555	685
Adjusted net (loss) [(i)]	**(1,630)**	(2,214)	(3,116)	(3,984)	(10,523)	(14,423)	(12,742)	(11,520)

(i) A non-IFRS financial measure, see Non-IFRS Financial Measures section

For the year ended December 31, 2011

The Company recorded net income for the year ended December 31, 2011 of $57.7 million compared to a net loss of $116.2 million for the year ended December 31, 2010. For the year ended December 31, 2010, a $151.4 million loss on partial conversion of the CIC convertible debenture was recorded.

The Company incurred an operating loss for the year ended December 31, 2011 of $38.0 million compared to $47.0 million for the year ended December 31, 2010. The decrease in the operating loss is due to the factors discussed below:

Gross Profit:

The Company's gross profit is composed of revenue (net of royalties and selling fees) and cost of sales and relates solely to the Mongolian Coal Division. For the year ended December 31, 2011, the Company generated gross profit of $51.7 million compared to $9.9 million for the year ended December 31, 2010.

Revenue was $179.0 million for the year ended December 31, 2011, compared to $79.8 million for the year ended December 31, 2010. Revenue has increased due to both higher sales volumes and higher average realized sales prices which have increased by 58% and 56%, respectively.

The Company is subject to a 5% royalty on all coal sold based on a set reference price per tonne published monthly by the Government of Mongolia. Effective January 1, 2011, the Company is also subject to a sliding scale additional royalty of up to 5% based on the set reference price of coal. Based on the 2011 reference prices, the Company was subject to an average 8% royalty based on a weighted average reference price of $98.97 per tonne. The Company's effective royalty rate for 2011, based on the Company's average realized selling price of $54.03 per tonne, was 15%.

Together with other Mongolian mining companies affected by the escalation of effective royalty rates, a dialog was opened on this topic with the appropriate Government of Mongolia authorities with a view to moving to a more equitable process for setting reference prices. There has been a successful outcome in that commencing February 2012 royalty reference prices are now based off prices for coal products sold at the two main coal export border locations in Mongolia, namely Shivee Khuren-Ceke and Gashuun Sukhait-Ganqimaodao. The dialog is continuing, with the aim of having prices based off actual contract prices for sales at these locations, excluding export fees and Chinese VAT (i.e. revenue received for coal delivered to the Mongolia-China border prior to export).

Cost of sales was $127.3 million for the year ended December 31, 2011, which includes the direct cash cost of products sold, mine administration cash costs of product sold, equipment depreciation, depletion of mineral properties and share-based compensation. Cost of sales was $69.9 million for the year ended December 31, 2010. The increase in cost of sales for the year ended December 31, 2011 is due to the higher sales volumes and higher unit costs.

Other Operating Expenses:

Other operating expenses were $29.2 million for the year ended December 31, 2011 compared to $12.6 million for the year ended December 31, 2010. The increase primarily relates to the impairment of property, plant and equipment and public infrastructure costs. For the year ended December 31, 2011, the Company recorded $16.6 million of impairment charges, net of insurance proceeds receivable, to reduce various items of property, plant and equipment to their recoverable amounts compared to $1.8 million for the year ended December 31, 2010. For the year ended December 31, 2011, the Company recorded public infrastructure costs of $8.1 million to maintain and upgrade public transportation infrastructure used to transport coal from the Ovoot Tolgoi Mine to the Shivee Khuren Border Crossing and to complete road and construction works on the Mongolian side of the border to facilitate the future opening of the designated coal transportation corridors at the Shivee Khuren Border Crossing compared to $6.0 million for the year ended December 31, 2010.

Administration Expenses:

Administration expenses were $28.7 million for the year ended December 31, 2011 compared to $25.4 million for the year ended December 31, 2010. The increase primarily relates to increased share-based compensation expense and additional staff to support the expansion of the Company's operations.

Evaluation and Exploration Expenses:

Evaluation and exploration expenses were $31.8 million for the year ended December 31, 2011 compared to $18.8 million for the year ended December 31, 2010. SouthGobi conducted a record level of exploration activity in Mongolia for the year ended December 31, 2011. Key exploration targets included additional drilling at the Soumber Deposit and the fields surrounding the Soumber Deposit, as well as additional areas within the Ovoot Tolgoi Complex mining licenses. In addition, the 2011 exploration program included a more active water exploration program.

Finance Income & Finance Costs:

The Company incurred finance costs for the year ended December 31, 2011 of $12.8 million compared to $175.9 million for the year ended December 31, 2010. Finance costs for the year ended December 31, 2011 primarily consisted of $9.1 million of interest expense on the CIC convertible debenture and a $3.1 million mark to market loss on FVTPL investments, whereas finance costs for the year ended December 31, 2010 primarily consisted of a $151.4 million loss on partial conversion of the CIC convertible debenture and $24.3 million of interest expense on the CIC convertible debenture.

The Company recorded finance income for the year ended December 31, 2011 of $107.7 million compared to $103.9 million for the year ended December 31, 2010. Finance income for the year ended December 31, 2011 consisted of a $106.5 million gain on the fair value change of the embedded derivatives in the CIC convertible debenture and $1.2 million of interest income, whereas finance income for the year ended December 31, 2010 primarily consisted of a $100.6 million gain on the fair value change of the embedded derivatives in the CIC convertible debenture and $2.4 million of interest income.

