SouthGobi Energy Resources Ltd.

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

June 30, 2009

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

Recent Developments

Ovoot Tolgoi Project Development

Coal shipments commenced in late September 2008, and continued throughout the fourth quarter of 2008. In January and February 2009, the Company experienced difficulty expediting the movement of its coal shipments through the Mongolia-China border at Ceke due to erratic and unpredictable opening hours and sporadic closures of the relatively informal border point. As a result, the Company initiated a production curtailment program in January 2009, decreasing production to preserve cash and to manage stockpiles.

The Company continued coordinating efforts with the Mongolian Government and various agencies to improve border crossing access for coal shipments. On February 24, 2009 in a further effort to minimize costs, the Company shut down production at the Ovoot Tolgoi operation. All production equipment was demobilized, except for coal loading of customer trucks from the coal stockpile.

As discussions continued with the Mongolian Government, border access improved towards the end of the first quarter of 2009. In March 2009, the border point started operating on a more formal basis, with a schedule of eight hours per day, seven days per week. This resulted in increased shipments for the month of March, with sales of over 115,000 tonnes of coal. In April and May 2009, shipments totaled approximately 152,000 tonnes. In June, the border started operating at 11 hours per day, six days per week. Total shipments in June were approximately 232,000 tonnes, a new record for the Company. In July 2009, Mongolian and Chinese officials met at the Mongolian-Chinese border and allocated gates for coal export to create a designated coal corridor.

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

Work continues on the construction of the permanent man camp and permanent shop facility, which are scheduled for completion in the third quarter. The mine airstrip surfacing has been completed and final permitting was received for the concrete airstrip.

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

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

Mamahak Project Development

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

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

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

In May 2009, the Company completed an agreement with Glencore International AG ("Glencore") to provide coking coal marketing expertise and river barging/vessel loading logistical services for MCM. The mine, infrastructure and barge load out are nearing completion. In the current quarter, the Company engaged two smaller mining contractors, who have significant experience in operations similar to Mamahak, to conduct mine development.

The Company plans to ship a test cargo of approximately 30,000 tonnes to a customer in the third quarter.

Prior to the enactment of a new law on mineral and coal mining in 2009, known as Minerba, foreign participation was effected via a number of contractual structures that allowed for indirect participation in mining concessions in Indonesia. Minerba, which was signed by the President of the Republic of Indonesia and became effective on January 12, 2009, introduced a new licensing system for mining concessions in Indonesia. The new system allows foreign companies to own mining concessions in Indonesia. On July 1, 2009, the Company acquired ownership of MCM which holds the mining concessions.

Corporate Activity

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

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

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

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

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

In June 2009, Jay Gow was appointed the Company's Vice-President, Coal Marketing. Mr. Gow has extensive experience in international and domestic resource marketing, which will be important as the Company develops its international customer base in Asia, Europe and the Americas.

In July 2009, the Right Honourable Jean Chretien, the 20th Prime Minister of Canada, was appointed as a senior international adviser to the Company as part of a broader engagement of Mr. Chretien's services by Ivanhoe and certain other companies with which the Company shares access to corporate administrative facilities, employees and service providers. See "Related Party Transactions". Mr Chretien is expected to advise the Company with respect to international business opportunities in the energy and mineral resource sectors.

In July 2009, the Company announced the resignation of Gene Wusaty as the Company's Chief Operating Officer. Mr. Wusaty is leaving SouthGobi to pursue other business opportunities. The Company has retained an executive search firm and is in an advanced stage with respect to sourcing a new Chief Operating Officer.

In July 2009, the Company and Ivanhoe agreed to increase an existing working capital credit facility from $30 million to $60 million. The amended credit facility will mature on December 31, 2010, is unsecured and bears interest at LIBOR plus 750 basis points. The amended facility also requires repayment in the event that the Company acquires additional financing from a third party source and provides for an extension fee of $1.5 million payable in the event any portion of the facility is outstanding past March 31, 2010. This additional $30 million working capital facility will allow the Company to continue to fund its expansion plans and current operations in Mongolia and Indonesia.

Effective September 1, 2009 Denis Lehoux, the Company's in country Operations Director in Mongolia will be retiring. David Bartel, who has been with the Company since January 2007, has been appointed Operations Director and Vice President. Mr. Bartel has over 30 years of experience in the coal industry and will be the key representative for the Company in Mongolia.

Ivanhoe, directly and indirectly, currently owns 106,607,155 common shares representing approximately 80% of the issued and outstanding common shares of SouthGobi.

FORWARD LOOKING STATEMENTS

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

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Transition to IFRS from GAAP

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

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

IFRS Conversion

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

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

Impact of IFRS

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

Note 3 to the Consolidated Interim Financial Statements. The adoption of IFRS has had no significant impact on the net cash flows of the Company. The changes made to the statements of financial position and comprehensive income have resulted in reclassifications of various amounts on the statements of cash flows, however as there has been no change to the net cash flows, no reconciliations have been presented.

