SouthGobi Energy Resources Ltd.
CONSOLIDATED INTERIM FINANCIAL STATEMENTS
March 31, 2009
(Unaudited)
(Stated in U.S. dollars)

TABLE OF CONTENTS

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

SOUTHGOBI ENERGY RESOURCES LTD.
Consolidated Interim Statement of Comprehensive Income
(Unaudited)
(Stated in U.S. dollars)

	Notes	Three months ended March 31, 2009	Three months ended March 31, 2008
Continuing operations			
Revenue		**$ 3,540,596**	$ -
Cost of sales	7	**(3,213,315)**	-
Income from mine operations		**327,281**	-
Administration expenses	8	**(6,104,973)**	(1,106,446)
Evaluation and exploration expenses	9	**(4,130,151)**	(6,374,507)
Operating loss from continuing operations		**(9,907,843)**	(7,480,953)
Finance costs	10	**(61,899)**	(7,955,993)
Interest income		**9,452**	528,257
Loss before tax		**(9,960,290)**	(14,908,689)
Income tax expense	11	**-**	-
Loss from continuing operations		**(9,960,290)**	(14,908,689)
Loss from discontinued operations	6	**-**	(1,302,662)
Net loss and comprehensive loss attributable to equity holders of the Company		**$ (9,960,290)**	$ (16,211,351)
Basic and diluted loss per share from:			
Continuing operations	12	**(0.07)**	(0.17)
Discontinued operations	12	**-**	(0.02)
Continuing and discontinued operations		**(0.07)**	(0.19)
Weighted average number of basic and diluted shares outstanding		**133,262,879**	85,169,263

The accompanying notes are an intergral part of these consolidated financial statements.

SOUTHGOBI ENERGY RESOURCES LTD.
Consolidated Interim Statement of Financial Position
(Unaudited)
(Stated in U.S. dollars)

	Notes	As at March 31, 2009	As at December 31, 2008	2007
Assets				
Current assets				
Cash and cash equivalents	13	**$ 3,404,844**	$ 10,117,311	$ 1,393,632
Trade and other receivables	14	**9,170,208**	7,289,726	759,528
Inventories	15	**15,508,140**	13,676,716	-
Prepaid expenses and deposits	16	**3,571,598**	2,578,527	1,890,177
		31,654,790	33,662,280	4,043,337
Assets classified as held for sale	6	**-**	637,600	-
Total current assets		**31,654,790**	34,299,880	4,043,337
Non-current assets				
Property, plant and equipment	18	**56,425,293**	52,439,911	1,123,380
Intangible assets	17	**13,208,218**	13,208,218	443,360
Total non-current assets		**69,633,511**	65,648,129	1,566,740
Total assets		**$ 101,288,301**	$ 99,948,009	$ 5,610,077
Equity and liabilities				
Current liabilities				
Trade and other payables	19	**$ 7,139,170**	$ 7,400,009	$ 1,767,784
Amount due under line of credit facilities	20	**8,052,740**	-	-
Deposit received for sale of metals division	6	**-**	3,000,000	-
		15,191,910	10,400,009	1,767,784
Current liabilities classified as held for sale	6	**-**	255,080	-
Total current liabilities		**15,191,910**	10,655,089	1,767,784
Non-current liabilities				
Amount due under line of credit facilities	20	**-**	-	105,673,380
Asset retirement obligation	21	**405,277**	328,229	-
Total non-current liabilities		**405,277**	328,229	105,673,380
Total liabilities		**15,597,187**	10,983,318	107,441,164
Shareholders' equity (deficiency)				
Common shares	22	**289,931,396**	289,512,074	30,229,785
Preferred shares	22	**-**	-	4,189,154
Share option reserve	23	**16,424,987**	12,775,076	7,496,691
Accumulated deficit	24	**(220,665,269)**	(213,322,459)	(143,746,717)
Total shareholders' equity (deficiency)		**85,691,114**	88,964,691	(101,831,087)
Total equity and liabilities		**$ 101,288,301**	$ 99,948,009	$ 5,610,077

The accompanying notes are an intergral part of these consolidated financial statements.

APPROVED BY THE BOARD:

"Andre Deepwell"
Director

"Pierre Lebel"
Director

SOUTHGOBI ENERGY RESOURCES LTD.

Consolidated Interim Statement of Changes in Equity

(Unaudited)
(Stated in U.S. dollars)

	Common Shares		Preferred Shares				
	Number of shares	Amount	Number of shares	Amount	Share option reserve	Accumulated deficit	Total
Balances, January 1, 2008	74,932,657	$ 30,229,785	25,576,383	$ 4,189,154	$ 7,496,691	$ (143,746,717)	$ (101,831,087)
Shares issued for:							
Cash	16,211,111	139,642,368	-	-	-	-	139,642,368
Share issue costs	-	(3,303,418)	-	-	-	-	(3,303,418)
Mineral property	321,818	5,198,000	-	-	-	-	5,198,000
Conversion of line of credit	14,709,071	107,551,903	-	-	-	-	107,551,903
Conversion of preferred shares	25,576,383	4,189,154	(25,576,383)	(4,189,154)	-	-	-
Exercise of stock options	1,442,242	6,004,282	-	-	(1,960,086)	-	4,044,196
Stock-based compensation charged to operations	-	-	-	-	7,238,471	-	7,238,471
Net loss and comprehensive loss for the year	-	-	-	-	-	(69,575,742)	(69,575,742)
Balances, December 31, 2008	133,193,282	$ 289,512,074	-	$ -	$ 12,775,076	$ (213,322,459)	$ 88,964,691
Shares issued for:							
Exercise of stock options	105,700	$ 419,322	-	$ -	$ (197,158)	$ -	$ 222,164
Stock-based compensation charged to operations	-	-	-	-	3,847,069	-	3,847,069
Gain on sale of metals division	-	-	-	-	-	2,617,480	2,617,480
Net loss and comprehensive loss for the period	-	-	-	-	-	(9,960,290)	(9,960,290)
Balances, March 31, 2009	**133,298,982**	**$ 289,931,396**	**-**	**$ -**	**$ 16,424,987**	**$ (220,665,269)**	**$ 85,691,114**
Balances, January 1, 2008	74,932,657	$ 30,229,785	25,576,383	$ 4,189,154	$ 7,496,691	$ (143,746,717)	$ (101,831,087)
Cash	14,211,111	114,857,290	-	-	-	-	114,857,290
Share issue costs	-	(3,244,217)	-	-	-	-	(3,244,217)
Conversion of line of credit	14,709,071	107,551,903	-	-	-	-	107,551,903
Conversion of preferred shares	25,576,383	4,189,154	(25,576,383)	(4,189,154)	-	-	-
Exercise of stock options	817,327	2,805,928	-	-	(774,634)	-	2,031,294
Stock-based compensation charged to operations	-	-	-	-	1,230,021	-	1,230,021
Net loss and comprehensive loss for the period	-	-	-	-	-	(16,211,351)	(16,211,351)
Balances, March 31, 2008	130,246,549	$ 256,389,843	-	$ -	$ 7,952,078	$ (159,958,068)	$ 104,383,853

The accompanying notes are an intergral part of these consolidated financial statements.

SOUTHGOBI ENERGY RESOURCES LTD.
Consolidated Interim Statement of Cash Flows
(Unaudited)
(Stated in U.S. dollars)

	Notes	Three months ended March 31, 2009	2008
Operating activities			
Loss for the period from continuing operations		**$ (9,960,290)**	$ (14,908,689)
Adjustments for:			
Depreciation and depletion		**421,315**	79,212
Share-based compensation		**3,847,069**	902,144
Fair value change on embedded derivative		**-**	7,223,399
Interest income		**(9,452)**	(528,257)
Accrued interest expense		**52,740**	134,186
Interest accretion on line of credit facility		**-**	598,408
Unrealized foreign exchange loss (gain)		**1,067,606**	(451,406)
Loss on disposal of property, plant and equipment		**113,204**	3,004
Provisions for asset retirement obligation		**9,159**	-
Operating cash flows before movements in working capital		**(4,458,649)**	(6,947,999)
(Increase) decrease in inventories		**(728,061)**	-
(Increase) decrease in trade and other receivables		**(2,909,178)**	(1,485,017)
(Increase) decrease in prepaid expenses and deposits		**(993,071)**	(2,281,793)
(Decrease) increase in trade and other payables		**(325,707)**	(140,049)
Cash used in continuing operations		**(9,414,666)**	(10,854,858)
Cash used in discontinued operations	6	**-**	$ (509,952)
Cash used in operating activities		**$ (9,414,666)**	$ (11,364,810)
Investing activities			
Purchase of property, plant and equipment		**$ (5,555,376)**	$ (13,297,203)
Purchase of mineral properties		**-**	-
Interest received		**19,295**	528,257
Cash used in continuing operations		**(5,536,081)**	(12,768,946)
Cash used in discontinued operations	6	**-**	(1,187)
Cash used in investing activities		**$ (5,536,081)**	$ (12,770,133)
Financing activities			
Proceeds from issuance of common shares and warrants and exercise of stock options and warrants		**$ 222,164**	$ 113,644,367
Drawings under line of credit facility		**8,000,000**	2,000,000
Repayment of line of credit facility		**-**	(8,077,470)
Cash generated from financing activities		**$ 8,222,164**	$ 107,566,897
Effect of foreign exchange rate changes on cash		**16,116**	492,714
Increase in cash and cash equivalents		**(6,712,467)**	83,924,668
Cash and cash equivalents, beginning of period		**10,117,311**	1,393,632
Cash and cash equivalents, end of period		**$ 3,404,844**	$ 85,318,300
Comprised of:			
Cash and cash equivalents of continuing operations		**$ 3,404,844**	$ 84,704,705
Cash and cash equivalents of discontinued operations		**-**	613,595
Total cash and cash equivalents		**$ 3,404,844**	$ 85,318,300
Cash		**$ 3,404,844**	$ 7,966,577
Money market instruments		**-**	77,351,723
Total cash and cash equivalents		**$ 3,404,844**	$ 85,318,300

Supplemental cash flow information (Note 30)

The accompanying notes are an integral part of these consolidated financial statements.

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 TSX Venture 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 and Indonesia. 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 consolidated financial statements are presented in U.S. dollars and all values are rounded to the nearest dollar except where otherwise indicated.

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. The Company has incurred losses since inception and has an accumulated deficit of $220,665,269. The Company's ability to continue as a going concern is dependent upon establishing profitable operations, the confirmation of economically recoverable reserves and the ability to obtain further financing to develop properties.

Management is of the opinion that additional financing will be available to continue its planned activities in the normal course of its operations. To date, a portion of the additional financing has been provided by Ivanhoe. There can, however, be no assurance the Company will be able to raise sufficient funds in the future.

These financial statements do not give effect to adjustments that may be necessary should the Company be unable to continue as a going concern.

In December 2008, the Company announced that it had sold its Metals Division to Ivanhoe Mines Ltd. for $3 million. The sale was effective December 30, 2008 and closed on February 2, 2009. 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

These consolidated interim financial statements are unaudited and have been prepared in accordance with IAS 34 *'Interim Financial* Reporting' ("IAS 34") using accounting policies consistent 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").

These are the Company's first IFRS consolidated interim financial statements for part of the period covered by the Company's first IFRS consolidated annual financial statements for the year ending December 31, 2009. Previously, the Company prepared its consolidated annual and consolidated interim financial statements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP").

As these are the Company's first set of consolidated interim financial statements in accordance with IFRS, the Company's disclosures exceed the minimum requirements under IAS 34. The Company has elected to exceed the minimum requirements in order to present the Company's accounting policies in accordance with IFRS and the additional disclosures required under IFRS, which also highlight the changes from the Company's 2008 annual consolidated financial statements prepared in accordance with Canadian GAAP. In 2010 and beyond, the Company may not provide the same amount of disclosure in the Company's interim consolidated financial statements under IFRS as the reader will be able rely on the annual consolidated financial statements which will be prepared in accordance with IFRS.

2.2 Basis of presentation

The financial statements have been prepared on the historical cost basis except for certain non-current assets and financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 4. The comparative figures presented in these consolidated financial statements are in accordance with IFRS and have not been audited.

2. BASIS OF PREPARATION (Continued)

2.3 Adoption of new and revised standards and interpretations

The IASB issued a number of new and revised International Accounting Standards, International Financial Reporting Standards, amendments and related interpretations which are effective for the Company's financial year beginning on or after January 1, 2009. For the purpose of preparing and presenting the Financial Information for the relevant periods, the Company has consistently adopted all these new standards for the relevant reporting periods.

At the date of authorization of these Financial Statements, the IASB and IFRIC has issued the following new and revised Standards and Interpretations which are not yet effective for the relevant reporting periods.

- IFRS 2 (Revised) *'Share Based Payments'* – Clarification of scope of IFRS 2 (Revised) (i)
- IFRS 3 (Revised) *'Business Combinations'* – Amendments to accounting for business combinations (i)
- IFRS 5 (Revised) *'Non-current Assets Held for Sale and Discontinued Operations'* – Plan to sell the controlling interest in a subsidiary (i)
- IFRS 5 (Revised) *'Non-current Assets Held for Sale and Discontinued Operations'* – Disclosure on non-current assets classified as held for sale or discontinued operations (ii)
- IFRS 8 *'Operating* Segments' – Disclosure on information about segment assets (ii)

(i) Effective for annual periods beginning on or after July 1, 2009
(ii) Effective for annual periods beginning on or after January 1, 2010

The Company has not early adopted these standards, amendments and interpretations, however the Company is currently assessing what impact the application of these standards or amendments will have on the consolidated financial statements of the Company.

(Stated in U.S. dollars)

3. FIRST TIME ADOPTION OF IFRS

The Company has adopted IFRS on January 1, 2009 with a transition date of January 1, 2005. Under IFRS 1 *'First-time Adoption of International Financial Reporting Standards'*, the IFRS are applied retrospectively at the transition date with all adjustments to assets and liabilities as stated under GAAP taken to retained earnings unless certain exemptions are applied. The Company is not applying any exemptions on first-time adoption of IFRS.

Below is the Company's Consolidated Statement of Financial Position as at the transition date of January 1, 2005 under IFRS.

		As at January 1, 2005 (Unaudited)
Assets		
Current assets		
Cash and cash equivalents	$	8,222,182
Trade and other receivables		79,737
Prepaid expenses and deposits		124,276
Total current assets		8,426,195
Non-current assets		
Property, plant and equipment		149,382
Intangible assets		158,384
Total non-current assets		307,766
Total assets	$	8,733,961
Equity and liabilities		
Current liabilities		
Trade and other payables	$	1,035,404
Total current liabilities		1,035,404
Total liabilities		1,035,404
Shareholders' equity		
Common shares		14,183,003
Additional paid in capital		1,690,842
Share option reserve		996,330
Accumulated deficit		(9,171,618)
Total shareholders' equity		7,698,557
Total equity and liabilities	$	8,733,961

(Stated in U.S. dollars)

3. FIRST TIME ADOPTION OF IFRS (Continued)

IFRS employs a conceptual framework that is similar to Canadian GAAP. While the adoption of IFRS has not changed the actual cash flows of the Company, the adoption has resulted in significant changes to the reported financial position and results of operations of the Company. Presented below are reconciliations prepared by the Company to reconcile to IFRS the assets, liabilities, equity, net loss and cash flows of the Company from those reported under Canadian GAAP:

3.1 Total assets

	Notes	At December 31, 2008	At December 31, 2007	At December 31, 2006	At December 31, 2005	At January 1, 2005
Total assets under Canadian GAAP		$ 100,132,144	$ 5,610,077	$ 2,052,235	$ 3,774,953	$ 8,699,107
Adjustments for differing accounting treatments:						
- Inclusion of coal division assets	(i)	-	-	262,688	143,641	34,854
- Adjustment for asset retirement obligation	(v)	(184,135)	-	-	-	-
Total assets under IFRS		$ 99,948,009	$ 5,610,077	$ 2,314,923	$ 3,918,594	$ 8,733,961

3.2 Total liabilities

	Notes	At December 31, 2008	At December 31, 2007	At December 31, 2006	At December 31, 2005	At January 1, 2005
Total liabilities under Canadian GAAP		$ 11,167,453	$ 36,875,588	$ 6,287,041	$ 692,699	$ 1,035,404
Adjustments for differing accounting treatments:						
- Fair value of embedded derivative on debt	(ii)	107,551,903	70,565,576	-	-	-
- Conversion of debt	(ii)	(107,551,903)	-	-	-	-
- Adjustment for warrant liability	(iv)	-	-	221,641	221,641	-
- Conversion of warrant liability	(iv)	-	-	(221,641)	-	-
- Adjustment for asset retirement obligation	(v)	(184,135)	-	-	-	-
Total liabilities under IFRS		$ 10,983,318	$ 107,441,164	$ 6,287,041	$ 914,340	$ 1,035,404

3.3 Total equity (deficiency)

	Notes	Three months At March 31 2008	At December 31, 2008	At December 31, 2007	At December 31, 2006	At December 31, 2005	At January 1, 2005
Total equity (deficiency) under Canadian GAAP		$ 104,383,853	$ 88,964,691	$ (31,265,512)	$ (4,234,806)	$ 3,082,254	$ 7,663,703
Adjustments for differing accounting treatments:							
- Inclusion of coal division results, net of contribution by Ivanhoe	(i)	-	-	-	262,688	143,641	34,854
- Fair value of embedded derivative on debt	(ii)	(107,551,903)	(107,551,903)	(70,565,575)	-	-	-
- Conversion of debt	(ii)	107,551,903	107,551,903	-	-	-	-
- Adjustment for warrant liability	(iv)	-	-	-	-	(221,641)	-
Total equity (deficiency) under IFRS		$ 104,383,853	$ 88,964,691	$ (101,831,087)	$ (3,972,118)	$ 3,004,254	$ 7,698,557

(Stated in U.S. dollars)

3. FIRST TIME ADOPTION OF IFRS (Continued)

3.4 Net loss

	Notes	Three months ended March 31 2008	Year ended December 31, 2008	2007	2006	2005
Net loss and comprehensive loss for the period under Canadian GAAP		$ 8,538,585	$ 62,385,848	$ 26,729,932	$ 9,361,815	$ 6,213,957
Basic and Diluted Loss per Share under Canadian GAAP		$ 0.10	$ 0.49	$ 0.52	$ 0.56	$ 0.41
Adjustments for differing accounting treatments:						
- Inclusion of coal division results	(i)		-	2,546,368	12,167,928	9,923,018
- Fair value of embedded derivative on debt	(ii)	7,223,400	7,223,400	63,286,039	-	-
- Interest accretion on line of credit facility	(ii)	319,360	319,360	4,224,179	-	-
- Adjustments on stock based compensation	(iii)	130,006	(352,866)	(50,089)	(250,730)	(107,301)
- Adjustment for warrant liability	(iv)	-	-	-	449,623	80,361
Net loss and comprehensive loss for period under IFRS		$ 16,211,351	$ 69,575,742	$ 96,736,429	$ 21,728,636	$ 16,110,035
Basic and Diluted Loss per Share under IFRS		$ 0.19	$ 0.54	$ 1.89	$ 1.31	$ 1.06

3.5 Cash flows

The adoption of IFRS has had no impact on the net cash flows of the Company. The changes made to the statements of financial position and statements of consolidated income have resulted in reclassifications of various amounts on the statements of cash flows, however as there have been no changes to the net cash flows, no reconciliations have been presented.

