SouthGobi Energy Resources

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
September 30, 2008

(Stated in U.S. Dollars)

SOUTHGOBI ENERGY RESOURCES LTD

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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, the Company's principal focus is now on its coal operation at Ovoot Tolgoi and coal and metals exploration and development in southern Mongolia and Indonesia.

Recent Developments

Ovoot Tolgoi Project Development

On September 11, 2007, the Company received official notification from the Government of Mongolia that it had been granted a mining license for its open-pit coal mine at its Ovoot Tolgoi Project. A 30-year Mining License Certificate, dated September 20, 2007 was received on October 1, 2007. In April 2008, the Company received its Permit to Mine for the Ovoot Tolgoi open pit operations.

SouthGobi announced on November 5, 2007 that it had committed to purchase a fleet of coal-mining equipment for the Ovoot Tolgoi Project. Delivery of the equipment, valued at approximately $16 million, commenced in March 2008. Auxiliary equipment and a temporary maintenance facility were delivered to the mine site in December 2007 to begin pre-stripping activities.

On April 15, 2008, the Company announced the purchase of a second fleet of coal mining equipment for the Ovoot Tolgoi open-pit mine and an additional equity private placement.

The equipment was purchased through a local equipment distributor in Mongolia, and is valued at approximately $31 million. The second fleet is scheduled for delivery late in the second quarter of 2009 with a final amount owing of approximately $15 million. The Company also has the option to purchase additional truck and shovel fleets for delivery in 2010 and 2011. The purchase of the larger capacity fleet allows the Company to expand the annual production capacity and accelerate development at the Ovoot Tolgoi open-pit mine.

Pre-development of the Ovoot Tolgoi open pit mine began during the first quarter of 2008. Road construction, site clearing, drainage control and topsoil removal from the planned coal stockpile area continued throughout the second quarter. The initial workforce for the Ovoot Tolgoi open-pit mine has been recruited, along with senior mine management staff.

During the current quarter, waste removal continued and coal was stockpiled for scheduled initial shipments.

The mancamp and permanent shop facility plans were approved and construction detail layouts have commenced, along with airstrip surfacing. The mancamp and shop facilities are scheduled for completion in mid 2009, and the mine airstrip surfacing project is scheduled for completion before year end.

In early January 2008, the Mongolian Government's Mineral Resources and Petroleum Authority selected SouthGobi as Mongolia's "Best Exploration Company of 2007".

On June 4, 2008, the Company held the official opening ceremony at the Ovoot Tolgoi open-pit mine site.

On July 31, 2008, the Company announced that an independent resource estimate compliant with National Instrument 43-101 had sharply increased resources at the Ovoot Tolgoi West Field. The new report shows that Ovoot Tolgoi's West Field now contains 79.6 million tonnes of measured resources, 113.6 million tonnes of indicated resources, up from 55.1 million tonnes of measured resources and 28.7 million tonnes of indicated resources. Additional inferred resources of approximately 138.8 million tonnes were also reported up from the previously reported amount of 22.6 million tonnes.

The 2008 drilling program has been successful with the discovery of multiple, near surface coking and thermal coal seams at the new Sumber coal project. Previously referred to as part of the Alphabet fields, the Sumber coal project is 16 kilometers ("km") east of the current Ovoot Tolgoi coal mine. In October 2008, the Company announced the discovery of a new coal occurrence approximately 10 km southeast of the current Ovoot Tolgoi coal mine.

Mamahak Project

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. The agreement allows for SouthGobi to earn an initial 56% interest by spending approximately $14.5 million on the exploration and development of the project. The Joint Venture Earn-In Agreement also gives the Company the right to increase its working interest position to 100%.

In September 2008, based on the positive exploration results, the Company increased its working interest in the Mamahak coal project to 85%. The cost to increase its working interest was $13.2 million, comprised of cash and shares in the Company.

Financing Activities

On January 24, 2008, the Company announced the closing of an equity private placement of 10 million common shares at C$8.00 per share and a second equity private placement of 3.5 million common shares at C$9.00 per share to institutional investors for total gross proceeds of C$111,500,000 ($108,372,995).

Concurrent with the closing of these equity private placements, Ivanhoe converted certain preferred shares and convertible debt into common shares of the Company. Subsequently, the Company repaid all non-convertible indebtedness owing to Ivanhoe.

The preferred shares were issued to Ivanhoe pursuant to the coal transaction. Each preferred share issued to Ivanhoe was convertible into one (1) 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.

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

Under the terms of a funding agreement dated April 25, 2006 (the "First Funding Agreement"), the loans outstanding thereunder were 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 loans into common shares at a conversion price of C$2.09 per share. Until August 29, 2008, Ivanhoe had the right to convert the outstanding loans into common shares at a conversion price of C$2.35 per share. In connection with the equity private placements announced in January, 2008, the Company elected the conversion of the outstanding loans under the terms of the First Funding Agreement into common shares at C$2.09 per common share.

A second funding agreement between the Company and Ivanhoe dated October 25, 2007 (the "Second Funding Agreement") provided for an additional, unsecured non-convertible line of credit of up to $32.5 million. Advances and interest under the Second Funding Agreement of approximately $8.1 million were repaid to Ivanhoe from the proceeds of the January 2008 equity private placement. The Second Funding Agreement was then terminated.

On February 18, 2008, Southgobi announced an additional equity private placement to institutional investors in Hong Kong of 711,111 common shares at C$9.00 per share for gross proceeds of C$6.4 million ($6,484,296).

The Company subsequently entered into a subscription agreement with its Mongolian mining equipment distributor for a private placement of 2 million shares at C$12.45 per share representing an aggregate offering amount of C$24,900,000 ($24,785,076). This private placement closed on May 30, 2008.

It is expected that the bulk of the proceeds of these equity private placements will be used to further develop the Ovoot Tolgoi open-pit and underground projects, along with other development projects, exploration activities and for general corporate and administrative purposes.

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.

CRITICAL ACCOUNTING ESTIMATES

A detailed summary of all of the Company's significant accounting policies is included in Note 2 to the annual Consolidated Financial Statements for the year ended December 31, 2007.

All direct costs related to the acquisition of mineral property interests are capitalized by property or project. 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. Exploration costs include value-added taxes incurred in foreign jurisdictions when recoverability of those taxes is uncertain.

The Company reviews the carrying values of its mineral property interests whenever events or changes in circumstances indicate that their carrying values may exceed their estimated net recoverable amounts. An impairment loss is recognized when the carrying value of those assets is not recoverable and exceeds their fair value.

The Company is required to undertake reclamation activities based on the Company's interpretation of current applicable environmental laws and regulatory requirements. The estimated costs of these reclamation activities depend on labor costs, the environmental impacts of the Company's operations, the effectiveness of the chosen reclamation techniques, and applicable government environmental standards. The Company also estimates expected mine closure dates, interest rates, and foreign currency exchange rates when determining its asset retirement obligation. Changes in any of these factors could cause a significant change in the reclamation expense charged in a period.

Coal and parts inventory is valued at the lower of cost and net realizable value. Coal inventory includes direct and indirect expenses associated with extracting and processing, including labor, operating materials, supplies, transportation costs and a relevant allocation of overhead including depreciation and depletion.