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

Initial Adoption of International Accounting Standards

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

Comparative Information

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

CRITICAL ACCOUNTING ESTIMATES

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

A detailed summary of all of the Company's significant accounting policies is included in Note 4 to the Consolidated Interim Financial Statements for the three and six months ended June 30, 2009. Note 3 to the Consolidated Interim Financial Statements for the three and six months ended June 30, 2009 provides a review of the significant changes to the reported financial position and results of operations of the Company under Canadian GAAP and IFRS.

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

Mineral Property and Exploration Costs

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

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

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

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

Inventory valuation

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

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

Stripping costs

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

Income taxes

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

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

Stock-based compensation

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

Revenue recognition

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

Depletion and depreciation of property, plant and equipment

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

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

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

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

CHANGE IN ACCOUNTING POLICIES

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

A summary of the new and revised standards and interpretations are outlined in Note 2.3 of the Consolidated Interim Financial Statements for the six months ended June 30, 2009.

NON-IFRS FINANCIAL MEASURES

($ in thousands, unless otherwise stated)

This Management Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") refers to certain financial measures, such as "cash costs", which are not standardized measures recognized under IFRS and do not have a standardized meaning prescribed by IFRS. These measures are commonly utilized in the mining industry and are considered informative for management, shareholders and analysts. These measures may differ from those made by other corporations and accordingly may not be comparable to such measures as reported by other mining companies.

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

Prior year comparatives are not provided as the Company did not have sales in the six months ended June 30, 2008.

	Three Months Ended		Six Months Ended
	June 30, 2009	March 31, 2009	**June 30, 2009**
Cash costs, continuing operations			
Cost of sales per financial statements	**$ 9,139**	$ 3,213	**$ 12,352**
Less non-cash adjustments	**(2,171)**	(855)	**(3,026)**
Total cash costs	**6,968**	2,358	**9,326**
Coal sales *(tonnes)*	**384,305**	127,366	**511,671**
Total cash costs of product sold *(per tonne)*	**$ 18.13**	$ 18.51	**$ 18.23**

	Three Months Ended		Six Months Ended
	June 30, 2009	March 31, 2009	**June 30, 2009**
Cash costs, continuing operations			
Direct cash costs of product sold *(per tonne)*	**$ 16.64**	$ 14.29	**$ 16.05**
Mine administration cash costs of product sold *(per tonne)*	**1.49**	4.22	**2.18**
Total cash costs of product sold *(per tonne)*	**$ 18.13**	$ 18.51	**$ 18.23**

MINERAL PROPERTIES

Qualified Persons

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, and Chief Operating Officer, and Stephen Torr (P.Geo.) and Resource Manager. Each of Messrs. Torr and Wusaty is a "qualified person" for the purposes of National Instrument 43-101 of the Canadian Administrators ("NI 43-101").

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

Coal Group Profile

Mongolia Exploration Licenses

The coal transaction was completed in May 2007, when the Company acquired Ivanhoe's Coal Division, including Ivanhoe's entire interest in the Ovoot Tolgoi (formerly Nariin Sukhait) coal development project, the Tsagaan Tolgoi coal exploration project and various coal exploration projects in Mongolia. To complete the transaction, 35 coal exploration licenses held by Ivanhoe, along with other assets and personnel, were transferred to the Company. The Company already owned a further 19 exploration licenses with coal potential, and with the additional 35 licenses, a total of 54 licenses covering an area of approximately 2.1 million hectares (" 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 July 17, 2009, the Company held 35 licenses, which in total cover an area of approximately 1.4 million ha.

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

Properties in Mongolia

Ovoot Tolgoi Open Pit Project

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

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

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

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

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

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

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

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

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

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

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

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

For the three month period ending June 30, 2009, the mine did not produce coal in order to reduce costs and coal inventory. Coal sales to December 31 2008 were approximately 113,000 tonnes. Coal shipments in the first quarter were approximately 127,000 tonnes. Coal sales in the second quarter were approximately 384,000 tonnes.

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

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

The Company employed 235 employees as at June 30, 2009. Of the 235 employees, 37, including expatriates, are employed in the Ulaanbaatar office, 7 in outlying smaller offices including the Ceke border point and 191 at the mine site. Of the 191 employees at the mine site, 105 employees were on a temporary layoff status due to the temporary production curtailment initiative at the mine site. Laid off employees were recalled on a systematic re-employment schedule in June 2009 to coincide with startup activities planned for July 2009. Of the total 235 employees based in Mongolia, 227 (97%) are Mongolian nationals and 58 (25%) are residents of the local Gurvantes Soum.

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

Work on the new shop complex and mancamp at Ovoot Tolgoi continued throughout the second quarter. The airstrip surfacing project was completed at year end and was certified in early 2009. The mancamp and shop building completion is scheduled for the third quarter.