The Company's investment in Aspire Mining Limited ("Aspire") continues to be classified as an available-for-sale financial asset and for the year ended December 31, 2011, the Company recorded an after-tax mark to market loss of $11.2 million related to Aspire that has been recorded in other comprehensive income.

For the three months ended December 31, 2011

The Company recorded a net loss for the three months ended December 31, 2011 of $18.9 million compared to net income of $55.9 million for the three months ended September 30, 2011 and a net loss of $28.7 million for the three months ended December 31, 2010. The net loss in the fourth quarter of 2011 primarily relates to gross profit less other operating expenses, administration costs and exploration costs, partially offset by a $10.8 million gain on the fair value change of the embedded derivatives in the CIC convertible debenture. The $10.8 million gain on the fair value change of the embedded derivatives in the CIC convertible debenture in the fourth quarter of 2011 compares to a gain of $62.1 million in the third quarter of 2011 and a loss of $20.0 million in the fourth quarter of 2010.

The Company incurred an operating loss for the three months ended December 31, 2011 of $31.1 million compared to a $1.4 million loss for the three months ended September 30, 2011 and a $8.9 million loss for the three months ended December 31, 2010. The changes in the operating loss are due to the factors discussed below:

Gross Profit:

The Company's gross profit is composed of revenue (net of royalties and selling fees) and cost of sales and relates solely to the Mongolian Coal Division. For the three months ended December 31, 2011, the Company generated gross profit of $16.6 million compared to $17.6 million for the three months ended September 30, 2011 and $4.0 million for the three months ended December 31, 2010.

The Company recognized revenue of $51.1 million for the three months ended December 31, 2011 compared to $60.5 million for the three months ended September 30, 2011 and $41.6 million for the three months ended December 31, 2010. Sales volume declined in the fourth quarter of 2011 compared to the third quarter of 2011 due to some customers' preference to purchase coal on a washed basis in 2012 in lieu of taking unwashed coal during the fourth quarter of 2011 and management's decision to stockpile a manageable amount of coal for processing in 2012.

Revenue continues to be negatively impacted by the current royalty regime. The 'effective royalty' rate increased from 16% in the third quarter of 2011 to 18% in the fourth quarter of 2011, due to the methodology being applied to royalties basing fees on reference price levels set arbitrarily by the Government of Mongolia. The reference price levels applied to the Company's raw semi-soft coking coal and raw medium-ash coal were identical, despite the lower realized selling price for the Company's raw medium-ash coal.

Cost of sales was $34.4 million for the three months ended December 31, 2011 compared to $42.9 million for the three months ended September 30, 2011 and $37.6 million for the three months ended December 31, 2010. Cost of sales comprise the direct cash cost of products sold, mine administration cash costs of product sold, equipment depreciation, depletion of mineral properties and share-based compensation. Cost of sales decreased in the fourth quarter of 2011 compared to the third quarter of 2011 and the fourth quarter of 2010 due to lower sales volumes. The lower sales volumes in the fourth quarter of 2011 were partially offset by higher unit costs compared to the fourth quarter of 2010.

Other Operating Expenses

Other operating expenses were $24.6 million for the three months ended December 31, 2011 compared to $0.1 million for the three months ended September 30, 2011 and $2.1 million for the three months ended December 31, 2010. The increase primarily relates to the impairment of property, plant and equipment. For the three months December 31, 2011, the Company recorded $19.5 million of impairment charges to reduce various items of property, plant and equipment to their recoverable amounts compared to $0.6 million for the three months ended December 31, 2010.

Administration Expenses:

Administration expenses were $8.6 million for the three months ended December 31, 2011 compared to $8.0 million for the three months ended September 30, 2011 and $6.6 million for the three months ended December 31, 2010. Administration costs increased in the fourth quarter of 2011 compared to the third quarter of 2011 as a result of employee bonuses. Administration costs increased in the fourth quarter of 2011 compared to the fourth quarter of 2010 as a result of increased share-based compensation expense and additional staff to support the expanded operations.

Evaluation and Exploration Expenses:

Exploration expenses for the three months ended December 31, 2011 were $14.5 million compared to $10.9 million for the three months ended September 30, 2011 and $4.1 million for the three months ended December 31, 2010. Exploration expenses will vary from quarter to quarter depending on the number of projects and the related seasonality of the exploration programs. Exploration was still in the process of mobilization during the second quarter of 2011 due to delays in receiving required government approvals, resulting in a higher proportion of costs being incurred in the third and fourth quarter of 2011. In addition, the 2011 exploration program included a more active water exploration program.

Finance Income & Finance Costs:

The Company incurred finance costs for the three months ended December 31, 2011 of $1.1 million compared to $24.9 million for the three months ended December 31, 2010. Finance costs for the three months ended December 31, 2011 primarily consisted of $0.9 million of interest expense on the CIC convertible debenture, whereas finance costs for the three months ended December 31, 2010 primarily consisted of a $20.0 million loss on the fair value change of the embedded derivatives in the CIC convertible debenture and $4.8 million of interest expense on the CIC convertible debenture.

The Company recorded finance income for the three months ended December 31, 2011 of $11.0 million compared to $5.0 million for the three months ended December 31, 2010. Finance income for the three months ended December 31, 2011 primarily consisted of a $10.8 million gain on the fair value change of the embedded derivatives in the CIC convertible debenture and $0.2 million of interest income, whereas finance income for the three months ended December 31, 2010 primarily consisted of a $4.4 million mark to market gain on FVTPL investments and $0.6 million of interest income.