Notes to the IFRS reconciliation above:

(i) *Inclusion of coal division results*

On May 29, 2007, the Company completed the purchase of the Ivanhoe coal division (Note 28) in consideration for the issuance to Ivanhoe of 57,000,000 common shares and 25,576,383 convertible preferred shares.

Under Canadian GAAP – The coal transaction was accounted for as a related party transaction at the carrying value.

Under IFRS - The coal transaction is considered a combination between businesses or entities under common control and is therefore exempt from the scope of IFRS 3 '*Business Combinations'*. The Company has accounted for the business combinations of the entities under common control by using the principles of merger accounting as if the current group structure had always been combined.

3. FIRST TIME ADOPTION OF IFRS (Continued)

Notes to the IFRS reconciliation above (continued)

(ii) *Fair value of embedded derivative on debt*

On April 26, 2006, in conjunction with the coal transaction, the Company entered into a line of credit facility (the "First Funding Agreement") with Ivanhoe whereby Ivanhoe agreed to make available to the Company an unsecured line of credit of up to US$10 million which was extended to a maximum of US$15 million on June 6, 2007. Attached to the First Funding Agreement was a conversion option which became effective upon the completion of the coal transaction. From April 26, 2006 to May 1, 2007 the Company accounted for any amounts drawn down on the credit facility as a liability at amortized cost and considered the fair value of the conversion feature to be insignificant because the significant milestones discussed below had not been achieved. On May 1, 2007 the conversion feature was considered to have a significant value as significant milestones surrounding the completion of the coal transaction had been achieved. These significant milestones included: (i) the signing of the definitive agreement with respect to the Company's acquisition of the coal division; (ii) approval of the coal transaction by the minority shareholders of the Company; and (iii) transfer of the coal mining licenses to the Company by Ivanhoe. From May 1, 2007 onwards the Company assigned a value of $3.1 million to the conversion feature. On January 23, 2008, concurrent with the closing of equity private placements and at the Company's request, Ivanhoe converted the then principal balance of US $29,963,354 into 14,709,701 common shares of the Company (Note 20). As a result of this conversion the amount due under the line of credit facility was eliminated.

Under Canadian GAAP – After the achievement of the significant milestones discussed above, the conversion feature was recorded as a separate component of equity.

Under IFRS – After the achievement of the significant milestones discussed above, the conversion feature is considered an embedded derivative liability that must be recorded at its fair value upon initial measurement and revalued at each subsequent reporting period. The difference between the debt host component and the principal amount of the loan outstanding is accreted to income over the remaining term of the debt.

3. FIRST TIME ADOPTION OF IFRS (Continued)

Notes to the IFRS reconciliation above (continued)

(iii) *Adjustment on stock based compensation*

Recognition of expense

Under Canadian GAAP – Prior to 2008, the Company used the straight-line method of calculating vested options. The fair value of stock-based awards with graded vesting was calculated as one grant and the resulting fair value was recognized on a straight-line basis over the vesting period. In 2008, the Company changed from the straight-line method to the graded-vesting method.

Under IFRS – Each tranche of an award with different vesting dates is considered a separate grant for the calculation of fair value, and the resulting fair value is amortized over the vesting period of the respective tranches.

Forfeitures

Under Canadian GAAP – Forfeitures of awards were recognized as they occurred.

Under IFRS – Forfeiture estimates are recognized on the grant date and revised for actual experiences in subsequent periods.

(iv) *Adjustment for warrant liability*

On June 28, 2005, BHP Billiton World Exploration Inc. ("BHP") purchased 1,153,998 units of the Company for $1 million. Each unit consisted of one common share and one warrant to purchase one-half a common share. The warrants had a term of two years and an exercise price of Cdn$1.395 per common share. On June 26, 2006, all outstanding warrants were exercised by BHP and the warrant liability was eliminated.

Under Canadian GAAP – The warrants were accounted for at carrying value as equity.

Under IFRS – The exercise price of the warrants is fixed in Canadian dollars. The functional currency of the Company is in U.S. dollars and therefore the conversion option is considered a derivative as the Company will receive a variable amount of cash when the warrants are exercised. As a result, the BHP warrants meet the definition of a derivative liability under IAS 39 *'Financial Instruments: Recognition and Measurement'* and is recorded as a financial liability and stated at fair value at each date of the statement of financial position.

3. FIRST TIME ADOPTION OF IFRS (Continued)

Notes to the IFRS reconciliation above (continued)

(v) *Adjustment for asset retirement obligation ("ARO")*

At December 31, 2008 the Company did an analysis of the discount rate used to present-value its ARO liability.

Under Canadian GAAP – A change in the discount rate alone did not result in a re-measurement of the ARO liability.

Under IFRS – Under IAS 37 *'Provisions, Contingent Liabilities and Contingent Assets'* a change in the current market-based discount rate will result in a change in the measurement of the provision. As a result, the ARO liability recorded in 2008 has been re-measured using the discount rate in effect at year end and an adjustment has been recorded to the corresponding asset.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its controlled subsidiaries (Note 27). Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All intra-Company transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Company's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination (see Note 4.2) and the non-controlling interests' share of changes in equity since the date of the combination. Losses applicable to the non-controlling interests in excess of their interest in the subsidiary's equity are allocated against the interests of the Company except to the extent that the non-controlling interests have a binding obligation and are able to make an additional investment to cover the losses.

4.2 Business combinations

Acquisitions of subsidiaries and businesses (other than entities which were under the control of the parent) are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the fair value (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree, plus any acquisition-related costs incurred to effect a business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 '*Business Combinations*' are recognized at their fair value at the acquisition date except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 '*Non-current Assets Held for Sale and Discontinued Operations*', which are recognized and measured at fair value less cost to sell.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.2 Business combinations (continued)

A business combination involving businesses under common control is a business combination in which all of the combining businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. Business combinations under common control are accounted for in accordance with the principle of merger accounting. In applying the principle of merger accounting, the consolidated financial statements incorporate the financial statement items of the combining businesses in which the common control combination occurs as if they had been combined from the date when the combining business first came under the control of the controlling party.

The net assets of the combining businesses are combined using the existing book values prior to the common control combinations from the controlling parties' perspective. No amount is recognized in respect of goodwill or excess of acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of comprehensive income includes the results of each of the combining businesses from the earliest date presented or since the date when the combining businesses first came under the common control, where this is a shorter period, regardless of the date of common control combination.

4.3 Interest income

Interest income from financial assets is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.4 Foreign currencies

The Company's reporting currency and the functional currency of all of its operations is the U.S. dollar as this is the principal currency of the economic environment in which they operate.

Transactions in foreign currencies are initially recorded at the functional currency rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the date of the statement of financial position.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

4.5 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. Other borrowing costs not directly attributable to a qualifying asset are expensed in the period incurred.

4.6 Inventories

Coal inventories are stated at lower of production cost and net realizable value. Production costs include direct and indirect labour, operating materials and supplies, transportation costs and an appropriate portion of fixed and variable overhead expenses, including depreciation and depletion. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Supplies inventory consists of consumable parts and supplies which are valued at lower of average cost and net realizable value. Supplies used in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. Net realizable value is defined as the selling price of the finished product less any provisions for obsolescence and costs of completion.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.7 Property, plant and equipment ("PPE")

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of PPE consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation is provided at rates calculated to write off the cost of PPE, less their estimated residual value, using the straight line method or unit-of-production method over the following expected useful lives:

• Mobile equipment	5 years
• Computer equipment	1 to 5 years
• Furniture and fixtures	5 years
• Machinery and equipment	3 to 10 years
• Buildings	5 to 15 years
• Construction in progress	see below
• Mineral assets	based on resources on a unit-of-production basis

Construction in progress includes PPE in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognized impairment loss. Construction in progress is classified to the appropriate category of PPE when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Mineral assets include deferred stripping costs and asset retirement obligations related to the reclamation of mining properties.

An item of PPE is derecognized upon disposal, when held for sale or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the consolidated statement of comprehensive income.

The Company conducts an annual assessment of the residual balances, useful lives and depreciation methods being used for PPE and any changes arising from the assessment are applied by the Company prospectively.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.8 Stripping costs

Stripping costs incurred during the development of a mine are capitalized into PPE. Stripping costs incurred during the production phase are variable production costs that are included in the costs of inventory produced during the period that the stripping costs are incurred, unless the stripping activity can be shown to give rise to future benefits from the mineral property, in which case the stripping costs would be capitalized into PPE. Future benefits arise when stripping activity increases the future output of the mine by providing access to a new ore body. Capitalized stripping costs are depleted on a unit-of production basis, using estimated resources as the depletion base.

4.9 Mineral properties

All direct costs related to the acquisition of mineral property interests are capitalized into intangible assets on a property by property basis. Exploration costs, net of incidental revenues, are charged to operations in the period incurred until such time as it has been determined that a property has economically recoverable reserves, in which case subsequent exploration costs and the costs incurred to develop a property are capitalized into PPE. Exploration costs include value-added taxes incurred in foreign jurisdictions when recoverability of these taxes is uncertain. On the commencement of commercial production, depletion of each mining property will be provided on a unit-of-production basis using estimated resources as the depletion base.

Certain of the Company's exploration and development activities are conducted jointly with others. These consolidated financial statements reflect only the Company's interests in such activities.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.10 Decommissioning, restoration and similar liabilities ("Asset retirement obligation" or "ARO")

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of mineral properties and PPE, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for an asset retirement obligation is recognized as its fair value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding asset retirement obligation is added to the carrying amount of the related asset and the cost is amortized as an expense over the economic life of the asset using either the unit-of-production method or the straight-line method, as appropriate. Following the initial recognition of the asset retirement obligation, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation.

4.11 Share-based payments

Share-based payment transactions

Employees (including directors and senior executives) of the Company receive a portion of their remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

In situations where equity instruments are issued and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.11 Share-based payments (continued)

Equity-settled transactions

The costs of equity-settled transactions with employees are measured by reference to the fair value at the date on which they are granted.

The costs of equity-settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense is recognized for equity-settled transactions at each reporting date until the vesting date reflects the Company's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in share option reserve.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

The dilutive effect of outstanding options is reflected as additional dilution in the computation of earnings per share.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.12 Taxation

Income tax expense represents the sum of tax currently payable and deferred tax.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the date of the statement of financial position.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the date of the statement of financial position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.12 Taxation (continued)

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each date of the statement of financial position and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each date of the statement of financial position and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of the statement of financial position.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the statement of comprehensive income.

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.13 Loss per share

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the year, if dilutive. The "treasury stock method" is used for the assumed proceeds upon the exercise of the options and warrants that are used to purchase common shares at the average market price during the year. During the three months ended March 31, 2009 and 2008 all the outstanding stock options and warrants were anti-dilutive.

4.14 Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans-and-receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through earnings. The Company's cash and short-term money market investments are classified as FVTPL.

Financial assets classified as loans-and-receivables and held-to-maturity are measured at amortized cost. The Company's trade and other receivables are classified as loans-and-receivables.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary. At March 31, 2009 the Company has not classified any financial assets as available-for-sale.

Transactions costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.15 Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other-financial-liabilities.

Financial liabilities classified as other-financial-liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other-financial-liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's trade and other payables, deposits received and amounts due under line of credit facilities are classified as other-financial-liabilities.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized through the statement of comprehensive income. At March 31, 2009 the Company has not classified any financial liabilities as FVTPL.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.16 Impairment of financial assets

The Company assesses at each date of the statement of financial position whether a financial asset is impaired.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in profit or loss.

In relation to trade receivables, a provision for impairment is made and an impairment loss is recognized in profit and loss when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are written off against the allowance account when they are assessed as uncollectible.

Available-for-sale

If an available-for-sale asset is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognized in profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.17 Impairment of non-financial assets

At each date of the statement of financial position, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the assets belong.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive income, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

4.18 Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand, and short term deposits with an original maturity of three months or less, which are readily convertible into a known amount of cash.

4.19 Revenue recognition

Sales revenues are recognized when the risks and rewards of ownership pass to the buyer, collection is reasonably assured and the price is reasonably determinable. This occurs when coal is either loaded onto a truck or when it is unloaded at the final destination, depending on the terms of the contract.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.20 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

4.21 Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. Related party transactions that are in the normal course of business and have commercial substance are measured at the exchange amount.

4.22 Significant accounting judgments and estimates

The preparation of these financial statements requires management to make judgements and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its judgements and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgements and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions. The most significant estimates relate to asset retirement obligations; capital assets, including coal reserves and resources, depreciation and depletion; recoverability of accounts receivable, inventory valuation; valuation of deferred income tax amounts, impairment testing and the calculation of share-based payments. The most significant judgements relate to recoverability of capitalized amounts, recognition of deferred tax assets and liabilities, determination of the commencement of commercial production and the determination of the economic viability of a project.

5. SEGMENTED INFORMATION

At March 31, 2009 the Company has two reportable operating segments, being the Mongolian Coal Division and Indonesian Coal Division. In prior periods the Company's Metals Division was a segment of the Company (Note 6).

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 both the Mongolian Coal Division and Indonesian 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. Both divisions are principally engaged in the acquisition, exploration and development of coal properties in distinct geographical locations. As at March 31, 2009, the Mongolian Coal Division has achieved commercial production and is earning revenue through the sale of coal to external customers. As at March 31, 2009, the Indonesian Coal Division has yet to achieve commercial production and therefore has no revenues and is still in the exploration and development stage.

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 March 31, 2009 the Mongolian Coal Division had two customers with the largest customer accounting for 57% of revenues and the other customer accounting for 43% of revenues.

(Stated in U.S. dollars)

5. SEGMENTED INFORMATION (Continued)

The following is an analysis of the carrying amounts of segment assets, segment liabilities and reported segment profit or loss, revenues and depreciation expense analyzed by operating segment and reconciled to the Company's consolidated financial statements:

	Mongolian Coal Division	Indonesian Coal Division	Metals Division (i)	Unallocated (ii)	Consolidated Total
Segment assets					
As at March 31, 2009	$ 81,988,491	$ 16,482,048	$ -	$ 2,817,762	$ 101,288,301
As at December 31, 2008	76,611,232	14,835,690	637,600	7,863,487	99,948,009
As at December 31, 2007	2,509,471	-	1,132,269	1,968,337	5,610,077
Segment liabilities					
As at March 31, 2009	$ 3,811,641	$ 279,619	$ -	$ 11,505,927	$ 15,597,187
As at December 31, 2008	3,101,017	810,929	255,080	6,816,292	10,983,318
As at December 31, 2007	835,998	-	269,795	106,335,371	107,441,164
Segment losses					
For 3 months ended March 31, 2009	$ 1,509,782	$ 3,343,524	$ -	$ 5,106,984	$ 9,960,290
For 3 months ended March 31, 2008	3,892,195	2,482,312	1,302,662	8,534,182	16,211,351
Segment revenues					
For 3 months ended March 31, 2009	$ 3,540,596	$ -	$ -	$ -	$ 3,540,596
For 3 months ended March 31, 2008	-	-	-	-	-
Depreciation and depletion expense					
For 3 months ended March 31, 2009	$ 417,691	$ -	$ -	$ 3,624	$ 421,315
For 3 months ended March 31, 2008	43,314	-	17,070	35,898	96,282

(i) The Metals Division was disposed of effective December 30, 2008 (Note 6)
(ii) The unallocated amount contains all amounts associated with the Corporate Division

The Company operates in three geographical areas, being Canada, Indonesia and Mongolia. 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	Canada	Consolidated Total
Revenues				
For 3 months ended March 31, 2009	$ 3,540,596	$ -	$ -	$ 3,540,596
For 3 months ended March 31, 2008	-	-	-	-
Non-current assets				
As at March 31, 2009	$ 55,501,574	$ 14,113,719	$ 18,218	$ 69,633,511
As at December 31, 2008	51,938,584	13,688,975	20,570	65,648,129
As at December 31, 2007	1,398,348	62,175	106,217	1,566,740

(Stated in U.S. dollars)

6. DISCONTINUED OPERATIONS

The Company sold the Metals Division, effective December 30, 2008 with a closing date of February 2, 2009 to Ivanhoe for $3 million. In addition, Ivanhoe provided the Company with a $30 million credit facility for a one year period (Note 20). Ivanhoe has provided the Company with the economic equivalent of a 1% Net Smelter Royalty on the Sulawesi and Kerta Projects in Indonesia. The Metals Division consisted of certain base and precious metals properties in Mongolia and Indonesia. The Company received the proceeds of $3 million in December 2008 and this receipt was reflected in the 2008 consolidated statement of financial position and consolidated statement of cash flows. The Company has recorded a gain of $2,617,480 in the three months ended March 31, 2009 on the sale of the Metals Division and this gain has been recorded directly into equity as the sale of the division was to the parent of the Company.