The Ovoot Tolgoi mine is 45 km north of Mongolia's border with China. A major Chinese regional conglomerate (including steel and power generating subsidiaries) was the major proponent in the construction of a north / south railway line to the Ceke border point, where a major automated railcar coal loading facility opened in 2007. A new east / west railway is proposed to be completed by end of 2009, which will connect the Ceke border point with China's main west to east coal transportation trunk route that runs all the way to ports in the Bohai Gulf. In December 2008, the Company entered into preliminary discussions with major railway contractors on the development of a coal railway from the Ovoot Tolgoi mine to a point across the Chinese border. These discussions also contemplated a coal load out facility directly located at the Ovoot Tolgoi mine site. The Company continues to carry out further studies with respect to these proposed facilities.

Ovoot Tolgoi Underground Project

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

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

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

Soumber Project

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

In 2005, coal occurrences were identified in the N and O fields. N Field coal occurrences have been identified approximately 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 intersected significant thicknesses in near-surface seams of high-quality coking and thermal coal, including one intercept of 51.5 m. The 2008 drilling program was completed during the fourth quarter of 2008 and the results are expected to provide the basis for a resource estimate in 2009. The company has initiated mine planning and an application for a mining license, which will be submitted for development of this project. Environmental baseline studies have also been initiated.

Tsagaan Tolgoi Project

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

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

Effective August 12, 2009 the Mongolian government issued a mining license for the Tsagaan Tolgoi coal field. The Company is required to submit a Technical and Economic Study to the government agency in charge of mining within 60 days of the receipt of the mining license. A more detailed General Environmental Impact Assessment is underway and will be submitted following the approval of the Technical and Economic Study.
Any development of the field would be subject to whether Tsagaan Tolgoi is to be selected as a supplier of thermal coal for a power plant to be constructed to support Ivanhoe's Oyu Tolgoi copper and gold project. The timing of the continued development of the Oyu Tolgoi project is contingent upon a number of factors beyond the control of the Company and Ivanhoe, including the approval by the government of Mongolia of an investment agreement.

Tavan Tolgoi Extension Project

The Tavan Tolgoi Extension Project is composed of seven exploration licenses located east of Dalanzadgad, the provincial capital in the Omnogovi Aimag. These exploration licenses surround the third party-owned Tavan Tolgoi coal project. The Tavan Tolgoi coalfield was discovered in the 1950s by a joint Mongolian/Soviet team and is believed to be one of the largest undeveloped metallurgical coal deposits in the world.

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

Properties in Indonesia

Mamahak Coal Project

The Company holds its 85% interest in the Mamahak coal project through a joint venture and has commenced the development of green field's surface coal deposits in four concessions covering 22,968 ha in East Kalimantan, Indonesia, through its participation in the Mamahak coal project.

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

The 2008 drilling program identified quantities of high fluidity coking coal that appear to be amenable to surface mining.

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

Further drilling is ongoing and development drilling activity is being carried out to the north of the SW mine area in the W and N resource block areas of the MCM concession. It is expected that the data obtained will provide the basis for further resource estimates. The Company has also continued regional mapping and assessment of up to five new concessions that are nearby the MCM concession area.

Required permit applications for mining, coal transportation and a barge load-out facility for the area have been filed. In early January 2009, a permit was issued, which allows the Company to commence surface coal mining at the SW deposit on the MCM concession. The Company engaged two smaller mining contractors, who have significant experience in operations similar to Mamahak, to conduct mine development. In April 2009, initial development work was started with the removal of waste rock, extraction and roadwork. A site office, accommodation camp and a satellite communication system have been 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.

The 34km coal haul from the SW deposit to the barge port on the Mahakam River has been completed and commissioned. The installation of a river barge loading terminal which is located at Long Habung on the Mahakam River has also been completed, as well as installation and commissioning of truck weigh scales, coal crushing equipment and a mine site coal analysis laboratory.

In May 2009, the Company signed a coal marketing agreement with Glencore. Under the terms of the agreement, Glencore will provide the Company with coking coal marketing expertise and river barging/vessel loading logistical services. With the completion of the coal marketing agreement the

Company is planning to ship an initial 30,000 tonne test cargo from the Mamahak coal project to a potential Asian customer in the third quarter.

The Indonesian Parliament passed a new law on mineral and coal mining, known as Minerba, at the end of 2008, which was signed by the President of the Republic of Indonesia and became effective on January 12, 2009. The Company is currently reviewing the provisions in Minerba and waiting for the Indonesian Government to issue the required implementing regulations. The new law seeks to clarify the issues on the role of government in the mining licensing process, introduce two new types of mining concessions under a new licensing system, include provisions regarding the use of, and types of activities which may be conducted by mining services contractors and introduce domestic market obligations. Many of the details surrounding the implementation of the new rules under Minerba are not yet clear and are to be provided for in a series of Government implementing regulations. The Indonesian Government is required to issue those implementing regulations under Minerba before January 12, 2010.