The Company has adopted the guidance of CICA Emerging Issues Committee EIC-160, Stripping Costs Incurred in the Production Phase of a Mining Operation. The guidance was effective for years commencing on or after July 1, 2006. The abstract requires the cost of the stripping activities during the production phase of the mine to be accounted for according to the benefit received. Generally, such costs are expensed as variable production costs; however, the costs are capitalized if they can be shown to represent a betterment to the mineral property. A betterment occurs when the stripping activity provides access to sources of reserves that will be produced in future periods that would not have otherwise been accessible in absence of the stripping activity. Any capitalized stripping costs are described as investing activities in the cash flow statement and are depleted on a unit-of-production basis over the life of the reserves that directly benefit from the specific stripping activity.

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

Future income tax assets and liabilities are computed based on differences between the carrying amounts of assets and liabilities on the balance sheet and their corresponding tax values, using the enacted or substantively enacted, as applicable, income tax rates at each balance sheet date. Future income tax assets also result from unused loss carry-forwards and other deductions. The valuation of future income tax assets is reviewed quarterly and adjusted, if necessary, by use of a valuation allowance to reflect the estimated realizable amount.

The Company accounts for stock options granted to directors, officers, employees and service providers using the fair value method of accounting. Accordingly, the fair value of the options at the date of the grant is determined using the Black-Scholes option pricing model, as required by generally accepted accounting principles, and stock-based compensation is accrued and charged to operations, with an offsetting credit to contributed surplus, over the vesting periods. 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.

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

CHANGE IN ACCOUNTING POLICIES

On January 1, 2008, the Company adopted the following provisions of the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections. There was no material impact on the Company's financial condition or operating results, as a result of the adoption of these new standards:

a) Section 3862 – Financial Instruments – Disclosures, which replaces Section 3861 and provides expanded disclosure requirements that provide additional detail by financial asset and liability categories.

b) Section 3863 – Financial Instruments – Presentation, to enhance financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows.

c) Section 3031 – Inventories, which establishes standards for the measurement and disclosure of inventories. It provides the Canadian equivalent to International Accounting Standard IAS 2 – Inventories. The company's current practice for valuing inventory is in accordance with the new standard.

   Coal inventory is valued at the lower of cost and net realizable value. Production costs include direct and indirect labor, operating materials and supplies, transportation costs, an applicable portion of operating overhead, including depreciation. Net realizable value is the expected difference between the average selling price for the finished product less the costs to get the product into saleable form and to the selling location.

   Parts inventory consists of consumable parts and supplies, which are valued at the lower of average cost and net realizable value. Net realizable value is actual cost less any provision for obsolescence.

d) Section 1535 – Capital Disclosures, which establishes standards for disclosing information about an entity's capital and how it is managed. Under this standard, the Company is required to disclose the following, based on the information provided internally to the Company's key management personnel:

   - qualitative information about its objectives, policies and processes for managing capital;
   - summary quantitative data about what it manages as capital;
   - whether during the period it complied with any externally imposed capital requirement to which it is subject; and
   - when the Company has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

e) Section 1400 – General Standards of Financial Statement Presentation, to include requirements for management to assess and disclose an entity's ability to continue as a going concern.

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 Metals Division was prepared by, or under the supervision of, Richard R. Gosse, P.Geo, the Vice President Exploration, of the Company’s Metals Division. Disclosure of a scientific or technical nature in this MD&A with respect to the Company’s Coal Division was prepared by, or under the supervision of Gene Wusaty, P.Eng, Chief Operating Officer of the Coal Division. Each of Messrs. Gosse and Wusaty is a “qualified person” for the purposes of National Instrument 43-101 of the Canadian Administrators (“NI 43-101”)

Mongolia Exploration Licenses-Overview

The term for an exploration license in Mongolia is nine years, with escalating rate structures varying from $0.10 per hectare (“ha”) to $1.50 per ha for licenses that are outstanding seven to nine years. Accordingly, the longer an exploration license is held the higher the annual cost becomes. As exploration licenses are identified as having limited mineral potential, they will be surrendered in order to minimize license fees. The number of licenses held will therefore fluctuate on a period to period basis as new properties are acquired and older ones surrendered. A mining license is granted for a term of 30 years with rights to two 20 year extensions.

An exploration license holder is required to undertake reconnaissance, exploration and related work at a per ha minimum of $0.50 for each of the second and third years of the term of the exploration license; $1.00 for each of the fourth to sixth years and $1.50 for each of the seventh to ninth years. The Company is targeting its 2008 exploration program to meet the minimum expenditures.

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

Coal Group Profile

Mongolia Exploration Licenses

The coal transaction was completed in May 2007, and 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 November 17, 2008 the Company held 45 licenses, which in total cover an area of approximately 2.0 million ha.

Properties in Mongolia

Ovoot Tolgoi Project (formerly Nariin Sukhait)

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.

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.

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 2008 exploration program is concentrating on drilling in the West Field. The exploration program continues 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 both deposits. A similar exploration and development program will be applied to the South-East Field surface and underground areas at Ovoot Tolgoi in the 2009 exploration program.

Previously estimated resources for the South-East and West Fields areas, categorized in accordance with NI 43-101, were approximately 105 million tonnes of measured resources, 45 million tonnes of indicated resources and an additional 29 million tonnes of inferred resources, with a coal rank of volatile B to A bituminous based on the ASTM D388 standards.

The 2008 exploration program continued during the current quarter focusing primarily on the Ovoot Tolgoi deep coal delineation and coal occurrences to the east and west of Ovoot Tolgoi. In addition, drilling work continued on greenfields exploration licenses.

In July 2008, the Company announced a significantly higher estimate of resources. Ovoot Tolgoi's West Field is now estimated to contain measured coal resources of approximately 79.6 million tonnes (55.1 million tonnes as at December 31, 2006), indicated coal resources of approximately 113.6 million tonnes (28.7 million tonnes as at December 31, 2006) and inferred resources of approximately 138.8 million tonnes (22.6 million tonnes as at December 31, 2006). Together with the previously identified resources in the South-East field, the estimated resources for these areas are approximately, 129.3 million tonnes of measured resources, 129.6 million tonnes of indicated resources and an additional 145.3 million tonnes of inferred resources. The resource estimates incorporate exploration data up to December 2007 for the West Field surface area down to a depth of 250 m. Details of the assumptions and parameters used to calculate these coal resources and coal quality estimates are available in the Technical Report entitled "Ovoot Tolgoi Property – West Field Omnogovi Aimag, Mongolia" dated September 12, 2008 and available at www.sedar.com.

In April 2007, Ivanhoe initiated the formal process for obtaining a Mining License for development of a surface open-pit coal mine at Ovoot Tolgoi. As required by the Minerals Law of Mongolia, the Company filed a Detailed Environmental Impact Assessment (DEIA) and a Geological Resource Report for the Ovoot Tolgoi property. In May 2007, the DEIA for the Ovoot Tolgoi coal project was approved by the Mongolian Government's Ministry of Environment. On August 6, 2007, the government approved the Geological Resource Report. The 30 year Mining License dated September 20, 2007, was received on October 1, 2007.