For the three months ended December 31, 2011, the Company recorded an after-tax mark to market loss of $6.5 million related to Aspire that has been recorded in other comprehensive income.

FINANCIAL POSITION AND LIQUIDITY

The Company's total assets at December 31, 2011 were $920.3 million compared with $961.9 million at December 31, 2010.

At December 31, 2011, the Company had $123.6 million in cash and cash equivalents and $45.0 million in money market investments for a total liquidity of $168.6 million compared with $492.0 million in cash and cash equivalents and $62.7 million in money market investments for a total liquidity of $554.7 million at December 31, 2010.

The Company's non-current liabilities at December 31, 2011 were $145.6 million compared with $252.5 million at December 31, 2010. The decrease in non-current liabilities primarily relates to the decrease in the fair value of the CIC convertible debenture.

TOLL WASHING AGREEMENT

On July 5, 2011, the Company entered into an agreement with Ejin Jinda, a subsidiary of China Mongolia Coal Co. Ltd ("CMC"), to wet wash coal from the Ovoot Tolgoi Mine on a tolling arrangement. The agreement has a duration of 5 years from commencement and provides for an annual wet washing capacity of 3.5 million tonnes of input coal (i.e. sufficient capacity to wet wash medium and higher-ash coals after DCHF processing).

Ejin Jinda's wet washing facility is located approximately 10 kilometers inside China from the Shivee Khuren Border Crossing (i.e. approximately 50 kilometers from the Ovoot Tolgoi Mine). Medium and higher-ash coals with only basic processing through Ovoot Tolgoi's on-site DCHF will be transported from the Ovoot Tolgoi Mine to the facility under a separate transport agreement. Based on preliminary studies, the Company expects these coals can then be washed to produce coals with ash in the range of 8% to 11% at a yield of 85% to 90%. Ejin Jinda will charge the Company a single toll washing fee which will cover their expenses, capital recovery and profit. Washed coal will generally meet semi-soft coking coal specifications.

Construction of Ejin Jinda's wet washing facility is now complete and it has been connected to utility supply. The equipment is currently undergoing testing, including batch processing trials. Commissioning is expected to complete early in the second quarter of 2012.

SOUMBER MINING LICENSE

On June 3, 2011, the Company announced it had successfully registered the resource associated with the Soumber Deposit (at that time comprising the Central Soumber, East Soumber and Biluut Fields) with the Mineral Resource Authority of Mongolia (“MRAM”). Further, on July 6, 2011, the Company announced that MRAM had issued the Company a mining license pertaining to the Soumber Deposit. The new 10,993 hectare mining license was granted for an initial term of 30 years with an option for two 20 year extensions.

A successful exploration program in the vicinity of the Soumber Deposit during 2011 has resulted in additional coal resources being identified. Resources associated with the South Biluut and Jargalant Fields have been through the resource registration process and the exploration licenses pertaining to resources outside the mining license are subject to Pre-Mining Agreement (“PMA”) applications. Subsequent to the receipt of the PMA, the Company intends to proceed through to the mining license application process.

REGIONAL INFRASTRUCTURE

On August 2, 2011, the State Property Committee of Mongolia awarded the tender to construct a paved highway from the Ovoot Tolgoi Complex to the Shivee Khuren Border Crossing to consortium partners NTB LLC and the Company’s Mongolian operating subsidiary, SouthGobi Sands LLC (together referred to as “RDCC”). On October 26, 2011, RDCC signed the concession agreement with the State Property Committee of Mongolia. RDCC now has the right to conclude a 15 year build, operate and transfer agreement under the Mongolian Law on Concessions. RDCC has completed the design of the road and plans to commence construction in the first half of 2012. The paved highway will have an intended carrying capacity upon completion in excess of 20 million tonnes of coal per year.

DRY COAL-HANDLING FACILITY

On February 13, 2012, the Company announced the successful commissioning of the DCHF at the Ovoot Tolgoi Mine. The DCHF has capacity to process nine million tonnes of run-of-mine (“ROM”) coal per year. The DCHF includes a 300-tonne-capacity dump hopper, which receives ROM coal from the Ovoot Tolgoi Mine and feeds a coal rotary breaker that sizes coal to a maximum of 50 millimeters and rejects oversize ash. Prior to the commissioning of the rotary breaker, temporary screening operations were used at the Ovoot Tolgoi Mine to process higher-ash coals. Screening performed a similar function to the rotary breaker, namely rejecting oversize ash and sizing the coal to a maximum of 50 millimeters; however, the rotary breaker is anticipated to reduce screening costs and improve yield recoveries.

During the course of 2012, the DCHF will be upgraded to include dry air separation modules and covered load out conveyors with fan stackers to take processed coals to stockpiles and enable more efficient blending.

SALE OF TSAGAAN TOLGOI DEPOSIT

On March 5, 2012, SouthGobi announced an agreement to sell the Tsagaan Tolgoi Deposit to Modun, a company listed on the Australian Stock Exchange under the symbol MOU. Under the transaction, SouthGobi expects to receive $30.0 million of total consideration, comprising $7.5 million up-front in cash, $12.5 million up-front in Modun shares and deferred consideration of an additional $10.0 million also payable in Modun shares.