Metals Division Profile and Discontinued Operations

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

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

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

SELECTED QUARTERLY DATA

($ in thousands, except per share information)

	2009		2008				2007	
QUARTER ENDED	**30-Jun**	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep
Revenue	**$ 10,667**	$ 3,540	$ 3,126	$ -	$ -	$ -	$ -	$ -
Exploration expenses	**4,641**	4,130	8,104	11,361	10,363	6,375	5,992	5,274
Loss from continuing operations	**7,910**	9,960	14,457	21,110	11,189	14,909	42,500	10,836
Loss from discontinued operations	**-**	-	2,549	1,667	2,392	1,302	-	-
Net loss	**7,910**	9,960	17,006	22,777	13,581	16,211	42,500	10,836
Net loss per share	**(0.06)**	(0.07)	(0.13)	(0.17)	(0.11)	(0.19)	(0.57)	(0.15)

Selected Quarterly Information

The changes in comparative results of operations on a quarter over quarter basis are due primarily to significant fluctuations in the following areas: revenue, exploration expenses, stock-based compensation charges, foreign exchange gains and losses, interest expense, interest accretion on line of credit facility and fair value of embedded derivative on debt. These latter two items are described in note 3 and 15 to the Consolidated Interim Financial Statements.

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

RESULTS OF OPERATIONS

	Three Months Ended			Six Months Ended	
	June 30, 2009	March 31, 2009	June 30, 2008	**June 30, 2009**	June 30, 2008
Volumes, Prices and Costs					
Coal production *(millions of tonnes)*	**-**	0.16	-	**0.16**	-
Coal sales *(millions of tonnes)*	**0.38**	0.13	-	**0.51**	-
Average sales price *(per tonne)*	**$ 29.71**	$ 29.26	-	**$ 29.60**	-
Total cash costs of product sold *(per tonne)*	**$ 18.13**	$ 18.51	-	**$ 18.23**	-
Direct cash costs of product sold *(per tonne)*	**$ 16.64**	$ 14.29	-	**$ 16.05**	-
Operating Statistics					
Total waste material moved *(millions of bank cubic metres)*	**-**	0.34	-	**0.34**	-
Strip ratio *(bank cubic metres of waste rock per tonne of clean coal produced)*	**-**	2.19	-	**2.19**	-
Operating Results *(thousands of dollars)*					
Revenue	**$ 10,667**	$ 3,540	$ -	**$ 14,207**	$ -
Cost of Sales	**(9,139)**	(3,213)	-	**(12,352)**	-
Income from mine operations	**1,528**	327	-	**1,855**	-
Adminstration expenses	**(4,444)**	(6,105)	(1,406)	**(10,549)**	(2,512)
Evaluation and exploration expenses	**(4,641)**	(4,130)	(10,363)	**(8,771)**	(16,738)
Operating loss from continuing operations	**$ (7,557)**	$ (9,908)	$ (11,769)	**$ (17,465)**	$ (19,250)

Three Months Ended June 30, 2009 and 2008

The Company incurred an operating loss from continuing operations for the three months ended June 30, 2009 of $7.6 million compared to $11.8 million for the same period in 2008. This change is due to the factors discussed below.

Revenue, net of royalty expense and cost of sales relate to the Company's operations in Mongolia. Through early 2009 shipments across the border were limited and as a result the Company initiated a production curtailment program in January 2009. This was followed by a full mine shut down on February 24, 2009, except for coal loading of customer trucks from coal stockpiles.

In the second quarter of 2009, the Company shipped approximately 384,000 tonnes of coal at an average realized selling price of approximately $30 per tonne. This compares to 127,000 tonnes of coal shipped in the first quarter at an average realized selling price of $29 per tonne.

Shipments in the quarter improved due to improved border access. In April and May 2009 shipments totaled approximately 152,000 tonnes. In June 2009, the border started operating at 11 hours per day, six days per week and June shipments were approximately 232,000 tonnes.

Cost of sales was $9.1 million in the current quarter, which comprise the cost of the product sold, mine administration costs, equipment depreciation, and depletion of stripping costs. Total cash costs per tonne of product sold in the second quarter of 2009 were $18.13 compared to $18.51 for the first quarter of 2009. The decrease is due primarily to increased sales in the quarter. The direct cash costs however, increased in the quarter as operational costs were expensed due to the full mine shut down at the end of February 2009. The current direct cash costs included in inventory at June 30, 2009 are $10.60 tonne.

Exploration expenses for the three months ended June 30, 2009 were lower than the quarter ended June 30, 2008. In the three months ended June 30, 2009 there were less drilling expenditures as non-prospective licenses were dropped and no further exploration work was conducted on these licences. Exploration expense in 2009 also includes a recovery of $825,000 for the sale of licenses in Mongolia. As well prior to the commencement of sales in late September 2008, certain operational costs were treated as exploration expense.