The Metals Division was presented as a discontinued operation and financial results were presented as separate items in the consolidated statement of comprehensive income, and consolidated statement of cash flows. The Metals Division assets and liabilities consolidated by the Company in 2008 were segregated in the consolidated statement of financial position and classified as assets and liabilities held for sale.

The loss from discontinued operations for the three months ended March 31, 2009 and 2008 is as follows:

	Three months ended March 31,	
	2009	**2008**
Evaluation and exploration expenses	**$ -**	$ 1,302,662
Net loss from discontinued operations	**$ -**	$ 1,302,662
Basic and diluted loss per share from discontinued operations	**$ -**	$ 0.02

(Stated in U.S. dollars)

6. DISCONTINUED OPERATIONS (Continued)

The carrying values of net assets related to the discontinued operations are as follows:

	As at March 31, 2009	As at December 31, 2008	As at December 31, 2007
Assets			
Current assets			
Cash and cash equivalents	**$ -**	$ 222,699	$ -
Trade and other receivables	**-**	184,022	-
Prepaid expenses and deposits	**-**	133,664	-
Property, plant and equipment		97,215	-
Total current assets	**-**	637,600	-
Total assets	**$ -**	$ 637,600	$ -
Current liabilities			
Trade and other payables	**$ -**	$ 255,080	$ -
Net assets of discontinued operations	**$ -**	$ 382,520	$ -

7. COST OF SALES

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

	Three months ended March 31, 2009	Three months ended March 31, 2008
Operating expenses (i)	$ 2,795,624	$ -
Depreciation and depletion	417,691	-
Cost of sales	$ 3,213,315	$ -

(i) Share-based compensation (a non-cash item) of $437,191 (2008 - $nil) has been included in Operating expenses

(Stated in U.S. dollars)

8. ADMINISTRATION EXPENSES

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

	Three months ended March 31, 2009	Three months ended March 31, 2008
Corporate administration	**$ 580,639**	$ 329,877
Legal	**140,175**	201,030
Professional fees	**586,572**	124,936
Listing fees	**235,155**	-
Salaries and benefits (i)	**3,715,664**	876,217
Depreciation and depletion	**3,624**	35,898
Foreign exchange loss/(gain)	**843,144**	(461,512)
Administration expenses	**$ 6,104,973**	$ 1,106,446

(i) Share-based compensation (a non-cash item) of $3,293,706 (2008 - $583,207) has been included in Salaries and benefits

9. EVALUATION AND EXPLORATION EXPENSES

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

	Three months ended March 31, 2009	Three months ended March 31, 2008
Mongolian Coal Division (i)	**$ 768,217**	$ 3,892,195
Indonesian Coal Divison (ii)	**3,361,934**	2,482,312
Evaluation and exploration expenses	**$ 4,130,151**	$ 6,374,507

(i) Share-based compensation (a non-cash item) of $1,277 (2008 - $318,937) has been included in Evaluation and exploration expenses for the Mongolian Coal Division
(ii) Share-based compensation (a non-cash item) of $114,895 (2008 - $nil) has been included in Evaluation and exploration expenses for the Indonesian Coal Division

(Stated in U.S. dollars)

10. FINANCE COSTS

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

	Three months ended March 31, 2009	Three months ended March 31, 2008
Fair value change on embedded derivative (Note 20.4)	**$ -**	$ 7,223,399
Interest accretion on line of credit facility	**-**	598,408
Interest expense	**52,740**	134,186
Accretion on asset retirement obligation	**9,159**	-
Finance costs	**$ 61,899**	$ 7,955,993

11. TAXES

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

	Three months ended March 31, 2009	Three months ended March 31, 2008
Loss from continuing operations	**$ 9,960,290**	$ 14,908,689
Loss from discontinued operations	**-**	1,302,662
Loss from operations	**9,960,290**	16,211,351
Statutory tax rate	**30.00%**	31.50%
Recovery of income taxes based on combined Canadian federal and provincial statutory rates	**2,988,087**	5,106,576
Deduct:		
Lower effective tax rate in foreign jurisdictions	**(137,173)**	(238,498)
Tax effect of losses not recognized	**(1,057,095)**	(3,912,098)
Non-deductible expenses	**(1,539,014)**	(346,064)
Effect of change in future tax rates	**(254,805)**	(609,916)
Tax expenses for the period	**$ -**	$ -

(Stated in U.S. dollars)

11. TAXES (Continued)

The Company's deferred income tax assets and liabilities from continuing operations are as follows:

	At March 31,	At December 31,	
	2009	2008	2007
Tax loss carry-forwards	**$ 13,221,060**	$ 13,732,021	$ 14,976,932
Mineral properties, plant and equipment	**74,114**	504,170	1,074,579
Share issue costs	**627,649**	687,111	16,195
Unrealized foreign exchange losses	**6,503,222**	2,318,860	1,009
Fair value of embedded derivative (Note 20.4)	**-**	-	20,253,065
Other assets	**1,109,398**	1,146,156	1,476,662
Deferred income tax assets	**21,535,443**	18,388,318	37,798,442
Valuation allowance	**(21,535,443)**	(18,388,318)	(37,798,442)
Net deferred income tax assets	**$ -**	$ -	$ -

No deferred tax asset has been recognized because the amount of future taxable profit that will be available to realize such assets is unpredictable.

The Company's deferred income tax assets and liabilities from discontinued operations are as follows:

	At March 31,	At December 31,	
	2009	2008	2007
Tax loss carry-forwards	**$ -**	$ 3,892,160	$ -
Mineral properties, plant and equipment	**-**	482,201	-
Deferred income tax assets	**-**	4,374,361	-
Valuation allowance	**-**	(4,374,361)	-
Net deferred income tax assets	**$ -**	$ -	$ -

At March 31, 2009 the Company and its subsidiaries have no unrecognized capital losses and have non-capital losses for income tax purposes of approximately $69 million that may be used to offset future taxable income as follows:

		At March 31, 2009		
		Local currency	U.S. Dollar Equivalent	Expiry dates
Non-capital losses				
Canadian Dollar	Cdn$	21,513,652	$ 17,071,618	2009-2029
Mongolian Tugrik	MNT	48,605,990,857	40,036,176	2009-2020
Indonesian Rupiah	IDR	109,485,139,959	9,357,704	2011-2014
Singapore Dollar	SGD	3,602,047	2,365,255	indefinite
			$ 68,830,753	

12. LOSS PER SHARE

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

	Three months ended March 31, 2009	Three months ended March 31, 2008
Net loss from continuing and discontinued operations for the purpose of basic and diluted loss per share	**$ 9,960,290**	$ 16,211,351
Weighted average number of shares for the purpose of basic and diluted loss per share	**133,262,879**	85,169,263

All of the outstanding preference shares, stock options and warrants were anti-dilutive for the relevant periods.

13. CASH AND CASH EQUIVALENTS

Cash and cash equivalents of the Company are comprised of bank balances and banker's deposit notes with an original maturity of three months or less. The Company's bank balances and cash equivalents are mainly denominated in the following currencies:

	As at March 31, 2009	As at December 31, 2008	As at December 31, 2007
Denominated In U.S. dollars	**$ 3,260,383**	$ 6,126,013	$ 1,110,559
Denominated in Canadian dollars	**36,229**	3,872,037	224,814
Others	**108,232**	119,261	58,259
Total cash and cash equivalents	**$ 3,404,844**	$ 10,117,311	$ 1,393,632

(Stated in U.S. dollars)

14. 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 March 31,	As at December 31,	
	2009	**2008**	**2007**
Trade receivables	**$ 3,567,912**	$ 1,742,645	$ -
VAT/GST receivable	**5,417,165**	5,357,330	720,146
Other receivables	**185,131**	189,751	39,382
Total trade and other receivables	**$ 9,170,208**	$ 7,289,726	$ 759,528

Below is an aged analysis of the Company's trade and other receivables:

	As at March 31,	As at December 31,	
	2009	**2008**	**2007**
Less than 1 month	**$ 3,036,952**	$ 2,034,308	$ 187,468
1 to 3 months	**1,373,661**	442,854	299,735
3 to 6 months	**1,216,680**	1,704,604	272,325
Over 6 months	**3,542,915**	3,107,960	-
Total trade and other receivables	**$ 9,170,208**	$ 7,289,726	$ 759,528

At March 31, 2009, 85% of the trade and other receivables that were outstanding over 1 month are VAT/GST receivables and 99% of the trade and other receivables that were outstanding over 6 months are VAT/GST receivables. The Company anticipates full recovery of these amounts and therefore no impairment has been recorded against these receivables. The credit risk on the GST/VAT receivable has been further discussed in Note 26.3(iii).

The Company holds no collateral for any receivable amounts outstanding as at March 31, 2009.

(Stated in U.S. dollars)

15. INVENTORIES

The inventories for the Company are categorized as follows:

	As at March 31, 2009	As at December 31, 2008	As at December 31, 2007
Stockpiles (i)	**$ 15,183,837**	$ 13,158,009	$ -
Materials and supplies	**324,303**	518,707	-
Total inventories	**$ 15,508,140**	$ 13,676,716	$ -

(i) Coal inventories are stated at production cost

The amount of inventories recognized as an expense during the three months ended March 31, 2009 is $1,696,194 (2008 - $nil). As at March 31, 2009 the Company anticipates the entire stockpiles balance of $15,183,837 will be realized within a year.

16. PREPAID EXPENSES AND DEPOSITS

The prepaid expenses and deposits for the Company are categorized as follows:

	As at March 31, 2009	As at December 31, 2008	As at December 31, 2007
Security deposits	**$ 1,028,735**	$ 531,700	$ 335,276
Insurance	**336,353**	233,460	70,922
Prepaid exploration license costs	**1,256,876**	1,110,971	1,208,985
Vendor pre-payments	**653,719**	609,327	-
Other	**295,915**	93,069	274,994
Total prepaid expenses and deposits	**$ 3,571,598**	$ 2,578,527	$ 1,890,177

(Stated in U.S. dollars)

17. INTANGIBLE ASSETS

The Company's intangible assets are broken down as follows:

	Mineral properties - Indonesian Coal Division	Mineral properties - Metals Division	Total
Balance, As at January 1, 2007	$ -	$ 443,360	$ 443,360
Additions	-	-	-
Depletion	-	-	-
Balance, As at December 31, 2007	-	443,360	443,360
Additions	13,208,218	-	13,208,218
Depletion	-	-	-
Dispositions	-	(443,360)	(443,360)
Balance, As at December 31, 2008	13,208,218	-	13,208,218
Additions	-	-	-
Depletion	-	-	-
Balance, As at March 31, 2009	**$ 13,208,218**	**$ -**	**$ 13,208,218**

17.1 Indonesian Coal Division

The Company holds an interest in the Mamahak Coal Project in East Kalimantan, Indonesia. The Joint Venture Earn-in Agreement with Score Resources Ltd ("Score") included a provision allowing for the Company to increase its working interest position based on a predetermined pricing mechanism. In 2008 the Company elected to increase its working interest from 56% to 85% by paying Score $13.2 million, comprised of $8,013,800 cash and 320,000 common shares of the Company at Canadian dollar $16.15 per share as specified in the agreement with Score.

(Stated in U.S. dollars)

18. PROPERTY, PLANT AND EQUIPMENT

The Property, plant and equipment for the Company is broken down as follows:

	Mobile equipment	Computer equipment	Furniture and fixtures	Machinery and equipment	Buildings	Mineral assets	Construction in progress	Total
Cost								
As at January 1, 2007	$ 202,680	$ 195,274	$ 61,832	$ 108,407	$ -	$ -	$ 150,000	$ 718,193
Additions	91,611	169,138	81,070	155,422	-	-	234,635	731,876
Disposals	(43,483)	-	(14,063)	-	-	-	-	(57,546)
As at December 31, 2007	250,808	364,412	128,839	263,829	-	-	384,635	1,392,523
Additions	38,283,037	272,147	31,934	1,907,359	432,491	3,421,803	11,026,184	55,374,955
Disposals	(49,539)	(119,584)	(68,490)	(19,921)	-	-	-	(257,534)
As at December 31, 2008	38,484,306	516,975	92,283	2,151,267	432,491	3,421,803	11,410,819	56,509,944
Additions	3,367,014	7,138	5,767	73,102	426,937	67,889	1,675,418	5,623,265
Disposals	(437,416)	(33,304)	(6,530)	-	-	-	(6,565)	(483,815)
As at March 31, 2009	$ 41,413,904	$ 490,809	$ 91,520	$ 2,224,369	$ 859,428	$ 3,489,692	$ 13,079,672	$ 61,649,394
Accumulated depreciation								
As at January 1, 2007	$ (59,779)	$ (95,022)	$ (11,052)	$ (57,067)	$ -	$ -	$ -	$ (222,920)
Charge for the year	(9,149)	(32,736)	(3,348)	(2,395)	-	-	-	(47,628)
Eliminated on disposals	-	-	1,405	-	-	-	-	1,405
As at December 31, 2007	(68,928)	(127,758)	(12,995)	(59,462)	-	-	-	(269,143)
Charge for the year	(3,465,315)	(204,031)	(23,228)	(68,787)	(76,744)	(84,937)	-	(3,923,042)
Eliminated on disposals	11,122	84,148	17,452	9,430	-	-	-	122,152
As at December 31, 2008	(3,523,121)	(247,641)	(18,771)	(118,819)	(76,744)	(84,937)	-	(4,070,033)
Charge for the period	(1,389,395)	(17,557)	(4,562)	(62,117)	(39,311)	(11,738)	-	(1,524,680)
Eliminated on disposals	334,021	32,927	3,664	-	-	-	-	370,612
As at March 31, 2009	$ (4,578,495)	$ (232,271)	$ (19,669)	$ (180,936)	$ (116,055)	$ (96,675)	$ -	$ (5,224,101)
Net book value								
As at December 31, 2007	181,880	236,654	115,844	204,367	-	-	384,635	1,123,380
As at December 31, 2008	34,961,185	269,334	73,512	2,032,448	355,747	3,336,866	11,410,819	52,439,911
As at March 31, 2009	$ 36,835,409	$ 258,538	$ 71,851	$ 2,043,433	$ 743,373	$ 3,393,017	$ 13,079,672	$ 56,425,293

(Stated in U.S. dollars)

19. TRADE AND OTHER PAYABLES

Trade and other payables of the Company are principally comprised of amounts outstanding for trade purchases relating to coal 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 March 31,	As at December 31,	
	2009	**2008**	**2007**
Less than 1 month	**$ 3,710,298**	$ 4,722,917	$ 74,968
1 to 3 months	**733,426**	1,960,430	198,099
3 to 6 months	**1,978,657**	700,740	210,376
Over 6 months	**716,789**	15,922	1,284,341
Total trade and other payables	**$ 7,139,170**	$ 7,400,009	$ 1,767,784

20. AMOUNTS DUE UNDER LINE OF CREDIT FACILITIES

20.1 First funding agreement

In April 2006, the Company entered into a line of credit facility (the "First Funding Agreement") with Ivanhoe, whereby Ivanhoe agreed to make available to the Company an unsecured line of credit facility of up to $10 million which was extended to a maximum of $15 million, excluding interest and the interim coal expenditures. All amounts outstanding under the line of credit bore interest at the three month London Interbank Offered Rate ("LIBOR") plus 200 basis points. In May 2007, the Company completed the purchase of the Ivanhoe coal division (Note 28) in consideration for the issuance to Ivanhoe of 57,000,000 common shares and 25,576,383 preferred shares of the Company. The First Funding Agreement became convertible into common shares at the election of either the Company or Ivanhoe. Until May 29, 2008, the Company had the right to require Ivanhoe to convert the outstanding amounts under the First Funding Agreement into common shares at a conversion price of Canadian dollar ("Cdn$") $2.09 per share. Until August 29, 2008, Ivanhoe had the right to convert the outstanding amounts under the First Funding Agreement into common shares at a conversion price of Cdn$2.35 per share.

20. AMOUNTS DUE UNDER LINE OF CREDIT FACILITIES (Continued)

20.1 First funding agreement (continued)

On January 23, 2008, Ivanhoe converted 25,576,383 preferred shares, the total sum of preferred shares held by Ivanhoe, into common shares of the Company on a one-for-one basis. At the Company's request, Ivanhoe also converted $29,982,631 of debt into 14,709,071 common shares of the Company. As a result of this conversion, the amounts due under the line of credit facility owed to Ivanhoe on the First Funding Agreement were eliminated. Under IAS 32 *'Financial Instruments: Presentation'* the conversion feature was considered an embedded derivative and this feature has been discussed further in Note 20.4.

20.2 Second funding agreement

In October 2007, Ivanhoe and the Company entered into a second interim funding agreement (the "Second Funding Agreement"). The Second Funding Agreement provided for an additional unsecured non-convertible line of credit facility of up to $32.5 million. All amounts outstanding under the line of credit bore interest at LIBOR plus 330 basis points.