As a final step, and in order to commence mining operations at Ovoot Tolgoi, SouthGobi obtained a Permit to Mine on March 31, 2008 with an effective date of April 2, 2008. In order to obtain the Permit to Mine, the Company submitted for review by governmental authorities in Mongolia a Technical and Economical Report (comparable to a scoping level study) and a first year mine plan.
Initial pre-development work was started in January with stockpiling of topsoil, ditching and roadwork. Approximately $16 million of mining equipment was purchased from a local mining equipment supplier in Ulaanbaatar. The Company received the mining equipment in March 2008 and training programs were initiated. Land use permits for the mining area and its associated infrastructure, such as roads, personnel facilities and shop complex were obtained in January 2008. Permanent site facilities have been approved and construction started in the second quarter of 2008. The exploration camp was winterized in 2007 and commissioned in early 2008 and will service the project until the permanent facilities are ready. A temporary maintenance shop has also been purchased and erected. Semi-weekly flights to the Ovoot Tolgoi airport began at the end of 2007.

Upon receiving the Permit to Mine, SouthGobi Energy officially began mining and stockpiling coal at its Ovoot Tolgoi Project in Mongolia's South Gobi region in April 2008. The official start of mining culminated after months of development and preparation, including the delivery of a fleet of surface-mining equipment during the first quarter 2008. As of September 30, 2008, the total waste mined was 1.5 million BCM (Banked Cubic Meters) and the total coal mined was 624,000 tonnes at a strip ratio of 2.4 BCM waste per tonne of saleable coal. Of the 624,000 tonnes of coal mined, approximately 136,000 tonnes is oxidized steam and 488,000 is premium coal. The inventory site cash costs through the second and third quarters have ranged between $8 and $10 per tonne. Coal sales at the mine gate were initiated in late September 2008 and were approximately 1,154 tonnes. The average selling price for existing contracts is $29.20 per tonne.

All senior mine operation staff have now been hired. At the beginning of June 2008 the mine started operating on a full time 24 hour basis. Regular manpower rotation at the site is in effect with crew rotations every 14 days. At September 30, 2008, SouthGobi employed 209 employees in Mongolia of which nine are expats and 200 are nationals. Of the 209 employees, 31 are in the Ulaanbaatar office, 175 at the mine site and the remainder at outlying smaller offices close to the mine site.

On April 15, 2008, the Company purchased a second fleet of coal mining equipment for the open pit mine, which is scheduled for delivery late in the second quarter of 2009. This second fleet of equipment is valued at approximately $31 million. The additional equipment will expand annual production capacity for the Ovoot Tolgoi mine to approximately 3 million tonnes in 2009.

Work on the new shop complex, mancamp and airstrip surfacing at Ovoot Tolgoi continued throughout the quarter. The airstrip surfacing project remains on schedule with a year-end completion date. Agreement to work throughout the winter months has been reached with the mancamp and shop building contractor, thus allowing for completion of both jobs in mid 2009.

A Beijing representative office has been established in China. The Beijing office has also hired an Inner Mongolian representative who will be located in Ejina (near Ceke), People's Republic of China (PRC) to deal with transportation matters involving coal export and supply imports into Mongolia.

The Ovoot Tolgoi mine is 45 km north of Mongolia's border with China. A Chinese steel mill has built a railway line to the Ceke border point, where a major automated railcar loading facility opened last year. The Mongolian Government is formally transforming the Ceke border point into a full-time border crossing that will allow daily distribution of Ovoot Tolgoi coal to customers in China. 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.

Ovoot Tolgoi Underground Project

The Ovoot Tolgoi Underground Project is contiguous to and located directly below the proposed surface mine development. The entire extension of the coal at depth from 250 to 700 meters that is designated for the underground development is located inside the existing Ovoot Tolgoi mining license.

In June 2007, Norwest Corporation ("Norwest") identified two potential underground mining areas in conjunction with potential surface mining activities, the West Field and the South Field. In March 2008, The Americas Group prepared a resource estimate for underground resources in the West Field. Estimated 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. A new resource report will be completed in late 2008 to include this data. 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 is concentrating on the underground West Field. This drilling is being conducted to obtain additional information respecting the structure and quality of the deep underground coal mineralization. This same type of program will be carried out in 2009 on the South East Field at Ovoot Tolgoi. 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 has extended the depth of the potential mine to 700m. The No. 5 coal seam continues to be open to depth and along strike.

Tsagaan Tolgoi Project

Tsagaan Tolgoi contains a coal resource which could potentially be used as a power source for Ivanhoe's proposed Oyu Tolgoi copper and gold mining 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 for the basis of a resource estimate. A resource estimate prepared by Norwest and issued on February 25, 2008 quantified 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 are 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 completed a baseline environmental study for the Tsagaan Tolgoi project, which will be used to develop the Environmental Impact Assessments necessary to apply for and obtain a mining license. The Company expects to be in a position to submit a mining license application late in the first quarter 2009.

Tavan Tolgoi Extension Project

The Tavan Tolgoi Extension Project is composed of eight exploration licenses located east of Dalanzadgad, the provincial capital in the Omnogovi Aimag. These exploration licenses surround the third party-owned Tavan Tolgoi coal project on three sides. 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 commenced in the third quarter of 2008.

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 located in Mineral Exploration License #9443, which also encompasses part of the Ovoot Tolgoi Mining License. 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 two 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 has 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 will be completed during the fourth quarter of 2008 and the results are expected to provide the basis for a resource estimate in 2009. Once completed, mine planning will be initiated and an application for a mining license will be submitted for development of this project.

Mamahak Coal Project – Indonesia

In September 2008, the Company increased its working interest in the Mamahak Coal Project (MCM) in East Kalimantan, Indonesia, from 56% to 85%. The Joint Venture Earn-In Agreement (JVA) with Score Resources Ltd. included a provision allowing for the Company to increase its working interest position based on a predetermined pricing mechanism. The Company has elected to increase its working interest to 85% by paying Score Resources $13.2 million, comprised of $8,013,800 cash and 320,000 common shares of the Company at a deemed value of C$16.15 per share. 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 preliminary 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.

SouthGobi has commenced the development of greenfields surface coal deposits in four concessions covering 26,065 ha in East Kalimantan, Indonesia, through its participation in the Mamahak project. An additional 3,236 ha concession was added in the current quarter increasing the total land area to 29,301 ha. The 2008 drilling program has identified quantities of coking coal amenable to surface mining. Further drilling is ongoing. The intent of the drilling program is to determine down-dip continuity, thickness variations, coal quality and structure.

The drilling results received to date support the quality data from the initial field outcrop quality results. The Company has contracted the Jakarta office of Australian based SMG Consultants to assist in the field programs. All drill holes are being geophysically logged with detailed intersection data provided to the SMG Consultants office in Jakarta for the preparation of a geological model to be used for mine planning. SMG Consultants will also review the practicality, design and cost of both wet season and dry season barge loading terminals on the Mahakam River and coal haul roads to these sites. Initial site infrastructure studies have identified an existing 28 km logging road and log pond barging area on the Mahakam River, which, with upgrading will facilitate coal haulage and barge loading activities during wet season periods. Required permit applications for mining, coal transportation and a barge load-out facility for the area have been filed. 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. More than 200 workers are at the project site.

Metals Group Profile

Properties in Mongolia

Mongolia Exploration Licenses

As of November 17, 2008, the Company's Metals Group held 28 exploration licenses for copper and gold exploration in Mongolia covering an aggregate area of approximately 351,000 ha. Eighteen of these licenses, comprising an area of approximately 330,000 ha, the West Gobi Properties, are located in the west-central portion of the Omnogovi Aimag (province) approximately 510 km southwest of Ulaanbaatar, Mongolia. Two of the remaining licenses are known as the Oyut Ovoo property and are located approximately 270 km southwest of Ulaanbaatar. In addition, three licenses are held in Khuvsgul Aimag in northern Mongolia, one license is held as part of a joint venture agreement with Gallant Minerals Ltd. ("Gallant") in the West Gobi and four are located in the Tsagaan Tolgoi region.