Administration expenses for the quarter ended June 30, 2009 were $4.4 million compared to $1.4 million for the quarter ended June 30, 2008. Administration expenses for the quarter ended June 30, 2009 include approximately $2.6 million of stock based compensation compared to approximately $688,000 for the same period last year. Other amounts that are included in the quarter ended June 30, 2009 that are not comparable to the 2008 quarter are listing fees, professional fees related to the various technical reports for the Mongolia project, and a foreign exchange loss compared to a foreign exchange gain for the quarter ended June 30, 2008.

The administration expenses consist of the following major categories broken down for comparative purposes (see Note 8 of the Consolidated Interim Financial Statements).

Legal fees for the quarter ended June 30, 2009 were consistent with the quarter ended June 30, 2008. Legal fees include costs associated with the Company's regulatory affairs including expenses associated with corporate governance, filing, registration and disclosure.

Corporate administration fees decreased in the three months ended June 30, 2009 compared to the same period in 2008. The decrease relates to reduced investor relations and office and administration support costs. Certain of the Company's administrative staff and office facilities are provided by Global Mining Management Ltd (see 'Related Party Transactions') on a cost recovery basis. Accordingly, quarterly fluctuations in the costs of administrative and personnel costs can be expected commensurate with increases or decreases in quarterly corporate activity and the level of personnel employed.

Professional fees have increased for the three months ended June 30, 2009 as compared to the same period in 2008. Quarterly charges include the cost of quarterly reviews, internal computer systems training and planning, and accruals for the year end audit of the Company's financial statements. The increase in the current quarter relates predominantly to costs related to the various technical reports for the Mongolia project.

Salaries and benefits, excluding stock based compensation costs, decreased in the three months ended June 30, 2009 to $551,000 as compared to $684,000 for the three months ended June 30, 2008. Salary and benefits in the quarter ended June 30, 2008 included bonuses.

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

Listing fees consist of legal, accounting and professional fees incurred for a secondary listing on an Asian stock exchange. Normally the Company would treat the charges as share issue costs upon a successful equity fundraising and had capitalized the listing fees to June 30, 2008. However, uncertainty in the timing of a possible equity financing led to a decision to expense these costs in the third quarter of 2008. The Company is continuing with the secondary listing application.

Six Months Ended June 30, 2009 and 2008

The Company incurred an operating loss from continuing operations for the six months ended June 30, 2009 of $17.5 million compared to $19.3 million for the same period in 2008. This change is due to the factors discussed below.

In the six month period ended June 30, 3009, the Company shipped approximately 512,000 tonnes of coal at an average realized selling price of approximately $30 per tonne.

Cost of sales was $12.4 million in the six months ended June 30, 2009, which comprise the cost of the product sold, mine administration costs, equipment depreciation, and depletion of stripping costs. Total cash costs per tonne of product sold in the six months ended June 30, 2009 were $18.23.

Exploration expenses for the six months ended June 30, 2009 were $8.8 million as compared to $16.7 million for the same period in 2008. In 2008, exploration expenditures in Mongolia were higher as the Coal Division assembled equipment, hired additional personnel and began pre-development activities at the Ovoot Tolgoi mine site. Throughout 2008, the Mongolia coal exploration program concentrated on drilling in the West Field. The Coal Division continued its exploration activities in Indonesia throughout the six months ended June 30, 2009.

Administration expenses were $10.5 million for the six months ended June 30, 2009 as compared to $2.5 million for the six months ended June 30, 2008. Stock based compensation expense allocated to administration expenses was $5.8 million for the six months ended June 30, 2009 and $1.3 million for the same period in 2008. Other amounts that are included in the six months ended June 30, 2009 that account for the increase compared to the 2008 period are listing fees, professional fees related to the various technical reports for the Mongolia project, a corporate consulting contract and a foreign exchange loss compared to a foreign exchange gain for the six months ended June 30, 2008.

The administration expenses consist of the following major categories broken down for comparative purposes (see Note 8 of the Consolidated Interim Financial Statements).

Legal fees for the six months ended June 30, 2009 and June 30, 2008 were for costs associated with the Company's regulatory affairs including expenses associated with corporate governance, filing, registration and disclosure.

Corporate administration fees increased in the six months ended June 30, 2009 compared to the same period in 2008. The increase relates to higher insurance costs and filing fees.

Professional fees have increased for the six months ended June 30, 2009 as compared to the same period in 2008. Included in professional fees are the cost of quarterly reviews, internal computer systems training and planning, and accruals for the year end audit of the Company's financial statements. The increase relates predominantly to increased audit fees, increased internal control costs, costs related to the various technical reports for the Mongolia project and a corporate consulting contract for the Mongolian operations.

Salaries and benefits, excluding stock based compensation costs in the six months ended June 30, 2009 was $972,000 which was consistent with $977,000 for the six months ended June 30, 2008. Bonuses paid in 2008 are offset by higher director fees in the 6 months ended June 30, 2009.