On January 18, 2008, funds in the amount of $8,077,470 were paid to Ivanhoe representing repayment in full of the principal of $8.0 million and accrued interest of $77,470 owing on the Second Funding Agreement. The Second Funding Agreement was then terminated.

20.3 Credit facility

On December 30, 2008, the Company established a credit facility with Ivanhoe which allows the Company to obtain advances from Ivanhoe to an aggregate maximum of $30 million. The credit facility is for a one year term and the Company may request a one year extension. Such an extension shall be at the sole discretion of Ivanhoe. The credit facility is unsecured non-convertible and carries an interest rate equal to LIBOR plus 750 basis points. The effective interest rate at March 31, 2009 was 8.692%. At March 31, 2009, the Company had received advances of $8 million against the credit facility and has accrued interest expense of $52,740 for the three months ended March 31, 2009.

20. AMOUNTS DUE UNDER LINE OF CREDIT FACILITIES (Continued)

20.4 Embedded derivative

The Company accounted for any amounts drawn on the First Funding Agreement (Note 20.1) from April 26, 2006 to May 1, 2007 as a liability recorded at amortized cost. On May 29, 2007, the entire indebtedness became convertible into ordinary shares of the Company at the election of either Ivanhoe or the Company. Until May 29, 2008, the Company had the right to require Ivanhoe to convert the outstanding loan into common shares at a conversion price of Cdn$2.09 per share. Until August 29, 2008, Ivanhoe had the right to convert the outstanding loan into common shares at a conversion price of Cdn$2.35 per share.

On January 23, 2008 at the Company's request, Ivanhoe converted $29,982,631 of debt into 14,709,071 common shares of the Company. As a result of this conversion the amount due under the convertible line of credit facility was eliminated.

At the date of conversion the fair value of the embedded derivative and the debt outstanding was $107,551,903 which was converted and recorded as common share capital. All preferred shares were also converted to common shares on that date.

The Company identified that the conversion feature was an embedded derivative to be presented as a liability in accordance with IAS 32 *'Financial Instruments: Presentation'* due to the variable number of shares that would be issued on conversion. This resulted from the debt being denominated in U.S. dollar but being convertible at a fixed conversion rate into Canadian dollar denominated shares.

The debt that was recorded prior to May 1, 2007 was recorded at face value as a liability at amortized cost. On May 1, 2007 the conversion feature was considered to have a value and was recorded at fair value in addition to the value of the previously recorded debt. All subsequent advances on the line of credit were valued at fair value and the value of the debt host was deemed to be nil on account of the beneficial feature which exceeded the fair value of the debt. The difference between the host debt component of $nil and the principal amount of the loan outstanding was accreted to income over the remaining term of the debt. At each reporting period the embedded derivative was fair valued, with the movements recorded in income.

20. AMOUNTS DUE UNDER LINE OF CREDIT FACILITIES (Continued)

20.4 Embedded derivative (continued)

The embedded derivative was valued upon initial measurement and at each drawing date using the Black-Scholes option valuation model. The following variables were used to calculate the impact of the call and put option elements of the embedded derivative. Some amounts below have been stated in Cdn$, all other amounts are in U.S. dollar.

	Drawn down date					Cumulative at	
	May 10, 2007	May 29, 2007	July 4, 2007	August 21, 2007	October 1, 2007	December 31, 2007	January 23, 2008
Principal and interest borrowed	$ 1,000,000	$ 13,212,395	$ 2,000,000	$ 2,500,000	$ 2,000,000	$ 29,855,178	$ 29,963,354
Stock price	Cdn$4.81	Cdn$5.00	Cdn$8.00	Cdn$6.20	Cdn$6.68	Cdn$8.90	Cdn$9.45
Dividend yield	0%	0%	0%	0%	0%	0%	0%
Call option							
Interest rate	4.60%	4.60%	4.68%	4.05%	4.21%	3.93%	3.41%
Volatility	76.19%	76.19%	77.15%	76.62%	70.49%	58.66%	59.89%
Exercise price	Cdn$2.35	Cdn$2.35	Cdn$2.35	Cdn$2.35	Cdn$2.35	Cdn$2.35	Cdn$2.35
Expected life (years)	0.91	0.91	1.16	1.02	0.91	0.66	0.60
Put option							
Interest rate	4.61%	4.61%	4.68%	4.05%	4.21%	3.91%	3.41%
Volatility	76.19%	76.19%	77.15%	75.09%	75.76%	50.58%	55.06%
Exercise price	Cdn$2.09	Cdn$2.09	Cdn$2.09	Cdn$2.09	Cdn$2.09	Cdn$2.09	Cdn$2.09
Expected life (years)	0.91	0.91	0.81	0.77	0.66	0.41	0.35
Net embedded derivative	$ 1,185,033	$ 15,657,121	$ 4,893,436	$ 4,279,665	$ 3,787,946	$ 83,998,434	$ 91,221,833

As at December 31, 2007, $63,266,762 had been recorded as a charge against income within finance costs relating to the movement in fair value of the embedded derivative. At the elimination of the debt on January 23, 2008, the fair value of the embedded derivative was $91,202,557 and $7,223,399 had been recorded as a charge against income within finance costs in the three month period ended March 31, 2008. The debt cost was recorded at fair value, with the difference between the cost and the principal amount being accreted as interest charges over the term of the debt. The total accretion expense recorded as interest cost to January 23, 2008 was $6,480,703.

(Stated in U.S. dollars)

21. ASSET RETIREMENT OBLIGATION

Reclamation and closure costs have been estimated based on the Company's interpretation of current regulatory requirements and have been measured at fair value. Fair value is determined based on the net present value of future cash expenditures upon reclamation and closure. Reclamation and closure costs are capitalized into PPE dependant on the nature of the asset related to the obligation and amortized over the life of the related asset.

The asset retirement obligations relate to reclamation and closure costs of the Company's Ovoot Tolgoi Mine. The asset retirement obligations are calculated as the net present value of estimated future net cash flows of the reclamation and closure costs, which total $2,542,864 and are required to satisfy the obligations, discounted using a risk free rate of 10.95%. The settlement of the obligations will occur through to 2025.

The following is an analysis of the asset retirement obligation:

Balance, As at January 1, 2007	$	-
Additions		-
Accretion		-
Balance, As at December 31, 2007		-
Additions		308,731
Accretion		19,498
Balance, As at December 31, 2008		328,229
Additions		67,889
Accretion		9,159
Balance, As at March 31, 2009	**$**	**405,277**

22. SHARE CAPITAL

22.1 Common and preferred shares

Authorized	Unlimited common shares with no par value Unlimited preferred shares with no par value
Issued and outstanding	133,298,982 (2008 – 133,193,282) common shares Nil (2008 - nil) preferred shares

Refer to Consolidated Statement of Changes in Equity for movement in share capital for the three months ended March 31, 2009.

22. SHARE CAPITAL (Continued)

22.2 Preferred shares

On May 29, 2007, upon completion of the coal transaction (Note 28), the Company issued 25,576,383 preferred shares to Ivanhoe. Each preferred share issued to Ivanhoe was convertible into one common share but only if, upon any such conversion, the total number of common shares held by Ivanhoe and all other insiders of the Company or any of their respective associates or affiliates did not exceed 90% of the total number of common shares then issued and outstanding. The preferred shares were non-voting and had a preference over the common shares with respect to the payment of dividends and distribution of assets in the event of a liquidation, dissolution or winding up of the Company.

On January 23, 2008, Ivanhoe converted 25,576,383 preferred shares into common shares of the Company on a one to one basis. The Company has no outstanding preferred shares at March 31, 2009.

23. SHARE-BASED PAYMENTS

23.1 Stock option plan

The Company has a stock option plan which permits the Board of Directors of the Company to grant options to acquire common shares of the Company at the greater of the 15% discounted closing trading price on the date of the grant or the volume weighted average closing price for the five days preceding the date of grant. The Amended Equity Incentive Plan, approved on May 29, 2007, provides for a rolling rather than a fixed maximum number of common shares which may be issued pursuant to incentive stock options and other equity incentives, awards and issuances. The Compensation and Benefits Committee determines and makes recommendations to the Board of Directors as to the recipients of, and nature and size of, share-based compensation awards in compliance with applicable securities law, stock exchange and other regulatory requirements. The Company is authorized to issue options for a maximum of 10% of the issued and outstanding common shares pursuant to the stock option plan.

(Stated in U.S. dollars)

23. SHARE-BASED PAYMENTS (Continued)

23.1 Stock option plan (continued)

The general terms of stock options granted under the amended plan include a maximum exercise period of 5 years and a vesting period of 3 years with one-third of the grant vesting on the first anniversary of the grant, one-third vesting on the second anniversary of the grant and one-third vesting on the third anniversary of the grant. The options granted in the three months ended March 31, 2009 were granted with a maximum exercise period of 7 years and a vesting period of 3 years with one-quarter of the grant vesting immediately, one-quarter of the grant vesting on the first anniversary of the grant, one-quarter vesting on the second anniversary of the grant and one-quarter vesting on the third anniversary of the grant.

During the three months ended March 31, 2009, the Company granted 625,000 (2008 – 653,000) stock options to officers, employees and directors at a exercise price of Cdn$7.94 with an expiry date of February 6, 2016 (2008 – exercise prices ranging from Cdn$7.16 to Cdn$13.32 and expiry dates ranging from January 7, 2013 to March 31, 2013). The weighted average fair value of the options issued the three months ended March 31, 2009 was estimated at $4.11 (Cdn$5.09) per option at the grant date using the Black-Scholes option pricing model. The weighted average assumptions used for the calculation were:

	Three months ended March 31, 2009	**Year ended December 31, 2008**
Risk free interest rate	**2.00%**	2.78%
Expected life	**4 years**	3 years
Expected volatility (i)	**81%**	74%
Expected dividend per share	**$nil**	$nil

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

A share-based compensation cost of $2,429,348 for the options granted in the three months ended March 31, 2009 (2008 - $3,803,121) will be amortized over the vesting period, of which $759,787 was recognized in the three months ended March 31, 2009 (2008 - $1,893,683).

The total share-based compensation calculated for the three months ended March 31, 2009 was $3,847,069 (2008 - $1,230,021). Share-based compensation of $3,293,706 (2008 - $583,207) has been allocated to Salaries and benefits, $437,191 (2008 - $nil) has been allocated to Operating expenses and $116,171 (2008 - $646,814) has been allocated to Evaluation and exploration expenses.

(Stated in U.S. dollars)

23. SHARE-BASED PAYMENTS (Continued)

23.2 Outstanding stock options

The following is a summary of option transactions under the Company's stock option plan:

	Three months ended March 31, 2009		Year ended December 31, 2008	
	Number of options	Weighted average exercise price (Cdn$)	Number of options	Weighted average exercise price (Cdn$)
Balance, beginning of period	**6,586,055**	**7.18**	4,994,632	3.55
Options granted	**625,000**	**7.94**	3,184,000	11.27
Options exercised	**(105,700)**	**2.60**	(1,442,244)	2.80
Options forfeited	**(66,670)**	**4.81**	(150,333)	15.25
Balance, end of period	**7,038,685**	**7.34**	6,586,055	7.18

The following table summarizes information about stock options outstanding and exercisable at March 31, 2009:

	Options Outstanding			Options Exercisable		
Exercise price (Cdn$)	Options outstanding	Weighted-average exercise price (Cdn$)	Weighted-average remaining contractual life (years)	Options outstanding and exercisable	Weighted-average exercise price (Cdn$)	Weighted-average remaining contractual life (years)
\$0.86 - \$2.85	1,752,966	\$ 1.98	2.00	1,377,966	\$ 1.89	1.94
\$3.70 - \$6.00	2,686,219	5.57	3.84	932,886	5.92	3.22
\$7.16 - \$13.80	1,499,500	10.00	5.15	387,417	9.69	5.08
\$15.07 - \$18.86	1,100,000	16.58	4.34	-	-	-
	7,038,685	\$ 7.34	3.74	2,698,269	\$ 4.41	2.83

24. ACCUMULATED DEFICIT AND DIVIDENDS

The Company has incurred losses since inception and at March 31, 2009 the Company has accumulated a deficit of $220,665,269 (at December 31, 2008 - $213,322,459)

No dividends have been paid or declared by the Company since inception.

25. CAPITAL RISK MANAGEMENT

The Company includes as capital its common shares and has no externally imposed capital requirements. The Company's objectives are to safeguard the Company's ability to continue as a going concern in order to support the Company's normal operating requirements, continue the development and exploration of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents. In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including capital deployment, results from operations, results from the exploration and development of its properties and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

In order to maximize ongoing development efforts, the Company does not pay dividends. The Company's investment policy is to invest its cash in highly liquid, short-term, interest-bearing investments with maturities of 90 days or less from the original date of acquisition, selected with regard to the expected timing of expenditures.

26. FINANCIAL INSTRUMENTS

26.1 Categories of financial instruments

	As at		
	March 31, 2009	**December 31, 2008**	**December 31, 2007**
Financial assets			
Cash and cash equivalents	**$ 3,404,844**	$ 10,117,311	$ 1,393,632
Trade and other receivables	**9,170,208**	7,289,726	759,528
Total financial assets	**$ 12,575,052**	$ 17,407,037	$ 2,153,160
Financial liabilities			
Trade and other payables	**$ 7,139,170**	$ 10,400,009	$ 1,767,784
Amounts due under line of credit facilities, at amortized cost	**8,052,740**	-	105,673,380
Total financial liabilities	**$ 15,191,910**	$ 10,400,009	$ 107,441,164

26.2 Fair value

The fair value of the Company's financial instruments approximates their carrying value as at March 31, 2009 because of the demand nature or short-term maturity of these instruments.

26.3 Financial risk management objectives and policies

The Company's financial instruments include cash, short-term money market investments, accounts receivable, accounts payable and amounts due under line of credit facilities. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) *Currency risk*

The Company's borrowings, major operating expenses and acquisition costs are denominated in U.S. dollars and a minor portion of the expenses of the Company are in Canadian dollars. The Company's corporate office is based in Canada and the exposure to exchange rate fluctuations arise mainly on foreign currencies against the functional currency of the relevant Company entities which is the U.S. dollar. The Company does not have any significant foreign currency denominated monetary liabilities. The Company is principally engaged in the acquisition, exploration and development of mineral properties in Mongolia and Indonesia.

(Stated in U.S. dollars)

26. FINANCIAL INSTRUMENTS (Continued)

26.3 Financial risk management objectives and policies (continued)

The Company has not entered into any derivative instruments to manage foreign exchange fluctuations, however, management monitors foreign exchange exposure.

The carrying amount of the Company's foreign currency denominated monetary assets at the respective dates of the statement of financial position are as follows:

	As at		
	March 31, 2009	**December 31, 2008**	**December 31, 2007**
Assets			
Canadian Dollar	**$ 36,229**	$ 3,872,037	$ 224,814
Mongolian Tugriks	**7,795**	103,825	6,460
Indonesian Rupiah	**100,437**	15,436	51,799
	$ 144,461	$ 3,991,298	$ 283,073

Foreign currency sensitivity analysis

The following table details the Company's sensitivity to a 5% increase or decrease in the U.S. dollar against the foreign currency denominated monetary items above. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 5% change in foreign currency rates. A positive number indicates a decrease in loss for the period where the foreign currencies strengthen against the U.S. dollar. The opposite number will result if the foreign currencies depreciate against the U.S. dollar.

	Three months ended March 31, 2009	**Year ended December 31, 2008**	**Year ended December 31, 2007**
Decrease in			
Loss for the period	**$ 7,223**	$ 187,923	$ 14,154

(Stated in U.S. dollars)

26. FINANCIAL INSTRUMENTS (Continued)

26.3 Financial risk management objectives and policies (continued)

(ii) ***Interest rate risk***

The Company is exposed to interest rate risk on the variable rate of interest incurred on the amounts due under the line of credit facilities and on interest earned on bank deposits. The weighted average interest rate incurred by the Company in the three months ended March 31, 2009 was 8.79%. The fair value interest rate risk on bank deposits is insignificant as the deposits are short-term.

The Company has not entered into any derivative instruments to manage interest rate fluctuations, however, management monitors interest rate exposure and given the relatively low expected rate of change in LIBOR rates feels the risk is immaterial.

Interest rate sensitivity analysis

The following table details the Company's sensitivity to a 500 basis points increase or decrease in the interest rate charged on the Company's outstanding debt at March 31, 2009. The sensitivity analysis assumes the change takes place at the beginning of the financial year and is held constant throughout the reporting period. A positive number indicates a increase in loss for the year where the interest rate has increased, while the opposite number will result if the interest rate decreases.

	Three months ended March 31, 2009	Year ended December 31, 2008	Year ended December 31, 2007
Increase in:			
Loss for the period	**$ 30,000**	$ 101,660	$ 936,118

26. FINANCIAL INSTRUMENTS (Continued)

26.3 Financial risk management objectives and policies (continued)

(iii) *Credit risk*

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. Credit risk for the Company is primarily associated with trade accounts receivable, value added tax ("VAT") receivable, goods and services tax ("GST") receivable and cash equivalents.

The credit risk on trade accounts receivable is managed through an internal process whereby any potential customer is investigated before a sales contract is signed. Risk is further mitigated as the payment terms for all customers range from 10 days to 14 days, which allows the Company to actively monitor the amounts owed by customers and identify any credit risks in a timely manner and reduce the risk of a credit related loss. In addition, the Company reviews the recoverable amount of its receivables at each date of the statement of financial position to ensure that adequate impairment losses are made for unrecoverable amounts. In this regard, the Company considers that the credit risk is significantly reduced. At March 31, 2009, the Mongolian Coal Division had two customers, with one customer accounting for 60% of trade accounts receivable and the other customer accounting for 40% of trade account receivable.