As a result, SouthGobi will have a significant shareholding in Modun and it will have the right to nominate one director to the board of Modun subject to SouthGobi holding an equity interest in excess of 14.9%. The transaction is subject to Modun shareholder approval, regulatory approvals under the laws of Mongolia, Hong Kong and Singapore, and Australian Foreign Investment Review Board approval. The transaction is expected to be completed by June 1, 2012.

COMMON SHARE REPURCHASE PROGRAM

On June 8, 2010, the Company announced that its Board of Directors authorized a share repurchase program to purchase up to 2.5 million common shares of the Company on each or either of the TSX and the HKEX, in aggregate representing up to 5.0 million common shares of the Company. On June 8, 2011, the Company announced the renewal of its share repurchase program. The share repurchase program will remain in effect until June 14, 2012, or until the purchases are complete or the program is terminated by the Company. For the year ended December 31, 2011, the Company repurchased 1.3 million shares on the HKEX and 2.0 million shares on the TSX for a total of 3.3 million common shares. From inception of the share repurchase program to March 19, 2012, the Company has repurchased 1.6 million shares on the HKEX and 2.6 million shares on the TSX for a total of 4.2 million common shares. The Company cancels all shares after they are repurchased.

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, 2011.

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, 2011.

OUTLOOK

During 2011 SouthGobi succeeded in growing and improving the value of its coal. Average gross selling price increased by $19.42 per tonne (56%) to $54.03 per tonne, whilst total cash costs only increased by $3.31 per tonne to $24.01 per tonne which was primarily due to the year over year increase in average fuel costs of approximately 55% per tonne of product sold and increased screening activities. Profitability generally improved during the course of the year and the final quarter of 2011 saw a record spread of $32.42 between the average selling price per tonne and total cash cost per tonne.

Much has been said by publicly-listed coking coal producers regarding weaker current market conditions. North American and Australian coking coal producers have mostly indicated that early 2012 will be characterized by lower prices and lower physical demand in the seaborne coking coal arena. However, SouthGobi believes its location in Southern Mongolia and closer nexus with the China market provides it with a different market environment. China is absolutely the key theme for internationally traded coking coal. From 2008 to 2011 China grew its annual net coking coal imports by approximately 38.0[1] million tonnes, whilst the rest of the world combined actually reduced net coking coal imports by approximately 10.0[2] million tonnes. Mongolia, being a direct neighbor to China and with scalable land-based infrastructure, has now become the dominant supplier of China's coking coal import requirements. Mongolia provided approximately 45%[1] of China's coking coal import needs in 2011, almost twice the share of the next largest supplier, Australia.

China continues to grow its requirements for coking coal and the Chinese market environment is more stable than the relatively smaller seaborne market. Since peaking at the start of 2011, seaborne coking coal prices have fallen by up to 44%[2] whereas Chinese regional domestic coking coal prices have generally risen in that period.

The first quarter of any year is generally the worst for border throughput capacity owing to the extended closure of the Shivee Khuren Border Crossing for the Chinese New Year and Mongolian Tsagaan Sar public holidays. This generally impacts coal sales. For example, in 2011, first quarter sales represented only approximately 11% of the total amount of coal sold for the year. SouthGobi anticipates the border to be open 40-50% less time in the first quarter of 2012 than any typical second, third or fourth quarter. However, despite this, the Company has contracted to sell 50-60% more coal than in the first quarter of 2011, which if achieved will put it ahead of plan for year over year sales volume growth.

[1] China Coal Resource (en.sxcoal.com)

[2] AME Group: Strategic Market Study – Metallurgical Coal 2011 Q4

In terms of pricing, SouthGobi currently forecasts to set a new record level for its gross average sales price in the first quarter of 2012. Contract pricing for individual coal types has been set broadly constant with the fourth quarter of 2011 or moderately improved. The sales mix will improve due to the impact of the DCHF, which has substantially reduced the quantity of higher-ash coal being produced. Furthermore, the Company continues to stock-pile some higher-ash coal in anticipation of completing the commissioning of the Ejin Jinda wet washing facility.

The year ended December 31, 2011 was the most meaningful year of investment for SouthGobi. Absent any change in external conditions, the Company anticipates its rate of investment to slow in 2012 and its income from mining operations to increase materially. At the end of 2011, SouthGobi's combined cash and cash equivalents and money market investments were approximately $168.6 million. At this stage, the Company believes these resources combined with anticipated income from its mining operations will be sufficient to execute its strategy.

SouthGobi is uniquely positioned, with a number of key competitive strengths, including:

- Strategic location – SouthGobi is the closest major coking coal producer in the world to China. Our Ovoot Tolgoi Mine is approximately 40 kilometers from China, which is approximately 190 kilometers closer than Tavan Tolgoi coal producers in Mongolia and 7,000 to 10,000 kilometers closer than Australian and North American coking coal producers. The Company has an infrastructure advantage, being approximately 50 kilometers from existing railway infrastructure, which is approximately one tenth the distance to rail of Tavan Tolgoi coal producers in Mongolia.

- Premium quality coals – Most of the Company's coal resources have coking properties, including a mixture of semi-soft coking coals and hard coking coals. SouthGobi is also completing its investment in processing infrastructure to capture more of the value by selling 'clean' instead of 'raw' coal products.