A foreign exchange loss of $992,000 was recorded for the six months ended June 30, 2009 as compared to a gain of $1.2 million for the six months ended June 30, 2008. The foreign exchange losses/ (gains) are primarily the result of changes of the U.S. to Canadian dollar and the U.S. to Mongolian Tugrik exchange rates during the period.

Listing fees consist of legal, accounting and professional fees incurred for a secondary listing on an Asian stock exchange. Normally the Company would treat the charges as share issue costs upon a successful equity fundraising and had capitalized the listing fees to June 30, 2008. However, uncertainty in the timing of a possible equity financing led to a decision to expense these costs in the third quarter of 2008. The Company is continuing with the secondary listing application.

EXPLORATION COSTS AND DISCONTINUED OPERATIONS BY DIVISION

($ in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	**2009**	2008
Mongolian Coal Division	**$ 1,743**	$ 9,130	**$ 2,511**	$ 13,023
Indonesian Coal Division	**2,898**	1,233	**6,260**	3,715
Total Exploration	**$ 4,641**	$ 10,363	**$ 8,771**	$ 16,738

Coal Division

The total coal exploration expenditures in the three months ended June 30, 2009 were $4.6 million compared to $10.4 million for the same period in 2008. For the six months ended June 30, 2009 coal exploration expenditures were $8.8 million as compared to $16.7 million for the six months ended June 30, 2008.

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

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

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

Exploration expenditures in Mongolia were approximately $1.7 million for the three months ended June 30, 2009 compared to $9.1 million in 2008. Prior to the commencement of sales in late September 2008, certain operational costs were treated as exploration expense. For the three months ended June 30, 2009, the Mongolia exploration expenditures included consulting-geological, drilling, license fees, office, salary and benefits and a recovery on licenses sold in June 2009. Exploration expenditures will vary from quarter to quarter and are also related to the seasonality of the exploration programs.

In Indonesia, exploration expenditures were $2.9 million for the three months ended June 30, 2009 compared to $1.2 million in 2008. The Company began its exploration activities in Indonesia in early 2008. The 2008 drilling program identified quantities of coking coal that appear to be amenable to surface mining. Further drilling is ongoing and development drilling activity is being carried out to the north of the SW mine area in the W and N resource block areas of the MCM concession. Exploration expenditures increased in 2009 as the company prepares for production.

In January 2009, a permit was issued which will allow the Company to commence surface coal mining at the SW deposit on the MCM concession. In April 2009, initial development work was started with the removal of waste rock, extraction and roadwork. In the three months ended June 30, 2009, deferred stripping costs were capitalized as Indonesia entered the production stage ($1.7 million).

Metals Division – Discontinued Operations

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

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

During the three and six months ended June 30, 2008, exploration expenses were $2.4 million and $3.7 million respectively. The majority of the expenses incurred in Mongolia and Indonesia were related to ongoing license fees, drilling, and salaries.

The exploration expenditures of $2.4 million for the quarter ended June 30, 2008 and $3.7 million for the six months ended June 30, 2008 have been classified as a loss from discontinued operations. The basic and diluted loss per share from discontinued operations is $0.02 for the quarter ended June 30, 2008 and $0.03 for the six months ended June 30, 2008.

OTHER INCOME/EXPENSE

($ in thousands)

	Three Months Ended June 30		Six Months Ended June 30,	
	2009	2008	**2009**	2008
Fair value change on embedded derivative	**$ -**	$ -	**$ -**	$ (7,223)
Interest accretion on line of credit facilities	**-**	-	**-**	(598)
Interest expense	**(345)**	-	**(398)**	(134)
Accretion expense	**(11)**	-	**(20)**	-
Interest income	**3**	580	**12**	1,108
	$ (353)	$ 580	**$ (406)**	$ (6,847)

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

Under IFRS, the conversion feature is considered an embedded derivative liability that must be recorded at its fair value upon initial measurement and revalued at each subsequent reporting period.

The difference between the debt host component and the principal amount of the loan outstanding is accreted to income over the remaining term of the debt. (Please refer to Note 15.4 of the Consolidated Interim Financial Statements for further details).

Interest expense was higher in the quarter end June 30, 2009 and the six months ended June 30, 2009 compared to the same periods in 2008. This is related to advances on the line of credit to fund operations. In January 2008, with the completion of the additional equity private placements, the First Funding Agreement line of credit facility and the Second Funding Agreement were terminated.

In 2009, as part of the sale of the Metals Division, the Company obtained a $30 million working capital credit facility from Ivanhoe. The credit facility is for a one year term with a one year discretionary extension. The credit facility is unsecured and carries an interest rate equal to LIBOR plus 750 basis points. The Company has received advances of $24 million against the line of credit facility in the first six months of 2009.