The Company regularly targets and prioritizes a number of copper and gold licenses on the basis of potential, age, and cost. As a result of this review, metals related licenses are relinquished or sold once the reviews are finalized.

West Gobi Properties

Exploration on these licences was directed towards discovering porphyry copper–gold deposits and epithermal and mesothermal gold vein systems. Grassroots exploration began in 2003 using satellite data and regional stream sediment sampling. More than 1,000 stream sediment samples were collected and led to the discovery of the Khongor copper-gold deposit and the Naran Bulag gold deposit in 2005.

Khongor Project

The Khongor porphyry copper-gold prospect in southern Mongolia has a mineralized strike length of about 2 km. About half of this strike length (Khongor North) is located within the West Gobi Property that is 100% owned by the Company. The southern part of the prospect is referred to as Khongor South and is located on the Tsakhir license, which has been optioned by the Company from Gallant. In order to exercise the option from Gallant to acquire an 80% interest in the Tsakhir license, SouthGobi is required to make a final cash payment of $30,000 and spend an additional $300,000 on related work programs by August 15, 2009.

The Company carried out two phases of diamond drilling program comprising 4100 m in 23 holes in 2005 and 2006. Six holes intersected strong sheeted quartz stockwork with associated high grade copper mineralization. Hole KPDH-9 reported 1.0% Cu and 0.3 g/t Au over a 50 m interval from 64.0 m to 114.0 m. A third stage drill that began in March 2008 focused on three nearby targets defined by geology and geophysics. Five diamond drill holes totaling 2048 m were drilled but did not intersect better grades or thicknesses at Khongor or new mineralization on the Tsakhir license. Although drilling results were not encouraging the overall potential at Khongor and Tsakhir is still considered to be good. Expenditure commitments have been met for 2008 and no further work is planned this year.

Naran Bulag Project

In 2005, the Company discovered shallow dipping mesothermal quartz veins containing visible gold over a distance of 2.5 km at Naran Bulag on a 100% owned exploration license about 50 km south of the Khongor prospect. An 84 hole 3,500 m combined diamond and reverse circulation (RC) drill program carried out in 2006 identified four possible shallow dipping, south plunging shoots within the quartz veins that are defined by an envelope of anomalous base metals which encloses the better gold intersections. Grades of up to 12 g/t gold over 2 m in the AC vein, 10 g/t gold over 2 metres in the B vein and 13 g/t gold over 1 m in the B vein were intersected. The estimated dimensions of the shoots are 30 to 60 m in width, 1 to 4 m in thickness and 90 to 130 m down plunge. All four shoots are open at depth. The Company has been evaluating joint venture proposals while conducting environmental studies and reserve estimation studies to prepare the license to convert to a mining license.

Ivanhoe Properties

In October 2008, the Company entered into a preliminary agreement with Ivanhoe Mines Ltd. to earn up to 85% of any or all of the 8 exploration licences that comprise the Kharmagtai and Chandman Uul properties. The Company can earn 51% by spending $1,500,000 in the first year and then has the option to earn an additional 34% by converting any or all licences to a mining licence.

The two copper-gold properties were previously explored by Ivanhoe but, despite widespread copper gold mineralization being identified on both properties, economic deposits were not discovered. At Kharmagtai, the Company has focussed exploration on the Burged prospect where the potential for a heap leaching low grade gold mineralization is being evaluated. Trenching and mapping are in progress. At Chandman Uul, a number of copper-gold targets are being mapped and a gravity survey is being carried out over the main copper-gold skarn.

Properties in Indonesia

Indonesia Exploration Licenses

The Company began evaluating copper and gold projects in Indonesia in 2005. As of November 1, 2008, the Company's Metals Group was involved in 8 projects with three Indonesia partners. The total number of licences granted was 12 for an aggregate area of approximately 83,199 ha while there were an additional 6 licences under application covering an aggregate area of approximately 221,029 ha.

Kerta Project

In May 2008, the Company signed Joint Venture and Cooperation Agreements with an Indonesia company to explore the Kerta license on the island of Java. The Kerta license covers an area of 9,982 ha. The Company has a 90% fully participating interest in the project while the 10% interest held by the partner is free carried to the completion of a bankable feasibility study.

The Kerta property hosts a low sulphidation epithermal gold and silver system within an 8 km by 2-3 km structural corridor where occurrences of sinter, silica caps, high level epithermal veins and anomalous levels of gold and silver have been identified. Trenching identified numerous high-level epithermal veins in an area of 520 m by 200 m. Diamond drilling began in March 2008 and by the end of June eight drill holes were completed totaling 4,396 m. The best result from the drill program was 5.6 m averaging 9.6 g/t gold and 23 g/t silver between 119.0 to 124.60 m in hole KL-3. Mapping, soil sampling and trenching are in progress. Further diamond drilling is planned in 2009 after the Company obtains an Exploration Permit from the Department of Forestry.

Sulawesi Projects

In July 2008, the Company signed Joint Venture and Cooperation Agreements with Indonesian companies to explore the Bahumbung and Buata licences on the island of Sulawesi. The joint ventures consist of two exploration licences at Bahumbung totalling 4,000 ha and a General Survey licence at Buata totalling 4,997 ha. The Company has a 90% fully participating interest in the projects while the 10% interest held by the partners is free carried to the completion of a bankable feasibility study.

The Company discovered porphyry copper gold mineralization consisting of chalcopyrite, bornite and pyrite disseminated in a potassic altered diorite porphyry with quartz veinlet stockwork on one of the Bahumbung licences in 2007. Geological mapping, soil sampling and ground geophysics indicate the main porphyry extends over an area of 700 m by 500 m. A 1,500-3,000 m diamond drilling program commenced on September 18, 2008.

Additional porphyry mineralization is found 500 m to the northwest of the main porphyry as well as about 1 km to the east. On the same licence an area of 150 m by 150 m of sericite altered andesite contains quartz sulphide breccia veins with 2-3 g/t gold. On a neighboring joint venture licence both porphyry copper mineralization and epithermal quartz veins were identified. Trenching and mapping are in progress.

Kaputusan Project

In September 2006, the Company signed a Joint Venture and Cooperation Agreement with PT Harita Multi Karya Mineral (“HMKM”) to explore the Kaputusan copper gold porphyry prospect located on Bacan Island.. The joint venture consists of two exploration licenses covering 13,641 ha and 13,770 ha and a General Survey license covering 10,250 ha for a total exploration area to 37,661 ha. The Company earned an 85% interest in the project by spending $300,000 on exploration during the first year of the joint venture. The 15% interest held by HMKM in the joint venture is free carried to commercial mine production while the Company is responsible for funding 100% of any project costs through to commercial mine production.

The Kaputusan porphyry was discovered, trenched and drilled during a joint Indonesian-German (BGR) regional program between 1977 and 1979. The Company’s first stage exploration program comprising geological mapping, ground magnetics, dipole-dipole IP and trenching in 2006 resulted in the discovery of porphyry copper-gold mineralization in the West Zone as well as new areas of mineralization in the north and south. Six diamond drill holes totaling 1,000 m were drilled in 2007 however the drill was not sufficiently powerful and was demobilized. Drilling is planned to resume using a more powerful drill once the Company obtains an Exploration Permit from the Department of Forestry.