- Sustainable volume growth – SouthGobi's coal sales volume grew by approximately 58% from 2010 to 2011. 2012 will see continued growth at the Ovoot Tolgoi Mine. Currently undeveloped resources at the Soumber Deposit and the Zag Suuj Deposit will provide additional growth in the future.

- Expanding margins – 2011 gross profit per tonne of coal sold was more than three times the amount realized in 2010. The Company believes, subject to market conditions, it will continue expanding margins in the near term through the benefits of coal processing and increasing economies of scale.

- Exploration as a core business competency – SouthGobi's resources in Mongolia have been acquired through a long term in-house exploration program. The Company continues to maintain an active exploration program that provides additional resources of coal in a cost effective manner. The $31.8 million exploration program in 2011 added 32.0 million tonnes of measured coal resources, 97.0 million tonnes of indicated coal resources and 72.1 million tonnes of inferred coal resources.

Objectives

The Company's objectives for 2012 are as follows:

- **Grow Ovoot Tolgoi Mine** – The additional capacity of the new mining fleets should support growth in coal availability and sales for 2012 over 2011.

- **Continue to develop regional infrastructure** – The Company's immediate priority centers on improving roads in the area around the Ovoot Tolgoi Mine. SouthGobi is part of a consortium awarded the tender to construct a paved highway from the Ovoot Tolgoi Complex to the Shivee Khuren Border Crossing. The consortium intends to imminently commence construction of the highway that is expected upon completion to have a carrying capacity in excess of 20 million tonnes of coal per year.

- **Advancing the Soumber Deposit** – SouthGobi intends to further advance the feasibility, planning and preparation for a mine at Soumber.

- **Value-adding/upgrading coal** – Ejin Jinda is close to completing the commissioning of its wet washing facility to process some SouthGobi coals close to the Shivee Khuren Border Crossing on a toll washing arrangement.

- **Exploration** – Exploration will take place to further define the Company's existing deposits.

- **Operations** – Continuing to focus on production safety, environmental protection, operational excellence and community relations.

NON-IFRS FINANCIAL MEASURES

Cash Costs:

The Company uses cash costs to describe its cash production costs. Cash costs incorporate all production costs, which include direct and indirect costs of production. Non-cash adjustments include share-based compensation costs, depreciation and depletion of mineral properties.

The Company uses this performance measure to monitor its operating cash costs internally and believes this measure provides investors and analysts with useful information about the Company's underlying cash costs of operations. The Company believes that conventional measures of performance prepared in accordance with IFRS do not fully illustrate the ability of its mining operations to generate cash flows. The Company reports cash costs on a sales basis. This performance measure is commonly utilized in the mining industry.

The cash costs of product sold presented may differ from cash costs of product produced depending on the timing of stockpile inventory turnover.

Adjusted Net Income/(Loss):

Adjusted net income/(loss) excludes share-based compensation, net impairment loss/(recovery) on assets, unrealized foreign exchange losses/(gains), loss/(gain) on the fair value change of the embedded derivatives in the CIC convertible debenture, loss on partial conversion of the CIC convertible debenture and losses/(gains) on fair value through profit and loss ("FVTPL") investments. The Company excludes these items from net income/(loss) to provide a measure which allows the Company and investors to evaluate the results of the underlying core operations of the Company and its profitability from operations. The items excluded from the computation of adjusted net income/(loss), which are otherwise included in the determination of net income/(loss) prepared in accordance with IFRS, are items that the Company does not consider to be meaningful in evaluating the Company's past financial performance or the future prospects and may hinder a comparison of its period-to-period results.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Comprehensive Income

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

	Notes	Year ended December 31, 2011	2010
Revenue		**$ 179,049**	$ 79,777
Cost of sales	3	**(127,343)**	(69,904)
Gross profit		**51,706**	9,873
Other operating expenses	4	**(29,189)**	(12,643)
Administration expenses	5	**(28,749)**	(25,438)
Evaluation and exploration expenses	6	**(31,768)**	(18,769)
Loss from operations		**(38,000)**	(46,977)
Finance costs	7	**(12,765)**	(175,855)
Finance income	7	**107,732**	103,948
Income/(loss) before tax		**56,967**	(118,884)
Current income tax expense	8	**(7,340)**	(1,806)
Deferred income tax recovery	8	**8,118**	4,495
Net income/(loss) attributable to equity holders of the Company		**57,745**	(116,195)
OTHER COMPREHENSIVE INCOME			
(Loss)/gain on available-for-sale assets, net of tax		**(11,202)**	27,761
Net comprehensive income/(loss) attributable to equity holders of the Company		**$ 46,543**	$ (88,434)
BASIC INCOME/(LOSS) PER SHARE	9	**$ 0.32**	$ (0.66)
DILUTED LOSS PER SHARE	9	**$ (0.19)**	$ (0.66)