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

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

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow Highlights
($ in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	**2009**	2008
Cash used in operating activities	**$ (6,683)**	$ (15,776)	**$ (16,097)**	$ (27,141)
Cash used in investing activities	**(10,047)**	(25,542)	**(15,583)**	(38,312)
Cash generated by financing activities	**16,158**	26,031	**24,380**	133,598
Effect of foreign exchange rate changes on cash	**(27)**	902	**(11)**	1,394
(Decrease) increase in cash for the period	**(599)**	(14,385)	**(7,311)**	69,539
Cash balance, beginning of period	**3,405**	85,318	**10,117**	1,394
Cash balance, end of period	**$ 2,806**	**$ 70,933**	**$ 2,806**	**$ 70,933**

General market conditions

In 2008 and 2009 market events and conditions, including the disruptions in the international credit markets and other financial systems and deterioration of global economic conditions, caused significant volatility in commodity prices. Given the high volatility, it is difficult to forecast the price of and related demand for the Company's coal products. Credit market conditions have also increased the cost of obtaining capital and limited availability of funds. Management continues to monitor external conditions and their impact on the Company's business plans for the upcoming year.

Cash used in operating activities

At June 30, 2009 the Company had cash resources of $2.8 million compared to cash resources of $10.1 million at December 31, 2008.

Cash used in continuing operations was $6.7 million for the three months ended June 30, 2009 compared to $13.4 million for the same period in 2008. For the six months ended June 30, 2009 cash used in continuing operations was $16.1 compared to $24.3 million for the six months ended June 30, 2008. Cash used in discontinued operations for the three and six month periods ended June 30, 2008 was $2.4 million and $2.8 million, respectively. The Metals Division was sold in December 2008, which will have no impact on discontinued operations disclosure for periods in 2009.

In the three and six month period ended June 30, 2009, the Company incurred a net loss from continuing operations of $7.9 million and $17.9 million, respectively, compared to a net loss from continuing operations for the three and six months ended June 30, 2008 of $11.2 million and $26.1 million respectively. Continuation of the Company's build out of the Ovoot Tolgoi mining operation, higher finance costs and evaluation and exploration costs contributed to the higher losses in 2008. In 2009, the Company recorded revenue of $10.7 million for the three months ended June 30, 2009 and $14.2 million for the six months ended June 30, 2009. With the increased activities at the Ovoot Tolgoi site and the operations in Mongolia, accounts receivable, prepaid expenses, and accounts payable increased during six months ended 2009.

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

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

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

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

Coal and supplies inventory have decreased to $11.4 million at June 30, 2009 from $13.7 million at the year ended December 31, 2008. Coal and supplies inventory is valued at the lower of cost and net realizable value. Coal inventory cost of $10.8 million includes direct and indirect labour, operating materials and supplies, transportation costs and an appropriate portion of fixed and variable overhead expenses including depreciation and depletion. Supplies inventory consists of consumable parts and supplies.

The Company had a stockpile of approximately 688,000 tonnes of coal inventory at June 30, 2009.

Accounts payable have increased in the six months ended June 30, 2009 due to increased activity in Indonesia.

Cash used for investing activities

Cash used for investing activities was $10.0 million for the three months ended June 30, 2009 compared to $25.5 million for the same period in 2008. For the six months ended June 30, 2009 cash used for investing activities was $15.6 million compared to $38.3 million for the six months ended June 30, 2008.

The Company's investment in property, plant and equipment was higher during 2008. Deposits for further mining equipment and maintenance facilities are included as plant and equipment. In the three months ended June 30, 2008 deferred stripping costs in Mongolia were also included. The Company incurred expenditures in 2009 for mobile and mining equipment in Mongolia and construction projects and deferred stripping in Indonesia.

Interest income will increase or decrease in a quarter depending on the cash position. Interest was higher in 2008 due to higher cash balances which related directly to the completion of the equity financings.

Cash provided by financing activities

During the six months ended June 30, 2008, the Company completed a series of equity financing transactions and received proceeds from the exercise of stock options. The total proceeds net of issue costs were $26.0 million for the three months ended June 30, 2008 and $139.7 million for the six months ended June 30, 2008, compared to proceeds received for the exercise of stock options in the three and six months ended June 30, 2009 of $158,000 and $380,000, respectively.

The proceeds from the equity financings in 2008 were 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 proceeds were also used to repay amounts advanced under the line of credit facility obtained from Ivanhoe in October 2007.

On December 31, 2008, the Company announced the sale of its Metal Division to Ivanhoe for $3 million and other non-cash consideration. As part of the sale transaction, the Company obtained a $30 million credit facility from Ivanhoe. The credit facility is for a one year term with a one year discretionary extension. The credit facility is unsecured and carries an interest rate equal to LIBOR plus 750 basis points. For the six months ended June 30, 2009, the Company received advances of $24 million against the line of credit facility.