SELECTED QUARTERLY DATA

($ in thousands, except per share information)

	2008			2007				2006
QUARTER ENDED	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec
Exploration expenses	$ 13,108	$ 12,703	$ 7,609	$ 5,958	$ 5,205	$ 4,784	$ 867	$ 1,237
Net loss	23,038	13,488	8,539	9,000	7,840	8,240	1,650	2,042
Net loss per share	(0.17)	(0.10)	(0.10)	(0.12)	(0.11)	(0.22)	(0.10)	(0.11)

Selected Quarterly Information

Certain figures, the majority of which are related to stock based compensation expense, presented for comparative purposes for the periods ended in 2006, have been reclassified to conform to the presentation adopted for the current period, whereby stock based compensation expense is allocated directly to salaries and benefits and exploration expense.

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 and interest expense.

Exploration expenses will vary from quarter to quarter depending on the number of projects and the related seasonality of the exploration programs. Most of the exploration expenditures recorded for 2006 and the quarter ended March 31, 2007 were incurred on the metals exploration projects in Mongolia, Bulgaria and Indonesia. Coal expenditures in Mongolia were initially incurred during the quarter ended June 30, 2007. Expenditures on the Indonesian coal division began in 2008.

Stock-based compensation is allocated between exploration expense and salaries and benefits and reflects both the number of options granted during a given period and the vesting pattern of the underlying stock options that gave rise to the compensation expense resulting in fluctuations on a quarterly basis.

Foreign exchange gains and losses arise primarily from significant cash balances which are maintained in Canadian funds whereas the reporting currency of the Company is U.S. dollars. Accordingly, fluctuations in the Canada-U.S. exchange rate results in the recording of gains or losses on a quarterly basis. The Company also has transactions in the Mongolian Tugrik, the Indonesian Rupiah, and in quarters prior to 2008, the Bulgarian Lev and the Euro, which will affect the foreign exchange gains or losses recorded in the financial statements.

Interest income has increased with the higher cash balances, which are related to the equity private placements carried out in 2008. Interest expense relates to the two funding agreements with Ivanhoe. The interest accretion of the liability component relates to the First Funding Agreement. Both funding agreements have now been terminated.

RESULTS OF OPERATIONS

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
EXPENSES				
Depreciation	**$ 24,535**	$ 15,373	**$ 94,784**	$ 26,724
Exploration	**13,107,701**	5,204,594	**33,419,701**	10,855,829
Legal	**26,108**	91,434	**290,990**	155,106
Listing Fees	**5,880,057**	-	**5,880,057**	-
Office and administration	**477,027**	287,979	**1,190,151**	677,448
Professional fees	**317,984**	63,620	**541,748**	149,024
Salaries and benefits	**1,678,985**	883,469	**3,825,384**	3,772,895
Travel	**111,239**	67,876	**298,346**	201,400
	21,623,636	6,614,345	**45,541,161**	15,838,426
OTHER (INCOME)/EXPENSES				
Coal transaction costs	-	-	-	26,547
Interest income	**(589,311)**	(16,246)	**(1,697,623)**	(32,881)
Interest expense	**-**	457,099	**148,187**	811,938
Interest accretion on line of credit facilities	**-**	820,931	**279,048**	1,118,465
Foreign exchange loss/(gain)	**2,003,993**	(36,214)	**794,418**	(67,422)
Write off of interest in joint venture	-	-	-	35,009
	1,414,682	1,225,570	**(475,970)**	1,891,656
NET LOSS AND COMPREHENSIVE LOSS	**$ 23,038,318**	$ 7,839,915	**$ 45,065,191**	$ 17,730,082

Three Months Ended September 30, 2008 and 2007

The Company incurred a net loss for the three months ended September 30, 2008 of $23.0 million compared to a net loss of $7.8 million for the same period in 2007. This change is due to the factors discussed below:

Exploration expenses for the three months ended September 30, 2008 are significantly higher due to the related direct costs incurred by the coal division in Mongolia and Indonesia. In 2007, the Company had operations in Mongolia, Bulgaria and Indonesia, which were related to the metals division only, and had begun incurring coal expenditures in June 2007.

Legal fees decreased for the three months ended September 30, 2008 as compared to the same period in 2007. The majority of the charges in 2008 were for costs associated with the Company's compliance with regulatory requirements including expenses associated with corporate governance, statutory filings, registration, and disclosure. In 2007, additional costs were incurred for the filing of the annual information form dated August 27, 2007.

Office and administration fees increased in the three months ended September 30, 2008 compared to the same period in 2007. The increases relate to the development of the exploration projects, added personnel and office and administration support costs, public company sustaining fees, insurance and public relation costs. Certain of the Company's administrative staff and office facilities are provided by Global Mining Management ("GMM") (see 'Related Party Transactions' below) whose costs are allocated on an as-used 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 September 30, 2008 as compared to the same period in 2007. Quarterly charges include the cost of quarterly reviews and accruals for the year end audit of the Company's financial statements. The current quarter increases relate to increased year end audit accruals, recruitment costs, internal control documentation, internal corporate tax planning and preparation costs, statutory filing and disclosure costs.

For the three months ended September 30, 2008 the Company has allocated stock-based compensation expense of $922,000 (2007 - $418,000) to exploration expense and $1.2 million (2007 – $544,000) to salaries and benefits. The total stock based compensation expense calculated for the three months ended September 30, 2008 was $2.1 million as compared to $962,000 in the same period in 2007.

Salaries and benefits, excluding stock based compensation costs, increased in the three months ended September 30, 2008 to $475,000 as compared to $339,000 for the three months ended September 30, 2007. Salary and benefits compared to the same period in 2007 have increased due to the increased corporate activities related to the coal division, and director fees for the period ended September 30, 2008.

Travel costs were higher for the three months ended September 30, 2008 as compared to the same period in 2007. This is due primarily to the increased management activity at the Company's project locations in Mongolia and Indonesia.

Interest income will increase or decrease in a quarter depending on the cash position, and related spending in the metals and coal divisions. Interest income has increased, which relates directly to the completion of the financings during the year and the resulting increased cash position throughout the year and the current quarter. Interest expense is $nil for the three months ended September 30, 2008 as compared to $457,000 in the same period in 2007 and relates to the lines of credit from Ivanhoe. Interest accretion on line of credit expense was $nil in the current period and in 2007 the amount relates to the accretion of the liability component of the First Funding Agreement credit facility. The First Funding Agreement line of credit facility and the Second Funding Agreement were terminated in January 2008.

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

Listing fees, consisting of legal, accounting and related professional fees, relate to initial listing application costs for a secondary listing on an Asian stock exchange. The Company has appointed a project sponsor for a simultaneous listing and equity fundraising. The Company had planned to treat the charges as share issue costs upon a successful equity fundraising. 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. The Company recorded a charge of $5,880,057 in the quarter. The Company is continuing with the secondary listing application.

Nine Months Ended September 30, 2008 and 2007

The Company incurred a net loss for the nine months ended September 30, 2008 of $45.1 million as compared to a net loss of $17.7 million for the same period in 2007. Exploration, stock based compensation expense, legal, office, and professional fees were higher for the nine month period ended September 30, 2008.