The VAT/GST receivable includes amounts that have been accumulated to date in various subsidiaries. At March 31, 2009, 95% of the VAT/GST receivable was due from the Mongolian Government Taxation Authority. Verification, by the Mongolian Government Taxation Authority, of the collectability of the funds was conducted in the fourth quarter of 2008 and the Company anticipates full recoverability of amounts due on account.

The credit risk on cash equivalents is limited because the cash equivalents are composed of financial instruments issued by Canadian banks and companies with high credit ratings as assigned by international credit-rating agencies. Therefore, the Company is not exposed to significant credit risk and overall the Company's credit risk has not changed significantly from prior years.

(Stated in U.S. dollars)

26. FINANCIAL INSTRUMENTS (Continued)

26.3 Financial risk management objectives and policies (continued)

(iv) *Liquidity risk*

In the management of liquidity risk of the Company, the Company maintains a balance between continuity of funding and the flexibility through the use of borrowings. Management closely monitors the liquidity position and expects to have adequate sources of funding to finance the Company's projects and operations.

The following table details the Company's expected remaining contractual maturities for its financial liabilities at March 31, 2009. The table is based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to satisfy the liabilities.

	0 to 6 months	6 to 12 months	Total undiscounted cash flows	Total
Trade and other payables	$ 7,139,170	$ -	$ 7,139,170	$ 7,139,170
Commitments (Note 31)	21,872,346	94,892	21,967,238	21,967,238
Amounts due under line of credit facilities				
-At amortized cost (i)	-	8,578,483	8,578,483	8,052,740
	$ 29,011,516	$ 8,673,375	$ 37,684,891	$ 37,159,148

(i) The weighted average effective interest rate was 8.79%

(v) *Commodity price risk*

Profitability of the Company depends on the coal prices. Coal prices are affected by numerous factors such as interest rates, exchange rates, inflation or deflation and global and regional supply and demand.

The Company enters into sales contracts with its customers to manage the risk of a significant decrease in the price of coal. The Company has not entered into any coal hedging instruments to manage its exposure to fluctuations in coal prices. As coal sales are the only source of revenue for the Company a 5% increase or decrease in coal prices will result in a corresponding increase or decrease in revenue.

(Stated in U.S. dollars)

27. RELATED PARTY TRANSACTIONS

The financial statements include the financial statements of SouthGobi Energy Resources Ltd. and its subsidiaries listed in the following table:

		% equity interest		
		As at March 31,	As at December 31,	
Name	**Country of incorporation**	**2009**	**2008**	**2007**
Asia Gold International Holding Company Ltd.	British Virgin Islands	100%	100%	100%
Dayarbulag LLC	Mongolia	100%	100%	100%
SouthGobi Sands LLC	Mongolia	100%	100%	100%
Transbaikal Gold	Russia	100%	100%	100%
SGQ Coal Investment Pte. Ltd.	Singapore	100%	100%	100%
SGQ Dayarcoal Mongolia Pte. Ltd.	Singapore	100%	100%	100%
SGQ Singapore Investment Company Pte. Ltd.	Singapore	100%	100%	100%
PT Multi Mamahak Batubara	Indonesia	85%	85%	-
SGQ Batubara (A) Pte. Ltd.	Singapore	85%	85%	-
Bacan Holding Company Ltd.	British Virgin Islands	-	100%	100%
Ivanhoe Coal Holding Company Ltd.	British Virgin Islands	-	-	100%
Mongolia Holding Company Ltd.	British Virgin Islands	-	100%	100%
Arkadia Indonesia Holding Company Ltd.	British Virgin Islands	-	100%	100%
Ivanhoe Resources Ltd.	Canada	-	-	100%
PT AGC Indonesia	Indonesia	-	100%	100%
PT ASG Harita Mining Services	Indonesia	-	85%	85%
Asia Gold Mongolia LLC	Mongolia	-	100%	100%
Bacan Indonesia Holding Company Pte. Ltd.	Singapore	-	100%	100%
SGQ Indonesia Holding Company Pte. Ltd.	Singapore	-	100%	100%
SGQ Mongolia Holding Ltd.	Singapore	-	100%	100%
SGQ Singapore Projects Holding Company Pte. Ltd.	Singapore	-	100%	100%

27.1 Related party expenses

The Company incurred the following expenses with Ivanhoe, I2MS.NET PTE LTD ("I2MS") and Global Mining Management ("GMM"), companies related by way of directors or shareholders in common. As at March 31, 2009, Ivanhoe owned approximately 80% of the outstanding common shares of the Company.

	Three months ended March 31,	
	2009	**2008**
Corporate administration	**$ 228,946**	$ 159,655
Salaries and benefits	**300,043**	356,395
Interest (Note 20)	**52,740**	7,955,993
Total related party expenses	**$ 581,729**	$ 8,472,043

(Stated in U.S. dollars)

27. RELATED PARTY TRANSACTIONS (Continued)

27.1 Related party expenses (continued)

The corporate administration and salaries and benefits have been recorded on a cost recovery basis and the interest expense has been recorded on the contractual amount basis.

The breakdown of the expenses between the different related parties is as follows:

	Three months ended March 31,	
	2009	**2008**
GMM	**$ 408,099**	$ 516,050
Ivanhoe	**52,740**	7,955,993
I2MS	**120,890**	-
Total related party expenses	**$ 581,729**	$ 8,472,043

27.2 Related party liabilities

The liabilities of the Company include the following amounts due to related parties:

	As at March 31,	As at December 31,	
	2009	**2008**	**2007**
Amounts due for administration to GMM	$ 187,840	$ 230,712	$ 211,045
Accounts payable to Ivanhoe	9,039	60,682	52,045
Accounts payable to I2MS	232,482	285,372	-
Deposit received for sale of metals division	-	3,000,000	-
Amounts due under line of credit facilities	8,052,740	-	105,673,380
Total liabilities due to related parties	$ 8,482,101	$ 3,576,766	$ 105,936,470

28. COAL TRANSACTION

In July 2006, the Company and Ivanhoe signed a definitive agreement, effective April 26, 2006, whereby the Company agreed to acquire Ivanhoe's coal division (the "Coal Transaction") in exchange for 57,000, 000 common shares and 25,576,383 preferred shares of the Company.

On August 8, 2006, the Coal Transaction and the equity conversion rights under the line of credit facility (Note 20) were approved by the Company's minority shareholders at a special meeting convened for that purpose.

The Coal Transaction, which was a related party transaction, received final approval from the TSX Venture Exchange on May 28, 2007.

On May 29, 2007, the Company completed the purchase of the Ivanhoe coal division. The common shares issued to Ivanhoe, when aggregated with Ivanhoe's existing holding of common shares, represented approximately 86% of the total number of common shares currently issued and outstanding. The coal rights and licenses acquired by the Company have been recorded at $nil as the underlying assets had no carrying amount within the coal division.

With the completion of the Coal Transaction, certain coal division expenditures made by Ivanhoe between April 26, 2006 and May 29, 2007 were added to the indebtedness outstanding under the line of credit and will be repayable by the Company as if they were advances. The total coal expenditures funded by Ivanhoe from April 26, 2006 to May 28, 2007, and accepted by SouthGobi, are approximately $13.2 million of which $13 million are related to exploration expenses and $200,000 are for plant and equipment.

The Coal Transaction is considered a combination between businesses or entities under common control and is therefore exempt from the scope of IFRS 3 '*Business Combinations*'. The Company has accounted for the Coal Transaction using the principles of merger accounting and the prior periods were restated as if the Company and the coal division had always been combined. The coal division consists of certain coal related assets and expenditures made by Ivanhoe from its inception in 2004 to May 29, 2007. Note 3(i) to the financial statements provides detailed disclosure of the impact of the principles of merger accounting.

(Stated in U.S. dollars)

29. KEY MANAGEMENT PERSONNEL COMPENSATION

The remuneration of directors and other members of key management is as follows:

	Three months ended March 31,	
	2009	**2008**
Short-term benefits	**$ 279,847**	$ 205,554
Share-based payments	**1,658,681**	578,953
Total renumeration	**$ 1,938,528**	$ 784,507

30. SUPPLEMENTAL CASH FLOW INFORMATION

30.1 Non-cash financing and investing activities

In the three months ended March 31, 2009 the Company incurred the following non-cash investing and financing transactions:

	Three months ended March 31,	
	2009	**2008**
Conversion of line of credit facility (first funding agreement) (Note 20.4)	**$ -**	$ 107,551,903
Conversion of preferred shares to common shares	**-**	4,189,154
Transfer of share option reserve upon exercise of options	**197,158**	774,634
Total non-cash financing and investing activities	**$ 197,158**	$ 112,515,691

30.2 Cash payments for interest and taxes

In the three months ended March 31, 2009 the Company made the following cash payments for interest and income taxes:

	Three months ended March 31,	
	2009	**2008**
Interest paid	**$ -**	$ 77,470
Taxes paid	**-**	-
Total cash payments	**$ -**	$ 77,470

31. COMMITMENTS FOR EXPENDITURE

At March 31, 2009, the Company had outstanding commitments of $22.0 million for coal mining equipment and buildings. Included in the $22.0 million is $13.5 million for the purchase of a second fleet of coal mining equipment for the development of its Ovoot Tolgoi Project in Mongolia. Delivery and commissioning of the equipment is scheduled for the second quarter of 2009. The Company also has the option to purchase truck and shovel fleets for delivery in 2010 and 2011 with prices to be negotiated at the time of the orders.

32. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements of SouthGobi Energy Resources Ltd. for the three months ended March 31, 2009 were approved and authorized for issue by the Audit Committee on May 5, 2009.

SouthGobi Energy Resources Ltd.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

March 31, 2009

(Stated in U.S. Dollars)

SOUTHGOBI ENERGY RESOURCES LTD

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
March 31, 2009
(Unaudited)
(Stated in U.S. Dollars)

OVERVIEW

SouthGobi Energy Resources Ltd., (which, together with its subsidiaries, is collectively referred to as the "Company" or "SouthGobi") is an integrated coal and energy development company. Since acquiring significant coal assets in Mongolia in a series of transactions (the "coal transaction") with Ivanhoe Mines Ltd ("Ivanhoe"), the Company's strategic focus has been developing and operating coal mining projects.

The Company's common shares trade on the TSX Venture Exchange ("TSX-V") under the symbol SGQ.

Prior to the May 2007 coal transaction, the Company was a mineral exploration company with a focus on precious and base metal exploration and development in Mongolia, and elsewhere. Having completed the coal transaction in May 2007 and with the sale of its Metals Division on December 30, 2008, which was completed in the first quarter of 2009, the Company's principal focus is now on its Mongolian coal operation at Ovoot Tolgoi and coal exploration and development in southern Mongolia and Indonesia.

Recent Developments

Ovoot Tolgoi Project Development

Coal shipments commenced late September 2008, and continued throughout the fourth quarter 2008. During November 2008, the Company reached its budgeted production target of 1 million tonnes of coal. Total production for 2008 was 1.16 million tonnes.

In January and February 2009, the Company experienced difficulty expediting the movement of its coal shipments through the Mongolia-China border at Ceke due to relatively erratic and unpredictable opening hours and sporadic closures of the border point. Through early 2009 shipments across the border point were limited. As a result, the Company initiated a production curtailment program in January 2009, decreasing production to preserve cash and to manage stockpiles.

The Mongolian Government and the Company continued coordinating efforts to resume regular border crossing access for the Company's coal shipments. On February 24, in a further effort to minimize costs, the Company shut down production at the Ovoot Tolgoi operation. All production equipment was demobilized, except for coal loading of customer trucks from the coal stockpile.

As discussions continued with the Mongolian Government, border access improved towards the end of the first quarter of 2009 and in March 2009 the border point started operating eight hours per day, seven days per week. This resulted in increased shipments for the month of March, with sales of over 115,000 tonnes of coal.

Work continues on construction activities for the permanent man camp and permanent shop facility, with these facilities scheduled for completion in mid-2009. The mine airstrip surfacing has been completed and final permitting was received for the concrete airstrip.

In January 2009, the Mongolian Government formally recognized the Company's strong exploration program and timely government reporting process, with two separate awards.

In July 2008, the Company announced that it had received an updated resource estimate in respect of the West Field portion of the Ovoot Tolgoi coal project in Mongolia from an independent third party technical consultant. The consultant subsequently advised the Company, and the Company announced in March 2009, that errors had been discovered in the resource estimate and that these errors resulted in an overstatement of the resources in the West Field reported by the Company in July 2008, primarily in the indicated and inferred categories. In the March 2009 announcement, the Company published a corrected resource estimate and further noted that the current mine plan and operations are not impacted by the revision. See "MINERAL PROPERTIES – Properties in Mongolia – Ovoot Tolgoi Open Pit Project".

Mamahak Project Development

In April 2008, the Company entered into a Joint Venture Earn-In Agreement with an Indonesian company to explore and develop a coal project, in East Kalimantan, Indonesia, known as the Mamahak coal project ("MCM"). In September 2008, based on positive exploration results, the Company increased its working interest in MCM to 85%.

In early January 2009, the Company announced that a location permit was issued, which allows the Company to commence surface coal mining on MCM.

During the first quarter of 2009, the Company received a series of results from its coal sampling programs on the MCM concession. The results suggest the coal is of a premium character and has some unique characteristics suitable for coking processes. In particular, the coal has high fluidity. The results prompted the Company to continue efforts to develop an operating mine at the site. The mine, infrastructure and barge load out are being completed. The intent is to mine and ship test cargoes of approximately 30,000 tonne lots to customers. The Company has engaged two smaller mining contractors who have significant experience in operations similar to Mamahak.

In February 2009, the Company announced that it had received an initial resource estimate from its independent consultants, SMG Consultants ("SMG") in respect of the E resource block and the SW resource block on the MCM concession. The Company filed a technical report supporting the resource estimate in March 2009, which is available at www.sedar.com. See "MINERAL PROPERTIES – Properties in Indonesia – Mamahak Coal Project.

Corporate Activity

On December 31, 2008, the Company announced the sale of its Metals Division to Ivanhoe for $3 million and other non-cash consideration, with an effective date of December 30, 2008 and a closing date of February 2, 2009. As part of the transaction, the Company obtained a $30 million working capital credit facility from Ivanhoe.

On February 10, 2009, the Company announced the appointment of Alexander Molyneux as its new President, effective April 27, 2009. Based in Hong Kong, he was most recently Managing Director, Head of Metals & Mining Investment Banking, Asia Pacific, with Citigroup.

On March 20, 2009, the Company announced two new appointments to its Management and Resource Development team: Jess Harding and Stephen Torr.

Jess Harding has been appointed the Company's new Vice-President, Evaluations and Project Development. Mr. Harding has more than 15 years' experience in the mining industry and assumes the same role that he presently holds at Ivanhoe Mines Ltd. Mr. Harding has a Bachelor of Chemical Engineering from the University of Leeds, UK.

Stephen Torr, (P.Geo.), has been appointed the Company's new Resource Manager. Mr. Torr has 19 years of experience in the mining industry and currently is the Resource Manager for Ivanhoe Mines Ltd. Mr. Torr has a B.Sc. (Hons) Degree in Geology from the University of Southampton and a M.Sc. in Applied Geoscience from the University of Leicester. Mr Torr has previous experience in the estimation of open pit and underground coal resources and will be assuming the role of Qualified Person to oversee future independent resource estimates for SouthGobi.

Ivanhoe, directly and indirectly, currently owns 106,804,155 common shares representing approximately 80% of the issued and outstanding common shares of SouthGobi.

FORWARD LOOKING STATEMENTS

Except for statements of fact relating to the Company, certain information contained herein constitutes forward-looking statements. Forward-looking statements are frequently characterized by words such as "plan", "expect","project","intend","believe","anticipate" and other similar words, or statements that certain events or conditions "may" or "will" occur. Forward-looking statements are based on the opinions and estimates of management at the dates the statements are made, and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These factors include the inherent risks involved in the exploration and development of mineral properties, the uncertainties involved in interpreting drilling results and other geological data, fluctuating metal prices, the possibility of project cost overruns or unanticipated costs and expenses, uncertainties related to completion results of planned exploration and development programs on the Company's material properties, issuance of licenses and permits and the availability of and costs of financing needed in the future and other factors described in this discussion under the heading "Outlook". Except as required by law, the Company undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change. The reader is cautioned not to place undue reliance on forward-looking statements.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Transition to IFRS from GAAP

In February 2008, the Canadian Accounting Standards Board confirmed that Canadian publicly accountable enterprises will be required to adopt International Financial Reporting Standards ("IFRS") for financial periods beginning on and after January 1, 2011. In the Canadian Securities Administrators ("CSA") Staff Notice 52-321 – Early Adoption of International Financial Reporting Standards, Use of US GAAP and Reference to IFRS-IASB, CSA has indicated that it would be prepared to provide exemptive relief to permit a Canadian reporting issuer to prepare its financial statements in accordance with IFRS for financial periods beginning before January 1, 2011.

As previously disclosed, the Company is in the application process for a secondary listing of its common shares on an Asian stock exchange. As part of the application process, the Company is required to provide financial statements under IFRS with three years of comparative data. In order to produce the required International Accounting Standards Board ("IASB") financial statements the Company has produced 2008 interim IFRS statements with an IFRS adoption date of January 1, 2009 and IFRS transition date of January 1, 2005. As per Appendix A of IFRS 1 "An entity cannot have more than one set of IFRS financial statements. Therefore, it must have only one starting point for transition to IFRS". In March 2009, the Company was granted exemptive relief by Canadian securities regulatory authorities under Staff Notice 52-321 and has been permitted to adopt IFRS for Canadian reporting purposes for reporting periods beginning on or after January 1, 2009. The Company has adopted IFRS with an adoption date of January 1, 2009 and a transition date of January 1, 2005.