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

	Notes	As at December 31, 2011	2010
ASSETS			
Current assets			
Cash and cash equivalents		**$ 123,567**	$ 492,038
Trade and other receivables	10	**80,285**	30,246
Short term investments		**–**	17,529
Inventories		**52,443**	26,160
Prepaid expenses and deposits		**38,308**	10,264
Total current assets		**294,603**	576,237
Non-current assets			
Prepaid expenses and deposits		**8,389**	–
Property, plant and equipment		**498,533**	266,771
Deferred income tax assets	8	**19,560**	11,442
Long term investments		**99,238**	107,416
Total non-current assets		**625,720**	385,629
Total assets		**$ 920,323**	$ 961,866
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other payables	11	**$ 52,235**	$ 24,137
Current portion of convertible debenture	12	**6,301**	6,312
Total current liabilities		**58,536**	30,449
Non-current liabilities			
Convertible debenture	12	**139,085**	245,498
Deferred income tax liabilities	8	**2,366**	3,966
Decommissioning liability		**4,156**	3,063
Total non-current liabilities		**145,607**	252,527
Total liabilities		**204,143**	282,976
Equity			
Common shares		**1,054,298**	1,061,560
Share option reserve		**44,143**	32,360
Investment revaluation reserve		**16,559**	27,761
Accumulated deficit	13	**(398,820)**	(442,791)
Total equity		**716,180**	678,890
Total equity and liabilities		**$ 920,323**	$ 961,866
Net current assets		**$ 236,067**	$ 545,788
Total assets less current liabilities		**$ 861,787**	$ 931,417

SELECT INFORMATION FROM THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Additional information required by the Hong Kong Stock Exchange and not disclosed elsewhere in this announcement is as follows. All amounts are expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated.

1. BASIS OF PREPARATION

1.1 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") issued by the International Accounting Standards Board ("IASB") and Interpretations of the IFRS Interpretations Committee, effective for the Company's reporting for the year ended December 31, 2011.

1.2 Basis of presentation

The Company's consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments.

1.3 Prior Period Reclassifications

Certain items within the Company's consolidated statement of comprehensive income have been reclassified to better reflect the Company's increased mining operations in the year ended December 31, 2011.

The reclassifications have resulted in the introduction of a new line item entitled "other operating expenses". Expenses included in the other operating expenses line item include operating items such as: gains, losses and impairment charges on certain assets, public infrastructure expenses, sustainability and community relations expenses and foreign exchange amounts.

For the year ended December 31, 2010, the reclassifications resulted in $7,584 from cost of sales and $5,059 from administration expenses being reclassified to other operating expenses.

2. SEGMENTED INFORMATION

The Company's one reportable operating segment is its Mongolian Coal Division. The Company's Corporate Division does not earn revenues and therefore does not meet the definition of an operating segment.

The carrying amounts of the Company's assets, liabilities and reported income or loss, revenues and impairments analyzed by operating segment are as follows:

	Mongolian Coal Division	Unallocated (i)	Consolidated Total
Segment assets			
As at December 31, 2011	$ 696,732	$ 223,591	$ 920,323
As at December 31, 2010	342,591	619,275	961,866
Segment liabilities			
As at December 31, 2011	$ 51,256	$ 152,887	$ 204,143
As at December 31, 2010	25,408	257,568	282,976
Segment income/(loss)			
For the year ended December 31, 2011	$ (14,043)	$ 71,788	$ 57,745
For the year ended December 31, 2010	(20,022)	(96,173)	(116,195)
Segment revenues			
For the year ended December 31, 2011	$ 179,049	$ –	$ 179,049
For the year ended December 31, 2010	79,777	–	79,777
Impairment charge on assets (ii) (iii)			
For the year ended December 31, 2011	$ 20,893	$ –	$ 20,893
For the year ended December 31, 2010	7,584	–	7,584

(i) The unallocated amount contains all amounts associated with the Corporate Division.

(ii) The impairment charge on assets for the year ended December 31, 2011 relates to trade and other receivables, inventory and property, plant and equipment.

(iii) The impairment charge on assets for the year ended December 31, 2010 relates to inventory and property, plant and equipment.

3. COST OF SALES

The Company's cost of sales consists of the following amounts:

	Year ended December 31, **2011**	2010
Operating expenses	**$ 97,671**	$ 55,334
Share-based compensation expense	**1,942**	$ 1,516
Depreciation and depletion	**27,730**	13,054
Cost of sales	**$ 127,343**	$ 69,904

4. OTHER OPERATING EXPENSES

The Company's other operating expenses consist of the following amounts:

	Year ended December 31, 2011	2010
Public infrastructure	**$ 8,069**	$ 5,952
Sustainability and community relations	**1,017**	718
Foreign exchange gain	**(790)**	(1,611)
Provision for doubtful trade and other receivables	**1,892**	–
Impairment of inventories	**2,396**	5,751
Impairment of property, plant and equipment	**16,605**	1,833
Other operating expenses	**$ 29,189**	$ 12,643

5. ADMINISTRATION EXPENSES

The Company's administration expenses consist of the following amounts:

	Year ended December 31, 2011	2010
Corporate administration	**$ 7,136**	$ 6,020
Legal and professional fees	**4,279**	3,752
Salaries and benefits	**5,538**	4,728
Share-based compensation expense	**11,474**	10,820
Depreciation	**322**	118
Administration expenses	**$ 28,749**	$ 25,438

6. EVALUATION AND EXPLORATION EXPENSES

The Company's evaluation and exploration expenses consist of the following amounts:

	Year ended December 31, 2011	2010
Assaying	**$ 756**	$ 342
Drilling and trenching	**21,842**	11,705
Geological	**1,314**	876
Geophysics	**1,485**	1,697
License fees	**1,085**	1,223
Depreciation	**–**	47
Salaries and benefits	**161**	127
Share-based compensation expense	**994**	924
Overhead and other	**4,131**	1,828
Evaluation and exploration expenses	**$ 31,768**	$ 18,769