Exploration expenditures for the nine months ended September 30, 2008 were $33.4 million as compared to $10.9 million for the same period in the 2007. The increase for the current year relates predominantly to the activity in the Indonesian and Mongolian coal divisions. In 2007, the Indonesian coal division had not been established, and the Mongolian coal division had finished its first full three months of operations.

With the completion of the coal transaction in May 2007, certain interim coal division expenditures made by Ivanhoe after the agreement in principle was reached but prior to closing were added to the indebtedness outstanding under the line of credit at June 30, 2007. The total coal expenditures funded by Ivanhoe from April 25, 2006 to May 28, 2007, and accepted by SouthGobi, were approximately $13.2 million of which $13.0 million related to exploration costs. These expenditures have been treated as an additional contribution and recorded as a capital transaction and charged directly to deficit in the current comparative 2007 results.

Legal fees increased for the nine month period ended September 30, 2008 compared to the same period ended September 30, 2007. 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.

Office and administration costs increased in the period ended 2008 compared to the same period in 2007. The increases relate to the development of the exploration projects, added personnel and related office and administration support costs, including insurance and public filing fees.

Included in professional fees are costs related to the quarterly reviews of the Company's financial statements, accrued year end audit, recruitment expenses, internal control documentation and tax planning.

Salary and benefits expense was $3.8 million for the nine months ended September 30, 2008 and September 30, 2007. Stock based compensation expense allocated to salary and benefits expense was $2.4 million for the nine months ended September 30, 2008 and $2.9 million for the same period in 2007. Salary and benefits expense, excluding stock option compensation costs, were $1.4 million for the nine months ended September 30, 2008 and $900,000 for the nine months ended September 30, 2007. The majority of the increase in salary and benefits expense relates to bonuses paid in the quarter ended June 30, 2008, additional personnel and director fees. The stock based compensation expense reflects additional stock option grants, particularly in the June 2007 quarter, and the related vesting and volatility pattern of the underlying stock options that gave rise to the compensation expense.

Travel cost increases are due primarily to the increased management activity at the Company's project locations.

Costs to effect the coal transaction in 2007 are for legal and professional fees. The fees relate to the preparation of the documentation for closing the acquisition by the Company of Ivanhoe's coal division. The coal transaction, which was a related party transaction, received final approval from the TSX Venture Exchange on May 28, 2007.

Interest income has increased in 2008, which relates directly to the completion of the financings in 2008. Lower interest income during the 2007 period reflects lower average cash balances during this period.

Interest and accretion expense was higher for the nine month period ended September 30, 2007 compared to the same period in 2008. This related to advances on the line of credit to fund continuing operations in 2007, including the accretion on the liability component of the loan. 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.

A foreign exchange loss of $794,000 was recorded for the nine months ended September 30, 2008 as compared to a gain of $67,000 for the nine months ended September 30, 2007. These amounts are primarily reflective of the larger US and Canadian cash balances due to the completion of the private equity placements in 2008 and the related changes in the value of the Canadian dollar versus its US counterpart during these periods and to a lesser extent the effect of the Mongolian Tugrik, and the Indonesian Rupiah.

Listing fees, consisting of legal, accounting and related professional fees, relate to initial listing application costs for a secondary listing on an Asian stock exchange. The Company has appointed a project sponsor for a simultaneous listing and equity fundraising. The Company had planned to treat the charges as share issue costs upon a successful equity fundraising. 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. The Company recorded a charge of $5,880,057 in the quarter. The Company is continuing with the secondary listing application.

EXPLORATION COSTS BY DIVISION

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2008	2007	**2008**	2007
Metals Division	**$ 1,666,884**	$ 962,625	**$ 5,362,114**	$ 3,381,022
Coal Division	**11,440,817**	4,241,969	**28,057,587**	7,474,807
Total Exploration	**$ 13,107,701**	$ 5,204,594	**$ 33,419,701**	$ 10,855,829

Metals Division

The Company continues to explore on the Indonesian and Mongolian properties, and further work is planned for 2008. During the three month period ended September 30, 2008, exploration expenses were $1.7 million as compared to exploration expenses of $963,000 in the same period in 2007. For the nine months ended September 30, 2008, $5.4 million was spent on the Company's metals division exploration activities as compared to $3.4 million for the nine months ended September 30, 2007.

Exploration expenditures in Mongolia increased to $2.0 million for 2008 from $1.4 million in 2007 while the Company continued its evaluation of potential projects and further drilling activity. During 2008 the majority of the expenses incurred in Mongolia were related to ongoing license fees, drilling, and salaries.

The Company regularly targets and prioritizes a number of copper and gold licenses on the basis of potential, age, and cost. As a result of this review, metals related licenses are relinquished or sold once the reviews are finalized. During nine months ended licenses were sold to unrelated third parties for approximately $304,000.

In Indonesia, exploration expenditures increased to $3.3 million in 2008 from $1.8 million in 2007 due to continued exploration on a number of new prospects.

Included in the salary expense of $1.9 million for the nine months ended September 30, 2008 is $1.1 million of stock based compensation expense.

The Company terminated its mineral exploration activities in Bulgaria in March 2007 and costs related to the Company's Bulgarian activities are in other expenses for 2007.

Coal Division

The total coal exploration expenditures in the three months ended September 30, 2008 were $11.4 million compared to $4.2 million for the same period in 2007. For the nine months ended September 30, 2008 coal exploration expenditures were $28.0 million as compared to $7.5 million for September 30, 2007.

The Mongolia coal division started mine operations subsequent to the completion of the coal transaction at the end of May 2007. The Indonesian coal division began development and exploration activities in early 2008.

With the completion of the coal transaction, certain interim coal division expenditures made by Ivanhoe after the agreement in principle was reached but prior to closing were added to the indebtedness outstanding under the line of credit at June 30, 2007. The total coal expenditures funded by Ivanhoe from April 25, 2006 to May 28, 2007, and accepted by SouthGobi, were approximately $13.2 million, of which $13.0 have been treated as an additional contribution and recorded as a capital transaction and charged directly to deficit in 2007.

Exploration expenditures in Mongolia were $21.4 million for the nine months ended September 30, 2008 and included consulting-geological, drilling, license fees, office and salary and benefits. Expenditures in 2008 were incurred as the coal division assembled equipment, hired additional personnel and began pre-development activities at the Ovoot Tolgoi mine site.

In Indonesia, exploration expenditures were $6.6 million for the nine months ended September 30, 2008. To date the Company has advanced funds to carry out geological reconnaissance, licensing, mapping, initial drilling, and a documentation program on the new concessions in East Kalimantan.

Included in the salary expense of $2.8 million for the nine months ended 2008 are $1.3 million of allocated stock based compensation expense.

LIQUIDITY AND CAPITAL RESOURCES

		September 30, 2008		December 31, 2007
ASSETS				
CURRENT				
Cash and cash equivalents	**$**	**38,791,939**	$	1,393,632
Accounts receivable		**5,140,990**		759,528
Inventories		**7,283,910**		-
Prepaid expenses		**2,247,751**		1,890,177
		53,464,590		4,043,337
MINERAL PROPERTIES, PLANT AND EQUIPMENT		**54,409,067**		1,566,739
	$	**107,873,657**	$	5,610,076
LIABILITIES				
CURRENT				
Accounts payable and accrued liabilities	**$**	**9,158,023**	$	1,767,784
ASSET RETIREMENT OBLIGATIONS		**457,250**		-
AMOUNT DUE UNDER LINE OF CREDIT FACILITIES		**-**		35,107,804
		9,615,273		36,875,588
SHAREHOLDERS' EQUITY (DEFICIENCY)				
Share capital				
Common shares		**195,301,992**		20,625,287
Preferred shares		**-**		75,419
Equity portion of line of credit facility		**-**		3,055,359
Contributed surplus		**10,376,306**		7,333,146
Deficit		**(107,419,914)**		(62,354,723)
		98,258,384		(31,265,512)
	$	**107,873,657**	$	5,610,076

At September 30, 2008, the Company had cash resources of $38.8 million compared to $1.4 million as at December 31, 2007, and $70.9 million at June 30, 2008.