IFRS Conversion

The Company's IFRS conversion plan was comprehensive and addressed matters including changes in accounting policies, restatement of comparative periods, organizational and internal controls and any required changes to business processes. To facilitate this process and ensure the full impact of the conversion was understood and managed reasonably, the Company retained an external third party accounting firm and hired an IFRS conversion project manager. The accounting staff attended several training courses on the adoption and implementation of IFRS. Through in-depth training and the preparation of reconciliations of historical Canadian GAAP financial statements to IFRS, the Company believes that its accounting personnel have obtained a thorough understanding of IFRS. Further, the accounting personnel at our Mongolian and Indonesian subsidiaries are already familiar with IFRS and have been working with IFRS due to either local adoption of IFRS or convergence of local standards to IFRS in those jurisdictions.

In conjunction with the adoption of IFRS the Company has implemented a new accounting system, which will satisfy all the information needs of the Company under IFRS. The Company has also reviewed its current internal and disclosure control processes and believes they will not need significant modification as a result of our conversion to IFRS.

Impact of IFRS

IFRS employs a conceptual framework that is similar to Canadian GAAP; however significant differences exist in certain matters of recognition, measurement and disclosure. While the adoption of IFRS will not change the actual cash flows of the Company, the adoption will result in changes to the reported financial position and results of operations of the Company. In order to allow the users of the financial statements to better understand these changes, we have provided the reconciliations between

Canadian GAAP and IFRS for the total assets, total liabilities, shareholders equity and net earnings in Note 3 to the interim consolidated financial statements. The adoption of IFRS has had no significant impact on the net cash flows of the Company. The changes made to the statements of financial position and comprehensive income have resulted in reclassifications of various amounts on the statements of cash flows, however as there has been no change to the net cash flows, no reconciliations have been presented.

In preparing the reconciliations, the Company applied the principles and elections of IFRS 1, with a transition date of January 1, 2005, consistent with those assumed in our application documentation for the listing on the Asian stock exchange. As the Company has been permitted to adopt IFRS effective January 1, 2009, it will apply the provisions of IFRS 1 as described under the section entitled "Initial Adoption – IFRS 1", with a January 1, 2005 transition date. The Company will also apply IFRS standards in effect at December 31, 2009 as required by IFRS 1.

Initial Adoption of International Accounting Standards

IFRS 1 ''First Time Adoption of International Accounting Standards'' sets forth guidance for the initial adoption of IFRS. Under IFRS 1 the standards are applied retrospectively at the transitional date of the statement of financial position with all adjustments to assets and liabilities as stated under GAAP taken to retained earnings unless certain exemptions are applied. The Company is not applying any exemptions on first-time adoption.

Comparative Information

The Company has restated all prior period figures in accordance with IFRS.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with International Financial Reporting Standards requires the Company to establish accounting policies and to make estimates that affect both the amount and timing of the recording of assets, liabilities, revenues and expenses.

A detailed summary of all of the Company's significant accounting policies is included in Note 4 to the Consolidated Financial Statements for the three months ended March 31, 2009. Note 3 to the Consolidated Interim Financial Statements for the three months ended March 31, 2009 provides a review of the significant changes to the reported financial position and results of operations of the Company under Canadian GAAP and IFRS.

The following is an outline of the estimates that the Company considers as critical in the preparation of its consolidated financial statements.

Mineral Property and Exploration Costs

All direct costs related to the acquisition of mineral property interests are capitalized into intangible assets on a property by property basis. Exploration costs, net of incidental revenues, are charged to operations in the period incurred until such time as it has been determined that a property has economically recoverable reserves, in which case subsequent exploration costs and the costs incurred to develop a property are capitalized into PPE. Exploration costs include value-added taxes incurred in foreign jurisdictions when recoverability of these taxes is uncertain. On the commencement of commercial production, depletion of each mining property will be provided on a unit-of-production basis using estimated resources as the depletion base.

At each date of the statement of financial position, the Company reviews the carrying values of its mineral property interests to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount.

Decommissioning, restoration and similar liabilities (Asset retirement obligation or "ARO")

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of mineral properties and PPE, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for an asset retirement obligation is recognized as its fair value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding asset retirement obligation is added to the carrying amount of the related asset and the cost is amortized as an expense over the economic life of the asset using either the unit-of-production method or the straight-line method, as appropriate. Following the initial recognition of the asset retirement obligation, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation.

Inventory valuation

Coal inventories are stated at lower of production cost and net realizable value. Production costs include direct and indirect labour, operating materials and supplies, transportation costs and an appropriate portion of fixed and variable overhead expenses, including depreciation and depletion. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Supplies inventory consists of consumable parts and supplies which are valued at lower of average cost and net realizable value. Supplies used in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. Net realizable value is defined as the selling price of the finished product less any provisions for obsolescence and costs of completion.

Stripping costs

Stripping costs incurred during the development of a mine are capitalized into PPE. Stripping costs incurred during the production phase are variable production costs that are included in the costs of inventory produced during the period that the stripping costs are incurred, unless the stripping activity can be shown to give rise to future benefits from the mineral property, in which case the stripping costs would be capitalized into PPE. Future benefits arise when stripping activity increases the future output of the mine by providing access to a new ore body. Capitalized stripping costs are depleted on a unit-of production basis, using estimated resources as the depletion base.

Effective April 2, 2008, on commencement of mining operations, the Company has capitalized its stripping costs.

Income taxes

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates used to compute the amount are those that are enacted or substantively enacted by the date of the statement of financial position..

Deferred income tax is provided using the liability method on temporary differences at the date of the statement of financial position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Stock-based compensation

The Company accounts for stock options granted to directors, officers, employees and service providers using the Black-Scholes option pricing model. Option pricing models require the input of highly subjective assumptions regarding the expected volatility. Changes in assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a realistic measure of the fair value of the Company's stock options at the date of the grant or thereafter.

Revenue recognition

Sales revenues are recognized when the risk and rewards of ownership pass to the buyer, collection is reasonably assured and the price is reasonably fixed and determinable. This occurs when the coal is either loaded onto a truck or when it is unloaded at the financial destination,depending on the terms of the contract.

Depletion and depreciation of property, plant and equipment

Property, plant and equipment comprise the largest component of the Company's assets and, as such, the depreciation of these assets has a significant effect on the Company's financial statements.

On the commencement of commercial production, depletion of each individual mining property is provided on the unit-of-production basis using estimated resources as the depletion basis.

The mining equipment and other capital assets are depreciated, over their expected economic lives using either the unit-of-production or straight-line method. Capital projects in progress are not depreciated until the capital asset has been put into operation.

The estimates of the resources for the depletion basis are determined based on professional evaluation, but may change based on additional knowledge gained subsequent to the initial assessment. A change in the original resource estimates would result in a change in the rate of depletion of the related mining assets.

CHANGE IN ACCOUNTING POLICIES

On January 1, 2009, the Company adopted IFRS. The provisions of new and revised standards and interpretations are applicable and effective for the Company's financial year beginning on or after January 1, 2009.

A summary of the new and revised standards and interpretations are outlined in Note 2.3 of the Consolidated Interim Financial Statements for three months ended March 31, 2009.

NON-IFRS FINANCIAL MEASURES

($ in thousands, unless otherwise stated)

This management discussion and analysis refers to certain financial measures, such as "cash costs", which are not standardized measures recognized under IFRS and do not have a standardized meaning prescribed by IFRS. These measures are commonly utilized in the mining industry and are considered informative for management, shareholders and analysts. These measures may differ from those made by other corporations and accordingly may not be comparable to such measures as reported by other companies.

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

	Three Months Ended		
	March 31, 2009	December 31, 2008	March 31, 2008
Cash costs, continuing operations			
Cost of sales per financial statements	**$ 3,213**	$ 2,178	-
Less non-cash adjustments	**(855)**	(586)	-
Total cash costs	**2,358**	1,592	-
Coal sales *(tonnes)*	**127,366**	113,000	-
Total cash costs of product sold *(per tonne)*	**$ 18.51**	$ 14.09	-

	Three Months Ended		
	March 31, 2009	December 31, 2008	March 31, 2008
Cash costs, continuing operations			
Direct cash costs of product sold *(per tonne)*	**$ 14.29**	$ 8.30	-
Mine administration cash costs of product sold *(per tonne)*	**4.22**	5.79	-
Total cash costs of product sold *(per tonne)*	**$ 18.51**	$ 14.09	-

MINERAL PROPERTIES

Qualified Persons

Disclosure of a scientific or technical nature in this Management Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") with respect to the Company's Coal Division was prepared by, or under the supervision of Gene Wusaty, P.Eng, and Chief Operating Officer and Stephen Torr (P.Geo.), Resource Manager. Each of Messrs. Torr and Wusaty is a "qualified person" for the purposes of National Instrument 43-101 of the Canadian Securities Administrators ("NI 43-101").

Mr Torr was appointed the Company's new Resource Manager on March 20, 2009.

Coal Group Profile

Mongolia Exploration Licenses

The coal transaction was completed in May 2007, when the Company acquired Ivanhoe's Coal Division, including Ivanhoe's entire interest in the Ovoot Tolgoi (formerly Nariin Sukhait) coal development project, the Tsagaan Tolgoi coal exploration project and various coal exploration projects in Mongolia. To complete the transaction, 35 coal exploration licenses held by Ivanhoe, along with other assets and personnel, were transferred to the Company. The Company already owned a further 19 exploration licenses with coal potential, and with the additional 35 licenses, a total of 54 licenses covering an area of approximately 2.1 million ha were then available for coal exploration.

The Company regularly targets and prioritizes a number of licenses on the basis of potential, age, and cost.

As at April, 9 2009, the Company held 43 licenses, which in total cover an area of approximately 1.7 million hectares ("ha").

Unless stated otherwise, the Company has a 100% interest in its coal projects.

Properties in Mongolia

Ovoot Tolgoi Open Pit Project

The Ovoot Tolgoi coal deposit is located in the southwest corner of the Omnogovi Aimag (South Gobi Province) of Mongolia. The deposit is within the administrative unit of Gurvantes Soum, 320 km southwest of the provincial capital of Dalanzadgad and 950 km south of the nation's capital of Ulaanbaatar.

The Nariin Sukhait property was renamed "Ovoot Tolgoi" to differentiate the Company's coal exploration and development project in Mongolia's South Gobi Province from the adjoining Nariin Sukhait coal mine owned by the Mongolian-Chinese joint venture company, MAK/Qinhua.

Ivanhoe first initiated coal exploration in the Ovoot Tolgoi area in October 2004 and extensive exploration programs were also carried out in 2005, 2006 and 2007. Resources at the Ovoot Tolgoi property are found in two different areas, referred to as the South-East and the West Fields. The Company's independent consultant, Norwest Corporation ("Norwest") estimated that, as of December 31, 2006, the South-East Field hosted 49.8 million tonnes of measured resources, 15.9 million tonnes of indicated resources and 6.5 million tonnes of inferred resources. Norwest also estimated 55.1 million tonnes of measured resources, 28.7 million tonnes of indicated resources and 22.6 million tonnes of inferred resources for the West Field.

In July 2008, the Company announced that its independent technical consultant, The Americas Group, Inc. ("TAG") of Lakewood, Colorado had prepared a new resource estimate for the West Field portion of the Ovoot Tolgoi coal project in Mongolia. TAG subsequently advised the Company, and the Company announced in March 2009, that errors had been discovered in the resource estimate and that these errors resulted in an overstatement of the resources in the West Field reported by the Company in July 2008, primarily in the indicated and inferred categories. The current resource estimates for the separate South-East Field and the Ovoot Tolgoi underground project were not affected by the errors. An amended report updating the resource estimate was filed on May 1, 2009 and is available at www.sedar.com.

The corrected West Field resource estimate is 75.0 million tonnes of measured resources, 27.7 million tonnes of indicated resources and 18.8 million tonnes of inferred resources.

The Company has engaged Norwest to complete a new technical report for the Ovoot Tolgoi project incorporating outstanding data obtained from drilling to the end of 2008, reflecting a redesign of the surface mine to a depth of 300 metres from the present 250 metres, updating the resource models and delineating reserves based on a pre-feasibility level of engineering. The Company expects to receive this report later in 2009. Management believes this new report will more fully demonstrate the potential of the Ovoot Tolgoi coal deposit.

The Company made considerable progress in identifying additional resources at Ovoot Tolgoi in 2008, drilling over 23,200 metres down to a depth of 800 metres in the West Field. In addition, there are 3,800 metres of drill data from 2007 in the South-East Field that still requires modelling. Based on 2008 drill data, the coal potential is continuous along strike and at depth. Management is very encouraged by the results from the drilling completed in 2008 and believes that the data obtained will provide a basis for establishing additional resources.

Including the restated West Field resource estimate, the estimated combined resources for the South-East Field and the West Field of the Ovoot Tolgoi Project are shown in Table 3 below. The restated West Field resource estimate is based on data to June 20, 2008. The resource estimate for the South-East Field is based on data to December 31, 2006.

Table 3: Restated Ovoot Tolgoi West Field and South-East Field In-Place Surface Coal Resources Summary

Resource Area	ASTM Coal Rank	Resources at Ovoot Tolgoi		
		Measured (tonnes)	Indicated (tonnes)	Inferred (tonnes)
South-East Field	**hvB to hvA**	49,752,000	15,987,000	6,502,000
West Field	**hvB to hvA**	74,972,951	27,687,201	18,761,047
Total		**168,399,152**		**25,263,047**

The current mining plan and operations at Ovoot Tolgoi, which are based on an earlier estimate of the West Field coal resources as of December 31, 2006, are unaffected.

After obtaining its Permit to Mine on March 31, 2008, the Company started operations at Ovoot Tolgoi in April 2008. Coal shipments began in September 2008.

For the three month period ending March 31 2009, the total waste mined was 344,850 Bank Cubic Meters ("BCM") and the total coal mined was 157,115 tonnes at a strip ratio of approximately 2.19 BCM waste per tonne of saleable coal. Of the total coal mined, approximately 47,000 tonnes are oxidized steam coal and 110,000 tonnes are premium coal. Coal sales to December 31 2008 were approximately 113,000 tonnes. Coal sales in the first quarter were approximately 127,000 tonnes. The average selling price for existing premium coal contracts is approximately $29 per tonne.

Due to erratic and unpredictable border openings, coal shipments in January and February 2009 were lower than expected. Consequently, and in order to preserve cash and manage stockpiles, a production curtailment program was initiated in January 2009 decreasing production to a dayshift basis. This was followed by a full mine shut down in late February 2009, except for coal loading of customer trucks from coal stockpiles.

The Company has been engaged in ongoing discussions with the Mongolian Government with the objective of establishing a border crossing at the Ceke border point that will be open for a full 24 hours per day, 365 days per year. This is expected to allow increasing daily distribution of Ovoot Tolgoi coal to customers in China. At present the border crossing operates on an eight hour per day basis. SouthGobi has purchased an automated 150 tonne scale which has been set up at the border to expedite coal traffic crossing the border into China from Ovoot Tolgoi.

The Company employed 227 employees for the Ovoot Tolgoi operation as at March 31, 2009. Of the 227 employees, 35, including expatriates, are employed in the Ulaanbaatar office, 4 in outlying smaller offices including the Ceke border point and 188 at the mine site. Of the 188 employees at the mine site, 105 employees are on a temporary layoff status due to the temporary production curtailment initiative at the mine site. The remaining 77 employees at the mine site are considered essential services but have had their hours of work and pay reduced beginning in March 2009. Laid off employees will be recalled on a systematic re-employment schedule to coincide with startup activities. Startup activities are currently being reviewed, but a planned startup date has not been confirmed.

In April 2008, the Company purchased a second fleet of coal mining equipment for the open pit mine, which is scheduled to be commissioned in September 2009. The new shovel / truck mining fleet consists of a Liebherr 996 hydraulic excavator (34 cubic m) and four Terex MT4400 (260-ton capacity) trucks. The new fleet will supplement the existing mine fleet consisting of a Liebherr 994 hydraulic excavator (13.5-cubic m capacity) and 7 Terex TR100 (100-ton capacity) trucks. The additional equipment will expand annual production capacity for the Ovoot Tolgoi mine to approximately 5.0 million tonnes in 2010.

Work on the new shop complex, mancamp and airstrip surfacing at Ovoot Tolgoi continued throughout the first quarter. The airstrip surfacing project was completed at year end and was certified in early 2009. The mancamp and shop building completion is scheduled by mid-2009.

The Ovoot Tolgoi mine is 45 km north of Mongolia's border with China. A Chinese steel mill has built a north / south railway line to the Ceke border point, where a major automated railcar loading facility opened in 2007. A new east / west railway is proposed to be completed by the end of 2009. In December 2008, the Company entered into preliminary discussions with major railway contractors on the development of a coal railway from the Ovoot Tolgoi mine to a point across the Chinese border. These discussions also contemplated a mine load out facility and a coal distribution centre in Ceke. The

Company intends to carry out further studies with respect to these proposed facilities during the first half of 2009.

Ovoot Tolgoi Underground Project

The Ovoot Tolgoi Underground Project is contiguous to and located directly below the surface mine development. The entire extension of the coal at depth from 300 to 700 m that is designated for the underground development is located inside the existing Ovoot Tolgoi mining license.