7. FINANCE COSTS AND INCOME

The Company's finance costs consist of the following amounts:

	Year ended December 31, 2011	2010
Loss on partial conversion of convertible debenture	**$ –**	$ 151,353
Interest expense on convertible debenture	**9,137**	24,294
Mark to market loss on FVTPL investments	**3,091**	–
Interest expense on line of credit facility	**351**	131
Accretion of decommissioning liability	**186**	77
Finance costs	**$ 12,765**	$ 175,855

The Company's finance income consists of the following amounts:

	Year ended December 31, 2011	2010
Fair value gain on embedded derivatives in convertible debenture	**$ 106,489**	$ 100,637
Mark to market gain on FVTPL investments	**–**	870
Interest income	**1,243**	2,441
Finance income	**$ 107,732**	$ 103,948

8. TAXES

8.1 Income tax recognized in profit or loss

The Company and its subsidiaries are subject to income or profits tax in the jurisdictions in which the Company operates, including Canada, Hong Kong, Singapore and Mongolia. Income or profits tax was not provided for the Company's operations in Canada, Hong Kong or Singapore as the Company had no assessable income or profit arising in or derived from these jurisdictions. The Company's tax balances reflect income tax assessed on its Mongolian operations. A reconciliation between the Company's tax recovery and the product of the Company's income or loss from operations before tax multiplied by the Company's domestic tax rate is as follows:

	Year ended December 31, 2011	2010
(Income)/loss before tax	**$ (56,967)**	$ 118,884
Statutory tax rate	**26.50%**	28.50%
Income tax expense/(recovery) based on combined Canadian federal and provincial statutory rates	**15,096**	(33,882)
Deduct:		
Lower effective tax rate in foreign jurisdictions	**502**	1,905
Tax effect of tax losses and temporary differences not recognized	**12,281**	2,789
Non-taxable (income)/non-deductible expenses	**(28,657)**	24,708
Effect of change in future tax rates	**–**	1,791
Income tax recovery	**$ (778)**	$ (2,689)

8.2 Income tax recognized in other comprehensive income

	Year ended December 31, 2011	2010
Fair value remeasurement of available-for-sale assets	**$ (1,600)**	$ 3,966
Deferred tax (recovery)/expense	**$ (1,600)**	$ 3,966

8.3 Deferred tax balances

The Company's deferred tax assets/(liabilities) consist of the following amounts:

	As at December 31, 2011	2010
Property, plant and equipment	**$ 8,647**	$ 2,880
Other assets	**10,913**	8,562
Available-for-sale financial assets	**(2,366)**	(3,966)
Total deferred tax balances	**$ 17,194**	$ 7,476

8.4 Unrecognized deductible temporary differences and unused tax losses

The Company's deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

	As at December 31, 2011	2010
Non-capital losses	**$ 119,212**	$ 77,076
Capital losses	**63,649**	25,075
Deductible temporary differences	**107,997**	28,928
Total unrecognized amount	**$ 290,858**	$ 131,079

8.5 Expiry dates

The expiry dates of the Company's unused tax losses are as follows:

		As at December 31, 2011 Local currency	U.S. Dollar Equivalent	Expiry dates
Non-capital losses				
Canada	Cdn$	112,781	$ 110,602	2014-2031
Hong Kong	HK$	66,342	8,539	indefinite
Singapore	SG$	92	71	indefinite
			$ 119,212	
Capital losses				
Canada	Cdn$	64,903	$ 63,649	indefinite

9. EARNINGS/(LOSS) PER SHARE

9.1 Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the following data:

	Year ended December 31, 2011	2010
Net income/(loss) for the year	**$ 57,745**	$ (116,195)
Weighted average number of shares	**182,970**	176,529
Basic income/(loss) per share	**$ 0.32**	$ (0.66)

9.2 Diluted earnings/(loss) per share

The diluted earnings/(loss) per share reflects the potential dilution of common share equivalents, such as outstanding stock options and convertible debt, in the weighted average number of common shares outstanding during the period, if dilutive.

The calculation of diluted earnings/(loss) per share is based on the following data:

	Year ended December 31, 2011	2010
Income/(loss)		
Net income/(loss) for the year	**$ 57,745**	$ (116,195)
Interest on convertible debenture	**9,137**	–(i)
Fair value gain on convertible debenture	**(106,489)**	–(i)
Diluted loss for the year	**$ (39,607)**	$ (116,195)
Number of shares		
Weighted average number of shares	**182,970**	176,529
Convertible debenture	**20,931**	–(i)
Diluted weighted average number of shares	**203,901**	176,529
Diluted loss per share	**$ (0.19)**	$ (0.66)

(i) The convertible debenture was anti-dilutive for this period

Potentially dilutive items not included in the calculation of diluted earnings/(loss) per share for the year ended December 31, 2011, were 10,768 stock options that were anti-dilutive.