During the quarters ended March 31, 2008 and June 30, 2008, the Company completed a series of equity financing transactions for total proceeds net of issue costs of $136.3 million.

These amounts plus $4.0 million received from the exercise of stock options provided financing for the Company's operations for the nine months ended September 30, 2008.

Current cash resources will be used for further development of the open-pit coal mine at the Company's Ovoot Tolgoi project, and for additional drilling and engineering work on the Mongolia and Indonesia projects.

Accounts receivable include funds due from government taxation authorities (Goods and Services Tax or Value Added Tax). Prepaid balances have increased from $1.9 million at December 31, 2007 to $2.2 million at September 30, 2008. The increase relates to the timing of prepayments for Mongolian exploration licenses, insurance, additional lease deposits, design and building costs and supplies for the Ovoot Tolgoi open-pit project.

Coal and parts inventory have increased to $7.3 million in the current quarter. Coal and parts inventory is valued at the lower of cost and net realizable value. Coal inventory cost of $6.3 million includes direct and indirect expenses associated with extracting and processing, including labor, operating materials, supplies, transportation costs and a relevant allocation of overhead including depreciation and depletion. Parts inventory includes items related to mining equipment and some supplies.

Mineral properties have increased with the addition of future asset retirement obligation costs and $3.1 million of deferred stripping costs capitalized to date. In September, the Company increased its working interest in the Mamahak Coal Project in East Kalimantan, Indonesia, from 56% to 85%. The JVA with Score Resources Ltd. included a provision allowing for SouthGobi to increase its working interest position based on a predetermined pricing mechanism. SouthGobi has elected to increase its working interest to 85% by paying Score Resources $13.2 million, comprised of $8,013,800 cash which is included in mineral properties and 320,000 common shares of the Company at a deemed value of C$16.15 per share. At September 30, 2008 only the cash portion of the transaction had been completed.

Accounts payable have also increased with the additional coal exploration, administrative and mining activity.

The Company's investment in plant and equipment increased during the quarter ended September 30, 2008. The purchase of coal mining equipment that was announced 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.

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

The Company is an emerging coal producer and a coal and base metals exploration and development 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 will be incurring expenditures for the exploration, development, and production of its current coal assets, and 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 will grow in the latter part of 2008 and in 2009, but it may not be sufficient to meet all expenditure levels. Management believes that additional debt or equity financing is available. The Company plans to continue with its current production activities but will be reviewing all discretionary and non-discretionary spending, which will include a review of future project costs. For further discussion see the Outlook section.

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 $2.0 million and $1.6 million for the nine months ended September 30, 2008 and 2007, respectively.

All amounts outstanding under the line of credit facility, created pursuant to the First Funding Agreement with Ivanhoe, bore interest at three month LIBOR plus two percent. All amounts advanced under the Second Funding Agreement bore interest at an annual rate equal to the three month LIBOR plus 3.30% per cent per annum.

During the three months ended September 30 2008, $nil (2007 - $457,000) of interest was paid on the line of credit facilities with Ivanhoe. Both credit facilities are now terminated.

OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares without par value. As at November 25, 2008: 133,193,282 common shares were issued and outstanding and 5,441,055 share purchase options were outstanding. On a fully diluted basis, 138,634,337 common shares were outstanding.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

There has been no change in the Company's internal control 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 control over financial reporting.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Transition to IFRS from Canadian Generally Accepted Accounting Principles (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 Staff Notice 52-321 – *Early Adoption of International Financial Reporting Standards, Use of US GAAP and Reference to IFRS-IASB*, the Canadian Securities Administrators (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 has been required to provide financial statements under IFRS with 2 years of comparative data. In order to produce the required IFRS financial statements, the Company has produced 2008 interim financial statements in accordance with IFRS with a transition date of January 1, 2005 for the Asian stock exchange listing application. 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*". Based on this regulation the Company is currently in discussions with the CSA about the possibility of early adoption under the exemptive relief in Staff Notice 52-321 and if permitted by the regulatory authorities, the Company intends to adopt IFRS for Canadian reporting purposes with an adoption date of January 1, 2009 and a transition date of January 1, 2005.

IFRS Conversion

The Company's IFRS conversion plan is comprehensive and addresses 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 is understood and managed reasonably, the Company retained an external third party accounting firm and has hired an IFRS conversion project manager. The accounting staff has also 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 also started the implementation of 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 on 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 following reconciliations between Canadian GAAP and IFRS for the total assets, total liabilities, shareholders equity and net earnings. While these reconciliations do not represent official adoption of IFRS, it provides an indication of the major differences identified to date, relative to our historical financial statements. 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. If the Company is permitted to adopt IFRS effective January 1, 2009, the Company will apply the provisions of IFRS 1 as described under the section entitled "Initial Adoption – IFRS 1", with a January 1, 2005 transition date.

(a) Total Assets

	notes:	At September 30, 2008	At December 31, 2007	2006	2005
Total assets under Canadian GAAP		$ 107,873,657	$ 5,610,076	$ 2,052,235	$ 3,774,953
Adjustments for differing accounting treatments:					
- Inclusion of coal division assets	(i)	-	-	262,688	143,641
Total assets under IFRS		**$ 107,873,657**	**$ 5,610,076**	**$ 2,314,923**	**$ 3,918,594**

(b) Total Liabilities

	notes:	At September 30, 2008	At December 31, 2007	2006	2005
Total liabilities under Canadian GAAP		$ 9,615,273	$ 36,875,588	$ 6,287,041	$ 692,699
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)	-
Total liabilities under IFRS		**$ 9,615,273**	**$ 107,441,164**	**$ 6,287,041**	**$ 914,340**

(c) Shareholders' Equity (Deficiency)

	notes:	At September 30, 2008	At December 31, 2007	2006	2005
Total equity (deficiency) under Canadian GAAP		$ 98,258,384	$ (31,265,512)	$ (4,234,806)	$ 3,082,254
Adjustments for differing accounting treatments:					
- Inclusion of coal results	(i)	-	-	262,688	143,641
- 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)
Total equity (deficiency) under IFRS		**$ 98,258,384**	**$ (101,831,088)**	**$ (3,972,118)**	**$ 3,004,254**

(d) Net Earnings

	notes:	Nine Months ended September 30, 2008	2007	Year ended December 31, 2007	2006	2005
Loss for the year/period under Canadian GAAP		45,065,191	$ 17,730,082	$ 26,729,932	$ 9,361,815	$ 6,213,957
Basic and Diluted Loss per Share under Canadian GAAP		$ 0.34	$ 0.65	$ 0.98	$ 0.56	$ 0.41
Adjustments for differing accounting treatments:						
- Inclusion of coal results	(i)	-	2,546,368	2,546,368	12,167,928	9,923,018
- Fair value of embedded derivative on debt	(ii)	7,223,400	31,105,272	63,286,039	-	-
- Interst accretion on line of credit facility	(ii)	319,360	2,971,744	4,224,179	-	-
- Adjustments on stock based compensation	(iii)	139,720	(117,316)	(50,089)	(250,730)	(107,301)
- Adjustment for warrant liability	(iv)	-	-	-	449,623	80,361
Loss for the year/period under IFRS		**$ 52,747,671**	**$ 54,236,150**	**$ 96,736,429**	**$ 21,728,636**	**$ 16,110,035**
Basic and Diluted Loss per Share under IFRS		**$ 0.40**	**$ 2.00**	**$ 3.55**	**$ 1.31**	**$ 1.06**

The following describes the differences presented in the above reconciliations:

(i) Coal Transaction

On May 29, 2007, the Company completed the purchase of the Ivanhoe coal division 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.