In March 2008, TAG prepared a resource estimate for underground resources in the West Field. Estimated underground resources for the West Field are approximately 3.9 million tonnes of measured resources, 12.6 million tonnes of indicated resources and 36.7 million tonnes of inferred resources. The coal rank is volatile B to A bituminous based on ASTM D388 standards. Holes drilled in the 2007 exploration program were not included in the resource estimation. Details of the assumptions and parameters used to calculate these coal resources and coal quality estimates are set out in the Technical Report entitled "Underground Resources at Ovoot Tolgoi – West Field" dated March 28, 2008 and available at www.sedar.com.

The 2008 exploration program concentrated on the underground located in the West Field. This drilling was conducted to obtain additional information respecting the structure and quality of the deep underground coal mineralization. The drilling conducted in 2006 and 2007 has identified coking and semi-soft coal at depths of between 250 m and 600 m below surface beneath the lower boundaries of the planned open pits at the South-East and West Fields. The 2008 program in the West Field has extended the depth of the potential mine to 700 m. The No. 5 coal seam continues to be open to depth and along strike. The results from the 2008 drilling program will be incorporated into an updated resource expected to be finished later in 2009.

Sumber Project

The Sumber Project is comprised of N, O and E Fields. This coal field starts 16 km east of Ovoot Tolgoi and stretches for approximately 18 km to the east. The N, O and E fields are covered by Mineral Exploration License #9443, which also encompasses part of the Ovoot Tolgoi project. N field is located approximately 16 km east of the Ovoot Tolgoi South-East pit and 8 km west of O Field. E Field is located approximately 10 km west of O Field.

In 2005, coal occurrences were identified in the N and O fields. N Field coal occurrences have been identified approximately 2 km north of the east-west trending Nariin Sukhait thrust fault, the major structural feature of the Ovoot Tolgoi region. Further exploration drilling in 2006 suggests that these coal occurrences may in fact be one coal field. The 2007 exploration drilling provided additional structure and quality information, where significant intersections were encountered and potential exists for expanding known mineralization along strike and down dip.

In June 2008, the Company announced that it intersected significant thicknesses in near-surface seams of high-quality coking and thermal coal, including one intercept of 51.5 m. The 2008 drilling program was completed during the fourth quarter of 2008 and the results are expected to provide the basis for a resource estimate in 2009. The company has initiated mine planning and an application for a mining license, which will be submitted for development of this project.

Tsagaan Tolgoi Project

The Tsagaan Tolgoi coal field is located in south-central Mongolia. The property is located in the Omnogovi Aimag approximately 570 km south of Ulaanbaatar and 113 km southeast of the provincial capital of Dalanzadgad, and approximately 115 km west of Oyu Tolgoi.

A coal delineation program was first carried out in 2004, but no further work was conducted in 2005. Exploration programs were carried out during 2006 and 2007 to provide the basis for a resource estimate. A resource estimate prepared by Norwest in February 2008, estimated 23.4 million tonnes of measured resources, 13.0 million tonnes of indicated resources and 9.0 million tonnes of inferred resources. The coal is of volatile bituminous B to C in rank based on ASTM D 388 standards and is suitable for use as a thermal coal. The resources appear to be amenable to surface extraction down to a planned depth of 150 m. Details of the assumptions and parameters used to calculate these coal resources and coal quality estimates are set out in the Technical Report entitled "Coal Geology and Resources – Tsagaan Tolgoi Property" dated March 25, 2008 and available at www.sedar.com.

The Company has initiated an application for a mining license for the Tsagaan Tolgoi coal field. Any development of the field would be expected to occur only if Tsagaan Tolgoi were to be selected as a supplier of thermal coal for a power plant to be constructed to support Ivanhoe's Oyu Tolgoi copper and gold project. The timing of the continued development of the Oyu Tolgoi project is contingent upon a number of factors beyond the control of the Company and Ivanhoe, including the approval by the government of Mongolia of an investment agreement.

Tavan Tolgoi Extension Project

The Tavan Tolgoi Extension Project is composed of seven exploration licenses located east of Dalanzadgad, the provincial capital in the Omnogovi Aimag. The Company also holds an option to acquire three additional exploration licenses from Ivanhoe covering areas in the vicinity.

These exploration licenses surround the third party-owned Tavan Tolgoi coal project. The Tavan Tolgoi coalfield was discovered in the 1950s by a joint Mongolian/Soviet team and is believed to be one of the largest undeveloped metallurgical coal deposits in the world.

A field reconnaissance program was carried out on the Tavan Tolgoi Extension licenses in 2006. The exploration area has been surveyed for copper and gold exploration using BHP Falcon aerial geophysics. The Company has obtained the aeromagnetic and aero gravity survey data and is using the results of the upcoming analysis of the Falcon data to help delineate potential coal targets. A significant exploration program was started in the third and fourth quarters of 2007, and the results are being used to delineate further potential coal targets. Exploration work on the extension continued in 2008 and is currently being updated.

Properties in Indonesia

Mamahak Coal Project

SouthGobi has commenced the development of green fields' surface coal deposits in four concessions covering 22,968 ha in East Kalimantan, Indonesia, through its participation in the Mamahak coal project.

The Company holds its interest in the Mamahak coal project through a joint venture. In September 2008, the Company increased its working interest in the original joint venture from 56% to 85%. Under the terms of the Joint Venture Earn-In Agreement ("JVA"), the Company has the right to increase its working interest position based on a predetermined pricing mechanism. The terms of the JVA allow the Company to increase its working interest to 100% in the project.

The Company has contracted a local consultant to assist in the field programs, and site investigation indicates the potential for continuous coal structures over a large area. Geological mapping delineated encouraging coal outcrops with over thirty coal seams being identified to date.

The Company has also contracted the Jakarta office of Australian based SMG to assist in the field programs. All drill holes are being geophysically logged with detailed intersection data delivered to the SMG office in Jakarta for the preparation of a geological model to be used for mine planning.

The 2008 drilling program identified quantities of high fluidity coking coal that appear to be amenable to surface mining. At the end of 2008, 220 drill holes had been completed on the SW and E resource blocks on the MCM concession. The SW and E blocks cover approximately 638 hectares of the MCM concession. Further drilling is ongoing. The intent of the drilling program is to determine down-dip continuity, thickness variations, coal quality and structure. Reconnaissance and initial field mapping has been initiated over the larger concession areas.

The drilling results received to date support the quality data from the initial field outcrop test results. In November 2008, the company received independent laboratory analysis of a recent bulk sample that confirms high volatile, high-fluidity coking coal at the project. The bulk sample was taken on the SW resource block within the MCM concession and was comprised of proportioned blending of several coal seams from an area where the Company plans to commence mining in 2009. The proximate analysis and related testing of the bulk sample raw coal was carried out by PT Geoservices Ltd. of Jakarta, Indonesia.

In February 2009, SMG prepared a resource estimate for then E and SW resource blocks. SMG has estimated that the E resource block on the MCM concession contains 5.0 million tonnes of measured resources, 7.3 million tonnes of indicated resources and 2.7 million tonnes of inferred resources, while the SW resource block contains 2.6 million tonnes of inferred resources. The resource estimates have been calculated to Joint Ore Reserves Committee ("JORC") Standards. The resource quantities estimated pursuant to JORC Standards are equivalent to the resource quantities that would have been estimated using the CIM Definition Standards on Mineral Resources and Reserves mandated by National Instrument 43-101. Details of the assumptions and parameters used to calculate these coal resources and coal quality estimates are set out in the Technical Report entitled "Mamahak Coal Project" dated March 26, 2009 and available at www.sedar.com.

Required permit applications for mining, coal transportation and a barge load-out facility for the area have been filed. In December 2008 a permit was issued, which will allow the Company to commence surface coal mining at the SW deposit on the MCM concession. A site office, accommodation camp and a satellite communication system are being mobilized for the project. An administrative project office has been established at the port village of Melak on the Mahakam River approximately 90 km from the site. Construction activity continued through year end at the project site and is focused on the completion of a 30 km haul road from the SW deposit to the barge port on the Mahakam River. Construction is in progress on the installation of a river barge loading terminal which will be located at Long Habung on the Mahakam River. The Company is planning to ship test cargoes from the Mamahak coal project to potential customers during 2009.

The Indonesian central Government announced a new law on mineral and coal mining, known as Minerba, at the end of 2008, which was signed by the President of the Republic of Indonesia on January 12, 2009. The Company is currently reviewing the details, but the new law seeks to clarify the issues on the role of government in the mining license process; the introduction of two new types of mining concessions; changes regarding related parties and mining services agreements; a transition period for the current Contract of Work system and a change that allows direct ownership of mining concessions by foreign companies. Much of the detail surrounding the development and application of the new rules under Minerba is not yet clear and is to be provided for in a series of Government implementing regulations. The Indonesian Government is required to issue the implementing regulations under Minerba before January 12, 2010.

Metals Division Profile and Discontinued Operations

On December 31, 2008, the Company announced the sale of the Metals Division to Ivanhoe for $3 million and other non-cash consideration. The Metals Division consists of a series of base and precious metal exploration properties in Mongolia and Indonesia, related assets, employees and contracts. As part of the sale transaction, the Company obtained a credit facility from Ivanhoe, which allows SouthGobi to receive loan advances from Ivanhoe to an aggregate maximum of $30 million. The credit facility is for a one year term with a one year discretionary extension. The credit facility is unsecured and carries an interest rate equal to LIBOR plus 750 basis points.

The Company also received a 1% net returns royalty in certain mineral projects in Indonesia, and retained the rights to the Kharmagtai and Chandman Uul properties in Mongolia.

The transaction was completed on February 2, 2009 following receipt of regulatory approval.

SELECTED QUARTERLY DATA

($ in thousands, except per share information)

	2009	2008				2007		
QUARTER ENDED	**31-Mar**	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun
Revenue	**$ 3,540**	$ 3,126	$ -	$ -	$ -	$ -	$ -	$ -
Exploration expenses	**4,130**	8,104	11,361	10,364	6,374	5,992	5,274	18,306
Loss from continuing operations	**9,960**	14,457	21,110	11,189	14,909	42,500	10,836	53,212
Loss from discontinued operations	**-**	2,549	1,667	2,392	1,302	-	-	-
Net loss	**9,960**	17,006	22,777	13,581	16,211	42,500	10,836	53,212
Net loss per share	**(0.07)**	(0.13)	(0.17)	(0.10)	(0.19)	(0.57)	(0.15)	(1.43)

<u>Selected Quarterly Information</u>

The changes in comparative results of operations on a quarter over quarter basis are due primarily to significant fluctuations in the following areas: exploration expenses, stock-based compensation charges, foreign exchange gains and losses, interest expense, interest accretion on line of credit facility and fair value of embedded derivative on debt. These latter two items are described in note 3 and 20 to the Consolidated Interim Financial Statements.

Revenue from coal sales, which began at the end of September 2008, increased during the quarter ended December 31, 2008. For the 3 months ended March 31, 2009 lower than expected revenue from coal sales were impacted by the border crossing. Exploration expenses will vary from quarter to quarter depending on the number of projects and the related seasonality of the exploration programs. Exploration costs for the Metals Division are classified as a loss from discontinued operations and were incurred for exploration projects in Mongolia and Indonesia. Coal expenditures in Mongolia were initially incurred during the quarter ended June 30, 2007. Expenditures on the Indonesian Coal Division began in the first quarter of 2008.

RESULTS OF OPERATIONS

	Three Months Ended		
	March 31, 2009	December 31, 2008	March 31, 2008
Volumes, Prices and Costs			
Coal production *(millions of tonnes)*	**0.16**	1.16	-
Coal sales *(millions of tonnes)*	**0.13**	0.11	-
Average sales price *(per tonne)*	**$ 29.26**	$ 29.20	-
Total cash costs of product sold *(per tonne)*	**$ 18.51**	$ 14.09	-
Direct cash costs of product sold *(per tonne)*	**$ 14.29**	$ 8.30	-
Operating Statistics			
Total waste material moved *(millions of bank cubic metres)*	**0.34**	2.54	-
Strip ratio *(bank cubic metres of waste rock per tonne of clean coal produced)*	**2.19**	2.19	-
Operating Results *(thousands of dollars)*			
Revenue	**$ 3,540**	$ 3,126	$ -
Cost of Sales	**(3,213)**	(2,178)	-
Income from mine operations	**327**	948	-
Adminstration expenses	**(6,105)**	(7,473)	(1,106)
Evaluation and exploration expenses	**(4,130)**	(8,104)	(6,375)
Operating loss from continuing operations	**$ (9,908)**	$ (14,629)	$ (7,481)

The Company incurred an operating loss from continuing operations for the three months ended March 31, 2009 of $9.9 million compared to $7.5 million for the same period in 2008. This change is due to the factors discussed below.

Revenue, net of royalty expense and cost of sales relates to the Company's operations in Mongolia. The Company commenced initial deliveries of coal in late September 2008, with shipments continuing throughout the fourth quarter 2008 and the first quarter 2009.

In the first quarter of 2009, the Company shipped approximately 127,000 tonnes of coal at an average realized selling price of approximately $29 per tonne. This compares to 113,000 tonnes of coal shipped in the fourth quarter 2008 at the same approximate average realized selling price.

Shipments in the quarter were affected by the erratic and unpredictable border openings. Coal shipments in January and February 2009 were lower than expected. Consequently, and in order to manage costs and stockpiles, a production curtailment program was initiated in January 2009 decreasing production to a dayshift basis. This was followed by a full mine shut down on February 24, 2009, except for coal loading of customer trucks from coal stockpiles.

The Company incurred cost of sales of $3.2 million in the current quarter, which comprise the cost of the product sold, mine administration costs, equipment depreciation, and depletion of stripping costs. Total cash costs per tonne of product sold in the fourth quarter of 2008 were $14.09 compared to $18.51 for the first quarter of 2009. The increase is due primarily to operational costs of approximately $4.00 per tonne that were expensed in the quarter due to the full mine shut down at the end of February 2009.

Exploration expenses for the three months ended March 31, 2009 were lower than the quarter ended March 31, 2008. Exploration expenditures in Mongolia were incurred in the first quarter of 2008 as the Coal Division assembled equipment, hired additional personnel and began pre-development activities at the Ovoot Tolgoi mine site. Throughout 2008 the exploration program concentrated on drilling in the West Field. The Coal Division continued its exploration activities in Indonesia throughout the first quarter 2009.

Administration expenses for the quarter ended March 31, 2009 were $6.1 million compared to $1.1 million for the quarter ended March 31, 2008. Administration expenses for the quarter ended March 31, 2009 include approximately $3.3 million of stock based compensation compared to approximately $583,000 for the same period last year. Other amounts that are included in the quarter ended March 31, 2009 that are not comparable to the 2008 quarter are listing fees of approximately $235,000, a corporate consulting cost of $500,000 and a foreign exchange loss of approximately $843,000 compared to a foreign exchange gain of approximately $462,000 for the quarter ended March 31, 2008.

Administration expenses for the quarter ended December 31, 2008 included approximately $3.8 million of foreign exchange losses, $835,000 of listing fees and $1.5 million of stock based compensation.

The administration expenses consist of the following major categories broken down for comparative purposes.

Legal fees decreased for the quarter ended March 31, 2009 compared to the same period in 2008. The majority of these charges were for costs associated with the Company's regulatory affairs including expenses associated with corporate governance, filing, registration and disclosure.

Corporate administration fees increased in the three months ended March 31, 2009 compared to the same period in 2008. The increases relate to added personnel and office and administration support costs, insurance, travel and filing fees. Certain of the Company's administrative staff and office facilities are provided by Global Mining Management Ltd ("GMM") (see 'Related Party Transactions' below) on a cost recovery basis. Accordingly, quarterly fluctuations in the costs of administrative and personnel costs can be expected commensurate with increases or decreases in quarterly corporate activity and the level of personnel employed.

Professional fees have increased for the three months ended March 31, 2009 as compared to the same period in 2008. Quarterly charges include the cost of quarterly reviews, internal computer systems training and planning, and accruals for the year end audit of the Company's financial statements. The current quarter increase relates predominantly to a corporate consulting contract cost of $500,000 for our Mongolian operations.

Salaries and benefits, excluding stock based compensation costs, increased in the three months ended March 31, 2009 to $422,000 as compared to $293,000 for the three months ended March 31, 2008. Salary and benefits compared to the same period in 2008 have increased due to the increased corporate activities related to the Coal Division.

The foreign exchange losses/ (gains) are primarily the result of changes of the U.S. to Canadian dollar and the U.S to Mongolian Tugrik exchange rates during the period.

Listing fees consist of legal, accounting and professional fees. The Company had planned to treat the charges as share issue costs upon a successful equity fundraising for a secondary listing on an Asian stock exchange. However, current liquidity issues in the credit markets, along with the increased cost of obtaining capital and the reduced availability of equity funding have led to a decision to expense these costs. In the first quarter of 2008 the Company had capitalized the listing fees. The Company is continuing with the secondary listing application.

EXPLORATION COSTS AND DISCONTINUED OPERATIONS BY DIVISION

($ in thousands)

	Three Months Ended March 31,	
	2009	2008
Mongolian Coal Division	**$ 768**	$ 3,893
Indonesian Coal Division	**3,362**	2,482
Total Exploration	**$ 4,130**	$ 6,375

Coal Division

The total coal exploration expenditures in the three months ended March 31, 2009 were $4.1 million compared to $6.4 million for the same period in 2008.

Exploration costs are charged to operations until such time as it has been determined that a property has economically recoverable reserves, in which case the costs incurred to develop a property are capitalized.

The costs of predevelopment, overburden removal and stripping activities, which are incurred in the pre-preproduction stage are expensed as incurred. The Company commenced mining operations on April 2, 2008, and costs incurred for site development prior to the production phase were expensed.