Liquidity, Financing and Working Capital Resources

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

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

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

In July 2009, the Company and Ivanhoe agreed to increase the existing working capital credit facility from $30 million to $60 million. The amended credit facility will mature on December 31, 2010, is unsecured and bears interest at LIBOR plus 750 basis points. The amended facility also requires repayment in the event that the Company acquires additional financing from a third party source and provides for an extension fee of $1.5 million payable in the event any portion of the facility is outstanding past March 31, 2010. This additional $30 million working capital facility will allow the Company to continue to fund its expansion plans and current operations in Mongolia and Indonesia.

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

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

RELATED PARTY TRANSACTIONS

The Company is a party to a shareholders' cost-sharing agreement with certain other public and private companies, including Ivanhoe (the "Other Companies") pursuant to which the Company and the Other Companies are equal shareholders in Global Mining Management Ltd ("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 and service providers are recovered from the Company proportionate to the time spent by the shared part-time employees and service providers 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 $883,000 and $1.5 million for the six months ended June 30, 2009 and 2008, respectively.

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

In July 2009, the Company and Ivanhoe agreed to increase the existing working capital credit facility from $30 million to $60 million. The amended credit facility will mature on December 31, 2010, is unsecured and bears interest at LIBOR plus 750 basis points. The amended facility also requires repayment in the event that the Company acquires additional financing from a third party source and provides for an extension fee of $1.5 million payable in the event any portion of the facility is outstanding past March 31, 2010. This additional $30 million working capital facility will allow the Company to continue to fund its expansion plans and current operations in Mongolia and Indonesia.

OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares without par value and an unlimited number of preferred shares without par value. As at July 28, 2009: 133,367,382 common shares were issued and outstanding. There are also incentive stock options outstanding that are exercisable to acquire 7,577,285 unissued common shares. On a diluted basis, 140,944,667 common shares were outstanding. There are no preferred shares outstanding.

Ivanhoe, directly and indirectly, currently owns 106,607,155 common shares representing approximately 80% of the issued and outstanding common shares of SouthGobi.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

RISK FACTORS

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

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

OUTLOOK

In 2008 market events and conditions, including the disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, caused significant volatility in commodity prices. Throughout 2009 coal prices are expected to remain volatile, but we are encouraged by long-term fundamentals for the Company's core commodity.

We believe that demand for commodities will increase as the current economic crisis passes. General economic conditions are showing signs of improvement. It is still difficult to forecast commodity prices and customer demand for our products; however our sales and marketing efforts in the most recent quarter are providing positive results. The Company is continuing to pursue new customers, and maintain strong relations with its current customer base.

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

Mongolia

Revenue was $10.7 million for the three months ended June 30 2009 compared to $3.5 million for the three months ended March 31, 2009. The Company will continue to focus on generating higher sales volume throughout the remainder of 2009.

In March 2009 the border started opening more reliably for seven days per week on an eight hour per day basis. In April and May 2009 shipments totaled approximately 152,000 tonnes. In June, the border started operating at 11 hours per day, six days per week. Total shipments in June were approximately 232,000 tonnes, a new record for the Company.

The Company is engaged in ongoing discussions with the Mongolian Government with the objective of establishing a border crossing at the Ceke border point that will be open for a full 24 hours per day, 365 days per year. This should increase daily distribution of Ovoot Tolgoi coal to our customers in China.

With increasing sales and reductions in its coal inventory the Company has initiated full mining operations effective July 1, 2009.

In the quarter ended June 30, 2009 existing Chinese customers concluded new sales contracts with the Company to provide additional coal. The Company has also identified a number of potential new customers in Western Inner Mongolia and other parts of China. These potential new customers include end users, distributors, steel mills, power plants and industrial consumers.

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

Indonesia

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

In May 2009, the Company completed an agreement with Glencore to provide coking coal marketing expertise and river barging/vessel loading logistical services for MCM.

The Company plans to ship a test cargo of approximately 30,000 tonnes to a customer in the third quarter.

Overview and Objectives

As we look forward through the remainder of 2009, we are encouraged by the positive developments in each of our business units in Indonesia and Mongolia. We are making progress with our sales and marketing efforts, and intend to manage production levels to meet anticipated demand for our products.

Our objectives for 2009 have not changed:

i. continue evolving into a fully-fledged producer through the advancement of our key projects and, in particular, through expanded sales and production at Ovoot Tolgoi and commencement of trial shipments at Mamahak;
ii. utilize our knowledge of our properties in Mongolia and Indonesia to deliver continued exploration success with the aim of substantially increasing the Company's coal resource base;
iii. maximize the market pricing of our coal through further development of relationships with customers that recognize the value of its premium specification;
iv. remain focused on efficiency and prudent financial management; and
v. access appropriate sources of financing for our development and expansion plans.

Although coal prices and general economic conditions remain volatile, our operations have performed well, even in these challenging times.

August 5, 2009