(ii) Line of Credit Facility

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 acquisition 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 line of credit facility was eliminated.

Under Canadian GAAP – The conversion feature was recorded as a separate component of equity.

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.

(iii) Stock Based Compensation

Recognition of expense

Under Canadian GAAP – The fair value of stock-based awards with graded vesting are calculated as one grant and the resulting fair value is recognized on a straight-line basis over the vesting period.

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 in the current period and revised for actual experiences in subsequent periods.

(iv) 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 C$1.395 per common share. On June 26, 2006, all outstanding warrants were exercised by BHP and the warrant liability was eliminated.

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

IFRS – The exercise price of the warrants is fixed in Canadian dollars. The functional currency of the Company is in USD 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 financial liability under IAS 39 and is recorded as a financial liability and stated at fair value at each balance sheet date.

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 balance sheet date with all adjustments to assets and liabilities as stated under GAAP taken to retained earnings unless certain exemptions are applied. While we have not finalized our conclusions with respect to the optional exemptions, currently the Company is not applying any exemptions on first-time adoption and does not believe these exemptions will impact our adoption of IFRS.

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, 2007, which is available on SEDAR.

OUTLOOK

The Company's principal business is the exploration and development of coal properties, with its primary focus being high quality coal deposits. The Company continues to develop a diversified coal asset base with its principal property assets in Mongolia and Indonesia. Yet, the Company is uncertain what impact the current volatility in the global economic market place will have on the short term fundamentals for coal demand, in general.

General market conditions, financing and working capital resources

Current problems in the credit markets and deteriorating global economic conditions have to led to weakening of commodity prices in recent weeks. 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. Accordingly, management is reviewing the effects of the current conditions on our business plans for the upcoming year and has been evaluating its expenditure levels for the remainder of 2008 and beyond.

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

The proceeds from the equity financings 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.

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

The Company is finalizing discussions for a revolving line of credit facility with Ivanhoe. The funding is available for general corporate purposes and is subject to board approval.

Information concerning specific operational plans is summarized as follows.

Mongolia

On July 31, 2008, SouthGobi announced that an independent resource estimate compliant with National Instrument 43-101 had sharply increased resources at Ovoot Tolgoi West Field. The new report shows that Ovoot Tolgoi's West Field now contains 79.6 million tonnes of measured resources, 113.6 million tonnes of indicated coal resources, up from 55.1 million tonnes of measured resources and 28.7 million tonnes of indicated resources. Additional inferred resources of approximately 138.8 million tonnes were also reported up from the previously reported amount of 22.6 million tonnes. The resource report incorporates exploration data up to December 2007 for the West Field surface area down to a depth of 250 m. A similar exploration and development program will be applied to the South-East Field surface and underground areas at Ovoot Tolgoi in the 2009 exploration program.

The new resource estimate for the West Field resources, combined with the previously identified resources in the South-East Field, brought total Ovoot Tolgoi surface resources to 258.9 million tonnes of measured plus indicated coal resources (129.3 million tonnes of measured and 129.6 million tonnes of indicated resources), an increase of 73% over the 149.6 million tonnes previously reported (104.9 million tonnes of measured and 44.7 million tonnes of indicated resources), with an additional inferred coal resource of approximately 145.3 million tonnes, an increase of 399% over the 29.1 million tonnes previously reported.

The Company has established a schedule for the development of commercial operations on the Ovoot Tolgoi Project. In the third quarter coal customers were assembling truck transportation fleets and completing final permits in China and Mongolia. The Company commenced initial deliveries of coal in late September 2008. The first coal shipment is part of a one-year contract and second sales contract is in place for an additional 2008 tonnage. Increased shipping is continuing throughout the fourth quarter.

For 2009 the Company anticipates approximately 3.0 million tonnes of shipments from its Ovoot Tolgoi operations, and believes that these full revenue projections will be under final sales contracts in early 2009.

The Company has identified potential customers in China and Western Inner Mongolia to whom it could sell its coal. These customers include end users, distributors, steel mills, power plants and industrial consumers.

SouthGobi continued to drill on the Sumber coal project. In June 2008, SouthGobi announced that it had intersected significant coal thicknesses in near-surface seams at the new Sumber coal project. The Sumber Project is comprised of N, O and E Fields. Eleven coal seams have been identified. The results of the 2008 drilling program are expected to form the basis of a resource estimate. Once completed, mine planning will be initiated and an application for a mining license will be submitted for development of this project. In early October the Company announced the discovery of a new coal formation approximately 10 km southeast of the current coal mine. Multiple seams have been uncovered and a drilling program has commenced.

A second fleet of equipment has been purchased. Delivery and commissioning of the equipment is scheduled for the second quarter of 2009, with a final amount owing of approximately $15 million. The additional mining equipment will be used to expand the annual production capacity of the Ovoot Tolgoi open-pit mine.

Indonesia

During the quarter, the Company continued an integrated exploration and development program on the Indonesian concessions. The 2008 drilling program has identified direct shipping, semi-soft coking coal amenable to surface mining. While further drilling is ongoing, work to date on the MCM concession supports SouthGobi’s objective to develop an open-pit mining operation. The intent of the drilling program is to determine down-dip continuity, thickness variations, coal quality and structure. A bulk sample was taken on the coals in the initial mining area and results were announced on November 5, 2008. The results have confirmed high quality metallurgical coking coal.

Work has started on the upgrading of existing logging roads. A barging port on the Mahakam River is being constructed, which will facilitate barge loading activities during wet-season periods.

Required permit applications for mining, construction, coal transportation and a barge load-out facility for the MCM concession have been filed and are in various stages of progress.

The Mamahak Project is ideally located to supply the Japanese, Korean, Indian and Chinese coastal markets.

For 2009 the Company anticipates approximately 500,000 tonnes of shipments from its MCM operations. Management is currently working with interested parties and is anticipating that final contracts will be completed by early 2009.

Overview

Along with the deteriorating global market conditions there has been a weakening of commodity prices. The Company will continue to review its current detailed revenue and expenditure plans and prioritize its production projects. For the longer term, the Company believes that the fundamentals remain strong for coal both on the supply and demand side.

The Company is continuing its strategic review of the metals division to identify the most effective means of optimizing value for the shareholders. This review will encompass the evaluation of available options. The Company will also continue its exploration efforts on identification and drilling of prospective copper-gold targets on its exploration licenses in Mongolia and Indonesia.

The Company continues to focus its efforts on expanding and developing its coal assets in Mongolia and Indonesia that have the potential for near term development and cash flows.

November 25, 2008