The Mongolian Coal Division started exploration and development subsequent to the completion of the coal transaction at the end of May 2007. Expenditures in the first quarter 2008 were incurred as the Coal Division assembled equipment, hired additional personnel and began pre-development activities at the Ovoot Tolgoi mine site. Pre-development of the Ovoot Tolgoi open pit mine site included road construction, site clearing, drainage control and topsoil removal. The exploration expenditures also included consulting-geological, drilling, license fees, office and salary and benefits.

Exploration expenditures in Mongolia were approximately $768,000 for the three months ended March 31, 2009 and included consulting-geological, drilling, license fees, office and salary and benefits. Exploration expenditures will vary from quarter to quarter and are also related to the seasonality of the exploration programs.

The exploration programs in 2009 will continue to expand the extent of the known mineralization in both the underground and surface coal deposits as well as increase the knowledge level of the quality and structure of the deposit.

In Indonesia, exploration expenditures were $3.4 million for the three months ended March 31, 2009. The Company began its exploration activities in Indonesia in early 2008. The drilling results received to date support the quality data from the initial field outcrop test results. The 2008 drilling program identified quantities of coking coal that appear to be amenable to surface mining. To date, the Company has incurred expenditures to carry out geological reconnaissance, licensing, mapping, initial drilling, and a documentation program on the new concessions in East Kalimantan.

In January 2009, a permit was issued which will allow the Company to commence surface coal mining at the SW deposit on the MCM concession.

Metals Division – Discontinued Operations

The Company sold the Metals Division to Ivanhoe in December 2008. The Metals Division consists of a series of base and precious metal exploration properties in Mongolia and Indonesia. In 2008, the proceeds of $3 million were classified as a deposit received for the sale of the division. The gain on sale of the Metals Division is $2.6 million and is classified in the consolidated statement of changes in equity.

In 2008, the sale of the Metals Division was disclosed as a discontinued operation and its financial results were presented as separate items in the consolidated statement of financial position and statements of comprehensive income and cash flows.

During the three months ended March 31, 2008, exploration expenses were $1.3 million and the majority of the expenses incurred in Mongolia and Indonesia were related to ongoing license fees, drilling, and salaries.

The exploration expenditures of $1.3 million have been classified as a loss from discontinued operations. The basic and diluted loss per share from discontinued operations is $0.02 for 2008.

OTHER INCOME/(EXPENSE)

($ in thousands)

	Three Months Ended March 31,	
	2009	2008
Fair value change on embedded derivative	**$ -**	$ (7,223)
Interest accretion on line of credit facilities	**-**	(598)
Interest expense	**(53)**	(134)
Accretion expense	**(9)**	
Interest income	**9**	528
	$ (52)	$ (7,427)

On April 26, 2006, in conjunction with the coal transaction, the Company entered into a line of credit facility (the "First Funding Agreement") with Ivanhoe whereby Ivanhoe agreed to make available to the Company an unsecured line of credit of up to $10 million which was extended to a maximum of $15 million on June 6, 2007. Attached to the First Funding Agreement was a conversion option which became effective upon the completion of the coal transaction. On January 23, 2008, concurrent with the closing of equity private placements and at the Company's request, Ivanhoe converted the then principal balance of $29,982,631 into 14,709,701 common shares of the Company. As a result of this conversion the amount due under the line of credit facility was eliminated.

Under IFRS, the conversion feature is considered an embedded derivative liability that must be recorded at its fair value upon initial measurement and revalued at each subsequent reporting period. The difference between the debt host component and the principal amount of the loan outstanding is accreted to income over the remaining term of the debt. (Please refer to Note 20.4 of the Consolidated Interim Financial Statements for further details).

Interest expense was higher in 2008 compared to the same period in 2009. This is related to advances on the line of credit to fund operations. In January 2008, with the completion of the additional equity private placements, the First Funding Agreement line of credit facility and the Second Funding Agreement were terminated.

In 2009, as part of the sale of the Metals Division, the Company obtained a $30 million working capital credit facility from Ivanhoe. The credit facility is for a one year term with a one year discretionary extension. The credit facility is unsecured and carries an interest rate equal to LIBOR plus 750 basis points. The Company has received advances of $8 million against the line of credit facility in the first quarter 2009.

The Company recognizes asset retirement obligations in the period in which they are incurred. The liability component is measured at fair value and is adjusted to its present value as accretion expense is recorded.

Interest income was higher in 2008, which relates to the completion of the equity financings in early 2008. Lower interest income during the 2009 period reflects lower average cash balances during this period.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow Highlights

($ in thousands)

	Three Months Ended	
	March 2009	March 2008
Cash used in operating activities	**$ (9,414)**	$ (11,365)
Cash used in investing activities	**(5,536)**	(12,770)
Cash generated by financing activities	**8,222**	107,567
Effect of foreign exchange rate changes on cash	**16**	492
Cash balance, beginning of year	**10,117**	1,394
(Decrease) increase in cash for the year	**(6,712)**	83,924
Cash balance, end of year	**3,405**	85,318

General market conditions

Current problems in the credit markets and deteriorating global economic conditions have led to a general weakening of commodity prices. Volatility has been unusually high and it is difficult to forecast the price of and related demand for our coal products. Credit market conditions have also increased the cost of obtaining capital and limited availability of funds. Limited access to the Ceke border crossing have impacted our 2009 production levels and coal deliveries. Accordingly, management is reviewing the effects of the current conditions on our business plans for the upcoming year.

Cash used in operating activities

At March 31, 2009 the Company had cash resources of $3.4 million compared to cash resources of $10.1 million at December 31, 2008.

Cash used in continuing operations was $9.4 million for the three months ended March 31, 2009 compared to $10.9 million for the three months ended March 31, 2008. Cash used in discontinued operations was $510,000 for the three months ended March 31, 2008. The Metals Division was sold in December 2008, which will not affect discontinued operations disclosure for periods ending in 2009.

The Company incurred a net loss from continuing operations of $10.0 million for the three months ended March 31, 2009 compared to a $14.9 million loss for the same period in 2008. Continuation of the Company's build out of the Ovoot Tolgoi mining operation, higher finance costs and evaluation and exploration costs contributed to the higher losses in 2008. With the increased activities at the Ovoot Tolgoi site and the operations in Mongolia, accounts receivable, prepaids, inventory and accounts payable increased during the three months ended March 31, 2009 and 2008.

In 2008, foreign exchange gains are primarily reflective of the larger US and Canadian cash balances due to the completion of the private equity placements and the related changes in the value of the Canadian dollar versus its US counterpart. The foreign exchange loss, in 2009, is primarily reflective of the change in the value of the Mongolian Tugrik versus the US dollar.

Accounts receivable include funds due from government taxation authorities (Goods and Services Tax or Value Added Tax). Verification of the collectability of the funds from government taxation authorities was conducted in the fourth quarter 2008 and the Company anticipates full recoverability of amounts due on account. Payment of accounts receivable due from government taxation authorities in Mongolia could be delayed throughout 2009, and may be used to offset future income taxes payable on account.

The Company is also closely monitoring collectability of outstanding accounts receivable for current coal sales. Although all accounts are currently in order, unfavorable market conditions may have an impact on future collectability.

Prepaid balances have increased during 2009. The increase relates to the timing of prepayments for Mongolian exploration licenses, supplies, insurance, and additional lease deposits.

Coal and supplies inventory have increased to $15.5 million in the current quarter from $13.7 million at the year ended December 31, 2008. Coal and supplies inventory is valued at the lower of cost and net realizable value. Coal inventory cost of $15.2 million includes direct and indirect labour, operating materials and supplies, transportation costs and an appropriate portion of fixed and variable overhead expenses, including depreciation and depletion. Supplies inventory consists of consumable parts and supplies.

The Company had a stockpile of approximately 1.1 million tonnes of coal inventory at March 31, 2009.

Accounts payable have decreased in the current quarter but were higher in 2008 due to the additional coal exploration, administrative and mining activity.

Cash used for investing activities

Cash used for investing activities was $5.5 million for the three months ended March 31, 2009 and $12.8 million for the three months ended March 31, 2008.

The Company's investment in plant and equipment was higher during the quarter ended March 31, 2008. The coal mining equipment that was purchased in November 2007 was commissioned for use at Ovoot Tolgoi in March 2008. Deposits for further mining equipment and maintenance facilities are included as plant and equipment. The Company incurred expenditures during the three months ended March 31, 2009 for tires, mobile and mining equipment.

Interest income will increase or decrease in a quarter depending on the cash position. Interest was higher for the three months ended March 31, 2008, which related directly to the completion of the equity financings.

Cash provided by financing activities

During the quarter ended March 31, 2008, the Company completed a series of equity financing transactions and received proceeds from the exercise of stock options. The total proceeds net of issue costs were $113.6 million for the three months ended March 31, 2008, compared to proceeds received for the exercise of stock options of $222,000 for the three months ended March 31, 2009.

The proceeds from the equity financings in 2008 have been used for the initial development of the open-pit coal mine at the Company's Ovoot Tolgoi project, and for additional drilling and engineering focused on the Ovoot Tolgoi site and development of the Indonesia coal project. Proceeds have also been used for investigating new projects, equipment expenditures and for general corporate and administrative purposes.

On December 31, 2008 the Company announced the sale of its Metals Division to Ivanhoe for $3 million and other non-cash consideration. As part of the sale transaction, the Company obtained a $30 million credit facility from Ivanhoe. The credit facility is for a one year term with a one year discretionary extension. The credit facility is unsecured and carries an interest rate equal to LIBOR plus 750 basis points. For the quarter ended March 31, 2009, the Company received advances of $8 million against the line of credit facility.

In October 2007, the Company entered into a second funding agreement with Ivanhoe. Amounts advanced under this line of credit facility were repaid from proceeds of the equity financings in January 2008.

Liquidity, Financing and Working Capital Resources

The Company is an integrated coal exploration, development and production company. The Company's ability to continue as a going concern is dependent upon establishing profitable operations, the confirmation of economically recoverable reserves, and the ability of the Company to obtain further financing to develop properties.

The Company has been reviewing its detailed revenue and expenditure plans, both discretionary and non-discretionary, for 2009 and has identified the need for further financing to enhance its working capital resources. The Company is prioritizing its budgeted expenditures with a current emphasis on production and near term cash flow.

As part of the sale of the Metals Division to Ivanhoe in December 2008, the Company obtained a $30 million credit facility from Ivanhoe. The credit facility is for a one year term with a one year discretionary extension. The credit facility is unsecured and carries an interest rate equal to LIBOR plus 750 basis points.

The Company will be incurring expenditures for the exploration, development, and production of its current coal assets, and to the extent that available financial resources permit, will incur expenditures for the acquisition of further coal assets. Revenue from current operations will not be sufficient to meet current expenditure levels.

Cash generated from operations may increase in 2009, but it may not be sufficient to meet all expenditure levels. Management believes that additional debt or equity financing, beyond the current credit facility with Ivanhoe, is available but no additional source of funding has yet been identified. The Company will be reviewing all discretionary and non-discretionary spending, which will include a review of future project costs and capital commitments.

RELATED PARTY TRANSACTIONS

The Company is a party to a shareholders' cost-sharing agreement with certain other public and private companies, including Ivanhoe (the "Other Companies") pursuant to which the Company and the Other Companies are equal shareholders in GMM and, through GMM, share office space, furnishings and equipment and communications facilities (on a cost recovery basis) and the employment, on a part-time basis, of various administrative, office and management personnel in Vancouver, British Columbia. Costs of the shared office facilities and the shared part-time employees are recovered from the Company proportionate to the time spent by the shared part-time employees on matters pertaining to the Company. Certain of the directors and officers of the Company are also officers and directors of GMM. The Company has utilized the services of the GMM staff and office since September 1, 2003 and has incurred costs of $408,000 and $516,000 for the quarters ended March 31, 2009 and 2008, respectively.

On December 31, 2008, the Company announced the sale of the Metals Division to Ivanhoe for $3 million and other non-cash consideration. The Metals Division consists of a series of base and precious metal exploration properties in Mongolia and Indonesia, related assets, employees and contracts. As part of the sale transaction, the Company obtained a credit facility from Ivanhoe, which allows SouthGobi to receive loan advances from Ivanhoe to an aggregate maximum of $30 million. The credit facility is for a one year term with a one year discretionary extension. The credit facility is unsecured and carries an interest rate equal to LIBOR plus 750 basis points.

OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares without par value and an unlimited number of preferred shares without par value. As at April 23, 2009: 133,333,282 common shares were issued and outstanding and 7,004,385 share purchase options were outstanding. On a diluted basis, 140,337,667 common shares were outstanding. There are no preferred shares outstanding.

Ivanhoe, directly and indirectly, currently owns 106,804,155 common shares representing approximately 80% of the issued and outstanding common shares of SouthGobi.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

There has been no change in the Company's internal controls over financial reporting that occurred during the most recently completed quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

RISK FACTORS

The business of mineral exploration and extraction involves a high degree of risk. Few properties that are explored are ultimately developed into production.

Material risks and uncertainties affecting SouthGobi, their potential impact and the Company's principal risk management strategies are substantially unchanged from those disclosed in the Company's MD&A for the year ended December 31, 2008, which is available at www.sedar.com.

OUTLOOK

The commodity price environment generally worsened with the slower global macroeconomic environment expected for 2009. Although the full impact of the current economic volatility on coal prices remains uncertain, we are encouraged by long-term fundamentals for the Company's core commodity.

Coal remains a prime low cost energy source, and countries such as India and China account for a large percentage of the world's coal demand. As developing nations expand their urban and industrial infrastructure, we believe that demand for commodities will increase as the current economic crisis passes.

The Company's principal assets in Mongolia and Indonesia are both well located in close proximity to China and other major industrializing economies in Asia. Furthermore, our near-term production is in high quality bituminous thermal and coking coals, which we anticipate will remain attractive premium products.

Mongolia

The Company commenced initial deliveries of coal in late September 2008, which continued through the fourth quarter, with revenue at $3.5 million for the three months ended March 31 2009 and approximately 127,000 tonnes shipped.

The Company has been engaged in ongoing discussions with the Mongolian Government with the objective of establishing a border crossing at the Ceke border point that will be open for a full 24 hours per day, 365 days per year. This is expected to increase daily distribution of Ovoot Tolgoi coal to our customers in China. In March 2009 the border started opening more reliably for seven days per week on an eight hour dayshift basis. Continuation of this situation will likely enable SouthGobi to resume mining operations at Ovoot Tolgoi in the near term.

In February 2009, the Company concluded an additional sales contract with a Mongolian company for 500,000 tonnes of premium and standard thermal coal. Existing Chinese customers are in advanced discussions with SouthGobi at present for new sales contracts to provide additional coal. The Company has also identified a number of potential new customers in Western Inner Mongolia and other parts of China. These potential new customers include end users, distributors, steel mills, power plants and industrial consumers.

SouthGobi has appointed the major international engineering firm, Norwest, to complete a new technical report for the Ovoot Tolgoi project incorporating data obtained from drilling to the end of 2008. The Company believes the new report, which is expected to be completed later in 2009, will more fully demonstrate the potential of the Ovoot Tolgoi coal deposit.

For 2009, the Company anticipates it could produce up to 2.5 million tonnes of coal from its Ovoot Tolgoi operations. However, the achievement of this target may be adversely impacted if the Ceke border crossing issues are not resolved on a long term basis. Based on our ongoing and positive discussions with the Mongolian Government, the Company believes implementation of a “24/7” border designation for Ceke could happen this year.

Indonesia

In January 2009 a permit was issued, which will allow the Company to commence surface coal mining at the SW resource block on the MCM concession.

In March 2009, the Company reported resource estimates for the E and SW resource blocks. The E resource block on the MCM concession contains 5.0 million tonnes of measured resources, 7.3 million tonnes of indicated resources and 2.7 million tonnes of inferred resources, while the SW resource block contains 2.6 million tonnes of inferred resources. Details of the assumptions and parameters used to calculate these coal resources and coal quality estimates are set out in the Technical Report entitled “Mamahak Coal Project” dated March 26, 2009 and available at www.sedar.com.

Testing of coal from the MCM concession suggests the coal is of a premium character and has some unique characteristics suitable in coking processes. In particular, the coal has high fluidity.

The Company expects to continue an integrated advanced stage exploration and development program on its Indonesian projects. While further drilling is ongoing, work to date on the MCM concession supports our objective to develop an open-pit mining operation. SouthGobi is planning to ship test cargoes from the Mamahak coal project to potential customers during 2009.

Management is currently working with potential customers and anticipates contracts may be completed in the second quarter of 2009. The Company will outsource the mining services and is currently establishing a capped mining rate contract for these services. Near term development of the MCM concession, however, will depend on demand and economical pricing for its products.

Overview and Objectives

As we look back to 2008, our accomplishments included obtaining the Ovoot Tolgoi mining license, developing the Ovoot Tolgoi mine site infrastructure, establishing ourselves as a coal producer, building our production capacity and developing our principal projects in Mongolia and Indonesia.

Our objectives for 2009 are to:

(i) Continue evolving into a fully-fledged producer through the advancement of our key projects and, in particular, through expanded sales and production at Ovoot Tolgoi and commencement of trial shipments at Mamahak;
(ii) Utilize our institutional knowledge of our properties in Mongolia and Indonesia to deliver continued exploration success with the aim of substantially increasing the Company's coal resource base;
(iii) Maximize the market pricing of our coal through further development of relationships with customers that recognize the value of its premium specification; and
(iv) Remain focused on efficiency and prudent financial management.

With the slowdown of the global economy and deteriorating global market conditions there has been a weakening of commodity prices. However, for the long term the Company believes that the fundamentals remain strong for coal.

May 1, 2009