10. TRADE AND OTHER RECEIVABLES

The Company's trade and other receivables consist of the following amounts:

	As at December 31, 2011	2010
Trade receivables	**$ 64,051**	$ 15,297
VAT/GST receivable	**144**	14,541
Insurance proceeds receivable	**12,913**	–
Other receivables	**3,177**	408
Total trade and other receivables	**$ 80,285**	$ 30,246

The aging of the Company's trade and other receivables is as follows:

	As at December 31, **2011**	2010
Less than 1 month	**$ 50,824**	$ 15,604
1 to 3 months	**3,337**	1,869
3 to 6 months	**23,699**	2,600
Over 6 months	**2,425**	10,173
Total trade and other receivables	**$ 80,285**	$ 30,246

For the year ended December 31, 2011, the Company recorded a $1,892 loss provision on one uncollectible trade receivable (2010: $nil). The Company anticipates full recovery of its remaining outstanding trade and other receivables; therefore, no further loss provisions have been recorded in respect of the Company's trade and other receivables.

11. TRADE AND OTHER PAYABLES

Trade and other payables of the Company consist of amounts outstanding for trade purchases relating to coal mining, development and exploration activities and mining royalties payable. The usual credit period taken for trade purchases is between 30 to 90 days.

The aging of the Company's trade and other payables is as follows:

	As at December 31, **2011**	2010
Less than 1 month	**$ 52,032**	$ 24,006
1 to 3 months	**76**	33
3 to 6 months	**105**	72
Over 6 months	**22**	26
Total trade and other payables	**$ 52,235**	$ 24,137

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.

The convertible debenture is presented as a liability since it contains no equity components. 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 is measured at amortized cost using the effective interest rate method and the embedded derivatives are classified as FVTPL and all changes in fair value are recorded in profit or loss. The difference between the debt host component and the principal amount of the loan outstanding is accreted to profit or loss over the expected life of the convertible debenture.

The embedded derivatives were valued upon initial measurement and subsequent periods 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 include: 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. Dollar) and spot foreign exchange rates.

12.1 Partial conversion

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. A loss of $151,353 was recognized in finance costs upon partial conversion of the debt for the year ended December 31, 2010.

12.2 Presentation

Based on the Company's valuations as at December 31, 2011, the fair value of the embedded derivatives decreased by $106,489 compared to December 31, 2010. This decrease was recorded as finance income for the year ended December 31, 2011.

For the year ended December 31, 2011, the Company also recorded interest expense of $20,076 (2010: $24,896) related to the convertible debenture of which $10,939 was capitalized as borrowing costs and the remaining $9,137 was recorded as finance costs. The interest expense consists 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 uses the contract life of 30 years and an effective interest rate of 22.2%.

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

	Year ended December 31,	
	2011	2010
Balance, beginning of year	**$ 251,810**	$ 547,063
Interest expense on convertible debenture	**20,076**	24,896
Decline in fair value of embedded derivatives	**(106,489)**	(100,637)
Loss on conversion of convertible debenture	**–**	151,353
Conversion of convertible debenture	**–**	(347,643)
Interest paid	**(20,011)**	(23,222)
Balance, end of year	**$ 145,386**	$ 251,810

The convertible debenture balance consists of the following amounts:

	As at December 31,	
	2011	2010
Debt host	**$ 90,696**	$ 90,621
Fair value of embedded derivatives	**48,389**	154,877
Interest payable	**6,301**	6,312
Convertible debenture	**$ 145,386**	$ 251,810

13. ACCUMULATED DEFICIT AND DIVIDENDS

At December 31, 2011, the Company has accumulated a deficit of $398,820 (2010: $442,791). No dividends have been paid or declared by the Company since inception.

REVIEW OF RESULTS AND RELEASE OF AUDITED RESULTS

The consolidated financial statements for the Company for the year ended December 31, 2011, were reviewed by the Audit Committee of the Company.

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, 2011, as set out in the 2011 Financial and Operating 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 2011 Financial and Operating Results announcement.

SouthGobi's results for the year ended December 31, 2011, 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 19, 2012 on the SEDAR website at www.sedar.com and SouthGobi Resources website at www.southgobi.com. Copies of SouthGobi's 2011 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 under the corporate page. Shareholders with registered addresses in Hong Kong who have elected to receive a copy of SouthGobi's Annual Report will receive one. Other Shareholders may request a hard copy of the Annual Report free of charge by contacting our investor relations department by phone at +852 2156 7023 or +1 604 681 6799 or by email at info@southgobi.com.

ABOUT SOUTHGOBI RESOURCES

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

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

Information contacts, SouthGobi Resources

Dave Bartel, Vice President, External Affairs and Investor Relations (Hong Kong) +852 2156 7023
Steven Feldman, Investor Relations Manager (Vancouver) +1 604 331 9813

Website: www.southgobi.com

Forward-Looking Statements: This document includes forward-looking statements. Forward-looking statements include, but are not limited to: the border to being open 40-50% less in the first quarter of 2012 than any typical second, third or fourth quarter; the effect of a 50-60% increase in quarterly contractual sales compared to the first quarter of 2011 putting the Company ahead of its plan for year over year sales volume growth; the forecasts to set a new record level for gross average sales price in the first quarter of 2012; the improvement of the sales mix due to the DCHF; the anticipated slow down in its rate of investment in 2012 and the material increase in its income from mining operations; the continued growth at the Ovoot Tolgoi Mine in 2012; the potential to convert any undeveloped resources into reserves; the ability of the Company to expand margins in the near term through the benefits of coal processing and increasing economies of scale; the growth in coal availability and sales for 2012 due to the additional capacity of the new mining fleets; the timing to commence construction of the paved highway and the capacity in excess of 20 million tonnes of coal per year; the intention to advance the feasibility planning and preparation for a mine at Soumber; 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's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2011 which are available at www.sedar.com.